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Business Assistance Facility

CASE STUDY N° 12

BUSINESS ASSISTANCE FACILITY II

USING A GRANT FUND TO STIMULATE BUSINESS DEVELOPMENT SERVICES IN LAOS



The challenge

Most projects that seek to support the growth of the private sector do so by reforming the external enabling environment, such as reforming legal and regulatory frameworks. This can make it easier to launch and operate a company, which can create new jobs and additional sources of income and deliver macro-economic benefits. However, entrepreneurs and companies can only take advantage of these reforms if they have the internal capacity to respond.

To respond effectively, businesses require an increasingly diverse range of skill sets and competencies. It is not sufficient for a company to simply be good at its core offering. To compete with rivals, grow sustainably and scale-up operations, companies need to be able to meet and exceed customer expectations in the range and consistency of the core product(s) or service(s). They need to establish an emotional association with and attraction to the brand; deliver clever marketing that differentiates them from the competition; and ensure ease of purchase, payment and delivery; and much more.

No company, particularly a small company, can expect to have all these skills needed for competitive success. Instead, it must sometimes rely on outside (or 'third party') specialists to provide some of this expertise, for a fee. These specialists are known as 'business development service' (or BDS) providers. The spectrum of BDS providers is wide, spanning: finance and accounting; marketing and branding; ICT and e-commerce; quality and safety certification; sector-specific guidance and technical inputs; human resources and professional skills training; management and organization; and more.



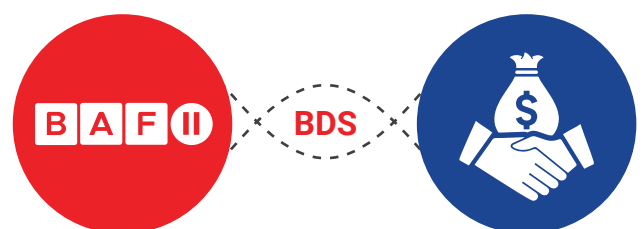
For a relatively small economy like Laos, it can be difficult for companies to access these kinds of BDS inputs, largely because there is insufficient demand for BDS providers to invest in establishing permanent operations. And so Lao companies must rely on a relatively small 'talent pool' of local BDS providers, or turn to overseas BDS providers. However, overseas BDS providers tend to have insufficient knowledge of the local market and can be prohibitively expensive.

So how can a country like Laos address this problem?

The solution

The Business Assistance Facility Phase 2 ('BAF II') has attempted to address this challenge by using technical assistance and grant funding to help catalyse a more vigorous and vibrant BDS market in Laos. By offering matching grants, BAF II has sought to encourage more companies to consider using BDS services, and thereby become more competitive, and in so doing attract more BDS providers to offer their services in Laos. The aim has been to create a positive cycle that will help foster a more robust BDS market in the country, by using a 'flywheel effect' (ie. a process by which multiple small actions build on each other over time to create a kind of kinetic energy that then drives growth).

BAF II has worked exclusively and directly with companies on a one-on-one basis. BAF II has sought to help individual companies become more competitive by increased use of BDS services; and on an enabling environment basis, BAF II has sought to improve the range of BDS services available in Laos. All the grants provided were 'matching' grants, with recipients expected to match the grants awarded. This ensured that the companies were directly invested in the BDS activity being supported.



In addition to the matching grants, BAF II also provided free strategic business advisory services to private sector companies that requested it, regardless of size or location in the country. Three Business Advisors in the BAF II team provided strategic advice to interested companies, with the possibility applying for a matching grant.

The choice of BDS activities to pursue, BDS provider(s) to be hired, fee rate(s) and other key factors needed to be agreed by both sides – the company and the BAF II project – after which a grant contract was signed. The contract set out all the terms and requirements attached to the matching grant, including a clear set of ‘deliverables’ (ie. the tangible results of the BDS activity conducted), a timeline, and the evidence needed to prove that both the BDS activity and payment for that activity had been made successfully. If this was all done satisfactorily, the matching grant funding, equivalent to 50% of the agreed BDS fees, was disbursed.



