



**Institutionalizing and sustaining
Business Development Services in Laos:**
Building on the ILO's recent work

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1. Overview

In February 2020, an international consultancy firm, Powers and Associates (Australia), conducted an independent review of the ILO's work in the Lao PDR in support of the World Bank funded "SME Access to Finance" (SMEA2F) project. Operating between July 2018 and February 2020, this work focused on Lao-based Business Development Services (BDS), building their capacity and equipping them with new locally relevant training tools and methodologies intended to improve SME readiness to secure loans. The review included an analysis of project reports and impact assessments and a mission to Vientiane to interview project stakeholders.

This report summarizes the key activities and results of the ILO's work and presents recommendations on institutional arrangements that could be put in place to ensure that these activities and results can be continued. Through the project, BDS are now much better positioned to work as an effective SME service delivery network and to work in closer partnership with the Department of SME Promotion (DoSMEP), the Lao National Chamber of Commerce and Industry (LNCCI), and the commercial banks. The opportunity exists for these partners to not only continue the project's current work developing SME readiness to access finance, but also to broaden their focus to meet other SME business improvement needs. While the ILO is currently exploring funding opportunities to continue its support to the partners and especially the BDS, urgent action is needed in the meantime to ensure that the momentum built by the project is not lost.

2. Background and context of the project

SMEs in Laos

SMEs occupy a crucial place in the economy of the Lao PDR, accounting for 99 percent of all registered businesses and 82 percent of employment. While they clearly occupy a crucial place in the local economy, their full potential has not been realised. According to the World Bank, their contribution to GDP is still under 20 percent of GDP (as compared to 40 percent in Thailand and 32 percent in Malaysia and the Philippines) and enterprise surveys suggest that their productivity has been flat or has even declined since 2012. The competitiveness of some sectors (e.g. SME manufacturing) may have deteriorated since 2016¹.

Outside the formal sector, many more people are engaged in informal enterprises and these also have unrealised potential. Having limited business and financial management skills and operating without proper business processes and systems, their prospects for growth are poor - as often are the working conditions of their employees. Often operating outside the reach of regulatory systems, they can also have an unfair competitive advantage over formal enterprises, further restraining their performance.

Key government agencies and industry groups recognise the importance of enhancing SME performance in Laos. DoSMEP has outlined seven policy priorities in its SME Development Plan 2016-2020, including the need for fostering entrepreneurship in the country, improving the enabling system for registering SMEs, and enhancing SMEs' access to finance. LNCCI is pursuing a strategy that aligns with these priorities and, through the SME Service Centre (SSC), is working closely with DoSMEP to improve and coordinate service delivery to SMEs.

¹ World Bank, Lao PDR Economic Monitor, August 2019

Project context and logic

Given the size and diversity of SMEs in Laos, their business development needs are very broad in scope – covering, for example, support for start-up businesses, sector-specific needs (e.g. for tourism or agricultural SMEs), factory improvement, human resource development, marketing, quality control and supply chain management. While more work may be needed in Laos to identify and to respond to the specific business development needs of different SME market segments and to improve the broader enabling environment for business, access to finance has been consistently highlighted as an issue for many Lao SMEs² and is seen as a pathway to business growth and job creation.

In response, in 2014, the World Bank approved a USD 20 million “SME Access to Finance” (SMEA2F) project to be delivered up to 30 June 2020. The project aimed to (a) increase the supply of funds through a line of credit to commercial banks to provide loans to SMEs; (b) enhance the capacity of banks to work with SMEs (e.g. reviewing their credit analysis and approval procedures and risk assessment methodologies; recommending new and relevant SME financial products); and (c) strengthening the capability of DoSMEP to formulate and implement an SME development strategy and to promote and improve access by SMEs to finance³.

The logic behind this third, DoSMEP element was to prepare SMEs to apply for commercial loans by improving their capacity to develop sound business plans, to manage their finances and to use accepted accounting practices. This would include close collaboration between DoSMEP, the SSC, LNCCI, the banks and BDS providers. Subsidized training would be offered to participating firms through BDS.

The mechanism for DoSMEP to deliver this element was not specified in the original project documents. While the project logic suggested that the work with SMEs might better prepare them to apply to the commercial banks for the additional loan funds provided through the World Bank (in a sense, to put them at “the head of the queue”), the actual sequence of events did not allow this. By the time the ILO was engaged (midway through the second last year of the project), the additional earmarked funds were all committed. This may have had an adverse effect on the capacity of project to attract the type of SMEs that would have the most potential to benefit.

