

Evolution of Knowledge on Private Sector Development

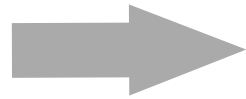
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Evolution of knowledge – Micro and Macro Data, Research, Policy in Private Sector Development

Early KCP projects funded firm-level data collection and research, leading to WBES and Doing Business

(e.g., [Stone, 1992](#))



20
years
later

Research

Early research focusing on entrepreneurial characteristics' impact on firm growth ([Kedia et al, 1999](#))

Recent Research on privatization cycles, tradeoffs between equality and efficiency in resource-rich economies ([Loayza et al, 2009](#))

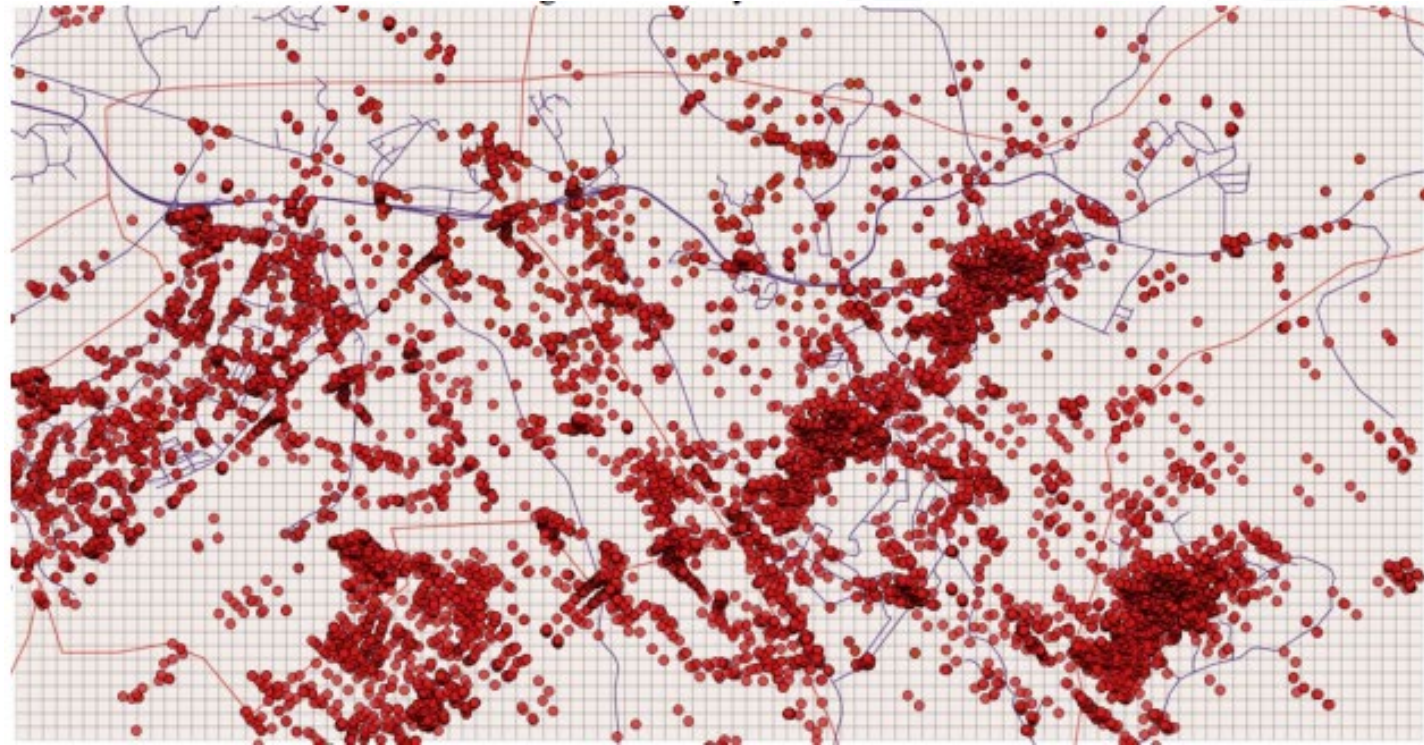
Data – sparking research within and outside WB

B-Ready, WBL, WGI, Entrepreneurship, Building Green and more (e.g., [Rijkers et. al 2012](#))

KCP supported diagnostics: Findex, Global Financial Development database, and childcare development in WBL (e.g., [Ajayi et. al 2022](#))

Informal Sector – Measurement is Crucial for Policy

- KCP funded early efforts to collect representative data to analyze barriers to firm growth
- **Informal Sector Enterprise Survey (ISES)** uses new efficient method, now covering 35 cities across 11 countries, collecting granular data on a wide variety of topics



Source: [Aga et al., 2022](#)

Why do informal firms not formalize? Does becoming formal benefit small firms?