While the matching grants provided by BAF II were almost certainly the feature that attracted most attention, the free strategic advisory work was an equally important (and labour intensive) component. Not only did this advisory work help to identify whether a company would benefit from some BDS support, it also served as a form of due diligence, helping to ensure that a company’s capacities and needs were appropriate for the BDS activities proposed under the grant agreement. In this regard, the free strategic advisory work by the project team served as a funnel through which matching grant opportunities would flow.

As companies were expected to match the BAF II grant funding, under a 50%-50% matching formula, the project had a responsibility not to recommend any grant where the recipient would struggle to fund its half of the total cost, nor to undertake a BDS activity that would be unlikely to have a positive impact on the company’s subsequent performance. The dictum of ‘do no harm’ was consistently applied when deciding whether to proceed with a matching grant.

BAF II worked with companies across Laos, from micro and small enterprises through to medium and large firms. To be eligible, companies had to be non-state enterprises, and not working directly in extractives (eg. mining), telecommunications, energy generation or banking.

The BAF II ‘family tree’

One way to think about BAF II’s overall approach is to liken it to the image of a tree. The roots comprise the 150+ BDS providers that worked with one or more grant recipient companies of the project. The leaves and branches of the tree comprise the 330+ Lao companies that received a matching grant from BAF II to benefit from the BDS providers. The BAF II project itself sought to serve as the link, or the tree trunk, linking the two sides of the BDS market – the providers and the users, the roots and the branches. The expectation is that as the tree grows and bears fruit, its need for more BDS services will grow, and so the roots of the tree will also develop, thereby creating a virtuous cycle of growth.



Reporting the headline numbers

At the time of writing (mid-September 2024), the BAF II project was able to report the following quantitative results:

i) 592 matching grants were initiated by BAF II over the five years of operations.

ii) 34 (or 5.7%) of these grant agreements were subsequently cancelled, when it became clear that the relevant company would struggle to complete the BDS activities, usually due to some change in circumstances. This 'attrition rate' is quite low, especially given the considerable impact of the pandemic on the business sector.

iii) 557 matching grants were either fully or partially disbursed over the five years of operations. The single largest grant was US\$92,346 in size, and the smallest was just US\$98. The average grant size was US\$4,562.

iv) In addition to Vientiane Capital, grants were issued to companies in 13 provinces in Laos.

v) Just over 2,320 strategic advisory sessions were conducted with approximately 635 different companies. Strategic advisory sessions were conducted with companies in all 18 provinces of Laos.

iv) Around 60% of all companies that BAF II supported were women-led businesses, thereby comfortably exceeding the target set of at least 40%.

Did BAF II have the desired impact?

An impact assessment of BAF II is due later in 2024, although the full dividends of BAF II's investment may not become apparent until 2025-26. This is because recipient companies need time to convert the BDS activities into improved business performance, as measured by growing revenues and the creation of new jobs. However, an independent interim assessment concluded that "BAF II matching grants had a statistically significant benefit to the client firms, increasing their sales growth about a quarter each year compared to their non BAF II peers", and that "94% of firms reported they intended to purchase a similar type of service again. [And] of these, 63% stated they would do so without [BAF II matching grant] support in the future".

BAF II's impact will ultimately come down to two key metrics. At the individual company level, impact should be seen in the companies that benefitted from BAF II showing relatively strong performance. At the wider corporate community level impact should be seen in whether there is an increased use of BDS services by Lao firms, thereby helping to drive advances in the quantity and quality of BDS provision in the country. The hope and expectation is that the market for BDS in Laos will have been strengthened and accelerated by the stimulus effect of BAF II.

Challenges encountered

A number of challenges were encountered during the five years of implementing BAF II. In the beginning, these challenges were largely around: i) making members of the corporate community aware of BAF II; as well as ii) gaining trust within the corporate community. This inevitably took time, with tangible examples of successful service delivery serving as the best evidence of BAF II's utility.

Within nine months of BAF II's public launch, Laos – like a lot of the world – went into lockdown, as the COVID-19 pandemic took hold, borders were closed, public gatherings were prohibited, and various measures were introduced by governments in a bid to slow the virus's spread. This had both a direct and indirect impact on BAF II. In terms of direct impact, the BAF II team had to change the way the project conducted its operations, halt in-person travel and meetings, and move to a more virtual way of doing things. And in terms of indirect impact, BAF II saw many Lao companies having to change their original plans.