² The 2018 World Bank Laos survey of enterprises highlighted that 36% of SMEs rated access to finance as the biggest obstacle they faced – up from 5% in 2016.

³ This element aims included strengthening the capacity of DoSMEP and other agencies to formulate and implement a SME development strategy, conducting an SME census, delivering SME business advisory services etc. (<https://projects.worldbank.org/en/projects-operations/project-detail/P131201>)

3. Implementation highlights of the ILO's work through the project

Project approach

Given the relatively short timeframe available when it was engaged by DoSMEP and the requirement for it to reach at least 600 SMEs, the ILO's strategy was to work through Lao BDS providers, building their capacity and equipping them with tools to meet the identified development need. Lao-specific training modules would be developed in close collaboration with DoSMEP, LNCCI and commercial banks to ensure that the content was in line with Lao conditions and the banks' SME credit assessment requirements and standards. The delivery model would be based on the ILO's proven *In Business* program, a flexible, low-cost approach to training that is activity-based and builds the capacity and reach of Employer and Business Membership Organizations (EBMOs) such as the LNCCI.

Summary of key project activities

Project outputs were designed to contribute to the achievement of three outcomes:

Under (1), "*develop local capacity to deliver BDS to SMEs*", the main reported activities were:

- **BDS providers** (and some private consultants) with experience in SME development were **selected** to deliver the business planning module and/or financial planning and cash-based accounting modules (different regulations apply for the latter two). Providers were selected to deliver training in Vientiane, **Pakse** and Luang Prabang.
- Five **Training of Trainers** (ToTs) courses for the three modules were delivered across the three provinces. A total of 130 participants (from over 50 potential service providers).

Under (2), "*develop SME business skills, financial management skills and capacity to access finance through ILO training tools*", the main reported outputs were:

- The Laos In Business training suite – including **training modules, guides and templates for the three focus areas, and monitoring and evaluation tools** – was developed in line with local regulations and bank requirements, and translated and printed. Products were market tested and revised based on feedback from BDS providers, banks, SSC and DoSMEP.
- **Additional training materials** – including sector-specific content (tourism, retail and agribusiness) and a marketing and BDS guide – were also developed and are ready for translation and market testing.
- **Marketing of Laos In Business** – including by social media (Facebook), events, and the development and distribution of promotional materials – was commissioned and coordinated by the ILO to complement the activities of BDS providers and LNCCI-SSC.
- **Training, coaching and ongoing technical support were delivered to more than 800 SMEs** over an 8-month period. Support included a three-day workshop and two days of group-based coaching in business/financial plan development. Each participant paid \$50 with the rest of the cost (\$250) subsidized through the program.

Under (3), "*improve the capacity of graduate SMEs to access and manage finance through networks*", the main reported outputs were:

- **Identification of existing SME networks** – including the LNCCI's sectoral and provincial networks.

- **Promotion of the opportunity to undertake Laos in Business** to LNCCI members and networks (sector associations) through official notifications, marketing at exhibitions and through targeted digital marketing
- Information sharing with all Laos In Business SMEs about the **opportunities and benefits of association**.
- **Networking opportunities** that allowed graduate SMEs, potential new participants, aspiring entrepreneurs, the LNCCI and banks to interact (e.g. the June 2019 MSME Investment Fair, the MoU signing event with commercial banks, the Entrepreneurship Days in Luang Prabang, Pakse and Vientiane, and a final project event where results were shared.)
- Facilitating an **MoU which committed 8 commercial banks to work with LNCCI** to support SMEs' access to finance through improved dialogue and joint planning.

Issues affecting delivery of activities

Time issues: The ILO was engaged quite late in the project and was given challenging SME participation targets – initially 600 and then another 200 with a focus on formal enterprises. Given the groundwork that was required to develop locally relevant training content and resources, and to identify and to build the capacity of local providers, the ILO in effect had only seven months available for training delivery to SMEs in Phase 1 and six months in Phase 2. Some people consulted during the review mission had concerns that, while the quality of training delivery remained good, the project became somewhat fixated on achieving numerical targets and this may have affected its capacity to achieve some of the intended outcomes.

Suitability of participating SMEs: Ideally, given the project logic, a more selective approach might have been used to recruit SMEs that were more ready to approach banks for loans (or even thinking about a loan). In practice, however, the training was offered and delivered more on the basis of SME interest/demand than on an assessment of their actual capacity to absorb the knowledge gained, at least in terms of the original project rationale. Stakeholders, including the Ministry of Commerce, did not see this as a shortcoming and were pleased that 800 SMEs got access to quality training, especially given the short time frame, the lack of a training culture in the Lao SME sector, the availability of free alternatives offered by other development actors, and the fact that the SME loan funds were in no way tied to the training in a way that might incentivize participation.