- [De Mel et al. \(2013\)](#) in KCP-supported study in Sri Lanka

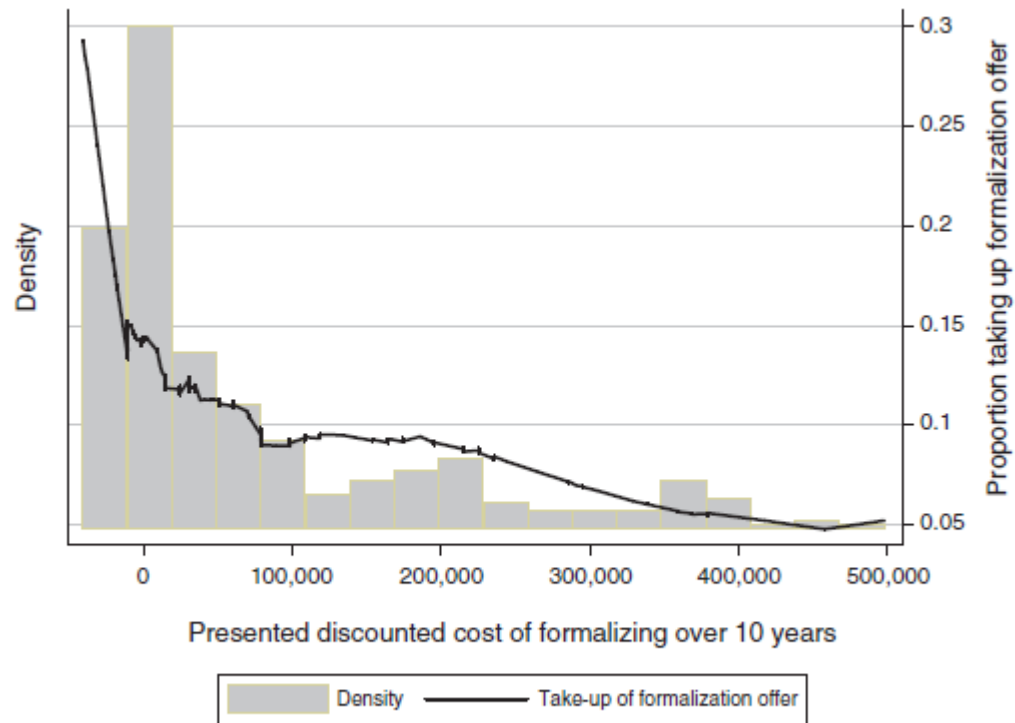


FIGURE 3. DEMAND CURVE FOR FORMALIZING

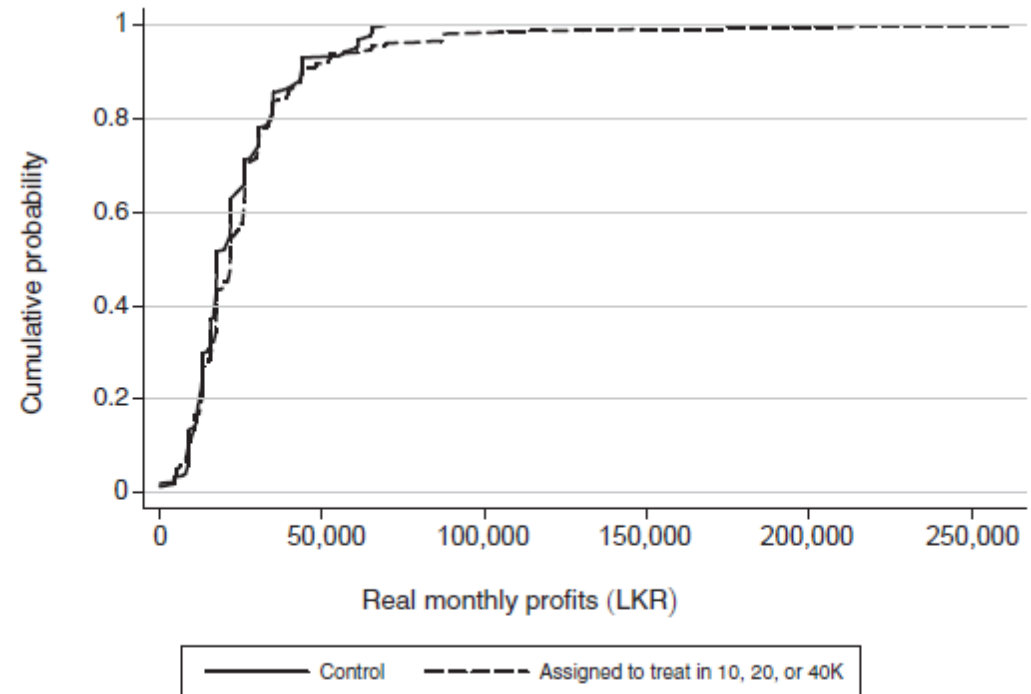
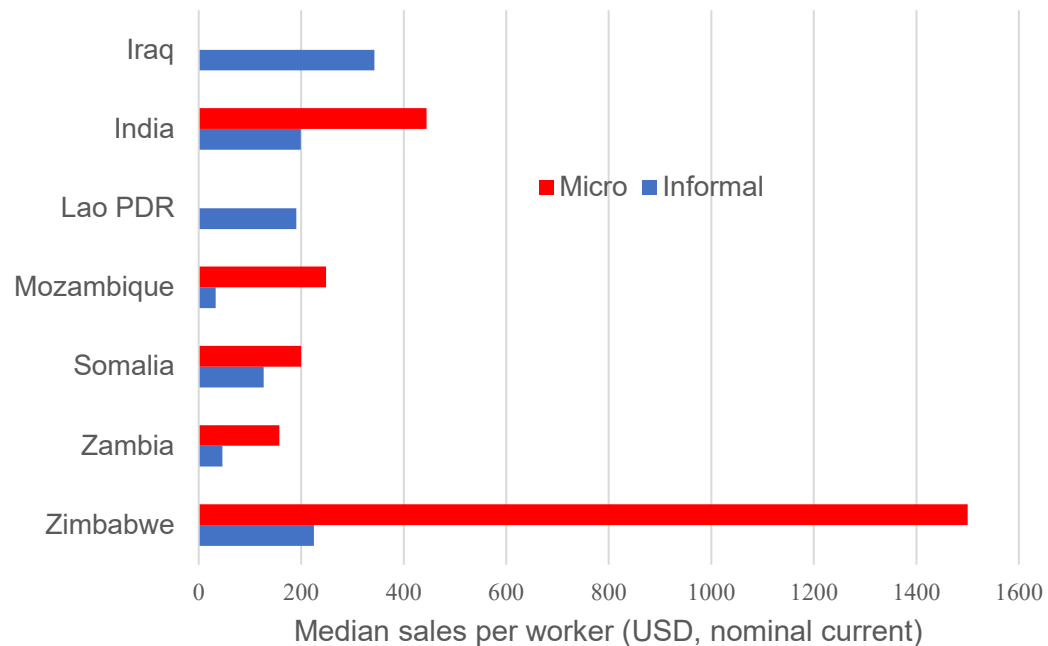


