

# TRADE DEVELOPMENT FACILITY 2 – CASE STUDIES

## Overview

### AID FOR TRADE IN THE AUSTRALIAN AID PROGRAM

Trade has an impact on incomes – an increase in the volume of trade of 10 per cent can raise per capita income by over 5 per cent. Trade can boost employment, incomes and government revenue, because (among other things) trade translates to access to larger markets, higher returns on unskilled labour, greater competition, innovation and entrepreneurship, improved savings and capital flows, more discipline on and transparency from governments; and reductions in rent-seeking activities.

Because of the important positive benefits of trade on economic growth and poverty reduction, the Australian Government has set an aid for trade target that represents 20 per cent of the total aid budget by 2020. In Laos, Australian aid for trade objective is to build a stronger trade regime and more competitive private sector. Support to the Micro Small and Medium sized Enterprises (MSME) sector aims at improving their competitiveness and ability to export, with a particular focus on women entrepreneurs.

### THE SECOND TRADE DEVELOPMENT FACILITY (TDF2)



TDF-2 is a multi-donor project funded by Australia, the European Union, Germany, Ireland, the United States and the World Bank and implemented by the Ministry of Industry and Commerce focused on improving trade and private sector development in Lao PDR.

The TDF-2 includes the Business Assistance Facility and the Garment Skills Development Centre.

### THE BUSINESS ASSISTANCE FACILITY (BAF)



The Business Assistance Facility is part of the “diversification and competitiveness” sub-component of TDF-2. BAF is designed to support individual firms build their skills and experience so that they can grow and become more competitive internationally. This is achieved through two main activities: (i) direct consulting services to individual firms regarding their business growth plans; and (ii) matching grants to assist individual firms to purchase specialized business development services in support of their growth plans. BAF commenced operations on 1st October 2013 and is scheduled to conclude 3.5 years later on 31st March 2017.

### GARMENT SKILLS DEVELOPMENT CENTRE (GSDC)

The Garment Skills Development Centre was established by TDF-1 in 2011 and has continued to be supported by TDF-2 since 2013. Prior to this, although garment factories commenced operations in Laos in 1990 there was no centre established specifically for training in the industry. The Centre provides a number of courses including Sewing Operator (18 days, LAK 400,000), Supervisor (17 days), (technical and soft skill/management), Pattern Making (LAK 3.5 million, 35 days), Quality Control, Industry Engineer, Quality Assurance and HRM. The training centre is open 7 days. Students include individuals not yet working in factories, factory workers who want to start their own business, factory workers sent by companies to improve their skills, small business owners, managers and specialists including foreigners.





Mr Son explaining how he improved quality and productivity of his workshop after attending the GSDC training

### THE CASE STUDIES

LADLF conducted interviews with representatives of five small and medium enterprises that had received a BAF grant and two small enterprises that had staff complete training at the GSDC. The purpose of the interviews was to show how the TDF 2 supports Lao PDR enterprises to grow and become more competitive with a focus on issues of motivation, capacity, innovation and business environment.

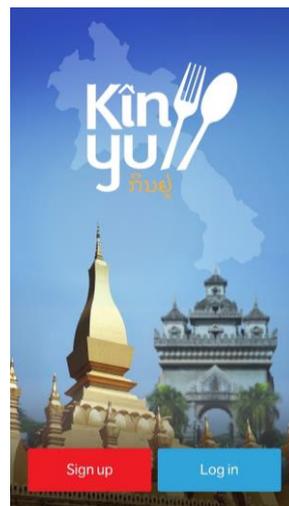
The enterprises LADLF interviewed ranged from micro to medium size. They included an owner of a small shop selling flags and uniforms (Ms Bounpheng) and another selling bags and other products made from bamboo (Phaipayouk Handicraft), a small enterprise selling T-shirts (Lao Idea), a retailer of traditional medicine and herbs (Viengthong Trading), a consulting firm (EDC) and two medium sized enterprises including an IT company (DataCom) and a maker of advertising signs and billboards (Khounta Sign). All of the companies who applied for grants from the BAF submitted projects to purchase specialized business development services.

The case studies show that the enterprises benefitted in a number of ways from the BAF grant or GSDC training.

For example they benefited in terms of improved motivation. A number of the recipients of the BAF grant mentioned that prior to receiving the grant they did not believe it would ever be possible for a small

to medium enterprise to receive Government support through the Government in Lao PDR. Statements were made by the company representatives such as “We always have to invest on our own”, “the Government is only interested in large enterprises”. Receiving a grant appears to have led to an improvement in the companies’ perception of their business environment which impacted on their motivation and, in turn, their confidence to invest and succeed.

The BAF helped the companies to become familiar with the practice of innovating for growth. Among the majority of the enterprises, support from TDF-2 (BAF grant or GSDC training) was used to support innovation. For example: DataCom developed a new type of product (mobile application for IOS/Android); Lao Idea developed a new printing technique for their T-shirts; and a Phaipayouk Handicraft staff member learned how to make new tools for bag making. Some of the companies said that they might have paid for the business service themselves at some stage. However, with less risk to their own business they were more willing to innovate. Having gained experience in procuring services to support business innovation, the companies were keen to innovate again with the aim of expanding their business. Having received the first grant, all the companies had identified more new ideas for which they intend to invest in or seek an additional grant for.



First designs of the new Android mobile application developed by the programmers of DataCom, recipient of a BAF grant



TDF-2 support also increased enterprise staff capacity which in turn facilitated business growth among some companies. For example, the micro enterprise owners who undertook training at the GSDC increased their skills in making garments and tools for bag making which led to increased turnover and employing more staff. The flag seller who did a pattern making course at the GSDC went from a one person operation to employing eight people. The T-shirt maker from Lao Idea who did a five day study tour on printing techniques in Thailand made an immediate improvement to the quality of his products.

The larger companies used TDF-2 support to develop their management systems, which is crucial for companies as they shift from a family business to a medium sized modern enterprise. For example, Khounta Sign used the grant to implement ISO 9001 management system and DataCom were applying for another grant to implement Enterprise Resource Planning Software. Elements such as modern management systems will be particularly important for Lao PDR firms to compete in the AEC market place.

TDF-2 support also improved company relationships with their environment by helping to develop their networks of suppliers and clients. For example, Viengthong trading travelled to China to attend a trade fair and connect with new customers, DataCom brought in a trainer for application development from Thailand; and Lao Idea identified a new factory for sourcing better quality dye for T-shirt printing in Thailand. Broadening their business networks in the region will also put the companies in good stead for the AEC.

The enterprises interviewed for these case studies face many challenges ranging from competition from imports and foreign enterprises to lack of skills, knowledge and support services. The onset of the

AEC in 2016 will intensify some of these challenges particularly relating to competition from companies within ASEAN. However, it will also bring opportunities to access new customers, suppliers and knowledge. Companies accustomed to continually innovating, developing their skills and broadening their networks of suppliers will be better placed to compete in the open market place. By providing recipients with the opportunity to try something new with less risk to their business, the BAF helps companies innovate.



Viengthong Trading promoting Lao traditional medicine and herbs at a Trade Fair in China, thanks to the support of a BAF grant