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The Joint Venture Fund:

A Proposal from the International Executive Service Corps to Incorporate Joint Venture and Coventure Services for El Salvador

The International Executive Services Corps herein presents a proposal to support the implementation of a Joint Venture Fund (JVF) for El Salvador. The concept for this proposal is based on IESC's pilot joint venture fund activities in the Caribbean Basin during 1985 and 1986. This pilot fund demonstrated the feasibility and value of establishing a process by which IESC's existing business assistance systems could be directed toward promoting joint ventures and coventures (see Attachments A: Pilot Program Ventures Funded and Pending in El Salvador; B: Informal Evaluation of Pilot Program, and D: Discussion of Joint And Coventures). The dominant component of IESC's pilot program was an AID grant to provide matching funds in support of joint venture and coventure activities between U.S. and Caribbean Basin firms. The funds were used to underwrite the varied costs associated with early joint venture or coventure development.

The concept underlying the JVF is that many small and medium-sized enterprises (SMEs) are prepared to seriously consider new types of joint ventures or coventures with foreign partners organizations, such as IESC, can assist them with identification of partners, location of resources, or lessening of venture risks through the underwriting of a portion of the initial costs incurred during business development or expansion processes.

The experience of the JVFF pilot activities provides a basis for the presentation of a Joint Venture Fund in El Salvador that could:

-- support thirty programs per year similar to the types of programs encountered during the pilot study, aimed at early joint venture and coventure planning activities.

-- provide linkages and funding for 12 advanced technology projects.

-- realize approximately 13 completed joint ventures and/or coventures per year during the three-year program, as a result of early planning assistance grants (a 30% conversion rate of funded programs).

-- provide employment impact of approximately 1,560 jobs per year, assuming job expansion on the average of 120 jobs per completed venture over the three-year lifespan of the program.

-- require a budget totalling $464,000 per year over a three-year period, of which $138,500 represents client contribution; generate over three years $1,392,000 for joint venture and coventure activities; require a net AID contribution of $325,500 per year or $976,500 over three years.

-- create an average cost per job, calculated from the net AID funds ($976,500) of approximately $208 per job; total cost per job, including client contribution, would be $297.

IESC considers the JVF/El Salvador program as additional and incremental to its existing business assistance activities and seeks to provide the JVF/El Salvador program to a broad spectrum of intermediaries and their particular client communities. Clients considering joint ventures or coventures require a wide variety of information, technical assistance, and other resources. The JVF would allow U.S. and local Salvadoran firms to request funding in support of a variety of venture development costs, as well as business development assistance from IESC volunteers, independent consultants, or mixes of appropriate accessory services.

A primary purpose of the JVF/El Salvador would be to stimulate the demand for and the supply of venture opportunities in El Salvador. The pilot program on which this proposal is based received in ten months 12 requests for funding of program options in El Salvador. These requests were initiated primarily by the IESC Country Director office and were related primarily to light manufacturing and agribusiness. Activities for which funding assistance was requested ranged from travel to meet with potential partners to IESC volunteer technical assistance programs to marketing studies. The proposed JVF/El Salvador would, most importantly, allow clients to adopt the business strategies most appropriate to their particular business expansion needs and would encourage them to move forward and take risks to explore new ventures or business improvements.

IESC's proposal for the JVF in El Salvador is organized as follows:

I. BACKGROUND TO THE PROPOSAL

II. TECHNICAL CHARACTERISTICS OF THE PROPOSAL
- A. Role of the Advisory Committee
- B. Types of Ventures
- C. JVF Funded Program Mix
- D. Advanced Technology Activities

III. PROPOSED JVF BUDGET

ATTACHMENTS
- A. Pilot Program Ventures Funded and Pending in El Salvador
- B. Informal Evaluation of Pilot Fund by Ludwig Rudel
- C. IESC Qualifications
- D. Discussion of Joint and Co-ventures

BACKGROUND TO THE PROPOSAL

A number of conclusions emerged from the pilot joint venture fund activities carried out by IESC in 1985 and 1986.

First, the pilot activities demonstrated that such venture development support is complementary to existing local AID initiatives. During the pilot program, clients of various AID-sponsored in-country organizations requested support through the matching funds, thereby gaining exposure to U.S. firms which might otherwise have been unaware of them. Though several of these in-country organizations maintain offices that provide search and linkage contacts in the United States, IESC's pilot activities provided an additional contact and development center from which to expand networks to other regions and other industries.

Second, the pilot fund concentrated on support of ventures involving small- and medium-sized enterprises (SMEs), which typically have very limited capital. For many SME clients, the availability of matching funds for venture development was a strong incentive to push forward with their business development plans; for some, it was critical.

Only infrequently were SME clients of the pilot fund interested in traditional equity-sharing joint ventures. Rather, they usually preferred the lower risk and simpler structure of coventures which did not involve equity-sharing, such as manufacturing drawback, licensed manufacturing, export marketing and development, technology sharing, sales, etc..

It was estimated that each venture supported by the pilot program would create between 40 and 1000 host-country jobs. It was also estimated that foreign exchange earnings of up to several million dollars would be created per venture (see Evaluation, Appendix B).

The flexibility of program funding supported by the pilot program was found to be essential. As the fund was available to "all comers" who met the basic funding criterion of being involved in a U.S./developing country business venture, it was highly responsive to the needs of actual market factors and forces. Funding assistance was provided for activities such as client travel to meet with potential partners, feasibility studies, and technical assistance projects.

Joint and coventure options spanned a wide range of industries--agribusiness to light manufacturing to service industries.

In 1985 and 1986 the pilot program generated more than 160 funding options in the Caribbean Basin during the first ten months of the pilot, demonstrating that there are many venture opportunities available, when triggered.

Finally, the pilot program worked with and promoted the use of existing networks of intermediaries. Involved intermediaries included in-country trade and investment promotion organizations, private consultants, and various not-for-profit trade development groups. These intermediaries provided a substantial number of the clients seeking funding from the pilot fund.

TECHNICAL CHARACTERISTICS OF THE PROPOSAL

The proposed Joint Venture Fund/El Salvador is designed to build upon a variety of existing development and intermediation organizations and networks to stimulate new joint and coventures between U.S. and Salvadoran enterprises. It is designed to:

- coordinate with the existing IESC field structure, when appropriate, and with other liaison and support organizations.
- assist other intermediaries to identify possible co-venture opportunities.
- assist U.S. businesses and organizations to identify possible reciprocal opportunities.

Since the JVF/El Salvador is designed to reduce up to 50% of a variety of venture development costs, it can play a role in a variety of venture development stages. Typically, all venture development processes incorporate at least five preliminary stages--opportunity identification, search for resources and partners, analysis of options, negotiation, detailed feasibility studies and, finally, start-up. Since SME ventures can vary greatly in the time and effort expended on any particular stage of the development process, the focus of the JVF/El Salvador is to accelerate these various stages of project evolution without forcing the development of a given project into an arbitrary preconceived format.