Capacity of BDS providers, especially outside Vientiane: Project reports highlighted the need for more capacity development for BDS services based outside Vientiane. In Louang Prabang, the ILO teamed a local provider with a more experienced Vientiane-based BDS to co-deliver the training to local SMEs. This type of BDS capacity building was an important value add of the project and could be continued in the future to improve the quality of BDS provision in regional provinces.

4. What has the ILO's work achieved?

The implicit objective of the ILO's work in the project was to complement the other project efforts of the World Bank (i.e. its work with the commercial banks) by enhancing the capacity of Lao SMEs to access loans from commercial banks (ultimately contributing to growth and increased employment). In these terms, there is so far little or no evidence of any measured impact of the intervention. The final project report for Phase 1 indicated that only 7 of the 600+ participating SMEs had approached commercial banks for a loan and, of these, only 1 had so far been successful. A further analysis of data provided by BDS in Phase 2 indicated that the main reasons for not approaching the banks was not yet being prepared (24%) and having access to alternative loan sources (13%).

However, discussions with other project stakeholders – including DoSMEP, the LNCCI-SSC, the National Implementation Unit (DIU) of the Ministry of Commerce, and the BDS providers⁴ - suggested that they highly valued the ILO's work in the project because of the other outcomes that were achieved. These included:

Re-invigoration and improved strategic coordination of the BDS network

BDS represent an important mechanism to help SMEs to improve their profitability and to enhance their growth and competitiveness. They can play a role in increasing the income of individuals and enhancing economic security of the nation. In both developed and developing countries, they attract varying degrees of government and donor support and can be an effective tool for Government agencies charged with the responsibility of implementing SME development policy.

While a formal network of BDS providers has existed in Laos since 2012, it had been underutilized or even dormant for some time. The ILO project effectively re-convened it and added a coordination function through ILO staff based in an industry-led organisation (LNCCI-SSC). There is now an opportunity to maintain and build on the momentum of this nascent BDS Network, formalising its structure and role, realising its potential to implement government SME support programs, to contribute to SME policy development, and to enhance SME performance. Experience in other parts of the region is instructive - for example, recent evidence from a project in Thailand funded by the Japan International Cooperation Agency (JICA) suggests that “establishing a formal network of BDS providers indeed improves their own as well as SMEs' performances.”⁵

Enhanced capacity of LNCCI-SSC to coordinate services for SMEs

In addition to the project's work in developing the BDS network, the project enjoyed a close working relationship with LNCCI-SSC. ILO staff were collocated with the SSC team and both sides benefited from this arrangement. The project gave the SSC increased visibility and improved links with BDS providers, commercial banks and potential LNCCI members. It is now better placed to assess SME market needs and to coordinate services, including through BDS, and to represent their interests in its dealings with the banks and with government. At the

⁴ Note: the donor, the World Bank, was unavailable during the review mission.

⁵ Aya Suzuki and Kengo Igei, “Can Efficient Provision of Business Development Services Bring Better Results for SMEs?: Evidence from a Networking Project in Thailand”, JICA Research Institute, Working Paper No. 147, March 2017, p.4. See https://www.jica.go.jp/jica-ri/publication/workingpaper/wp_147.html

same time, the LNCCI provided the project support in various ways, including by supporting BDS providers to identify potential SME training participants.

There is an opportunity for further consolidation of the SSC role in coordinating opportunities for SME development by building on the project's work in delivering training in business planning, financial management and accounting, perhaps extending it to other priorities identified in the SME market.

Development of quality Lao-specific training modules and resources

The ILO was able to work with local stakeholders including DoSMEP, LNCCI and the commercial banks to develop training products and resource materials that were both relevant to the specific circumstances and regulations of Laos and were based on internationally proven models (the *In Business* SME development training tools). The quality and usefulness of the training delivered has been received well by SMEs in both Vientiane and other participating provinces (as evidenced by a telephone-based tracer study of participants) and the activity-based, peer-to-peer methods used make it cost-effective and easy to run for BDS providers.

