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The Lessons from DECFP Impact Evaluations **ISSUE 51**

Our latest note summarizes an experiment that aims to expand the supply of investible firms by helping innovative start-ups and SMEs become readier to accept outside investment.

Can Government Intervention Make Firms More Investment-Ready?

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Innovative start-ups and SMEs in developing and transition countries often have good ideas, but may not have these ideas fine-tuned to the stage where they can attract outside funding. This is the case in the Western Balkans, where there is a perceived lack of investment readiness of innovative start-ups to be in a position where they can compete for, and take on, outside equity.

Investment Readiness Programs are a relatively new intervention that are intended to provide a comprehensive approach to overcoming the constraints to firms receiving outside investment through a mix of individualized training, mentoring and coaching, at an intensity that is sufficient to make firms more investment-ready, while maintaining a cost that is low enough to be scalable to large numbers of firms.

These programs have now been used in the U.S. by the National Science Foundation, and by several government agencies in Europe (e.g. The UK Government's Small Business Service and Enterprise Ireland), along with pilot programs in Romania and Malaysia. However, to date there is no causal evidence as to their effectiveness.

Pioneers of the Balkans: A Five Country Investment Readiness Program

We launched a program called *Pioneers of the Balkans* in five countries in the Western Balkans: Croatia, Kosovo, Macedonia, Montenegro and Serbia. The program was marketed as a competitive program designed especially for innovative entrepreneurs seeking or considering venture financing.

The program attracted young and innovative firms. At the time of application, firms had an average of 6 employees, had been in business for 2.5 years on average, and are involved in high-tech innovative industries such as cloud computing and big data, app development for a wide range of business and personal services, pharmaceutical products, etc. Half of the founders have post-graduate education.

Experimental Design and Intervention

A sample of 346 innovative SMEs were randomly divided into two groups:

Treatment group: 174 firms were offered an intensive two-month program that included a structured online business assessment, individualized mentoring (averaging 11 hours per firm), weekend masterclasses, and pitch training. The cost was approximately $4,000 per firm.

Control group: 172 firms were offered an online course through the University of Texas that cost $153 per firm.

Take-up rates for the treatment group were higher than typical business training programs, with 90% completing the online assessment, and 79% receiving mentoring. In contrast, usage of the online program by the control group was low, with only 37% completing at least one online module.

Following the intervention, both treatment and control firms were invited to a pitch event in collaboration with the Belgrade Venture Forum. Panels of independent judges then scored the firms on different aspects of their investment readiness, and selected 54 finalists to go onto pitch to investors.

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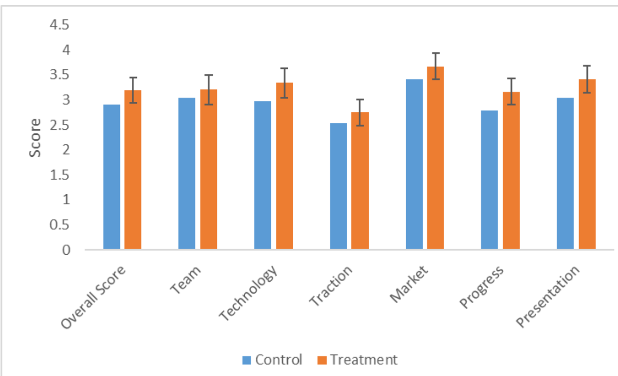
We measure impacts of this program on scores in this competition, on subsequent media coverage over the next two years, and on firm outcomes over the next two years.

Results

- The investment readiness program increased investment readiness as scored by independent judges (Figure 1). This occurs in all dimensions of the score (team, technology, traction, market, progress made, and presentation). The increase is 0.3 standard deviations.

Figure 1: Investment Readiness Scores for the Treatment Group are Higher on All Dimensions



- As a result of these higher scores, treated firms are twice as likely to get selected to pitch at the Balkans Venture Forum (12% of the control group and 23.5% of the treatment group were selected). Out of eight category winners at the Forum, 6 came from the treatment group and 2 from the control.
- Using data which tracks media mentions in more than 250,000 global news sources in 25 languages, we find treated firms attract more media attention over the next two years.
- Using follow-up surveys at 6 months (79% response rate) and 18 months (85% response rate), we track whether this increased investment readiness translates into more investment. We find positive, but statistically insignificant, impacts on firm survival, three categories of investment readiness, and on steps towards receiving external financing. Treated firms are 5 percentage points more likely to receive external financing, but the 95% confidence interval of (-4.7p.p., +14.7p.p.) includes zero and negative impacts.

Policy Implications

This study shows that investment readiness programs can help make firms more investment ready, but that it is harder to detect impacts on investment outcomes. There are two related suggestions for how to further improve this:

1. A first point is that detecting impacts on firm outcomes requires larger firm samples or larger impacts on initial readiness. This suggests working with many more firms, or with a more intensive intervention.
2. Starting with firms that express interest in outside funding, but that require many steps to take place before being in a position to receive funding may end up including many firms for which investment readiness is not the main constraint. Future programs could consider focusing more on firms closer to receiving investment, by working more closely with investors to identify target firms.

For further reading see: Cusolito, Ana Paula, Ernest Dautovic and David McKenzie. 2018. "Can Government Intervention Make Firms More Investment-Ready? A Randomized Experiment in the Western Balkans" [World Bank Policy Research Working Paper No. 8541](#).

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