The JVF strategy for accelerating the venture development process includes use of the following resources:

1. The IESC Country Director's office will identify possible funding options and inform local clients and consulting organizations of the availability of JVF/El Salvador funds and network assistance for the development of coventures. (Demand Push)

2. An IESC/JVF coordinating office in Connecticut to perform a research and linkage function for the JVF. (Supply Push)

3. Linkage with intermediaries (trade associations, consulting firms, banks, law firms, government agencies,

etc.) to identify U.S. companies interested in contacting Salvadoran clients. Identified options will be submitted to the Country Director's office for follow-up. (Demand Push)

4. Funds to underwrite up to 50% of certain costs necessary to bring partners together and to accelerate other stages of the venture process (i.e., partner searches, feasibility studies, market research, etc.). (Demand Push)

The JVF will generate a steady flow of program funding options from the United States and from El Salvador (demand push on both sides). Based on experience, it is expected that approximately 40% of the options developed will become funded programs.

JVF will provide financial support for each approved program up to 50% of the costs incurred (subject to AID and IESC guidelines and regulations) up to a maximum contribution of $15,000 for a $30,000 program.

For each program, the client must make a monetary contribution covering the other 50% of the program cost. In certain situations, other local assistance funds might be added to the JVF program to reduce the client's cost even further. However, IESC's philosophy of requiring a significant contribution from the client will be upheld, as the merits of this philosophy have been well demonstrated during IESC's 22 year history. Client contribution encourages purposefulness and seriousness of the client; at the same time, it discourages frivolity and wasteful use of funds.

Various channels and project development techniques will be used to locate and create venture options. Primary channels and techniques include the following:

1. Country Director visits with individual firms.

2. Presentations to U.S. and Salvadoran chambers of commerce, banks, government organizations, etc..

3. Development of U.S. city workshops.

4. Development and placement of appropriate business news articles in trade and news media.

5. Contact and cultivation of intermediaries with client bases in the U. S. and/or El Salvador.

6. Survey of different associations and individual businesses to determine interest in and qualification for participation in the JVF/El Salvador.

The development of unique channels for identifying potential clients is an integral and critical aspect of the JVF. IESC's stature and credibility in El Salvador and the United States will enable the JVF/El Salvador to access a variety of client identification channels, thereby producing an ever-growing contact base. Other channels being considered as cooperating organizations include:

1. Chemical Bank of New York and Connecticut

2. Citicorp of New York

3. Atlantic Investment Banking Group of Stamford, Connecticut via Pace Marketing

4. The U.S. offices of the Foreign Commercial Service (FCS)

5. The United States Chamber of Commerce

6. The Association of American Chambers of Commerce in Latin America (AACCLA)

7. The Council of the Americas (CoA)

8. The U.S. Council for International Business

9. A variety of state and local chambers of commerce

10. World trade institutes in various cities

11. A number of regional trade and export associations, (i.e. Tappan Zee International Business Association of New York)

Overall, it is estimated that 7 to 10 funding options for review will be received monthly by the JVF/El Salvador. These options will initiate from the IESC Country Director, local consultants, U.S. intermediaries, or from the potential clients themselves. It also is estimated that 40% of these options will be supported by JVF funding and that the number of approved programs would be approximately 30 by month eleven.

Experience suggests that 30% of the funded programs will lead to completed venture agreements. Due to the time lag involved in venture development, we expect that of the projected 30 funded programs, 9 will have completed venture agreements by approximately month 18 of the JVF/El Salvador. Venture agreements will follow this lag relationship for the entire three-year period, resulting in an estimated 27 completed joint or co-venture agreements.

Approximately four (4) advanced technology programs with completed agreements per year are estimated to result from 12 funded advanced technology programs per year, or a total of 12 completed advanced technology programs over the three-year JVF/El Salvador.

In summary, it is expected that over a three-year period the JVF/El Salvador will support:

90 regular programs;	27 completed projects
36 advanced technology programs	12 completed projects

Total programs supported = 126
Total completed projects = 39

Jobs Generated = 39 completed projects with an estimated average of 120 jobs per completed project = 4,680 jobs over three years, or 1,560 jobs per year.

AID cost/job = $976,500 (net AID funding; see Budget) divided by 4,680 jobs = $208

Total cost/job = $1,392,000 (total JVF cost, including client matching contribution; see Budget) divided by 4,680 jobs = $297

Role of the Advisory Committee

To guide the program and provide outside oversight, an Advisory Committee has been formed, which includes association staff, private consultants, and larger private business executives in order to assure a balanced overview of the program funding. The committee will meet bimonthly to review the program and provide oversight regarding the direction and make-up of various program resources. The Advisory Committee includes:

Paxton Dunn, U.S. Council for International Business
Alice Lentz, Council of the Americas
Hobart Gardiner, International Executive Service Corps
Dr. Ramón Barquin, International Business Machines (IBM)
Harvey Wallender, Burkholder Wallender International
George McKinnis, International Telephone and Telegraph (ITT)
John Vogel, International Executive Service Corps
Keith Micelli, American Association of Chambers of Commerce in Latin America (AACCLA)

Types of Ventures

An important thrust of the JVF is to seek and encourage new forms of joint venture and coventure activity. There are fewer opportunities than in the recent past for joint ventures involving equity contributions from the U.S.. On the other hand, resources are increasingly available for lower-cost debt financing as well as the possibility of significant equity from local investors. New types of ventures are attractive to many U.S. small- and medium-size businesses (SMEs) when they involve strategies such as co-marketing, production drawback, licensing, or other relationships that minimize equity exposure. Development and promotion of these forms of SME coventures through the JVF/El Salvador are complementary to local programs which often emphasize larger direct foreign investment goals.

U.S. industry has seldom considered such new venture opportunities. Generally only large corporations are involved in significant overseas business. A major component of the JVF program is committed to implementing new systems to complement IESC's existing networks and to demonstrate that viable alternatives for generating new business opportunities, sources of revenue, or market access exist for U.S. and Salvadoran firms, both of whom are relatively

unfamiliar with these new forms of joint and co-ventures. The IESC Country Director office and other intermediary organizations in the U.S. and El Salvador provide a vehicle for bringing local clients into this picture.

JVF Funded Program Mix

Funds approved for JVF/El Salvador programs will be used to support early joint venture planning activities, such as travel for meetings to explore options and develop positive personal ties--the basis for any successful business development. Results of the recent pilot indicated that more than 60% of programs involved reimbursement for travel and approximately 50% required some form of partner search or pre-planning study.

Simple preplanning studies, characterized by IESC'S ABLE information service, allow a client to obtain substantial up-to-date, detailed preplanning information at low cost. These ABLE studies often generate sufficient information for clients to assemble business plans for presentation to financial institutions or for financing requests for major feasibility and engineering activities.

A typical ABLE study can range from 40 to 120 hours of research on a specific request, depending on the magnitude of the request. The final report, tailored to the particular client, can, depending on the nature of the client's request, provide information on potential venture partners interested in being contacted by the client, U.S. market data, sources of equipment or technology, or other highly-specific information. For example, one recent ABLE study explored the U.S. market for various types of freshwater fish and identified distributors and other market channels interested in being contacted by the client.

Comprehensive feasibility studies per se, particularly the more costly ones, will not be a major part of the JVF/El Salvador program. In practice, the program can fund up to only $15,000 per $30,000 feasibility study; more costly studies are generally associated with large-scale projects and fall outside the scope of the JVF program. Extensive studies of this sort are generally fundable through other means.