BAF II was conceptualized and launched before anyone had ever heard of COVID-19, when the expectation was that the macro-economic backdrop in Laos would remain favourable, and the corporate community was in relatively robust health. The pandemic changed all that. Suddenly, companies were struggling with sharp reductions in business activity, and their planning moved from future growth to one of simple survival. Resilience became the new keyword. When it became clear that the pandemic was not going to go away quickly, and that simply reducing costs would not ensure survival, Lao companies started to explore new ways of staying afloat. The need to 'pivot' became the new buzzword.

BAF II itself did not pivot its operations, rather continued to offer its free advisory and matching grant services. As companies started to come up with solutions on how to survive the pandemic – by changing their business models, their product and service offerings – they found they needed BDS providers to give them the technical expertise they did not have. In sectors particularly badly impacted by the pandemic, such as hospitality and tourism, companies needed to come up with alternative service offerings that could generate revenues and thereby keep the company alive. It was these kinds of pivots that created an additional role for BAF II - helping the Lao private sector weather the stormy headwinds of the pandemic.



With the pandemic raging, and funds in short supply, the challenge then became: i) could companies still afford to hire BDS providers, even if BAF II was funding half the cost; and ii) how could the BDS be delivered if travel and gatherings were restricted. Some companies requested to suspend their BDS activities until the pandemic abated and they had both the funds and clarity to plan ahead. Other continued to seek grants, but the average grant size declined, as companies had less discretionary funds available.

Once the pandemic abated Laos and the private sector were impacted by another, very different set of headwinds. The value of the Lao kip against other currencies began to drop, and domestic inflation began to increase. The price of essential inputs, and particularly imported inputs, that companies needed to do business, started to increase. But as customers began to cut back on spending because of inflation, achieving sales and revenues targets became more challenging. As a result, many Lao companies were squeezed between the opposing forces of higher costs and reduced revenues, leading to tighter profit margins and less retained earnings to spend on things like BDS. Thankfully, BAF II's matching grants could help at least mitigate this situation.

Other challenges encountered included the following:

i) Some applications submitted for support were ineligible, usually because the company concerned did not fully understand what BAF II was offering and/or wanted a kind of support that the project could not provide. In every case, it was important to explain to the applicant the reason(s) why we could not proceed with the request, so that they did not think that they were being discriminated against.

ii) With other grant funds operating in Laos, there is always the potential for confusion and misunderstanding. It was therefore very important to develop a clear 'brand' for BAF II, and to be very clear in all marketing efforts, in a bid to reduce any confusion. There was also the potential to 'lose' some potential applicants to other grant funds providing more generous terms, and with overlapping eligibility criteria. In such cases, there is little one can do.

iii) When BAF II started, there was a degree of skepticism in parts of the business community about whether or not the matching grants were genuine, and what conditions were placed on recipients. This probably stemmed in part from earlier grant funds that were very demanding in terms of reporting and other requirements, or were not quite what they appeared. It was therefore important to demonstrate that BAF II's offerings could add value and that the compliance requirements imposed on recipients was minimal.

iv) Inevitably, some grants were cancelled by recipients, as a result of some change in their circumstances. This kind of attrition can impact on the efficiency of a grant fund project, as there is no way to regain the time and effort put into developing and contracting the grant. However, no money was lost as a result of a grant cancellation, as BAF II only issued its grants once the BDS activities had been completed and all the necessary documentary evidence – such as the 'deliverables' and proof of all payments – had been received and checked. This allowed for the money earmarked for the subsequently cancelled grant to be recycled back into the fund, for reallocation to another recipient instead.

v) Typically, smaller companies apply for smaller matching grants, as their own funds are more limited. And smaller companies tend to have relatively less organizational capacity to apply and implement a BDS project being supported by a BAF II grant, so tend to require more support and guidance.

As a result, there is often an inverse correlation between the size of the grant and the amount of work involved in ensuring that it is successful. Put another way, the bigger the grant, the lower the transaction costs; while the smaller the grant, the higher the transaction costs. Therefore, when a grant fund project is expected to hit certain performance indicators, such as the number of grants and/or the amount of grant funds disbursed, there can be a temptation to focus on larger grants and larger companies (a bit like loans issued by commercial banks). But such a temptation needs to be resisted if the project is to be inclusive, and is to help smaller companies in their bids to scale up.



