

Government Interventions in the SME Sector

Justification, Policy Elements, and Evaluations.

INSME Webinar

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 - a) Evidence of market failure;
 - b) Identification of transmission mechanism.

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- That in each free market economy **there is an entire Spectrum of SMEs;**
- With different characteristics, commercial focus, and capacities;
- **A deep understanding of this Spectrum is the key element of any effective SME policy. Indeed, a deep knowledge about the SME Spectrum (who they are, where they are, what they do, and so on.) should be the guiding light determining not only the effectiveness but also the sufficiency of SME policies.**

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3. *Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed.*

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4. *It is the declared policy of the Congress that the Government [the SBA] should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise ... ”*

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- **Objectives:** Maintain Competition, Economic Well-being, Security;
 - **Critical Agent:** Small Businesses;
 - **Government Role:** Aid, Council, Assist, and Protect.

Current Evaluations: Employment, Applications & Surveys

1. **U.S. Congress**, via its oversight authority (two *Small Business Committees*), requests specific reports and assessments:
 - i. Currently, *employment* impact;
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3. **Ongoing** (A) **Performance** and (B) **Oversight**:
 - A. **Performance**: High frequency data and analyses on
 - a. Origination: value, number, terms, recipients’ characteristics, etc.’
 - b. Cost: Portfolio-level risk: partner, purchase
 - B. **Oversight**: Waste, Fraud, Abuse (IG), Efficiency (GAO)

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 - ii. Programs will be required to use larger, verifiable data.
Specifically:
 - a. *Administrative Data*: Applicant/Recipient level data;
 - b. *Secondary Data*: extensive verifiable micro-level data (statistical Agencies);
 - c. *Experimental Design*: Recipients and similar Non-recipient
 - d. To *estimate* and attribute impact

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 - e. **Impact**: Not just *employment*, but also
 - *Value Generation* (sales, profits, taxes...),
 - *Business Formation* (starts, closures,...)
 - *Business Growth* (M&A, Bankruptcies, new markets)
 - *Innovation* (Patents, Trademarks, publications, etc.)...

Greater and Better Evidence: The Value Proposition

- Just like *Big Data* has changed the paradigm of how the private sector delivers goods and services to its clients, the adroit use of *Administrative Data* when linked to *Secondary Data* , has the potential for changing the cost and empirical paradigm of how the governments evaluate their ability to deliver goods and service to its citizens

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- **Example:**
 - On average, a national-level survey that would meet the standards of the U.S. Census costs about \$ 50 Million;
 - A similar study using already existing Administrative Data is expected to cost about 1% of that cost or \$ 500,000.

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- Effort that get anyone of these three essential elements wrong will fail on its own weight, measured by the quality and quantity of the data collected, stored and used.

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1. *Unique Identifiers* (Alphanumeric codes) on each and every person or firm; and/or *Supplemental Identifiers*: Name, Address, Telephone Number, Website, etc.

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2. *Data on Services rendered* (AKA *Administrative Data*)
 - a) Type (Loan & Guarantee Type, Terms, etc.);
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 - c) Timing (dates on: Application, approval; distribution, status..);
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3. Data on Control/Comparison (*Statistical/Secondary Data*)

Greater and Better Evidence: Requirements

1. Experimental Sample Design
 - a. *Recipient* (population , or large sample);
 - b. *Similar Non-recipient* (large Control/Comparison Sample).

Greater and Better Evidence: Results

- Attributable Impacts =
= (*Impacts of Recipient - Impacts of Similar Non-recipient*)
- **On:**
 - **Employment** (*jobs, wages, benefits, hours worked, ...*)
 - **Value Generation** (*sales, profits, taxes, ...*),
 - **Business Formation** (*starts, closures, expansions, ...*)
 - **Business Growth** (*M&A, Bankruptcies, new markets, ...*)
 - **Innovation** (*Patents, Trademarks, publications, ...*)

Greater and Better Evidence: Current Best Practices

- Generally, where large micro-level data is available to *Certified Researchers*:
 - i. Public Health;
 - ii. Education;
- Some studies on SBA Loan Guarantees:

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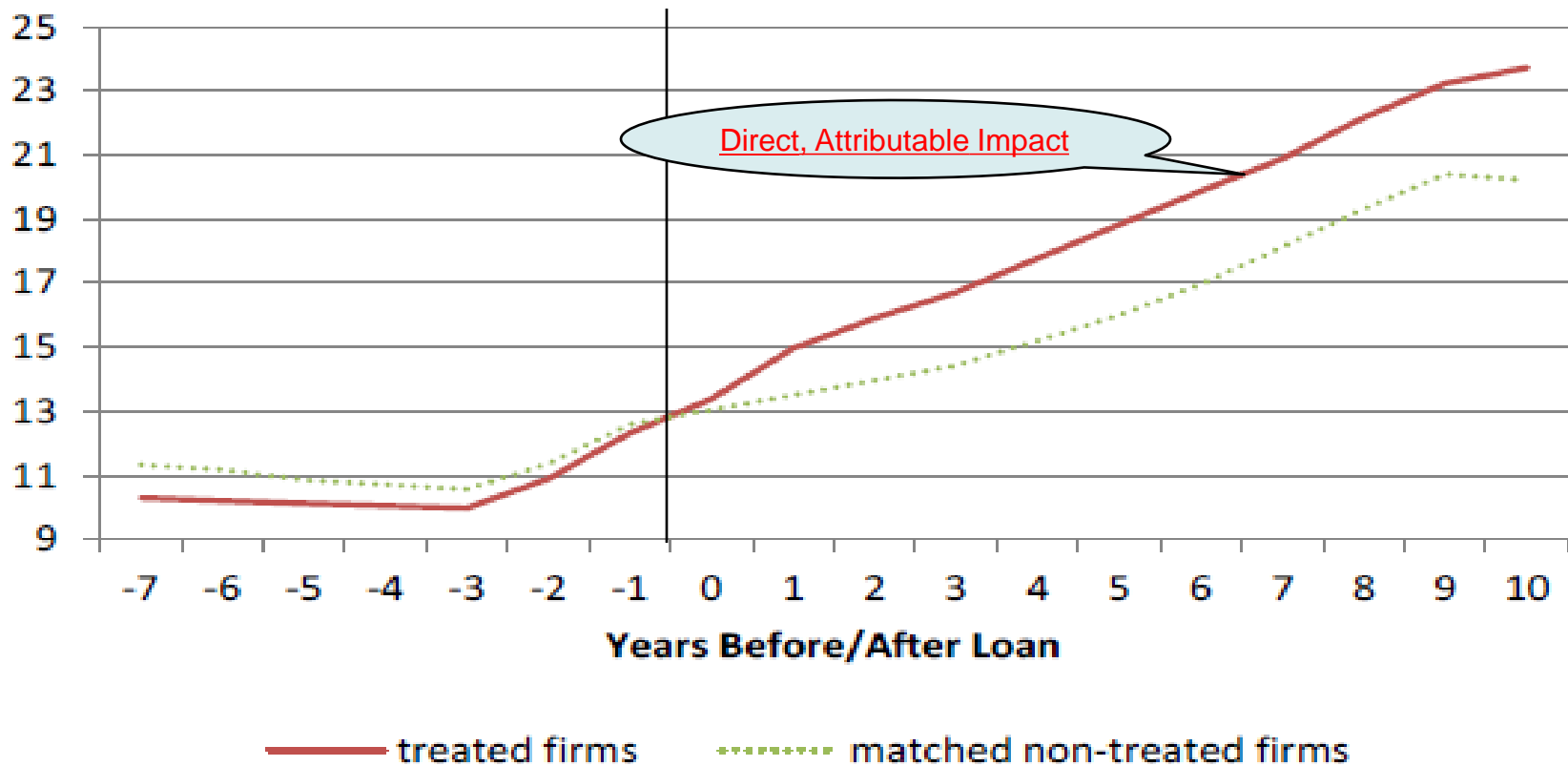
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25% greater than matched non-treated.