It is expected that IESC Volunteer Executive projects also will constitute a significant part of the overall JVF/El Salvador program mix. These assistance projects provide a

business executive with expertise in a particular area for anywhere from two weeks, in the case of a short-term diagnostic evaluation, to three months or more in the case of a longer-term assistance project.

For instance, one pilot program client recently established an assembly operation to assemble and export electronic components under 807 contracts. The firm then requested funding support during the pilot venture fund program. The firm's inadequate knowledge of the marketplace, lack of trained and experienced personnel, and lack of knowledge about U.S. quality standards prompted the IESC Country Director's office to formulate a project which would use pilot venture fund assistance to defray the costs of an IESC expert; this expert would provide guidance with plant layout, personnel training, and procurement of contracts. The funding request also included travel by the client and the identified U.S. firm's personnel to expedite face-to-face meetings for contract negotiations.

The plan presented on the following page illustrates the expected distribution and frequency of JVF/El Salvador-funded activities. This plan is an estimate of the types of costs potential venture partners would be expected to incur when carrying out early joint venture or coventure planning activities under the JVF/El Salvador. The actual program mix may vary, though, reflecting actual market characteristics.

One-Year Projected Program Mix

Example JVF-Fundable Activities	Frequency	Total Outlay
ABLE pre-planning studies @ $1500	10	$15,000
Joint planning and diagnostic trips @ $2000	25	50,000
IESC VE-type surrogate searches for U.S. partners @ $10,000	3	30,000
Consultant surrogate by consulting firms @ $12,000	2	24,000
Market studies by consulting firms @ $10,000	3	30,000
Local feasibility studies @ $12,000	3	36,000
Technical assistance using IESC volunteers or consulting firms @ 14,000	4	56,000
Totals:	approximately 50 components for 30 mixed programs	241,000

Advanced Technology Activities

Advanced technology programs activities have been included in this proposal in response to increased interest in this type of program. IESC has recently demonstrated that many smaller firms with strong technology advantages are concerned with identifying sources of funds and production capabilities in order to move from a "job shop" environment to a more effective "mass production" capability. International joint ventures or co-ventures allow these enterprises to gain funds and operating partners less expensively than by receiving assistance from U.S. commercial banks and venture capitalists.

Technology change occurs rapidly. Mr. Gordon Thomas of the U.S. Department of Commerce asserted at IESC's 1986 New York joint venture conference that industrial technology is presently changing two times as fast as it was ten years ago. Failure to stay abreast of current technological developments is critical to maintain competitiveness and to improve products and services. It is important, therefore, to assure that firms in El Salvador are properly linked to major technology developments.

IESC's advanced technology search program will provide client enterprises with special studies and analyses regarding emerging manufacturing and product technologies. For instance, one resource area of enormous potential value is the variety of technology databases available in New York and Washington, D.C. which have proven very valuable in the past to those firms able to access them. The advanced technology search program will also provide an active source of technologies and opportunities from U.S. companies for the Salvadoran business community. This demand push is expected to reveal a variety of U.S. firms interested in seeking developing country partners and resources.

The proposed JVF/El Salvador's advanced technology service will include an on-going staff effort in the U.S. to create project profiles and quick response capability for client companies requesting advanced technology studies and analyses.

Advanced technology programs will encompass a wide range of industries. Their common feature will be the focus on a new or leading-edge technology. For example, an advanced technology program could be the desire of a fishing company

to build a state-of-the-art shrimp hatchery. In this case, the advanced technology service would survey existing technologies and identify sources of more-advanced, more-unique shrimp hatching skills and equipment. Another example might be a U.S. firm in the metal finishing industry, traditionally a highly-polluting industry, seeking offshore licensing partners for new low-polluting or non-polluting finishing processes it has developed.

PROPOSED JVF BUDGET

The following budget proposed for the El Salvador Joint Venture Fund is based on a program lifespan of three years. Yearly costs have been included for clarity.

	Yearly Cost	Cost for 3 Years
Venture Program Funding		
30 Mixed Programs per year @ $8033	$241,000	$723,000
12 Advanced Technology searches @ $3000	36,000	108,000
Total venture programs funding	277,000	831,000
Less client 50% contribution	138,500	415,500
Total Net AID Funding Required For Client Program Funding	**138,500**	**414,000**
Local IESC Project Development		
Staff Assistant & half-time secretarial support	23,000	69,000
Rent & Overhead	6,000	18,000
Acc'ting & Financial Control	3,000	9,000
Travel & Promotion	6,000	18,000
Communication	10,000	30,000
Total	**48,000**	**144,000**
IESC Project Support		
Executive Support	18,000	54,000
Project Search & Control	24,000	72,000
Advanced Technology Search and Control	24,000	72,000
Clerical (50% of secretary)	8,000	24,000
Accounting & Financial Control	17,000	51,000
Travel & Promotion of Salvadoran Ventures	18,000	54,000
Communications	12,000	36,000
Rent & Other Office Costs	18,000	54,000
Total	**139,000**	**417,000**
Total AID Funding Required	**325,500**	**976,500**
plus client 50% contribution of client program funding	138,500	415,500
Total Overall Program Cost	**464,000**	**1,392,000**

In summation, the proposed Joint Venture Fund/El Salvador seeks to create a cost-effective means to spur venture development between small and medium-sized U.S. and Salvadoran firms. It does so by creating linkage points which will "push" and "pull" specific venture opportunities both to and from El Salvador and the United States. The primary component of the JVF/El Salvador mix of activities will be the partial funding of various costs, not including equity financing, associated with initial development of a venture. The rationale for this funding assistance is based on the recognition that for many SMEs the lack of cash for initial venture development steps can be an enormous obstacle. JVF/El Salvador seeks to lessen this obstacle and, at the same time, provide practical linkage assistance and encouragement to SMEs entering the world of international business.

Attachment A:

Pilot Program Ventures Funded and Pending in El Salvador

Attachment A:

Joint Venture Feasibility Fund (JVFF) Pilot Program 1985-86

Program Funding Options Considered In El Salvador

During the first ten months of the JVFF pilot program, 12 venture program options were considered for funding approval. The industries represented ranged from light manufacturing to agribusiness. The following list identifies Salvadoran venture development programs approved for funding by JVFF. This number of programs has been managed by only two full-time staff who have been concurrently responsible for similar levels of programs and options in the other CBI countries. It is expected that designating full-time staff specifically for El Salvador will produce larger numbers of venture development funding options and an increased ability to provide linkage support to developing ventures.

Programs Approved For Funding

J0001: IESC Country Director(CD)-initiated program to partially fund costs incurred negotiating marketing and joint venture agreements, an ABLE equipment search, and IESC Volunteer Executive assistance in relation to cucumber production.

J0002: CD-initiated program to support cost of IESC diagnostic evaluation and technical assistance to study the feasibility of establishing a local sodium hypochlorite manufacturing plant.

J0003: CD-initiated program to explore feasibility of joint venture to facilitate export of processes food products. Funding assistance requested to defray costs of travel and/or market study.

J0004: CD-initiated program to partially fund travel costs incurred during partner negotiations for a marketing and equipment agreement,and an ABLE equipment search, related to establishing a goose products processing plant.

J0005: CD-initiated program to explore feasibility of joint venture with U.S. firm to market food products manufactured locally. Funding support requested for travel costs and possible ABLE market study.