FIGURE 4. DISTRIBUTION OF FINAL ROUND REAL PROFITS BY TREATMENT STATUS

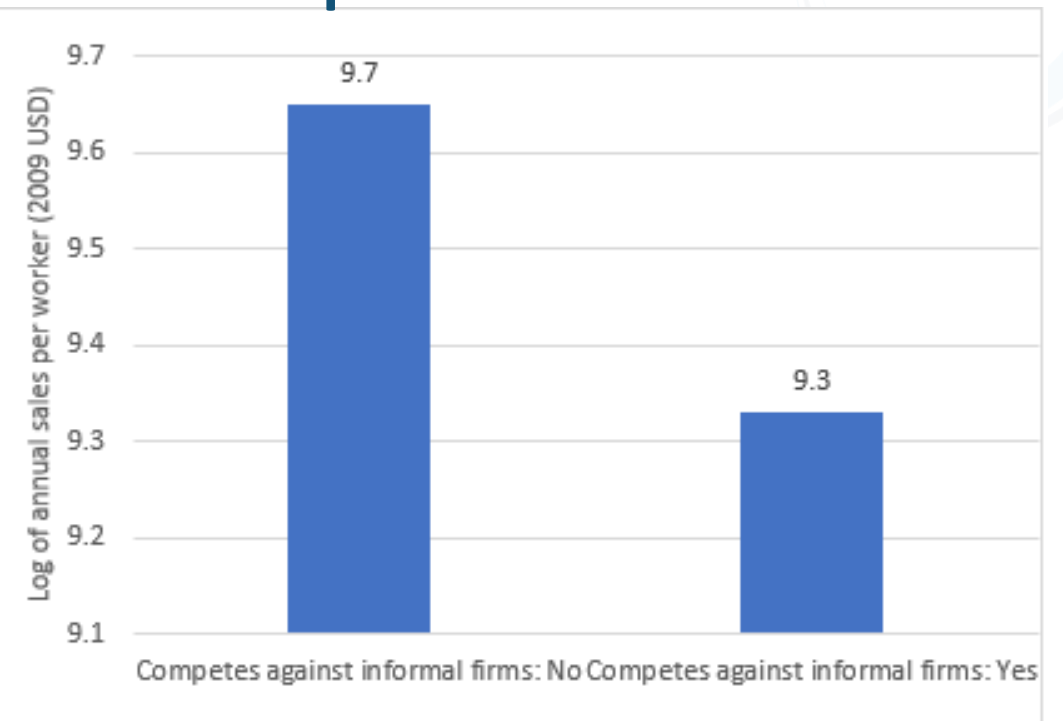
Remaining gaps in Understanding Informality

What policy helps informal businesses become as productive as formal?



Source: [Aga et. al., \(2022\)](#)

How to avoid negative impact of informal competition on formal sector?