The review mission included attendance at a BDS network meeting in which the ILO briefly introduced a large array of additional training materials that providers were invited to use for different SME markets – including for example, training tools for the tourism sector, establishing or improving cooperatives, improving factory performance, or enhancing the soft skills of staff. Having been trained in the use of the *In Business* tools, Lao BDS are now in an excellent position to work with DoSMEP and LNCCI-SSC to extend their SME training offerings into these areas based on identified needs and priorities. Continuing ILO technical assistance to support the introduction and promotion of these new tools would add value to this. While the SSC has limited resources to deliver training itself, there is an opportunity to harness the newly-energised BDS network through a combination of subsidized training (if available) and fee-for-service (if viable).

Progress in developing a training culture in Lao SMEs and a sustainable market for BDS

Various stakeholders consulted during the review mission commented on the difficulty of engaging Lao SMEs in training delivered by BDS, citing a scepticism about the relevance and usefulness of these services and a reluctance on the part of SMEs to invest their time and resources. Easy access to free training (possibly of dubious quality or local relevance) may have exacerbated this perception and now makes it more difficult to establish a sustainable BDS market where SMEs might ultimately buy services of their own choice from a market of largely unsubsidized private sector suppliers.

The project made some efforts to secure a cash contribution from participating firms (\$50 towards the total cost of \$300 per participant though the ILO wanted to charge more). With modest financial resources and not much training delivery time (7 months), the project did well to recruit 800+ firms and to highlight to them the benefits of knowing their businesses' strengths and weaknesses and the value of training.

There is an opportunity to build on these results to continue the cultivation of a training culture among Lao SMEs, introducing quality, nationally consistent training modules through the BDS network that respond to the real-world needs of SMEs operating in Laos. At the same time, there can be a gradual strategic shift away from donor-dependent, free (or heavily

subsidized) training which is ultimately unsustainable, and towards facilitating a “Market Development approach”⁶ to BDS.

The achievements described above can be considered to be the legacy of the ILO’s work in the project and have created a platform for future SME development in Laos. The following section sets out some options for future institutional arrangements to maintain the momentum created by the project and makes recommendations for short-term and longer-term sustainability.

⁶ UNDP, Business Development Services – How To Guide, 2004, p.9
https://www.researchgate.net/publication/282734238_Business_Development_Services_BDS_How_To_Guide

5. Options and recommendations for moving forward

A) Continuing and/or expanding the current ILO project activities by sourcing additional donor funds

The ILO was engaged at a quite late stage of the project's implementation and, with additional time and funds, would have been in an excellent position to further develop the capacity of BDS providers in Laos and to reach many more SMEs keen to build their capacity to access finance. A "second round" of funding for the broader World Bank SMEA2F Project (including the loan facility and further work with the banks) would provide an opportunity to achieve a better alignment of the DoSMEP/ILO element of the project with the other parts – in effect, to implement the project in line with its original project logic.

Unfortunately, at the time of the review mission, World Bank representatives were unavailable, so the review was unable to learn what the Bank thought of the project and whether there was any prospect of it continuing into a second phase. A senior DoSMEP official indicated that there had been high-level discussions about a second phase but the outcome was still unknown. He urged the ILO to support representations made by the Department to the Bank to continue the project's activities.

RECOMMENDATION 1: ILO should continue to liaise with the Ministry of Industry and Commerce, the NIU, and DoSMEP and, through them, support the development of an expanded programme to support SMEs that builds on the SMEA2F Project.

The ILO has been actively exploring other funding options to continue or expand the project and has developed a detailed concept note to support this that sets out three funding scenarios – a 12 month programme (focused on continuing to deliver technical assistance and coordination support to the BDS network to improve SME access to finance); an 18 month programme (that includes the above, but also includes SME training subsidies); and a 24 month programme that adds a national promotion/communication campaign designed to promote an entrepreneurship culture and business mindset in Laos. A separate concept note, a youth-focused variation of the above, has also been prepared in a way that aligns project activities with the Asian Development Bank's (ADB) current interest in working in the area of youth financial literacy.

At the time of writing, no alternate donor funding had yet been secured and the current project was in its final stages. Local stakeholders were keen for it to continue and, in addition to the ADB, highlighted at least one donor – GIZ – that had an interest in BDS development and which might soon be framing a project to follow up its existing work (which finishes at the end of 2020). The NIU was also in the final stages of negotiation of a USD 8 million USAID project that focused on SMEs, but it was unclear if local BDS providers would have a role to play in this project.

RECOMMENDATION 2: The ILO should continue to explore funding options with alternative donors with a view to sustaining current activities in BDS capacity building and network development and/or building on them by introducing new training products that respond to local SME needs. It should work closely with LNCCI in developing such proposals.