J0006 CD-initiated program requesting funding support for travel to meet with potential partners regarding feasibility of transferring the technology required for manufacturing braided wire-cord grips.

J0007 CD-initiated program to support travel costs for meetings to discuss with potential U.S. partner venture options for the manufacture of plastic products.

J0029: CD-initiated program to support partial costs of travel to meet with potential joint venture partners to discuss feasibility of establishing a papaya processing plant.

J0051: CD-initiated program to explore feasibility of establishing a sawmill to process Alaskan sawlogs for use in local construction and/or wood products industries.

J0078: U.S.-initiated program to explore possibility of establishing export-oriented beef slaughterhouse.

J0109: CD-initiated program to support travel and training costs for Salvadoran company to acquire skills to manufacture sewing machine attachments. Products will be sold locally and exported through the American partner.

Attachment B:

Informal Evaluation of Pilot Fund by Ludwig Rudel

THE JOINT VENTURE FEASIBILITY FUND

EVALUATION OF PROGRAMS IN HONDURAS, COSTA RICA, GUATEMALA AND HAITI

30 May 1986

Ludwig Rudel

This evaluation was conducted as part of IESC's research component within the JVFF pilot grant as specified in AID program LAC-0619-A-00-5093-00.

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1. DESCRIPTION OF PROGRAM

On September 30, 1985, AID issued Amendment No. 1 to Cooperative Agreement No. LAC-0619-A-00-5093-00 which, among other things, provided $439,267 to IESC to provide support for "a Joint Venture Feasibility Fund (JVFF) to provide matching funds for feasibility studies, special planning activities, and other assistance to promote the organization and development of effective cooperative ventures between private U.S. and LDC enterprises." (See Attachment A.) Additional funds, in the amount of $300,000, were subsequently granted to IESC for JVFF. The program is experimental in nature, designed to test the effectiveness of the proposed intervention techniques in eight countries of Central America and the Caribbean to promote business linkages that will enhance employment generation and foreign exchange earnings of the AID client countries. It was contemplated that a total of 85 JVFF projects would utilize the funds authorized during the first year (through December 1986) and that these projects would allow AID missions to determine whether they wished to continue the program for their respective countries.

2. SCOPE OF EVALUATION - KEY ISSUES

The evaluation covered 30 projects in Honduras, Costa Rica, Guatemala and Haiti that had been approved as of May 1, 1986. It examined, to the extent data was available, the following issues:

The process by which joint or co-ventures are developed; the stages of that process which JVFF is designed to facilitate; the adequacy of JVFF as an incentive to that process.

The relationship of JVFF to other programs intended to intervene in the process (i.e., ABLE).

The actual success rate of the JVFF (or, more realistically, the success rate that may be realized); the potential economic gains to be derived from typical projects in relationship to the costs of the program;

The likely demand for the JVFF in future years and probable funding requirements;

The organization and management of the program and its suitability to achieve program goals.

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3. APPROACH TO DATA COLLECTION

All files of approved projects at JVFF headquarters were reviewed. JVFF staff were interviewed and their experiences discussed. Travel to the four countries was performed. Interviews were held with JVFF clients (to the extent they were available and were willing to be interviewed) to discuss their experiences; their production facilities were visited. IESC Country Directors, AID Private Enterprise Officers, senior members of the local business community, and officials of private sector support organizations who have had involvement in the conduct of the JVFF operations were interviewed, either individually or as participants in group discussions.

4. DISCUSSION AND FINDINGS

A. PROGRAM CONCEPTS

The principal assumption, that the establishment of a business linkage between an LDC company and a U.S. company will accrue benefits to both parties, seems to be borne out by the consistent demand for participation by both LDC companies and U.S. companies. It is too early to measure the ultimate economic impact on LDC development goals, trade and changes in the competitiveness of the participants, but there is clearly a perception among participants that the program is worthy of their attention. Participants and observers perceive the JVFF to reduce the risk of exploring and negotiating potential partnerships. Of particular value is the impact of the JVFF on the cash flow of companies, since they are promised expeditious reimbursement of 50% of their authorized cash outlay. Since the funds are written off, there is no accrual of liability in the event of failure.

The typical process, or chain of events, leading to a successful joint venture, generally includes the following steps:

1. An idea is registered in the mind of one entrepreneur;

2. A preliminary exploration is made by or for the venturer (it may not be proper to refer to that step as a feasibility study) to identify markets, needs and available resources;

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3. A search is made for a short list of potential partners that meet the requirement profile of the venturer;

4. Preliminary review and/or contact is made with the potential partners and they are placed in some priority order;

5. A detailed feasibility study is performed and an investment package or business plan is developed in light of the interests and resources of the potential partners. (This plan is flexible and subject to adaptation in light of the interests and resources of the various potential partners.) Travel is undertaken to help the respective partners remove doubts about each other and the venture;

6. Negotiation takes place with the potential partners, in sequence, as determined by the priority order set in stage 4;

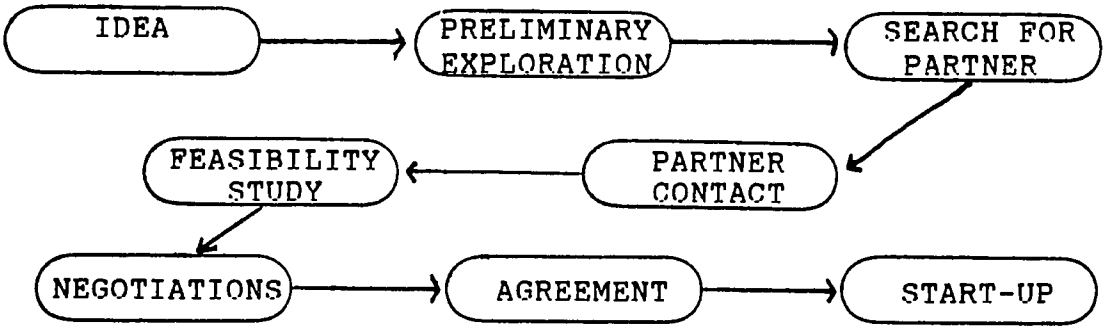
7. An agreement is concluded by the entrepreneur with the venture partners;

8. Operations are set up to implement the joint or coventure.

The consensus is that the process normally takes two to three years from stage one through eight.

The JVFF is designed to finance 50% of the costs of stages 4, 5, 6, and 7. It had originally been thought that JVFF would also finance stages 3 and 8. AID has definitely ruled out stage 3 as not eligible. (Stage three is often accomplished through the ABLE program.) It is not clear whether stage 8 is eligible.

The following diagram may be helpful in understanding the process:



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The ABLE program, particularly the search aspect through U.S. industry, performed by IESC without subsidy from AID, is considered by both JVFF applicants and by knowledgeable persons engaged in private sector business development efforts, to be a critical input to this process. While the ABLE search effort has significant limitations because of its low cost operation ($1,300 per search), it is light years ahead of the rudimentary efforts that LDC businessmen had available to them in the recent past. Their typical efforts were described by one knowledgeable person as "...arriving at the U.S. airport of entry with a fistful of quarters, riffling through the yellow pages and occupying a phone booth for the afternoon." Absent the ABLE program, the JVFF would have trouble standing alone as the primary program to facilitate international coventures.

