

USING MATCHING GRANTS SHOWN TO BOOST FIRMS' REVENUE IN LAO PDR

Significance

The recently concluded Business Assistance Facility (BAF) program in Lao PDR has been assessed as having a positive impact on firms and has achieved the goals set out by the program back in 2013, most importantly by improving annual revenues of firms by more than 20 percent compared with companies that did not benefit from this assistance. Employment also increased by 13 percent in the surveyed firms compared with non-BAF supported firms. In view of this success and the positive reception by the firms involved, one-third of which were women-led firms, together with the interest of the firms involved in the BAF program continuing, there is a strong rationale for extending and improving the program based on the recommendations coming out of the final assessment.

1. Providing matching grants to the private sector in Lao PDR

Lao PDR is still at an early stage of economic development and only has about 620 exporters. Lao firms continue to suffer from a serious shortage of skills and local capacity needed to build international competitiveness. In addition, the Lao PDR government has been concerned for several years about the ability of the country's private sector to successfully compete in an environment of increased international competition following WTO accession and the launch of the ASEAN Economic Community (AEC).

It was within this context that the Business Assistance Facility (BAF)¹ was first proposed for Lao PDR to provide matching financial contributions to individual firms. BAF supports firms to build their skills so that they can grow and become more competitive both domestically and internationally through: (i) direct consulting services to individual firms to help business expansion; and (ii) matching grants to help individual firms to purchase business development services to support their growth plans. BAF's matching grant model is based on 20 years of international experience across more than 20 countries. Such an approach, however, had not been tested in Lao PDR and stakeholders were concerned during the design phase whether providing business development services on a co-funding and reimbursement basis would work in the Lao business environment.

To implement the Facility, the Ministry of Industry and Commerce (MoIC) hired an independent company, the PM Group, to put together the BAF team. Under overall oversight of the MoIC, BAF then operated from October 2013 until March 2017. The BAF team worked with more than 280 companies and had on average had six meetings with each firm. These discussions were direct consulting services that sometimes led to a grant (208 firms received grants), but not always. Significant advice was provided by the BAF team to companies regarding their business operations, even to the extent of suggesting that some firms reduce their funding requests to remain coherent.

2. Lessons learned from the successful use of matching grants

Main conclusion: Based on an assessment survey of 30 BAF-supported firms and 30 non-BAF supported firms in Lao PDR, BAF appears to have a positive long-term impact on Lao PDR firms' revenue growth. BAF firms' revenue was 21 percent higher than similar non-BAF firms in the survey.

¹ This note is a brief summary of the final impact assessment of the BAF, a sub-component of the Second Trade Development Facility (TDF-2), a multi-donor funded project designed to support trade integration in Lao PDR. TDF-2 is funded by the Australian Department for Foreign Affairs and Trade (DFAT), the EU, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), USAID, Irish Aid, and the World Bank: Impact Assessment Survey of the Business Assistance Facility Final Report. March 28, 2017. Prepared for the National Implementation Unit, Ministry of Industry and Commerce, Lao PDR. Prepared by Emerging Markets Consulting (EMC).

BAF also seems to have had a positive impact on employment, with BAF firms hiring 13 percent more employees per year than non-BAF firms. Importantly, about 34 percent of BAF grants went towards firms run by women.

Awareness and outreach: While the BAF team provided business advice to more than 280 firms and approved 208 matching grants, awareness for the program remains limited, especially among small firms and for firms located in the provinces.

BAF process: The burden of documentation, in particular tax documentation, was an issue for firms, with two-thirds stating they had at least one tax issue that complicated their compliance with the tax documentation requirements. BAF played a key role in resolving such tax issues, including holding high-level meetings with the tax authorities to try to streamline the tax procedures. However, issues persisted through to the end of the project, proving both time-consuming and tedious for the BAF team.

Additionality: Most BAF-supported firms indicated that they would have purchased the business development services without BAF funding. Less than one-third of firms stated that they would not have purchased the services without funding. However, there is some skepticism over these results and they may not be indicative of actual level of additionality created by the BAF program. For instance, Lao firms tend to be risk averse and shy away from purchasing services. Also, firms in the survey may have been responding with the benefit of hindsight; having seen the positive impact on revenues of the services they purchased they would in fact consider purchasing them even without BAF funding.

Quality of BAF-supported services: Most firms were satisfied with the quality of the initial services they received and all BAF-supported firms in the sample reported they would reapply for funding should they have the opportunity. The costs of the services were seen by firms as a secondary issue.

BAF team independence: One critical success factors in the BAF program is the independence of the project implementation team. Similar matching grant schemes undertaken in other countries also confirm that in order to avoid political interference in the selection of grants, and therefore ensure that grants flow to the most promising activities, it is essential for an independent team to provide advice and approve proposals. This also protects government officials from the risks of complaints of bias in selecting beneficiaries and is essential for the overall credibility of the project.

3. Using future matching grants for private sector development in Lao PDR

Not only did the BAF program achieve its goals of increasing sales, it also boosted employment and succeeded in targeting women-led firms, and was fully disbursed. This highlights the strong demand for the service, despite the highlighted challenges with raising firms' awareness of the program. Therefore, the justification for considering a similar program in the future seems strong. However, a future program should consider the following improvements to better fit with the Lao context.

First, awareness of a similar program could be improved, especially among small firms and firms located in the provinces, by using social media, in particular Facebook, linked to the BAF webpage (also in Lao language). To allow such firms to benefit more fully would also require increasing the time/budget allocated to working with low-capacity, small, and rural firms.

Second, in view of the difficulties in complying with the documentation requirements, particularly concerning taxation, a future program should more effectively explain to firms in advance the documentary requirements, including those documents required as originals. Any future program should also consider aggregating the amount of overall tax due on BAF-supported activities on a regular basis, remitting tax to the tax authorities in a consolidated manner, reducing interactions between firms, BAF and the tax authorities.

Third, the survey showed that firms found obtaining reimbursement for trade fairs particularly challenging and that the use of fixed pre-approved budget ceilings proved problematic. Firms suggested that any future program should allow expenses to go marginally over budget within a certain limit. They also suggested more flexibility on the number of people attending (limited to one person per fair), to allow more staff to travel and enable firms to maximize the value of attending such fairs.

Overall, a potential new matching grants facility could play an important role in improving competitiveness at the company level. However, to improve the overall competitiveness of Lao firms, it will be crucial for government to complement such firm specific support with deepening broader reforms aimed at making the business and trade environment more transparent and predictable. Addressing fundamental challenges that particularly SMEs face through policy reforms will maximize the positive impact of a potential future matching grants facility.