DR. NICK FREEMAN
BAF II Team Leader

"The determination and resilience of the five person (all women) BAF II team to work through the challenges posed in executing this project, and to find innovative solutions to address those challenges, was inspiring, and echoed the resilience and innovation of the Lao private sector to navigate a way through difficult times. The close collaboration and mutual respect established with the MoIC team overseeing the project was also a key determinant of the project's ability to deliver. The project was very much a team effort, and with the interests of all stakeholders well aligned, and strong demand for its offerings, BAF II was able to support a significant number of companies in Laos in their quest for greater competitiveness and future growth. We were particularly pleased that more than half of all companies receiving a grant were woman-led."

Key lessons learned

A number of lessons can be drawn from BAF II's five years of operations, many of which are relevant not just for Laos, but for other lower-middle-income countries, matching grant funds, projects supporting BDS provision, and those interested in improving competitiveness in the private sector.

When in doubt, keep it simple: There is always potential for confusion by potential grant recipients who may misunderstand the eligibility requirements,

or not appreciate the differences with other grant fund projects. An important way to mitigate this risk is to keep things as simple as possible, and make every effort to explain the project's aims in simple terms. There is also a need to keep operations as simple as possible, while not undermining the integrity of the grant fund mechanism and its use of public funding. This helps the grant fund to be efficient, quick to respond to requests, and prompt in making grant disbursements to recipients so that they do not encounter any cash flow problems.

Be willing to invest in outreach and communications: A grant fund project should not expect that, having announced the opening of an application window in official media, request submissions will automatically flow in. It is important to raise profile and thereby create a pipeline of applications. BAF II raised profile through giving presentations to business associations and chambers, participating in networking events and having a presence at business fairs. Social media has proven very useful for marketing, particularly when trying to reach smaller companies that may not be so well connected, nor plugged into various business networks. BAF II operated both a Facebook page and a YouTube page, in addition to its own project website, in an attempt to be as inclusive as possible in its outreach efforts. The project team also visited every province in Laos to conduct roadshow presentations and make one-on-one company visits.

Be mindful of the key audience: There is often a temptation for any grant fund project to not only think of itself as a development project, but also portray itself as a development project, and to talk about itself – and depict its performance – in these terms. When it comes to internal reporting, this is absolutely the right thing to do. But when it comes to communicating with companies, as potential recipients of the project's offerings, it is important that the project portrays itself, and conveys its messages, in ways that businesspeople can easily understand, including relatively small and inexperienced companies. To connect with companies it is important to articulate the project almost as if it was a service company itself, even if those services are essentially free. Branding that is consistent, professional and does not include too many references to 'development' will help the project gain an identity that companies will find easier to connect with, and hopefully trust. This is not to suggest that the project should hide its true aims, but that it needs to keep this within limits,

as this is not what will interest and engage potential applicants from the business community.

Robust governance is key: When issuing grant funding it is inevitable that a project will attract some companies and individuals that may not be what they claim, and/or their intentions are not what they seem. It is therefore important to have a robust governance structure that helps reduce the potential for abuse, with checks and balances in place to thwart any attempts at irregular behaviour. Although the BAF II team conducted all the grant application processing and monitoring, the executive decision on whether to approve a grant contract, and to pay out the funds upon successful completion, was held by the National Implementing Unit (NIU) of the Ministry of Industry and Commerce (MoIC). The project was also subject to the MoIC’s auditing oversight. In addition to BAF II’s Lao team, there was also a (part-time) international consultant reviewing all grant recommendations, and overseeing the work of the team. There was also a ‘grievance recourse mechanism’ that allowed anyone to submit, anonymously if preferred, any concerns around suspected irregularities or potential abuse. While such a governance structure may add to the operating costs of a grant fund, it is money well spent, as the potential losses and reputational risks of having a grant fund with a weak governance structure are even higher.



Work hard to earn trust in the business community: Simplicity, good communications and robust governance all help develop another key determinant of success – having an adequate level of trust within the business community. To be effective in providing unbiased strategic advice to companies, and matching grant funds to help those companies improve

their competitiveness and increase their revenues, requires a considerable level of mutual professional respect and trust. And this has to be earned over time, so that the project gains a reputation for being genuine in its intentions and effective in providing its offerings. There is no short-cut to achieve this; it is something that takes time to establish, and then be maintained.