Enhancement of the ABLE program by including credit information on potential partners, and by a more sophisticated search effort through access to the many information networks, would likely result in cost savings for the stages to be financed by JVFF.

An important characteristic that enhances the value and effectiveness of the JVFF is the high flexibility offered for the use of funds. It will finance:

- Feasibility studies in LDCs or the U.S.;
- Travel and per diem expenses for the LDC partner in the U.S. and the U.S. partner in the LDC;
- Phone, telex and other communications;
- Legal fees; and
- IESC volunteer executives to assist the partners in the U.S. and the LDC.

Unnecessary administrative burdens are placed on IESC by the requirement that the exact authorized U.S. government per diem rates be applied for travel performed under the program. This seems unnecessary since only 50% of the authorized per diem rate is reimbursed from the JVFF. A flat fee of, say, $40 per day could be utilized without fear that the actual U.S. authorized per diem would be lower than that flat fee paid to the JVFF applicant. This would result in a significant improvement in management of the program and reduce points of friction between the applicant and the program manager.

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Automaticity in program management leads to improved program effectiveness. The applicant's request is not, and need not, be reviewed for substantive matters. It need only be reviewed for reasonableness and prevention of fraud. For example, it was found that one application from a U.S. firm proposed reimbursement of travel costs to meet a proposed coventurer in Guatemala, when in fact the two firms were already in partnership. Such proposals should not be approved.

On the other hand, our evaluation allowed us to review a project in Haiti that did not appear to hold much hope for success. it is always tempting to second guess the applicant. That practice should be avoided. Better to let the market tell the applicant (who in any case will be paying at least 50% of the costs incurred) that the proposed idea will not fly, than to impose a judgment by a disinterested party, with all that this implies both for administrative costs to the program and the relationship between the applicant and the program administration.

B. PROGRAM PERFORMANCE

The JVFF functioned quite differently in the four countries examined. It would appear that the following country-specific factors influenced the operation of the program:

Investment climate - Uncertainty with respect to government policies in Guatemala during the past six months (i.e. devaluation) resulted in only two proposals in spite of a major promotional effort by the CD. On the other hand, Costa Rica was generating so many projects that the JVFF management was forced to slow down promotion efforts for fear of running out of funds. The projects in Haiti began to slow down after the revolution in February.

Operation of Intermediaries - International Commercial Services (the contractor in Costa Rica under the MTAP project) is able to take advantage of the JVFF to reduce the cost to his clients of developing coventures with U.S. firms. This is, after all, his main business. He is in an excellent position to find the local firms who are in best position to coventure and to show them how to take advantage of the program. The initiative of such intermediaries should be encouraged.

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Operation of Private Sector Development Agencies - Organizations such as FIDE, CINDE, GREMIAL, Chambers of Commerce, Financing institutions, etc., become an important mechanism to identify companies that are in position to coventure with U.S. firms. CDs have taken advantage of such organizations to assist in the promotion of the program. The effectiveness of these organizations correlates with the degree of maturity and organizations sophistication of the private sector in the respective countries.

There is some risk of overreliance on these organizations since their agendas may be somewhat different. Also, an instance was found where a collaborative effort between JVFF and CINDE resulted in the project slipping between the cracks while each agency though the ball was in the other court. That is unlikely to occur if JVFF deals directly with the private firm.

Some delay inevitably occurred in the normal course of starting a new program while guidelines were developed at headquarters and CDs waiting for clarification. The guidelines are now distributed and implementation is picking up.

C - MAGNITUDE OF REQUIREMENTS AND NEED FOR CONTINUITY

The JVFF is an experimental program, initiated by the Latin American Bureau of AID in September 1985 to operate for about one year. If the program were seen to be effective by the respective AID missions, it was assumed that these country missions would provide follow up funding. Eight AID missions are included in the JVFF experiment. Funding in the amount of $739,267 was provided in two segments to start the JVFF to fund a goal of 85 projects. At the time the evaluation was initiated, 54 projects were approved.

It is unlikely that 85 projects will fully utilize the obligated funds. Our review of the projects suggest that some approved projects on the books are dormant and will not be implemented. Additionally, it is likely that some entrepreneurs will change their minds about pursuing a coventure after their proposal has been approved. Finally, there will be projects that will abort in midstream as clients become discouraged and find that the deal is not makeable. These considerations suggest that the only way to fully utilize the finds made available by AID is to overprogam

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and rely on a commitment by AID to provide additional funds as and when needed - subject to the appropriation of funds by the Congress. I suggest a factor of 175% for overprogramming.

Estimated demand for JVFF projects, assuming open season and no restrictions, in the four countries visited are:

Honduras	35 projects per year
Costa Rica	125 projects per year
Guatemala	45 projects per year
Haiti	40 projects per year

For planning purposes an average cost of $10,000 per project is considered adequate in terms of JVFF contribution. This can then be scaled back to allow for the 175% overprogramning factor discussed above.

One would hope that the success rate for JVFF projects (those resulting in a coventure) would be 20% to 25% of the approved list. (See "Economic Impact," below, for cost-benefit estimates.)

5. ECONOMIC IMPACT

A - PROJECT DETAIL - MICROANALYSIS

Of the 54 JVFF approved projects as of May 1, 1986, (out of 132 applications), the four countries visited accounted for 30 projects. These were distributed as follows:

Honduras	9 projects	(of which U.S. initiated is 2)
Guatemala	2 projects	(of which U.S. initiated is 1)
Costa Rica	11 projects	(of which U.S. initiated is 2)
Haiti	8 projects	(of which U.S. initiated is 1)

During our review, no contact was made with any client in Honduras because the CD and the FIDE representative indicated that they had not received written approval to proceed with expenditures and therefore no implementation had taken place. This matter was quickly clarified and notifications have now been sent. (This suggests that the JVFF program makes a critical difference between "go-no go" decisions by clients who are considering pursuing joint ventures.)

While most of the projects reviewed were of a predictable nature, some interesting issues and anomalies cropped up. A paint brush factory in Costa

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Rica is negotiating with a U.S. firm but no conclusion will be reached until the U.S. Trade Representative determines whether anti-dumping action will be taken against China for its sale of paint brushes in the U.S. Another Costa Rican firm, in partnership with a U.S. real estate developer is establishing a Free Trade Zone Shelter Program and will use the JVFF to attract U.S. firms who, in partnership with them, will set up production facilities in the free trade zone. A Guatemalan firm is on the throes of concluding a coventure for production of automobile radiator hoses, but now has second thoughts because it believes production of surgical gloves is more lucrative and wishes to apply for another JVFF project, while aborting the previous one.

The range of projects, in terms of economic impact, varies widely. Some projects, if successful, would generate as few as 40 jobs, while others have a potential of 500 to 1000 additional jobs. Similarly, foreign exchange earnings range as high as $3.5 million for one cosmetics project in Costa Rica. A very rudimentary analysis would suggest that a success rate of 20% of approved projects will result in a cost of $500 per job created. (Assume an average cost per approved project of $10,000 and an average employment generation of 100 jobs per successful coventure with a success rate of 20%.) Furthermore, if one attributes 50% of the project cost to impact on foreign exchange earnings, the cost per job generated will be reduced to $250. Of course, the administrative cost of the program's operation will also have to be factored in. If one factors in any repayments from successfully concluded ventures (see recommendation below), that will further enhance the cost-benefit ratio of the program.

