Competitiveness Policy Evaluation
Impact Evaluation Brief

Impact of Matching Grants on Exports in Tunisia

Firms may face short term barriers when deciding to become exporters. Their production costs may be too high to compete with international prices, or they may perceive quality standard testing to be too risky of an investment.

At the same time, the Tunisian government is keen to see more firms become exporters, tapping into international markets for further growth. The government wishes to see its firms produce higher value-added goods.

A World Bank research team is investigating whether export subsidy rebates and matching grants can lower these initial barriers, nudging domestic-oriented firms to being exporting.

Yosr works as a consultant for Famex 2, an export promotion agency
Photo: Arne Hoel / World Bank

Context

Governments of low and middle income countries are keen to see their firms transform into high-productive firms, producing sophisticated goods. One of the ways that these firms can grow is to become exporters, tapping into global markets to sell their goods. At the same time, there are concerns that the barriers to exports are too high.

In Tunisia, one concern is that domestic exporters cannot compete in global markets in the short term. The cost of exported goods for many of these firms are higher than international prices, and therefore these firms require subsidies that will allow them to compete internationally in the short term. Over time exporting will allow the firms to become more productive, whether by producing in scale or acquiring new technology, making them self-sufficient. In short, export subsidies can lower the initial price barrier in exporting.

Another concern is that initial investments in obtaining quality standard certifications act as another set of barriers. Firms may face a low liquidity problem by obtaining quality standards certifications, or may believe that these are risky investments to undertake. One proposed solution is a matching grant. The hypothesis is that by significantly lowering the cost or the risk in obtaining product certifications, firms may be more inclined to take the initial first step in exporting to advanced economies.

Intervention

This study will involve two different variations of a matching grant to answer different research questions: (i) does export subsidy rebates (treatment 1) encourage firms to increase export volume, export new product variety, and/or export to new (advanced) markets, and (ii) does subsidizing the costs to obtain quality standards certificates and accreditation help firms to export to new markets or new product variety.

Evaluation Design

The research team is undergoing a randomized controlled trial (RCT) to test whether government action can address the two aforementioned barriers to exports. The evaluation design will target 1000 firms, 500 of them consisting the control and the other 500 equally divided into two treatment groups:

Treatment 1: export subsidy rebates to encourage increased export volume, exporting new product variety, and/or exporting to new (advanced) markets

Treatment 2: subsidy for obtaining required quality standards certificates and accreditation to export to new market or new product variety

The research team decided on financial interventions as data from the 2012 World Bank Enterprise Survey show that 40% of Tunisian firms consider finance as their one of their largest binding constraints, only preceded by macroeconomic uncertainty and employment readiness. At the same time, export subsidies and matching grants remain popular policy options, but with a disproportionately smaller share of impact evaluations.

The evaluation of firms will take place over 2-3 years. A communication campaign will first take place to encourage a larger participation of firms in the application of grants. Firms will have to submit an expression of interest application, the details of which will contribute to a screening process. The screening for treatment 1, subsidy rebate, will be minimal as firms have to export first to receive the rebate. For the treatment 2, a panel will evaluate the viability of their export propositions.

Policy Relevance

This IE tackles the questions that lie at the heart of Tunisian development strategy of how to promote economic development through high value added export. As the new empirical literature on international trade argues, it is important to understand the factors that influence a country’s transition from the production of low-quality to high quality products since the production of high-quality goods is often viewed as a pre-condition for export success and, ultimately, for economic development. However, there is not much rigorous evidence on what firm level supports the government can provide to enable them to transit from low-value added to high-value added exports (product diversification) or accessing new export markets (market diversification). This IE attempts to fill this gap.

Documents

Detailed Methodology Note

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