Source: [Amin et. al., \(2020\)](#)

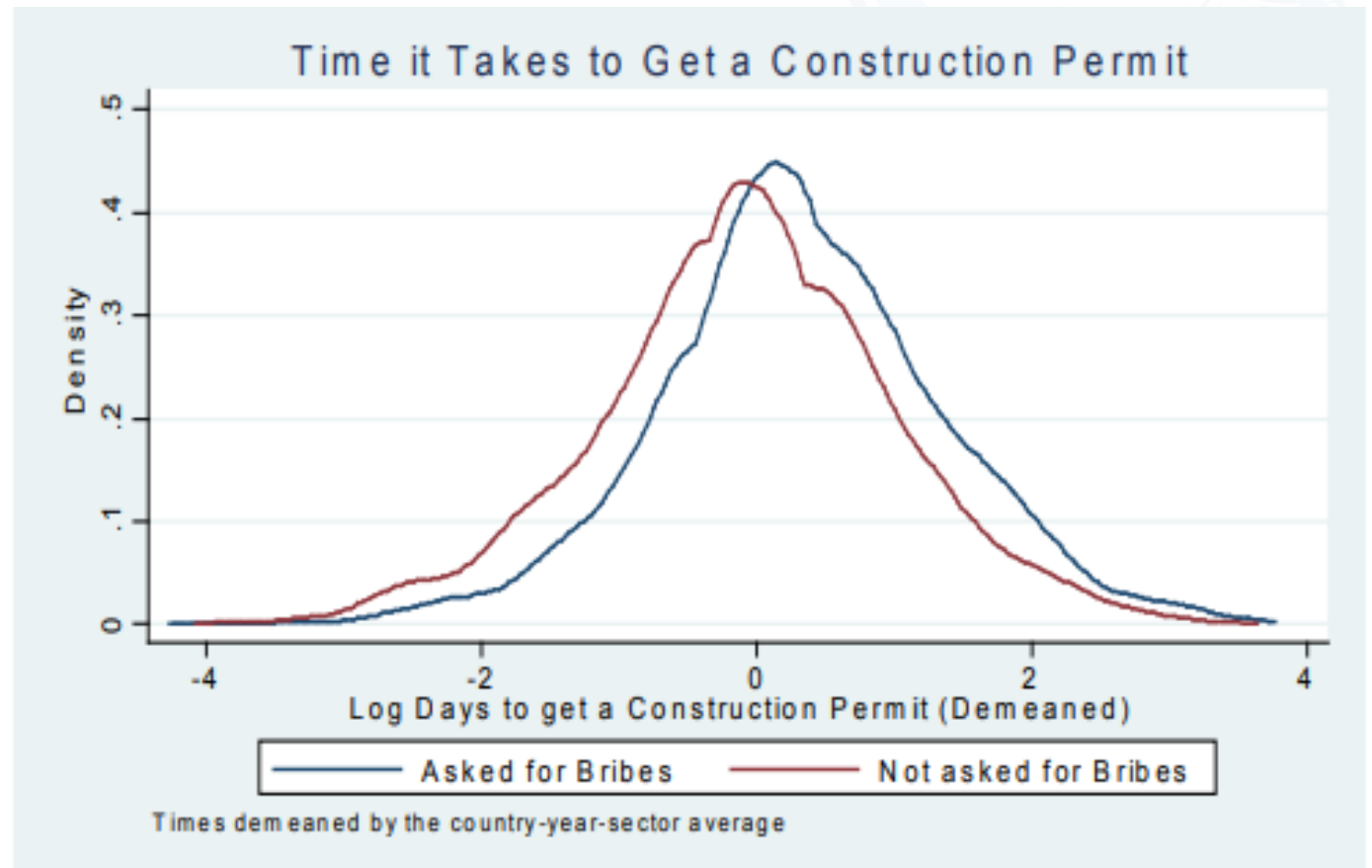
Back to Formal Sector: Remaining Gaps in Administrative Data

Hallward-Driemeier, et al. (2013) in KCP-supported study focused on disaggregated data on firm dynamics, labor flows, productivity, and resource reallocation.

Availability Gap	Limited access to administrative data in certain countries or sectors
Comparability Gap	Challenges in comparing administrative data across countries
Data Quality Gap	Concerns regarding the accuracy and reliability of administrative data