No coventures have been concluded at this time. The program has not run long enough. Negotiation must be accomplished in sequence. If a deal with one potential partner does not make, the client then begins exploration of the next potential partner on the list.

One gets the impression that there are secondary effects to be derived by JVFF clients. Once a local firm has concluded a coventure, it is probable that the firm will subsequently pursue additional coventures.

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B - MACROANALYSIS

An important question to be asked deals with the extent "additionality" results from the program. Would the clients of JVFF have pursued coventure arrangements with American firms absent the JVFF as an incentive? There is no positive evidence to prove additionality. However, it is interesting to note that, because of a misunderstanding concerning approval of the entire Honduras portfolio, not a single client proceeded in the absence of approval.

Based on interviews with clients in the three other countries visited, believe there may be some substitution effect, but it is not large. At a minimum, the JVFF has caused a speed-up and has improved the quality of the efforts by firms to coventure. JVFF has induced more aggressive company behavior to search for and make deals.

The JVFF also seems to encourage companies with declining business operations to search out coventures as possible solutions to their problems. (Haiti Winds.)

The JVFF may pose a danger to local firms by encouraging them to enter international trade when they are not ready to do so. LDC firms that undertake sourcing arrangements may find themselves unable to meet consistant quality requirements due to local conditions, thereby putting themselves at risk. LDC firms are accustomed to solving such quality imperfections by offering a discount to the local customer. But the international marketplace is exacting and tends to reject shipments in their entirety, with severe losses accruing to the producer. It may be useful for IESC to offer additional assistance to establish quality assurance, particularly to local suppliers of the JVFF client, after a coventure has been concluded.

One repeatedly hears complaints about the inadequacy, nonavailability or high cost of credit from the JVFF clients. Some thought might be given to the establishment of linkages between JVFF and local credit institutions to encourage these institutions to structure credit facilities suited to the needs of JVFF clients.

6 - PROGRAM MANAGEMENT

A - The New Management Direction of IESC

The JVFF constitutes yet one more tool in IESC's kit to facilitate the growth of the private sector in the LDCs. It is able to draw upon the not inconsiderable assets of IESC; most importantly, its access into the U.S. business community and its network of CDs overseas.

IESC, now in its 22nd year of operation, was originally established in response to the U.S. Government's interest in applying the resources of the U.S. private sector to the development needs of its LDC AID clients. Soon after its establishment in 1964, AID's focus began to shift away from industrial development and towards the "basic human needs" mandate of the Congress. IESC found itself forced to operate in an environment where it could only perform a narrow service (scheduling retired volunteer executives to assist individual LDC enterprises on a "one to one" basis) that lacked a multiplier effect.

Since 1981, IESC has been able to broaden its horizons back to its original mandate in response to the reorientation of AID to encourage LDC private sector growth and to help it make a contribution to LDC development objectives. IESC now thinks in terms of contributing broadly to AID's program goals, as described in the Bureau for Private Enterprise Policy Paper dated May 1982.

IESC has established the ABLE program. It makes more extensive use of volunteers, and is considering the introduction of techniques to obtain a multiplier effect by using the volunteers to upgrade local consultancy firms in LDCs. It is involving itself in the "privatization" efforts of LDCs. It is recruiting newly retired U.S. executives to replenish and make for a more current inventory of available volunteers. It is considering how the 9,000 VEs on the IESC availability roster can be utilized in the U.S. to support LDC development programs to build linkages with U.S. industry. Its CDs are working more closely with AID missions to support the country-specific private enterprise activities.

At this point, IESC's planning efforts have not as yet been fully translated into specific operational guidelines to its implementation staff. There is still

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the sense, at the operational level, that only the traditional VE projects are important and that operating personnel must not only give priority to this traditional function, but that they will be judged exclusively by how many VE programs are run through the system. IESC management hopes to correct this perception through rewritten procedures and modifications in regular planning and goal setting activities.

This lag in procedures is having an impact on both the ABLE program and the JVFF program. Even when CDs are made aware of the new directions it is their perception that their efforts in support of new programs go unrecognized or unrewarded and that the support at Stamford by the implementation staff is not forthcoming. Delays in approving JVFF expense reimbursement applications create other perceptions regarding rigidities of the fiscal and accounting system at IESC. These and other requirements of AID tend to make new program implementation cumbersome, costly, and time consuming. Successful coordination of the JVFF, beyond a pilot stage, will encourage a more efficient financial control system.

B - The JVFF Program - Some Detailed Recommendations

Some delays and confusion that inevitably accompany the launching of a new program by an established organization, did also manifest itself with the introduction of the JVFF experiment for the Latin American Bureau. Development of new procedures and their approval by the IESC headquarters may have slowed down implementation to a small degree. The following problems, however, require continuing attention if the JVFF experiment is to have the best chance for success:

Additional Funding - Now that the program is operating in the eight designated countries and the initial promotion efforts have publicized the availability of the JVFF, it is important that continuity be assured. As this report is being written, the JVFF staff is three weeks into a freeze on project approvals because AID has not issued a letter of credit authorizing JVFF to commit

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funds that have already been approved for the JVFF experiment. This is highly disruptive to a program dealing with the private sector.

Interim Funding - It is unlikely that all country AID missions will be able to allocate funds to this program on a timely basis. To avoid stalling the effort, the Latin America Bureau should be asked to provide interim funding to allow IESC to continue the program until mission funding is assured or until the specific country mission can decide to cancel the program for their country.

Overprogramming - It is not necessary for AID to obligate the full amount of the funding, since it is predictable that the full amount of funds committed by IESC to JVFF clients will not be drawn down. AID should be requested to authorize overprogramming by a factor of 175T and make a contingent commitment to make up any shortfall, if needed, subject to Congressional appropriation action.

JVFF Financing of ABLE Searches - **AID should reconsider its decision not to allow JVFF** funds to be used for ABLE search efforts in the U.S. Experience demonstrates that the search effort is an integral part of the joint venture process. The JVFF is too thin a program to stand by itself. REsistance by LDC firms to payment of $1,300 for an ABLE search before they have seen any evidence of IESC performance capabilities has manifested itself in Honduras and is probably a factor in other countries as well.

Multiple Sources of Funds - Arrangements between specific CDs and their respective AID missions have made available to the CD various funding sources to be used for overlapping purposes. There may be instances where alternate funding arrangements may be available to an IESC client to do the same thing, offering different levels of subsidy. This may lead to confusion. The CD can manage these programs but some clients may feel as though others received more favorable treatment. It would not be useful to rationalize the structure and conditions of these various funding sources.

JVFF Use of LDC Intermediaries and Private Sector Development Organizations - CDs should continue to look towards LDC organizations to do referrals and promote the ABLE/JVFF programs but should require that the individual application be made by the venturer, not the organization.

Approval Procedures - The JVFF should continue to avoid reviewing or judging the commercial viability of a proposed venture. The application for funds should be examined only for reasonableness and to avoid fraudulent requests. Approval should be automatic for all requests and "open season" on JVFF requests should be maintained. All applications made by U.S. companies should be sent to the respective CD for a "no objection" opportunity. Approval authority should be delegated to CDs. Monthly reports should be issued for all active project requests and their status and sent to relevant parties. Reimbursement procedures should be streamlined to avoid disruption of client cash flow.

