The Impact of Bid Training on Small Firm Growth in Liberia

Researchers:

Fei Ao

Jonas Hjort

Vinayak Iyer

Golvine de Rochambeau

Sector(s): Firms

Fieldwork: Innovations for Poverty Action (IPA)

Sample: 1,192 firms

Target group: Small and medium enterprises

Outcome of interest: Market access

Intervention type: Training

AEA RCT registration number: AEARCTR-0002264

Research Papers: Informational Barriers to Market Access: Experimental Evidence from Liberian Fi...

Partner organization(s): Building Markets

When small or informal firms are invisible or inaccessible to large buyers, including governments, these firms cannot grow and reach their full potential. In Liberia, researchers conducted a randomized evaluation to test whether a bid training program provided by the nonprofit Building Markets that taught firms how to bid on and win larger contracts could help them grow. They found that offering encouragement to participate in and a free voucher to the training program induced firms to bid on and win more and higher-quality contracts, but impacts were concentrated among a quarter of firms—those that had access to the Internet and were somewhat larger and more experienced in the formal contracts market.

Policy issue

Reducing barriers to small business growth is crucial for emerging private sector development in low- and middle-income countries. Information frictions—such as information gaps that prevent buyers and sellers from finding each other and entering into mutually profitable contracts—can be widespread and can severely restrict firm and market growth. Many capable suppliers lack ways of documenting their abilities and the quality of their goods or services, or they do not have the knowledge or skills necessary to access or win contracts from large buyers that can help them grow. Does providing these small firms with information and training on how to bid for large contracts enable them to make themselves visible and accessible to larger buyers and, thus, increase their revenue and success?

Context of the evaluation

Most firms in Liberia are small; a 2013 national census reported the average firm had 7.3 employees, 63 percent of firms had less than three employees, and only 1.5 percent of firms had fifty or more employees. This can make learning about and bidding on contracts with larger companies a challenge. In Liberia in 2016, of all formal tenders—requests by buyers to suppliers detailing

what services or goods they are looking for—more than half were from public sector buyers such as government ministries, about two percent were from private companies, and the remainder were from international organizations. Most tenders were posted publicly (57 percent in newspapers and 31 percent online) while twelve percent were publicized only through word-of-mouth. Anecdotally, many large buyers reported that they had a hard time finding small and medium-sized suppliers that met the requirements to fulfill their contracts.

Building Markets—an international nonprofit that focuses on bridging the gap between buyers and suppliers—aims to integrate local small and medium-sized firms into value chains by enabling them to win contracts. They do so by maintaining online directories of thousands of firms, making it easier for larger firms to identify and locate possible suppliers. To be eligible to participate in this evaluation, firms had to be listed in Building Markets' business directory, have at least one employee in addition to the owner, be located in Liberia's capital city Monrovia, and have not previously taken the bid training program.

Participating firms in this study had an average of four employees and came from a wide range of sectors, including construction and renovation, food and beverages, home essentials, and handicrafts and artisans. Firms had little prior experience supplying to large buyers and instead mostly sold directly to final consumers. In the previous six months before the study began, only 17 percent of participating firms had bid on a contract to supply their goods and services to a larger company, and 11 percent had held a contract awarded through a formal bidding process.



A street wall in Liberia

Jonas Hjort | J-PAL

Details of the intervention

Researchers partnered with Building Markets and Innovations for Poverty Action to conduct a randomized evaluation to test the impact of a bid training for small firm owners on firm success as measured by the number and type of contracts firms bid on and won and the revenue firms earned.

Using Building Markets' business directory, researchers randomly selected 1,192 businesses to participate in the study. Of these, 772 firms were randomly assigned to receive the program, while 420 firms served as the comparison group.

The research team visited each firm in person that was offered the program, where they shared about Building Markets' Winning-contracts training program and offered each firm a voucher for one person to attend the training for free, to be used when desired. The Winning-contracts training program focused exclusively on how to bid on and win formal contracts. It taught suppliers how to bid on tenders, and how to maximize their chances of winning larger contracts. The first part of the training lasted for five days and included instruction on the fundamentals of bidding and common buyer preferences, including environmental awareness and ethical behavior. The second part of the training lasted two days, provided a hands-on toolkit for producing bids, and offered practice and feedback on mock bids.

The research team encouraged participants to participate in the training from June to September of 2016, participants attending the trainings between July and November of 2016, and researchers conducted final interviews in February of 2017. Building Markets collected data on the firms every three to six months. Additionally, researchers interviewed the firms before the program began and months after the firms had been offered a training voucher.

Researchers measured the number of contracts firms bid on and won, the quality of contracts won—as defined by contracts lasting longer than six months, and the revenue firms earned. Researchers also collected data on which firms had access to the Internet.

Results and policy lessons

The opportunity to learn how to sell goods and services to large buyers induced Liberian firms to bid on and win more and higher-quality contracts, but impacts were concentrated only among firms that had access to the Internet.

Number of bids and contracts won: Firms that were encouraged to participate in the Winning-contracts training bid on 0.15 more tenders in the last six months of the study period than firms in the comparison group, who bid on an average of 0.35 tenders (an increase of nearly 50 percent). Additionally, receiving a voucher to attend the Winning-contracts training increased the total number of contracts firms won by 0.26 contracts more than firms in the comparison group, who won an average of 0.48 contracts.

Quality of contracts won: Firms that were encouraged to participate in the Winning-contracts training were 7 percentage points more likely to have won a contract lasting longer than six months, compared to 23 percent of firms in the comparison group.

Revenue earned: Encouragement to participate in the Winning-contracts training had no measurable effect on firm revenues.

The role of the Internet: Only firms that had access to the Internet benefited from encouragement to participate in the Winning-contracts training. Researchers hypothesize that access to the Internet was important both because it allowed firms to find expressions-of-interest that were otherwise out of reach and also because it facilitated communication with buyers.

In sum, the results demonstrate how differences in access to and availability of information can distort input markets and thereby exclude firms in low-income countries from value chains.