Figure 1. Mean Firm Employment by Year Before/After Loan



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Cost of Total Impact:

(\$ agency cost/total jobs) = {(5.4 Jobs * 4.6 Jobs) / \$172,433} =
= (24.84 / \$172,433) =

= \$6,942 Per Job

Challenges with Policy objectives and Program Designs

(1) Balanced (Optimal Efficiencies)

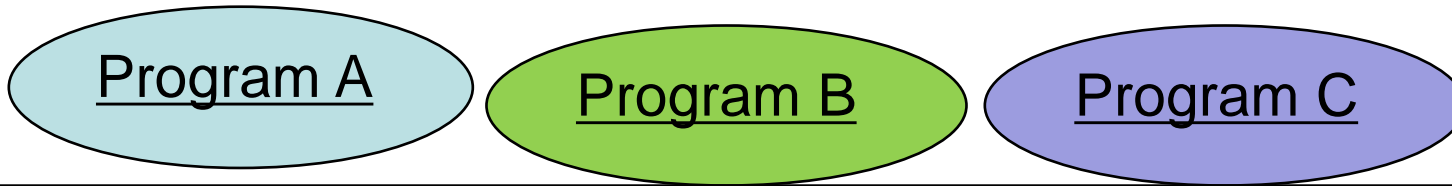
Program A

Program B

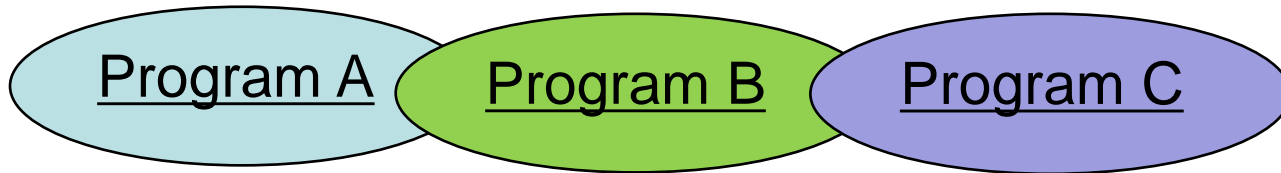
Program C

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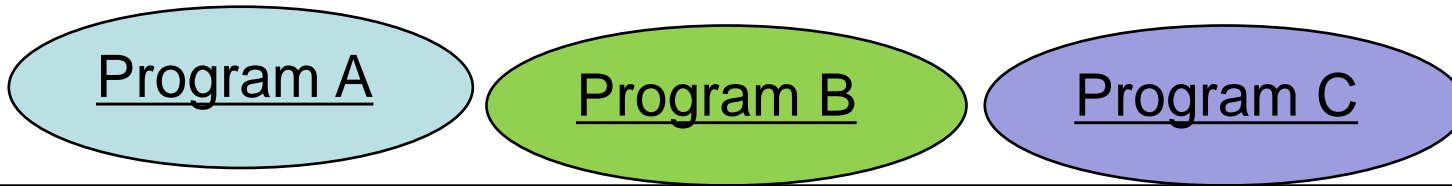


(2) Overlapping (Minor Inefficiencies)