VE Utilization Within the U.S. - IESC's capability to draw upon its large inventory of volunteers to perform work within the U.S. under the ABLE/JVFF program is not being utilized as much as it should. This access into U.S. industry is an extremely valuable asset, if used flexibly and efficiently. IESC procedures should be simplified to make greater use of the VEs in the U.S.

Use of Blue Collar Supervisors - LDC firms often require both management assistance and technical assistance to test the feasibility of a coventure, particularly with respect to examination of a proposed production process and the quality assurance to comply with international market conditions. IESC might consider how it can expand its inventory of VEs to offer blue collar supervisory personnel as part of its JVFF program.

Repayment of JVFF Funds - Discussion with clients and other knowledgeable persons suggests that clients would be prepared to repay the JVFF support in the event the effort culminated in a coventure. Failures would not be repaid. Consideration should be given to the establishment of a mechanism to recapture JVFF payments from successful JVFF projects.

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Follow-up Assistance to Coventures - A decision should be made whether the JVFF is available to finance technical assistance (through use of VEs) after the coventure has been completed (stage 8 of the joint venture process). I see some value to the eligibility of such an item since quality assurance may be a requirement set by one of the partners. Besides, if JVFF determines to require repayment in the case of successful JVFF projects, the funds used for this purpose will, in all instances, be repaid.

JVFF Client Reporting Requirements - The JVFF procedures now in place call for clients to report on the outcome of their efforts. It is not clear how this is to be accomplished. This is a very important requirement if IESC/AID wish to monitor the utility of the program and its cost effectiveness. It is also important for promotion and publicity purposes. IESC should develop a procedure to follow up on the reporting requirement.

Attachment C:

IESC Qualifications

GENERAL PROFILE OF
THE INTERNATIONAL EXECUTIVE SERVICE CORPS

The International Executive Service Corps (IESC) is a not-for-profit corporation run by American businessmen dedicated to serving developing countries around the world. Its experienced men and women represent the best managerial, technical and administrative talent available in the US and advise overseas organizations. IESC receives substantial USAID funds under a grant agreement.

IESC accepts requests for such advice from locally-owned and operated private enterprises, government entities, educational and health care institutions, and other groups wishing to upgrade their management skills, increase productivity or employment, or improve basic technologies.

IESC assigns US specialists with unquestioned skills and accomplishments to work with overseas clients whose declared problems are within the career experiences of these specialists. These professionals come form all 50 states and many are recently retired. IESC executives work on overseas locations (usually for two to three months), providing advisory assistance on a person-to-person basis.

The IESC represents a unique and cost effective resource base. For over twenty years, the IESC has been involved in the mobilization of resources and the delivery of business expertise to developing country enterprises and institutions. With over 10,000 cases completed, it represents the largest base of experience in enterprise development of the Third World. In addition, IESC is the largest organized recruiting and resource development organization in the world, in the foreign business assistance field. This capacity represents an essential and unique resource capability for several reason-s:

- IESC is the largest ongoing active business support community among private volunteer organizations in the United States. At this time, 150 corporations act as formal sponsors and provide $300,000 per year to support the ongoing activities of IESC. These same companies are linked to IESC on a daily basis and provide a unique network through which retired and active manpower can be recruited, and information, techniques and other assistance mobilized.

- With a recruiting staff of over 40, IESC is extremely well qualified to gain access to companies for a variety of

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needs. Presently, its principal focus is on searching for qualified retired manpower, but this same network can help promote industry interest in a wide variety of assistance programs to developing countries.

- The IESC has been involved in over 300 projects where assistance is targeted directly at improvement of academic training or in science and technology institutions.

- The IESC project files for the last twenty years portray a unique history of developing country enterprise assistance and improvement programs. This database, and the IESC's ability to back it up with surveys and research in the US and in developing country business communities, represents a specialized research capability not available through normal institutional activities.

- The IESC has the proven ability to locate industry-, system-, and firm-specific technical assistance. Its program category experience includes everything from educational institutions to agribusiness instruction and government administration.

- The IESC has worked in 72 different countries, representing the most broadly based experience in business development in the Third World.

- The IESC has twenty-three field offices around the world, manned by individuals in constant contact with the local business community and capable of organizing and assisting in the delivery of research programs, technical assistance and other in-country activities.

- The IESC advisory councils are also established in every country where IESC operates on a regular basis. These advisory councils are made up of established business, academic, and government officials. This network assures IESC of the ability to rapidly analyze needs and develop appropriate in-country support for new programs, technical assistance or other advisory functions.

- The IESC launches approximately 400 technical assistance programs a year. This management capacity has been established for some time and can ensure the most cost-efficient delivery of the different kinds of technical assistance activities that might be required in this prject.

IESC represents an unparalleled resource base that has traditionally been perceived primarily in terms of its use

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of extremely qualified retired individuals. Overall, IESC has been organized in order to recruit and match highly skilled executives to the actual management and production needs of developing country enterprises. However, at the same time, IESC has created the largest network of active corporate support for private volunteer business programs in the United States. Its well established recruiting and technical assistance program means that it is capable not only of delivering retired specialists, but also of accessing the active business community of both small and large US corporations.

Adding to its credibility and established position in the US and developing country business communities is IESC's operating network of 24 offices. This established presence means that IESC can collaborate cost effectively on consortium projects to help define needs, negotiate contracts and manage the delivery of technical assistance in research programs in developing countries.

The entire structure of IESC from top to bottom exemplifies total commitment and dedication to supporting the business needs of developing country enterprises. At the same time, this commitment is linked directly to the resources and capabilities of American business. IESC is in a unique position to mobilize the resources of both the retired and active business community, a capability which can help lower the cost of delivering the manpower and expertise needed to best assist developing country business enterprises of all sizes.

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Attachment D:

Discussion of Joint and Co-ventures

JOINT VENTURES AND CO-VENTURES
MECHANISMS FOR EXPANDING U.S. COMPETITIVENESS TRADE AND INVESTMENT
"RECENT PILOT TESTS AND RESEARCH RESULTS"

The United States business community is facing a continuing crisis in trade and investment expansion. A New York Times front page quote recently summed up the situation:

> "...(there is) some question if the U.S. will ever regain all its lost trade... with foreign producers battling so hard to hold onto their market share, many economists and executives say it will be hard for the United States to regain the lost jobs and sales."

One great underlying problem is the relative inability of U.S. enterprises, particularly our smaller and medium sized firms, to participate fully in the emerging "global economy".

James R. Stover, president of the Eaton Corporation, poses the simple questions that face U. S. companies:

- How do I strip costs from my product?
- How do I become more competitive?

The International Executive Service Corps (IESC) has been fostering economic development in the Third World for more than twenty years. We have completed 10,000 individual projects and have over 9,000 retired executives in our skills bank who wish to participate in building private enterprise abroad. We have learned that this base of experience and resource is relevant to the concerns brought up by the New York Times and Mr. Stover. This paper will discuss some of the knowledge IESC has gained from work abroad and what this experience can teach about the future of American enterprise.

