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Timeline

2016-2017

Study Status

Results

Study Type

Randomized Evaluation

Sample Size

1000 firms

Research Implemented by IPA

Yes

Informational Barriers to Market Access:
Experimental Evidence from Liberian Firms*

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Abstract

Evidence suggests that many firms in poor countries stagnate because they cannot access growth-conducive markets. We hypothesize that overlooked informational barriers distort market access. To investigate, we gave a random subset of medium-sized Liberian firms vouchers for a week-long program that exclusively teaches "sellership": how to sell to corporations, governments, and other large buyers. Firms that participate win three times as many formal contracts a year later. The impact is heterogeneous: informational sales barriers bind for about a quarter of firms. Three years post-training, these firms continue to win desirable contracts, are more likely to operate, and employ more workers.

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The Impact of Bid Training on Small Firm Growth in Liberia

Abstract

What holds back businesses in low-income countries from growing and prospering? One overlooked barrier is a lack of information on how to bid on contracts and what buyers are looking for. Independent researchers from Columbia University and Sciences Po conducted a randomized controlled trial of a Building Markets' Winning-Contracts training program in Liberia that taught firms how to sell their goods and services to corporations, governments, and other large buyers. The study found that receiving the seven-day training tripled the number of formal contracts firms won each year. Three years after the training, top-quartile firms employed more workers and were more likely to still be in business.

Policy Issue

Firms in poor countries often start small and grow slowly compared to firms in richer countries. A large body of research has examined production constraints, such as the cost businesses incur in low-income countries to produce goods and services. Another small but growing body of literature has found that getting firms access to bigger markets that are sensitive to quality can help them grow and earn more revenue. But how can firms in low-income countries access these markets? Among the challenges, one barrier may be information about how to bid on and win contracts. Building Markets designed a training for midsized firms to address this gap, focusing on how to bid on and win formal contracts.

Context of the Evaluation

Liberia is one of the poorest countries in the world, with a 2021 GDP per capita of \$673, according to the World Bank. Its private sector development was grossly hampered by a long-running civil war that ended in 2003, as well as the outbreak of the Ebola virus from 2014-2016. In recent years, however, private investment has increased considerably in the country, and there is potential for this investment to promote broader economic growth.

Most tenders in Liberia are posted publicly: 57 percent in newspapers and another 31 percent online. However, small- and medium-sized Liberian firms rarely bid on formal contracts.

Building Markets worked in Liberia from 2011 to 2017. During this period, Building Markets helped local businesses win 647 contracts worth over \$92 million and create 4,382 jobs by reducing barriers between international buyers and Liberian SMEs.

Details of the Intervention

Researchers measured the impact of the Winning Contracts training program in Liberia. About 1,200 medium-sized firms in the Building Markets network were randomly selected to receive a voucher for a free seven-day training program or to serve as a comparison group.

The training program featured two sessions that were five and two days each, respectively. The first session was a general procurement training. It taught participants to better understand tenders and how to bid on them. It also provided information about requirements and weights from buyers, including environmental awareness, ethical behavior, and sensitivity to cultural differences or persons with disabilities. This information clarified what buyers are looking for. The second session lasted two days and offered a hands-on toolkit for producing bids. Participants did exercises where they examined a mock tender, prepared a draft bid, learned to communicate with procurement officers, and underwent an evaluation of their bid.

Building Markets offered eight training sessions, which took place in the second half of 2016. On average, 32 attendees from firms in 11 different sectors participated in each training session.

The research team used data from three surveys, a baseline and two follow-up surveys, to measure the program's impacts on contracts submitted and won and firm performance over time. Researchers first visited the firms in the program group starting in June 2016 to give them the training voucher. The first follow-up survey was conducted approximately one year later, between March and June 2017. To measure longer-term effects, a second follow-up survey was conducted from April to May 2019.

Results and Policy Lessons

The voucher and encouragement to attend the training increased the probability that a business owner participated in the training by 19-20 percentage points.

Trained firms bid on and won more contracts. The comparison group firms bid on an average of 0.35 tenders during the past six months and won an average of 0.15 contracts through a formal bidding process in the past six months. Firms that participated in the training bid on 0.56 more tenders over six months— an increase of more than 150 percent relative to the comparison group.

Trained firms won larger contracts, supplied to more international buyers, and earned three times as much revenue from contracts. Firms that received the training supplied more buyers, won more contracts through other means than formal tenders, tripled their probability of supplying international buyers, and won much larger contracts. These outcomes appear to improve bottom-line performance: trained firms earn about USD \$15,000 in revenue from contracts over six months while firms in the comparison group earn an average revenue of USD \$5,000.

The training also had a significant positive impact on the total number of contracts won. Trained firms win on average more than one additional formal contract over six months—an increase of over 200 percent. Thus, firms that learn how to market their products to large buyers can access a market they otherwise could not.

The effects of the training persisted for three years for one group of firms. The quarter of firms whose bidding activity responded the most to the training won more and better contracts one and three years after the week-long training program. Three years later, these firms employed more workers and were more likely to operate.

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