Remaining Gaps in Measures of Firm Performance

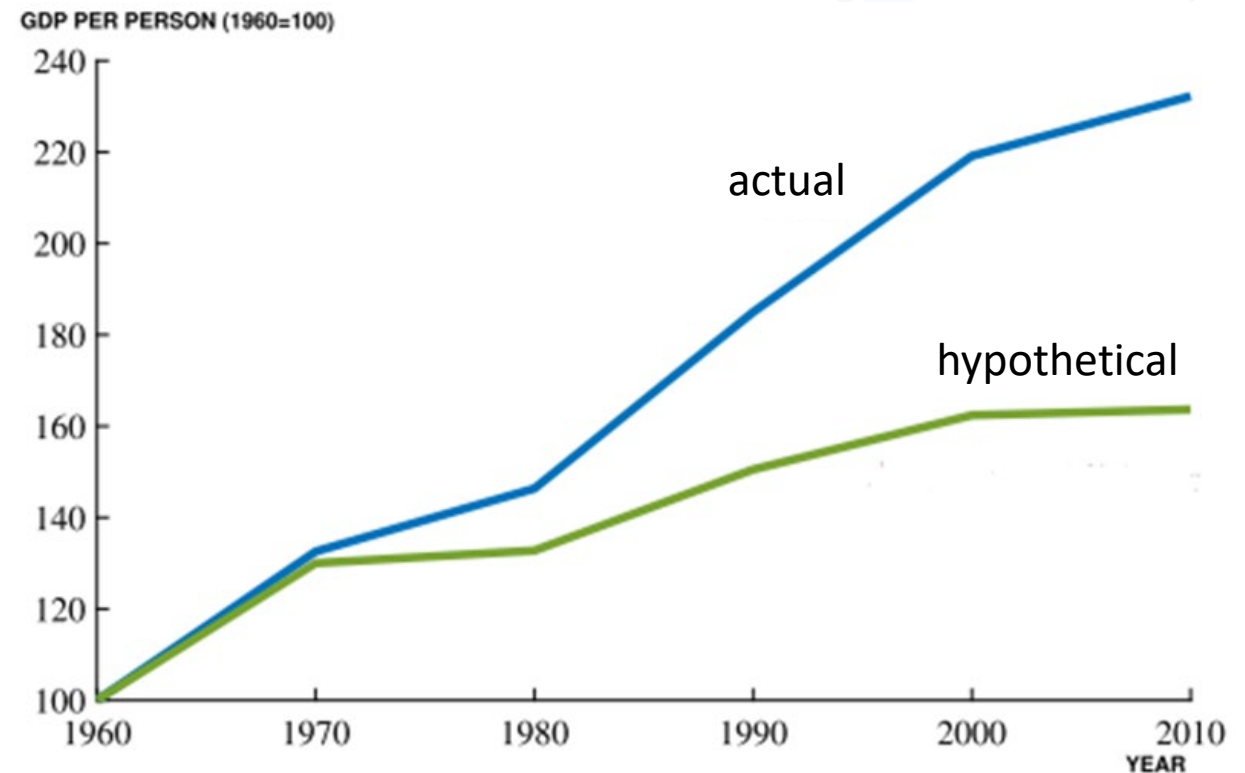
- In addition, need **comprehensive, standardized, frequent, survey data and measurements**, improved data collection methods, quality and availability
- KCP funded substantial research into **causal relationships** between **interventions** and **outcomes**, hopefully more to come



Source: [Freund, C et. al., \(2014\)](#)

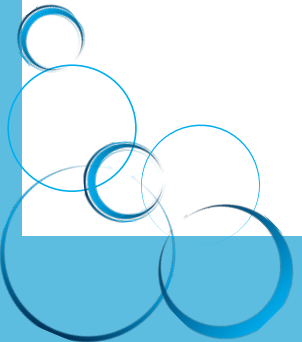
Remaining Gaps in Inclusion – Gender and Race

- Gender and racial bias result in **talent misallocation**, addressing bias will boost **GDP growth**
- Research Gaps: Insufficient research on gender/sexual preference discrimination: **discrimination cost, skills, migration, glass ceilings, effective policies**