Think of recipient companies as partners on a shared journey: In addition to trust, BAF II placed significant emphasis on ensuring that all the companies it worked with – whether recipients of free strategic advisory sessions, matching grant recipients, and/or BDS providers – were treated as partners in a shared journey, and aiming for a shared goal. It is inevitable that the owners of small companies in particular may feel unsure and potentially intimidated by a grant fund that is associated with the government and large development partner institutions, and so it was incumbent on the project team to allay those concerns as much as possible.

Be as flexible and pragmatic as possible: Inevitably, challenges will arise. They may not be as dramatic as a global pandemic, but there will be hurdles to jump, diversions to navigate, and the odd unpleasant surprise along the way. It is therefore important to be flexible in programming and pragmatic in execution. In many ways, the performance of a grant fund project is determined by the recipients of the grants, and the project ‘lives’ vicariously through the actions of others. For that reason, considerable work goes into trying to work with companies that seem to show the greatest potential and display the determinants of success, as well as structure grant contracts that will bring about the desired results. But as anyone running a business will confirm, there will be surprises. A new window of opportunity for a business to offer a new product may open as quickly as an old window for another will close. And in the case of a 50-50% matching grant fund, which includes equal funding from the grant recipient, the project should never demand that a company carry on with an activity, and expend its limited funds, if the original rationale changes, for whatever reason, and it no longer makes sense to do so. There needs to be a means by which a discussion can take place, which includes looking for a viable solution. But if no solution presents itself, then the project and the recipient company can agree to ‘walk away’ by mutual agreement. In short: expect the unexpected and be ready to respond.

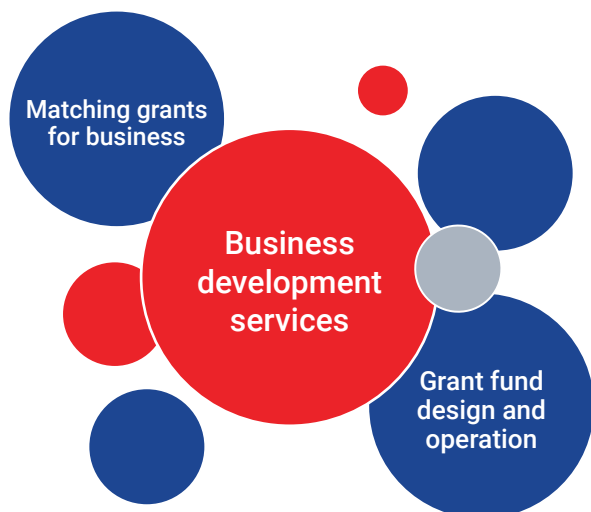
Glossary of terms

BAF II		Business Assistance Facility II
BDS		Business development services
MoIC		Ministry of Industry and Commerce, Laos
NIU		National Implementing Unit

Resources

- BAF II website
<https://baflaos.com>
- BAF II's YouTube page
<https://www.youtube.com/@bafiilaos/playlists>
- On-line directory of BDS providers operating in Laos
<https://bdsdirectory.la/en/public>
- Eleven other case studies from BAF II
<https://bdsdirectory.la/en/public/resources/9>

Key themes



SCAN HERE
for accessing a digital version of this case study, in English or Lao language



“We are very proud of the success that BAF II has had in supporting the private sector in Laos. With over 60% of the grants awarded to women-led businesses, BAF II has played a significant role in supporting female entrepreneurs in the country. BAF II has also proved its resilience, having successfully adapted to the challenges of the global pandemic and subsequent economic shocks. It has been a privilege to have been part of such a significant initiative over the last 5 years.”

JONATHAN BORSLEY
Managing Director,
Ecorys International Development

Note:

BAF II was implemented by Ecorys, as pillar C of the Lao Competitiveness and Trade (LCT) project in Laos, 2019-24. LCT was overseen by the Ministry of Industry and Commerce’s National Implementing Unit, and received technical support from the World Bank. Funding support came from DFAT of Australia, Irish Aid, USAID and the World Bank.