

# Second meeting of the International SME and Entrepreneurship Policy Evaluation Discussion Network

## Evaluation of Israel's SME consultancy program

01 February 2024

Webinar organised by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities

### What's the issue?

Governments across the OECD spend considerable sums of public money on supporting SMEs and entrepreneurs, but there is little reliable evidence on the effectiveness of different types of policy intervention. To fill this gap, the OECD Committee on SMEs and Entrepreneurship is operating an International SME and Entrepreneurship Policy Evaluation Discussion Network with the support of the UK government. The network enables policy makers and experts to exchange at a technical level on the policy lessons from recent high-quality SME and entrepreneurship policy evaluations and related methodologies. It involves quarterly online workshops over 24 months, with annual in-person/hybrid meetings. This workshop presented and discussed the design and evaluation of a major SME consultancy program operated by the Small and Medium Business Authority (SMBA) of Israel.

### Presenters and discussants

**Nir Ben-Aharon, Head of Research Unit, Small and Medium Business Agency, Ministry of Economy and Industry of Israel**

**Roy Shalem, Research project manager, Israel's Central Bureaus of Statistics**

**Salvatore Zecchini, CSME Bureau Member and Professor of International Economic Policy, Tor-Vergata University, Rome**

**Angelina Cannizzaro, Deputy Director, Business Growth Analysis and International, Domestic and International Markets and Exports Group, UK Department for Business and Trade**

**Jonathan Potter, Head of the Entrepreneurship Policy and Analysis Unit, Centre for Entrepreneurship, SMEs, Regions and Cities, OECD**

**Pablo Shah, Policy Analyst, Centre for Entrepreneurship, SMEs, Regions and Cities, OECD**

### Introduction

This meeting delved into the evaluation of one specific type of SME support tool (consultancy support), in one country (Israel).

Consultancy support consists in a series of customizable advisory services, delivered by qualified professionals to SMEs and start-ups on a range of business development topics and issues.

Governments provide these services in different modalities: in-house consultancy from a public agency, referral to private consultants' provisions or through partial/full subsidies to fund consultancy services.

Rationales for public subsidies to consultancy services include SMEs' information asymmetries, financial constraints to access these services, and expected positive spillovers on the domestic economy beyond direct effects on beneficiary companies.

Evidence was presented from a small selection of reliable impact evaluations of SME consultancy programmes that suggests that consultancy services programs often have a positive effect on at least one of the three OECD's core metrics (sales, employment, survival). Some of these evaluations suggested that the programs tended to be more effective when delivered over an extended period, and benefit companies well beyond the end of the program delivery.

Conclusive evidence with external validity would require a greater number of reliable evaluations across a greater range of countries and contexts. These impact evaluation studies will need to overcome important challenges in addressing selection bias, attrition, measurement of the program's intensity, companies' behaviour during treatment, and other technical challenges.

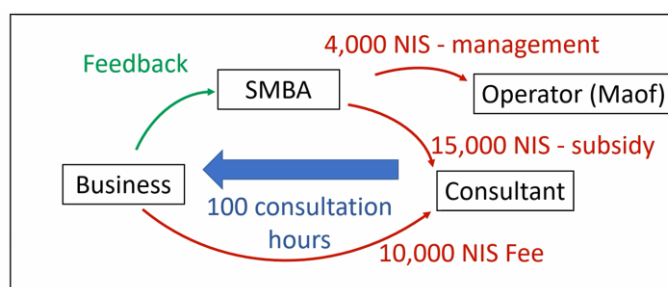
## Israel's SME consultancy program design and key features

The subsidized consultancy program in Israel is administered by the Small and Medium Business Agency (SMBA) of the Minister of Economy. Started in 2010, in 2013 - the year for which the evaluation was conducted – SMBA subsidized 3,000 consultancy projects. The 2023's budget was 78.5 million shekels, allowing a total of 220,000 consultancy hours.

In 2013, firms with 5 to 100 employees were eligible for a maximum of 150 consultancy hours, micro-firms with 5 or less employees were eligible to a maximum for 50 consultancy hours, often reduced to 30 hours.

The programme allows companies selected for support to hire a private consultant for advice. The SMBA pays a share of consultancy fees directly to the consultant. SMBA also subsidizes the costs of the operator, which undertakes an initial diagnosis of the SME's needs, agree the objectives of the consultancy with the SME and recommend three consultants who could undertake the work from a list of accredited consultants with the final choice made by the SME. There are a few private companies that operate this service for the SMBA, and the service has a brand name "Maof". The SMEs were categorised into three major classes – firms with a start-up objective, firms with a problem-solving or survival objective, and firms with a growth objective. Bonuses are made available to the operators based on treated companies' satisfaction levels, collected through surveys. Figure 1 illustrates how the subsidies are provided.

Figure 1. Example of a program subsidy's structure



## Evaluation methodology and findings

An evaluation study conducted by independent researchers at Israel's Central Bureau of Statistics by the request of the SMBA quantified the effect of the 2013's program on key variables including employment growth, likelihood of survival. Estimation on the impact of the program on SMEs revenues, and annual wage percent change were also conducted but not presented.

501 treated companies, that had 5 employees or more, were selected randomly from all those who received subsidized consultancy in 2013. The researcher observed the recorded number of consultancy hours offered to each firm as well as the actual number of available hours used, the firms' sector, the number of employees, the revenue, age, location, and financial characteristics. SMBA classified treated companies into four groups, reflecting the objective of their application to the program: a) grow, increase sales, profits or workforce (66% of the sample); b) stability (18%); c) starting a business (9%); d) survival (7%). The average firm in the sample had 16.5 employees.