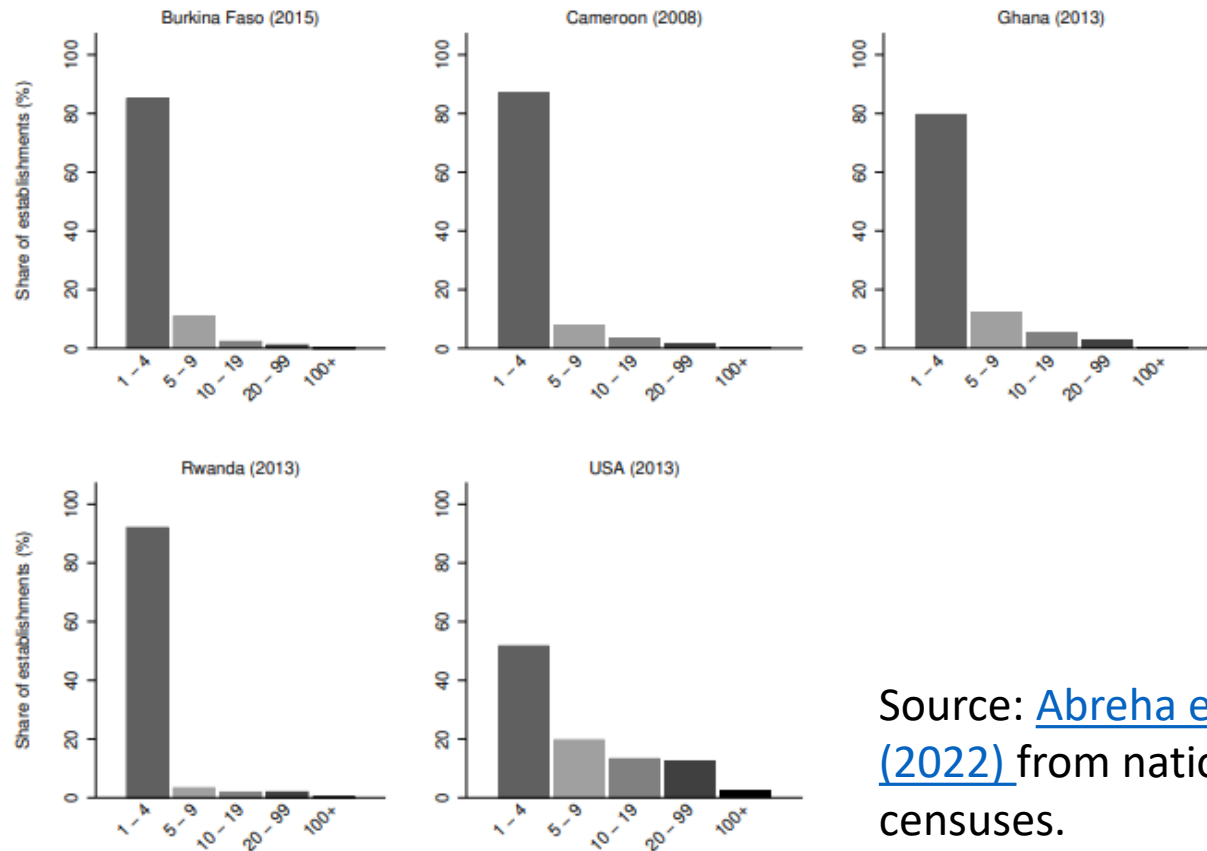


Blue line shows actual GDP per person. Green line shows the hypothetical of no change in (mis)allocation of women and black workers since 1960. [Hsieh, C.-T., et al. \(2019\)](#)

David Mckenzie



Most firms in developing countries are small, many are informal, and productivity is low



Raises (at least) three questions:

- 1) Why are so many firms so small and unproductive?
- 2) How much of a problem is informality?
- 3) What can policy do about this?

Source: [Abreha et al. \(2022\)](#) from national censuses.

Why are firms so small?

- Firm owner aims to choose inputs of capital K and labor L to maximize profits given by:

$$\pi = pf(\theta, K, L) - rK - wL$$

Suggests several explanations:

- Firms small because constrained – can't get all the capital and labor they want
- Firms small because they have low θ ([Lucas, 1978](#) model)
- Firms small because regulations affect choice of formal vs informal production technology (f), and cost of inputs (r, w).

How do we measure and improve θ ?

