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Learning from the experiments that never happened: Lessons from trying to conduct randomized evaluations of matching grant programs in Africa ☆

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ABSTRACT

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Matching grants are one of the most common policy instruments used by developing country governments to try to foster technological upgrading, innovation, exports, use of business development services and other activities leading to firm growth. However, since they involve subsidizing firms, the risk is that they could crowd out private investment, subsidizing activities that firms were planning to undertake anyway, or lead to pure private gains, rather than generating the public gains that justify government intervention. As a result, rigorous evaluation of the effects of such programs is important. We attempted to implement randomized experiments to evaluate the impact of seven matching grant programs offered in six African countries, but in each case we were unable to complete an experimental evaluation. One critique of development research is publication bias, whereby only

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"interesting" results get published. Our hope is to mitigate this bias by learning from the experiments that never happened. We describe the three main proximate reasons for lack of implementation: continued project delays, politicians not willing to allow random assignment, and low program take-up; and then delve into the underlying causes of these occurring. Political economy, overly stringent eligibility criteria that do not take account of where value-added may be highest, a lack of attention to detail in "last mile" issues, incentives facing project implementation staff, and the way impact evaluations are funded, and all help explain the failure of randomization. We draw lessons from these experiences for both the implementation and the possible evaluation of future projects. *J. Japanese Int. Economies* **33** (2014) 4–24. World Bank, USA; World Bank, BREAD, CEPR and IZA, USA.
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1. Introduction

A typical matching grant consists of a partial subsidy – most commonly covering 50% of the cost, but ranging as high as 90% – provided by a government program to a private sector firm to help finance the costs of activities to promote exports, innovation, technological upgrading, the use of business development services, and, more broadly, firm growth. Matching grant programs are one of the most common policy tools used by developing country governments to actively facilitate micro, small, and medium enterprise competitiveness, and have been included in more than 60 World Bank projects totaling over US$1.2 billion, funding over 100,000 micro, small and medium enterprises.[1] Add in funding provided by other development agencies and national governments, and it seems likely that at least two billion dollars has been spent on these projects over the last 20 years.

Yet despite all the resources spent on these projects, there is currently very little credible evidence as to whether or not these grants spur firms to undertake innovative activities that they otherwise would not have done, or merely subsidize firms for actions they would take anyway. From a social return perspective, the rationale for developing matching grant programs is usually also based on the assumption that there are positive externalities to workers, other firms, and to the country as a whole from having firms undertake these activities – workers will receive jobs and can use their upgraded skills in other parts of the economy, additional firms will learn from firms participating in the program, the market for business development services will be developed, the government will receive additional tax revenues, and society will benefit from broader economic growth. There is even less evidence to support these assumptions.

Measuring whether matching grants achieve these objectives require comparing outcomes with the grant to a counterfactual of what would have happened to these firms without the grant. Several case studies and non-experimental evaluations have attempted to provide some evidence on the impacts of matching grant programs (e.g., Biggs, 1999; Phillips, 2002; Castillo et al., 2011; Crespi et al., 2011; Gourdon et al., 2011; Lopez-Acevedo and Tan, 2011). However, these programs typically cater only to a tiny fraction of the firms in a country, and the firms that self-select or are selected for these programs are likely to differ in a host of both observable and unobservable ways from firms that do not receive the funding. This is likely to lead to the use of inappropriate counterfactuals, with an upward bias in non-experimental evaluations if more entrepreneurial firms with positive productivity shocks are the ones seeking out the program, and a negative bias if it is better politically connected but less productive firms that receive the funding.

Randomized experiments do not suffer from selection bias and offer the potential to provide more credible estimates of the impacts of these programs. Moreover, matching grants would appear *ex ante*

[1] Data from a World Bank Latin American and the Caribbean overview available at http://go.worldbank.org/OVDGTHSWY0.

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