About 60% of sampled companies received more than 50 consultancy hours, and 40% less than 50 hours. Some of these companies (69) received less than 20 hours of consultancy due to early termination.

Treated companies may have received other types of support but this information was not collected.

A control group of 1002 companies was created ex-post from a sample of 140,000 companies by matching treated companies with non-treated companies on sector, district, number of employees, revenue and age of companies. Entropy balancing was applied to samples to increase the comparability between treatment and control group.

Key findings are:

- A) On average an hour of consulting increased employment growth by 0.18%. The programme was therefore seen to be effective.
- B) Receiving consultation increases the probability of survival when more than 50 hours of consulting were received. For the full sample, the likelihood of survival of SMEs that received more than 50 hours is estimated to be 14% higher than that of the average firm that received consultations. Such effect is even larger (38%) for the "starting a business" sample.
- C) The estimated benefit-to-cost ratio was approximately 4:1.

## Open discussion

### Policy design and practices:

- Israel's experience suggests that more attention should be dedicated to the targeting recipient firms based on their motivations (e.g. start-up, problem-solving/survival, growth etc.). This impacts the type and extent advice needed. and can potentially affect the outcome of the program.
- Adjusting the adequate program length can improve program efficiency. Israel's experience shows that a minimum number of hours is needed to deliver results, however, this practice may also have

the counterproductive effect of encouraging SMEs to take up more consulting advice hours than they require.

- Targeting should not only focus on recipient companies' characteristics but should also consider which geographic areas, sectors or social groups are more likely to benefit from the program.
- Attention is needed to the practice of selecting consultants. Schemes can give a relatively wide or narrow choice to private firms. In the case of Israel, the program administrator offered three options of accredited consultants to companies based on the assessment made on their needs.
- Marketing of the consultancy programme needs to be in line with the budget available.
- Program design should include a feedback system that tracks recipient companies' satisfaction over time. Collecting specific information on what works and what can be improved at different points during treatment is an invaluable tool to increase the efficiency and effectiveness of these programs.

#### **Evaluation design and methods suggestions:**

- The study could have expanded the analysis to a larger set of outcomes (e.g. firms' innovation and productivity) and possibly split the sample by sector of activity and size (separating micro and medium firms). The effect on companies of different sizes is particularly relevant to policymakers as they are interested in understanding if smaller SMEs should be prioritized or not. In principle, smaller SMEs have more potential gains from the program because they have a greater knowledge gap, however, prioritizing larger SMEs could result in larger productivity uplifts. In the Israeli case, support has predominantly reached companies with more than five employees. This resonates with the approach taken by UK's Help to Grow Management programme. More evaluation of these issues is needed to identify the most responsive size bands of SMEs to the consultancy support.
- Impact evaluations studies should compare the effect of one type of intervention with other programs (e.g. consulting vis-a-vis mentoring, tutoring programs, credit guarantees, equity participation) and should also consider tracking companies for longer periods to fully capture the effect of the treatment over time.
- Israel's evaluation indicates that consulting programs are more effective when they offer more than 50 hours. It would be informative to understand how and why SMEs set up their desired program length, and to what extent there is a push from the consultant to extend the consultancy period. It would also be important to understand why some firms decide to turn down significant amounts of subsidized consultancy hours. This information could help improving targeting and design.
- Results validity relies on convincingly resolving identification issues including selection bias, omitted variables (e.g. business cycle, other controls, labour unions, ), endogeneity in selection process, specifications and functional forms
- Evaluations should include estimates' robustness tests using alternative econometric methodologies. Strengthening the credibility of results is critical to receive budget allocation in ministerial discussions.
- Evaluations should assess the specific objectives of the support, clearly distinguishing between the outcomes and impact of the programme. In estimating the impact, spillover effects on other firms should be considered in addition to the effect of treated SMEs. For instance, a study in Italy

showed that some programmes benefitted targeted SMEs but negatively affected other companies.

- In the case of an unsuccessful consultancy programme, evaluations should be able to determine whether the unsatisfactory outcome is due to the programme delivery or to the inability of SMEs' managers to follow the consultant's advice.

## Conclusions and next steps

Learnings from Israel's experience on program design include:

- The length of program (number of hours) positively impacts outcomes. Although an optimal length of a program that maximizes cost-effectiveness could not be defined, offering consultancy services for less than 50 hours is sub-optimal.
- Companies' behaviour and their relationship with consultants may impact the effects of the program. Program delivery, SMEs and consultants' behaviour should be monitored throughout the delivery period. Companies that do not internalize the learnings from consultancy could be progressively excluded from the program. This process may also be used to optimize the selection of consultants and to improve the programme's design.
- Companies' motivations to apply for consultancy programs impact the outcomes. Pre-screening potential beneficiary companies by examining their motivation and expectations may improve targeting and programme efficiency.

Learnings from Israel's experience on impact evaluation studies include:

- Conducting an impact-evaluation study that can estimate monetary benefit-cost effects of the program is an effective tool to secure budget.
- Good practices for impact evaluations of these types of programs include reliance on randomized trials, adoption of methods that correct for attrition, calibration of output based on KPI suggested by OECD principles (employment, turnover, survival), comparison of the target program with potentially competing programs.

Next steps:

- A hybrid in-person/online meeting, scheduled for the 16th of April 2024 in Paris, France (2.30 pm – 5.30 pm France time), will continue to delve into evaluation evidence on SME and entrepreneurship policy experiences and cross-learnings between the participants.

### Read More

Further information on the themes discussed at the webinar:

- [Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes 2023](#)

### OECD contacts

For more information on OECD work on SME and entrepreneurship policy evaluation, please contact [jonathan.potter@oecd.org](mailto:jonathan.potter@oecd.org), [pablo.shah@oecd.org](mailto:pablo.shah@oecd.org).