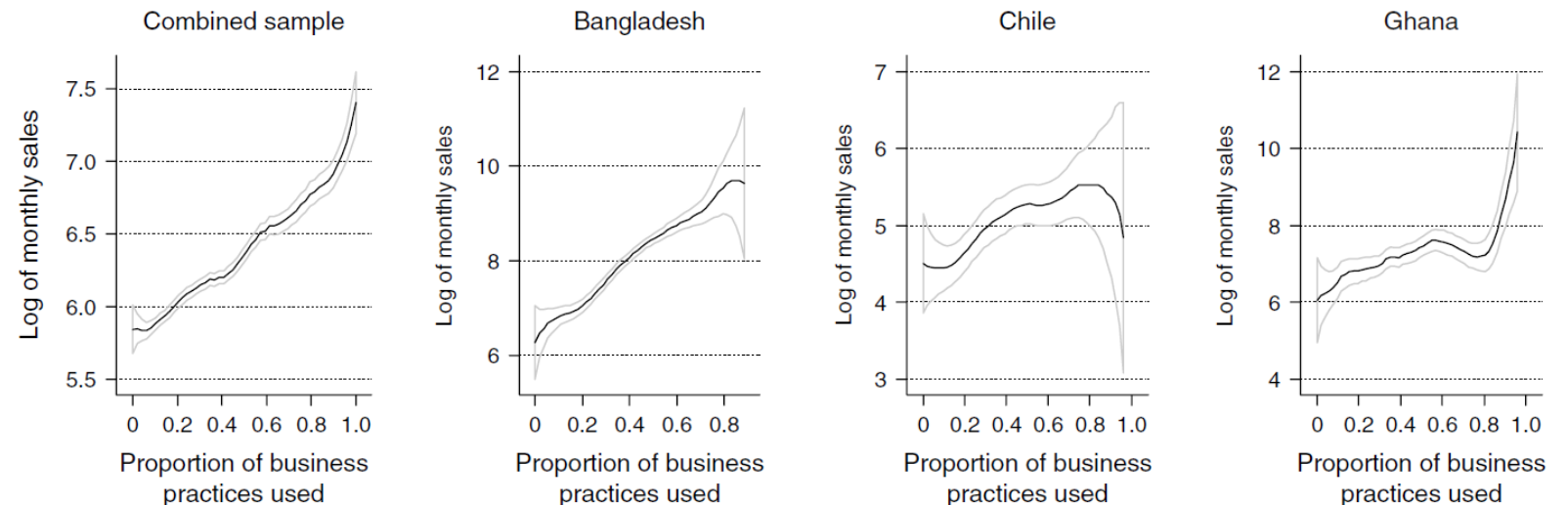
- **20 Years ago:**

- recognition that “managerial technology” affects ability of firms to translate inputs into outputs, but black box of what this means in practice or how to measure it
- business training programs like ILO’s SIYB used for microenterprises, but no evaluations; less policy attention to what could be done in larger firms.

Measuring management and business practices in small and large firms

- Influential work of [Bloom and Van Reenen \(2007\)](#) – management as distinct set of practices (not personality)
- KCP-supported work ([McKenzie and Woodruff, 2017](#)) – how to measure business practices in small firms, showing associations with firm performance

Figure 4. Local Linear Regressions of Log Sales on Business Practices



Measuring management and business practices in small and large firms

- DECEA, with EBRD and Nick Bloom adapting management practices instruments for firm level survey back in 2008. Example of academic, World Bank and other multilaterals collaboration
- DECEA adapted questions for formal (Bloom and Van Reenen, 2007) and informal (McKenzie and Woodruff, 2017) sector ES, with management practices indicators publicly available (firm- and country-level), with growing coverage

What can we do to improve practices?

- Blue skies research -> policy -> research -> policy & new methods
- **KCP-supported work in India** – proof of concept – can consulting improve management practices in badly-run firms? ([Bloom et al, 2013](#)).

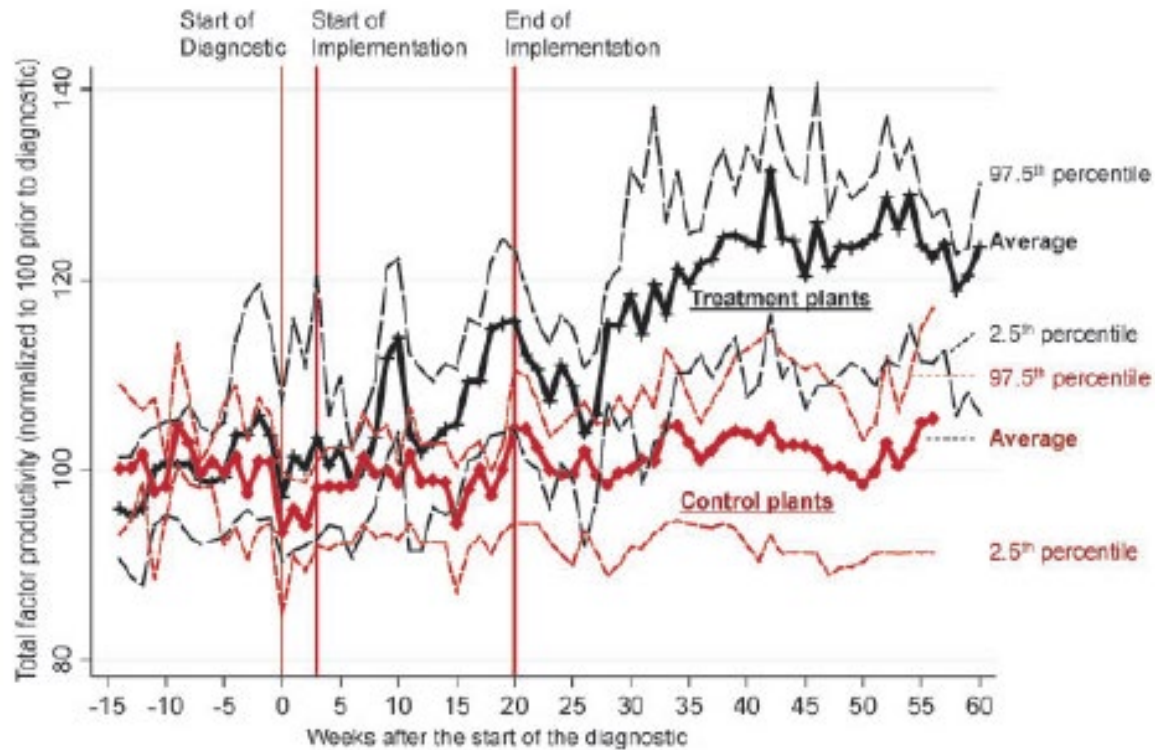


FIGURE VIII

Total Factor Productivity for the Treatment and Control Plants

Research->policy->research

- Operational colleagues take Indian results, discuss with Colombian policymakers -> how can they implement in Colombia, any way to lower costs?