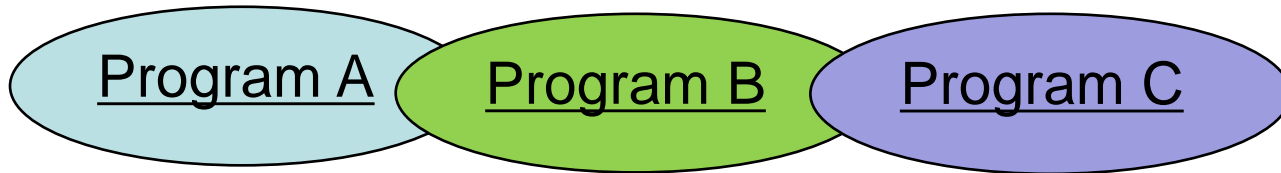


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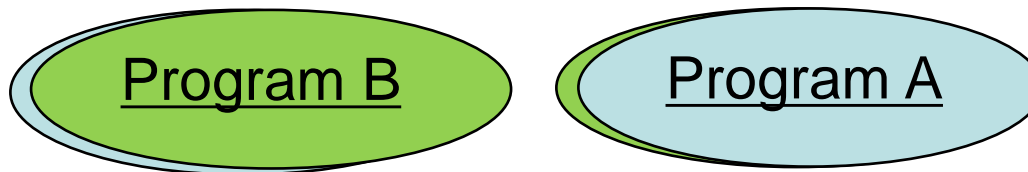
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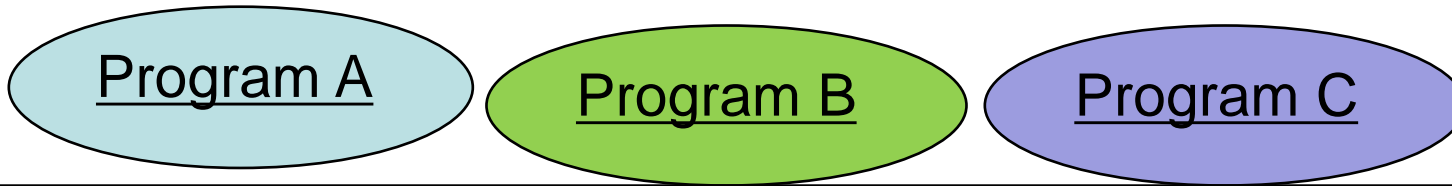


(3) Duplicative (Major Inefficiencies)

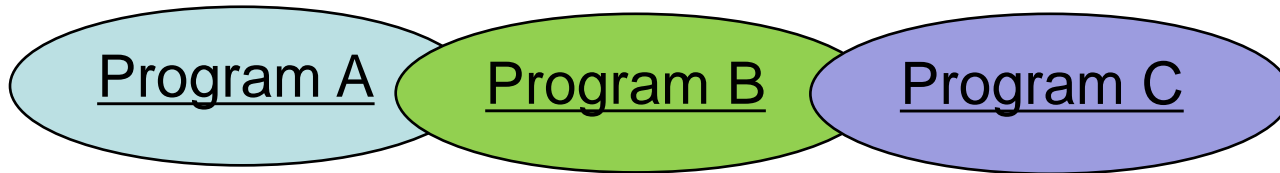


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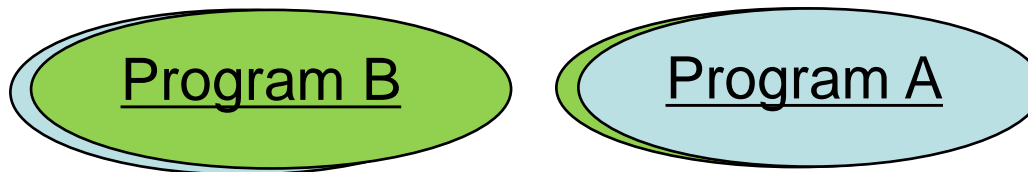
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(3) Duplicative (Major Inefficiencies)



(4) Fragmented (*unknown efficiencies or inefficiencies*)?



Findings – The U.S. Experience: Balanced, Overlapping, Duplication, or Fragmented?

Table 1: 53 Programs That Support Entrepreneurs, by Type of Assistance, as of September 30, 2011^a

	HUD	SBA	USDA	Commerce	Total ^b
Technical assistance only	2	6	5	4	17
Financial assistance only	3	5	5		13
Technical and financial assistance only	7	3	4	2	16
Government contracting assistance only		2			2
Technical and government contracting only		1			1
Financial and government contracting only		2			2
Technical, financial, and government contracting assistance				2	2
Total	12	19	14	8	53

Source: U.S. Government Accountability Office (GAO). “*Entrepreneurial Assistance: Efficiency and Effectiveness of Fragmented Programs Are Unclear*”. March 29, 2012.