



Business Assistance Facility BAF II

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Newsletter

No. 2, May 2021

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The headline numbers

The first quarter of 2021 continued to be a busy time for the BAF II project, and in April 2021 a number of important milestones were achieved. These milestones included:

- **The 150th matching grant was approved.**
- **Over US\$1m in total grant commitments was pledged.**
- **Over 80 grant disbursements, amounting to over US\$470,000, were made.**

BAF II's Team Leader Nick Freeman said: "While the COVID-19 pandemic has undoubtedly posed a major challenge over the last year, we have also seen how resilient the Lao private sector can be. Lao enterprises have found innovative ways to adjust their business models, and bring new products and service offerings to the market."

BAF II's team of business advisors have been providing guidance and support to companies on how to navigate safely through the economic downturn. And where enterprises have needed to retain the services of third-party experts to help them adjust and refine their activities, BAF II's matching grants have been particularly useful.

Pandemic-driven change

"We have seen some interesting new developments in consumer behaviour as a result of the pandemic", noted BAF II's Deputy Team Leader, Vilaichit ('May') Senemangthong. "Lao retail businesses are having to adjust to those changes, and try to meet the evolving needs of their customers. On-line business and e-commerce is perhaps the most obvious example, but there are others too. For instance, with cross-

border supply chains significantly disrupted by the pandemic, there has also been a shift towards sourcing more inputs locally. This provides a great opportunity for Lao producers to penetrate markets that were previously dominated by imports."

Nick Freeman agrees, noting that: "Before, large firms had a competitive advantage on pricing because they had larger economies of scale. But that competitive edge has been reduced by the additional hassles of shipping across borders during the pandemic. Some buyers are willing to pay extra for inputs that can be sourced locally and therefore acquired more easily and reliably." A new attribute in business has grown in importance over the last year: it is resilience.

"There has also been a major increase in the costs of international shipping over the last year, which has also impacted on cross-border trade", notes Vilaichit Senemangthong. Everything from booking space on cargo ships, to renting 20 and 40 foot containers, and even buying wooden palettes – they are all currently in short supply."

The power of now

The price indexes for a wide range of both hard and soft commodities, have all been trending up in recent months, from copper to coffee, lumber to rubber, soybeans to oil. Arabica coffee futures are up over 30% over the last year. In late April, Bloomberg reported that the 'spot' price premium for commodities that could be delivered immediately, compared with one-year future prices (a feature known as 'backwardation'), was at its highest in 14 years (see chart below). Normally, futures prices are higher than spot prices, and so the current inversion in price premia shows how strong global demand is for raw materials, and how limited is the ability to supply those same materials.

Shortages of commodities at highest since 2007

Shortage of commodities has pushed backwardation to nearly 15-year high
/ Commodity backwardation rate



Source: Bloomberg, CME, ICE, LME
Note: Chart uses current BCOM constituents and weightings. Calculation uses current spot futures price versus the forward 1 year futures price. Some futures prices were estimated in this calculation.

A glimpse inside BAF II's grant portfolio

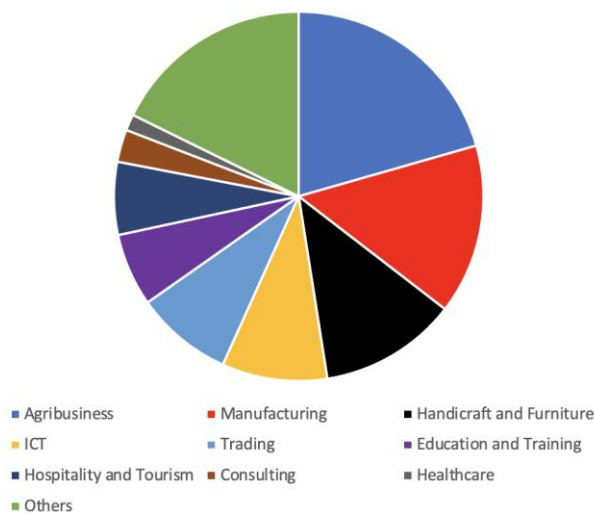
While all applications for a matching grant are reviewed on their own intrinsic merits, the BAF II team has been working hard to ensure that the project is as inclusive as possible.

No grant or company is too small for BAF II

Of the 150 approved grants, 63% are with women-led companies, and 22% have gone to businesses that are headquartered outside of Vientiane Capital. Over 50% of the first 150 grants have gone to companies that are classified as being either micro or small in size. There is no minimum grant size, and although the average grant is around US\$7,000, BAF II has done grants as small as US\$123.

BAF II's grants have gone to a diverse range of companies and sectors, as the pie chart below shows.

Sectoral breakdown of grant contracts approved



BAF II has approved grants to companies located in 12 provinces across the country, thus far, and we are keen to enact our first grants in the remaining provinces of: Sayaboury, Xaysomboun, Houaphan, Salavan, Attapeu and Sekong provinces. The BAF II team is always happy to receive requests from companies located outside of Vientiane Capital.

While current COVID-19 travel restrictions make it difficult to travel around Laos at present, BAF II's business advisors will be touring parts of the country during 2021. If you would like to recommend locations for us to visit, and/or suggestions for hosting presentation workshops, then please do get in touch with us.