(Iacovone et al. 2022)

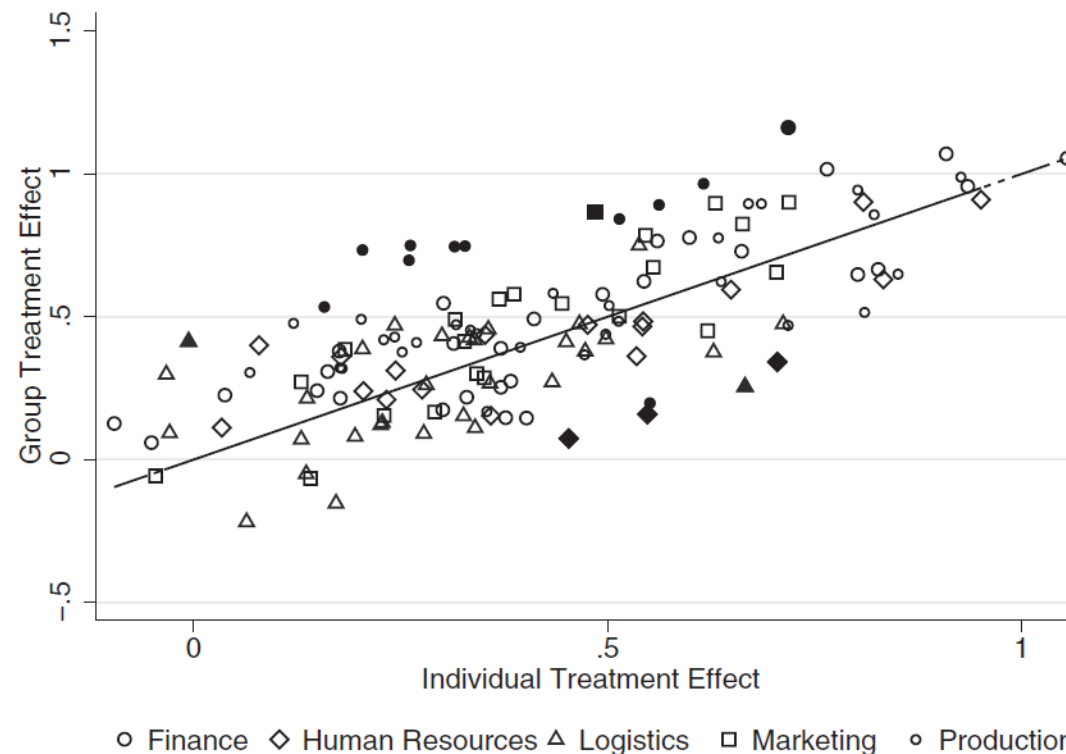


FIGURE 3

The individual and group treatments improved specific practices to a similar extent

Research->policy and new methods

- Results from Colombia being used now in World Bank projects in Ghana and Malawi under development
- Government of Colombia – can we also improve exports through improving productivity
 - Methodological challenge which KCP supported – how to incorporate prior information and make the most of small samples (Bayesian impact methods; [Iacovone et al. 2023](#))

Learning what works in smaller firms

- Past 20 years seen many studies evaluating different types of business training for smaller firms, starting with [Karlan and Valdivia \(2011\)](#)
- Popular policies, but questions about how to increase effectiveness, and how to scale:
 - KCP-supported work by [Bruhn and Piza, 2022](#) – working in Brazil with SEBRAE to see if light-touch diagnostic can get firms to demand training.
 - Ongoing work with CREA in Mexico – can training be scaled using technology?

Recurring themes/persistent puzzles?

- Enormous heterogeneity in firms
 - Management capabilities vary dramatically within countries
 - Lots of variation in scope for growth
 - ⇒ How can we target these policies more effectively to firms that will benefit the most from them?
- Cost and scalability
 - Intensive and expensive programs have shown how management can be improved, and can pay for itself in 1-2 years in many cases
 - But market for these services does not work that well
 - How much scaling can happen through the market, versus how much do we need lower cost and more scalable government/NGO solutions?
- Measuring firm outcomes and collecting good data on them essential but hard

Filling gaps in knowledge

- Green development

- WBES provide rich data on firms' green practices across 43 countries in 2019-2020
- Several survey questions are now part of the global instrument
- DECIG working on creating a new dataset on green building codes across 191 countries

- Transactional governance

- KCP funded WBES project piloted survey questions on business-to-business relations, exploring a novel topic—how businesses ensure that their transactions are fulfilled—with nearly non-existent previous research: [Murrell et al. \(2023\)](#)

Future of data on private sector development

- New survey technologies:
 - F2F already supplemented with video calls, phone and online surveys becoming more prevalent
 - Open ended survey questions, voice transcription, text analysis through machine learning
- Big data
 - 'google' map of firms?
 - scraping data from all online transactions?
- Use of AI for data collection and visualization
- Vast opportunities but also challenges
 - Crucial to maintain representative samples and keep striving for unbiased estimates

Thank you!