B) Maintaining the BDS network, formalising its structure and role, and consolidating its operational links with LNCCI and DoSMEP

The reinvigoration of the Lao BDS network has been a positive outcome of the project and every effort should be made to continue it as a platform for the discussion of SME needs and for the coordination of program responses with LNCCI and DoSMEP. While a BDS network has been officially linked to DoSMEP for some time, it may be timely for the stakeholders to clarify its role and to consider the benefits of formalising its structure, operating arrangements and membership processes to ensure that BDS providers have a strong voice and can both influence and respond to government SME policies and priorities.

The most pressing need is to fill the gap in network coordination left by the end of the ILO project. DoSMEP indicated that it might take responsibility for continuing to organise regular monthly BDS network meetings, but given that its human resources are stretched, it might be better if some funds were allocated to enable the current Lao national project officer to continue her current coordinating role based in LNCCI-SSC, at least on a part-time basis, until another funding option/project donor was found. The coordinator would provide a secretariat function for the network and act as a liaison point between BDS providers and government and industry stakeholders.

RECOMMENDATION 3: As an interim measure, to ensure that the BDS network continues to meet, **DoSMEP** should allocate funds for the engagement of a part-time network coordinator to be based in LNCCI-SSC. This would ensure continuity of operations in the short-term and allow a quick project start-up if or when additional donor funds are secured.

C) Continuing delivery of current project training and extending it to other priority SME training needs through the 200 billion Kip (USD 22.5 million) SME Development Fund

In 2018, the Government of the Laos announced an allocation from the state budget of 200 billion kip (around USD 22.5 million) for the promotion of access to finance for SMEs to grow their businesses. This was intended to complement a much larger 2,715.8 billion kip (USD 300 million) SME Development Fund which would be created using other sources⁷. In July 2019, the Lao Government entered into a USD 300 million loan agreement with China which was designed to “enhance the ability of commercial banks to finance small and medium-sized enterprises in Laos” and which would “give priority to agricultural production to supply regional markets, including China”⁸.

The full details of how the 200 billion kip component would be invested or how it might link to the Chinese component are not yet clear but DoSMEP and NIU representatives consulted in the review mission indicated that the intention was to dedicate these funds to technical assistance to SMEs. There may therefore be an opportunity to continue or even expand the work of the current project by developing a concept note/proposal that aligns it with the aims and objectives of this new initiative.

⁷ <https://jclao.com/billions-allocated-to-small-medium-enterprise-promotion/>

⁸ <http://en.slacolaos.com/chinese-300-million-usd-loan-support-the-development-of-small-and-medium-sized-enterprises-in-laos/>

RECOMMENDATION 4: The ILO should engage with **DoSMEP, LNCCI and the NIU** to be more fully briefed on the status of SME Development Fund and, through it, any options that might be available for continuing or expanding the current project's activities in BDS capacity development. This might include working with the BDS network to submit a joint proposal.

D) Progressively developing a sustainable BDS market through strategic planning, promoting the benefits of business training to formal and informal SMEs, and harmonising donor activity to remove distortions caused by free but unsustainable SME training

More broadly, there is a need for key government agencies and industry bodies to develop a long-term strategic approach to the development of a sustainable BDS Network in Laos. In the short term, there will be a need for continued intervention to directly support the activities of BDS working with SMEs, including, for example, stimulating the market for BDS provision through subsidies (especially in less lucrative markets, such as rural areas), providing technical assistance to BDS providers and facilitating the capacity development of providers in markets outside Vientiane (as the ILO has done in the current project), and monitoring and evaluating the activities and results of the BDS network's SME activities. Ultimately, however, there needs to be a vision of how BDS might work with SMEs and deliver their services on a sustainable basis through a viable BDS market. Efforts are needed to ensure that this movement to sustainability is not hampered by market distortions caused by the ready availability of free or heavily subsidized training.

RECOMMENDATION 5: Working under an overarching policy framework established under MOIC, the LNCCI and BDS providers should take the lead in developing and implementing a strategy for the long-term development of a viable BDS market for the delivery of services to SMEs in Laos. This could include research of SME market needs in Laos (including, but not limited to financial access), analysis of existing BDS provider capacity and their development needs (in all areas, not just Vientiane), monitoring and evaluation of BDS activities to identify and communicate the benefits of training to SMEs, and a process to ensure that the activities of donors, international development agencies and NGOs harmonise with this BDS market development plan.