Is that light at the end of the COVID-19 tunnel ?

It is certainly true that the last 15 months have been very difficult for all businesses. And the increase in confirmed COVID-19 cases in Laos in recent weeks suggests that we still face some challenge weeks ahead. But could it be that we can see some light at the end of the tunnel ?

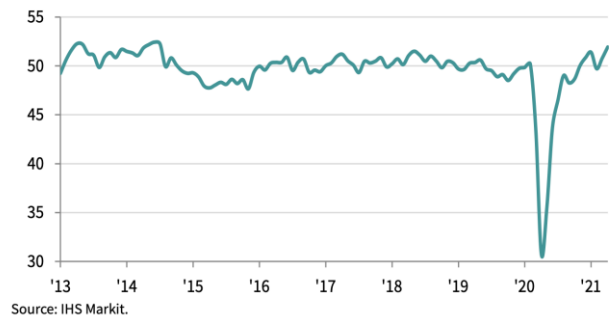
We think there is some room for cautious optimism, particularly now that mass vaccination programmes have commenced, in Laos and around the world. And there is some macro-economic data coming in that supports this view.

First, as we noted on page 1, increased demand for a wide range of both hard and soft commodities is pushing up the price of many inputs. That would not be happening if general business sentiment was not improving.

Secondly, the latest numbers from the Purchasing Manager's Index (PMI) for China, Thailand, Vietnam and ASEAN all suggest that the situation is steadily improving. China's PMI rose in April from 50.6 to 51.9, Thailand rose from 48.8 to 50.7, Vietnam rose from 53.6 to 54.7, and ASEAN's PMI rose from 50.8 to 51.9. (Anything over 50 is positive growth.)

Unlike a lot of business indices, the PMI is forward looking, as it essentially tracks the various inputs that manufacturing companies are purchasing, in anticipation of future production and demand.

ASEAN Manufacturing PMI
sa, >50 = improvement since previous month



Thirdly, the Asian Development Bank (ADB), World Bank and IMF have all been issuing their latest economic forecasts for Asia and Laos, and the headline numbers look positive.

The ADB expects developing Asia as a whole to grow by 7.3% in 2021, with the Lao economy growing by 4.0% in 2021 and 4.5% in 2022. The World Bank is estimating around 4.9% GDP growth for Laos in 2021, and the IMF estimate is for 4.6% GDP growth in 2021 for Laos.

Meet the team: Ms Tou

Ms. Valininh Mangnormek, or 'Tou', is responsible for the smooth running of BAF II's office. We asked Ms Tou a few questions.

When companies visit the BAF II office what are the most common questions they ask ?

"They are normally looking for a stronger understanding of what BAF II does and how we work. They also often ask how long the process of applying takes, and they tend to be surprised when they realise how quick and easy it is."

When companies submit a request for grant disbursement, what are the most common mistakes they make ?

"It is important that they pay the BDS provider by bank transfer, and not cash, and so we have to remind them about that quite a lot. We also urge them to keep all the original receipts and invoices, as we need these for processing the disbursement. Photocopies are not sufficient."

What advice would you give a company thinking about approaching BAF II, either for advice or a matching grant ?

"First, register with BAF II on our website. It is free to do so. Next, before coming to our office, list down all the questions you want to ask. Do not be shy about asking questions. We are here to help your business grow."



Contact us

If you want to learn more about BAF II, please visit our website at: www.baflaos.com. You can also email us at: info@baflaos.com. Or call us at: 020 55542658. Our office is located in the Lao National Chamber of Commerce and Industry in Vientiane. Feel free to pop in for a chat.



Remind me: How does BAF II work ?

As the manager or owner of a business, you almost certainly know your company better than anyone. You know its strengths and its weaknesses, and you may have a good idea about where the greatest threats and opportunities lie.

But sometimes it can be difficult to develop a strategy for building on the strengths and seizing the opportunities, as well as reducing the weaknesses and mitigating the threats. Sometimes it is useful to get some expert assistance on where and how to prioritize your efforts. This is where the BAF II's business advisors can be of help, as a free service offering.

Having conducted a diagnostic analysis of your company, you may decide that you need outside ('third party') technical assistance to make changes that will strengthen and grow your business. These may relate to production and operations, or marketing and sales, or some other field where you need to improve.

This is where BAF II comes in, again. Our team of business advisors can also help guide you towards the right 'business development service' (BDS) experts. And if your company decides to retain the services of a BDS provider to help you grow your business, then you can apply for a matching grant from BAF II to help defray 50% of the costs.

BAF II is one of four components of the Lao Competitiveness and Trade (LCT) Project, funded by the World Bank Group, DFAT, Irish Aid and USAID, and executed by the Department of Planning and Cooperation, Ministry of Industry and Commerce. It aims to eliminate barriers to private sector-led growth by improving the regulatory environment, lowering trade costs and raising firm-level competitiveness. BAF II's specific objective is to support private sector companies and SMEs to build their skills and expertise so that they can become locally, regionally and internationally competitive.

Interested to learn more? Just register on our website (www.baflaos.com) for free, and with no obligation.