Some of the basic conclusions we have reached are:

- For a variety of reasons, few American small and medium size enterprises (SMEs) are interested in investing abroad or investing in joint ventures. Some, though, appear ready and eager to participate in "co-ventures" with foreign firms that may lead to improved competitiveness.

- Many small and medium-sized American businesses appear passive in the face of international trade compeition due to a lack of understanding of how to develop practical and specific venture strategies or how to gain access to networks, resources, and the skills necessary to develop venture activities.

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- Most firms see developing countries as impoverished markets, burdened with violence and volatile politics, and generally unworthy of serious business consideration.

- IESC believes deeply, though, that developing countries are a greatly undervalued source of capital, managerial resources, and opportunities for American business.

IESC believes there is no one best way to solve trade and international business problems, but our data and conclusions suggest that there are various strategies by which U.S. firms can develop new types of coventures with developing country enterprises. These ventures can build U.S. competitiveness and act as a vehicle to bring SMEs into the international business process. They also allow us to use free market systems to build stronger private sectors in developing countries, which are, in general, our best trading partners.

"Win-win" scenarios exist that allow U.S. companies to compete abroad and defend markets by combining resources with developing countries. To examine at least one set of strategies that affect U.S. enterprises, we have organized research from different studies and pilot test carried out by IESC over the last three years. Our interest was to use our networks and data to address several questions, particularly within our Joint Venture Feasibility Fund program:

- How do coventures and joint ventures differ?

- What factors encourage or discourage new venture development?

- What strategies are available to U.S. and developing country enterprises for improving competitiveness and overall stable growth?

- What resources or programs are available to assist firms to take new international venture steps?

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HOW DO COVENTURES AND JOINT VENTURES DIFFER?

Joint ventures usually connote a partnership between two concerns with a common commercial objective. Each partner contributes significantly to the new venture, usually through direct investment. Coventures like co-production, co-marketing, and drawback agreements, on the other hand, do not involve new equity, but allow companies to cooperate in new business ventures.

For the large firm, one of the strongest appeals of joint ventures is that they reduce political and economic risks, often the principal obstacles to direct foreign investment. For smaller firms, or for firms not normally involved in direct foreign investment, a joint or coventure represents something quite different. In most situations, they represent a unique opportunity for revenue, market access or cost reduction. For SME's in particular, the coventure is a unique international strategy, not an alternative to direct foreign investment.

Large and small firms face common concerns in venture development; one is the difficulty of finding satisfactory partners. There seems to be a serious shortage of potential partners which possess the funds, managerial talent or other resources necessary for joint ventures or coventures. Also, even when partners are found, a wide variety of conflicts can develop over quality control, pricing, marketing, reinvestment of earnings, dividend policy, and accounting practices.

Although the obstacles affecting joint and coventures are similar for both large and small firms, restrictions on the smaller enterprise are more fundamental:

- Inability to identify or qualify a joint venture
- Absolute lack of managerial time to pursue a joint venture development or negotiation
- Inability to establish a clear-cut plan and objectives for joint venture activities
- Limited experience in joint venture or coventure development
- Unclear ideas and perceptions regarding developing country or U.S. business practices.

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WHAT ENCOURAGES OR DISCOURAGES INTERNATIONAL VENTURE DEVELOPMENT?

Success of a joint or coventure is influenced by a company's ability to obtain and organize information, set goals, and structure specific decisions. Developing new international ventures must, therefore, change to some degree the decision practices and operating characteristics of companies.

Companies go abroad because of a comparative advantage or changes in technology. Obviously, new venture development is greatly effected by the needs of a company to exploit environments for new resources, lower labor costs, gain access to raw materials or mechanisms to increase market shares. New activity is also spurred by the changes in technology of their own firm and those of their competitors. At the same time, though, firms seek stability and avoid change as much as possible. One important aspect of enterprise growth , therefore, concerns the ways by which companies avoid risk or attempt to reduce risk in a rapidly changing environment.

Industry-Specific Information Helps Companies Develop Strategies

Management chooses to start a venture because of changes in its view of the exisiting environment. Most important, a company becomes motivated to take action because it perceives a new opportunity or threat that must be dealt with. Most firms rule out considerations for developing country venture collaboration unless they receive clear, specific information on these strategies and on how they can benefit.

Many enterprises, especially smaller firms (both in the U.S. and developing countries), have little understanding of coventure or joint venture processes. Our research shows that most small and medium sized firms are unaware, unclear, or confused about what coventure programs might mean to them in terms of cost reduction, new market access or other benefits. Informing potential coventure partners on both sides of possible benefits is vital to creating new ventures. For example, a firm's overall motivation and planning could be affected by new information on trade and promotion activities which could reduce its costs through drawback production.

Concrete Ideas Start Successful Ventures

Any new venture, whether a simple equipment modification or a significant capital investment, must pass through decision stages. A clearly-identified idea encourages management exploration, including feasibility studies or market research. The ensuing search for strategies and resources leads to the development of specific operating plans which lead to negotiations and organization of the new venture. The start

up of the venture often then creates new information and ideas, beginning the planning cycle anew.

Our experience shows that many venture developments are blocked because management lacks an initial clear idea or concept to explore. Even if they do have the idea, developing country and smaller U.S. firms do not know how to find the information and other resources needed to move forward. At later stages, weak links to markets, financial resources or technology can inhibit the development of the project.

Companies Will Choose The First Satisfactory Option

Smaller and medium-sized companies do quite limited planning and analysis. Since management resources are short and time critical, smaller firms will choose the first alternative that seems to "satisfy" their basic planning criteria.

It is understandable that U.S. or developing country firms normally seek out those alternatives which are close at hand. Unfortunately, this only perpetuates their isolation from potential international ventures. Interestingly, one of the criticisms of many trade promotion and investment programs is that they lack a system to get clear-cut options into the hands of potential venturers and to then move them quickly toward specific decision making.

Catalysts Spur Firms To Use Opportunities

A variety of factors may encourage a firm to explore international opportunities. There is quite a difference, though, between factors that merely create a propensity to act, and those that actually cause the firm to take action. A fertile environment is not enough; it must be coupled with a firm's clear understanding of the compatibility of its interests with an international strategy. Compatibility is not similarity; rather, the firm's needs or resources must mesh with foreign resources or needs to improve competitiveness in current markets or to enter new markets or products. Some relevant factors are:

FACTORS AFFECTING VENTURE DEVELOPMENT

- Expectation of a successful outcome of an international venture.
- Clearly-identified opportunities.
- Understanding of how to organize and manage an international venture or coventure.
- External factors like public policy issues and competitive factors.

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- Market pressures and clearly-defined market opportunities.

- Adequate management resources, processes, and abilities to pursue an idea all the way through the various stages to new project start-up.

- Access to linkages and networks that can provide information resources, partner contacts, etc..

Some factors, like competent management and positive attitudes toward international business, give firms a propensity to internationalize. Others, including clearly-defined opportunities or competitive pressure, are catalysts for "specific decisions" to take action on ventures. Other catalysts can be intentionally introduced, as in the case of individuals or organizations that provide technical assistance and information. For example, IESC operates several programs for the U.S. Government which provide contact and venture start-up assistance.

POSSIBLE NEW GROWTH STRATEGIES IN JOINT AND COVENTURES

Most companies are not prepared to consider investing in overseas markets; few are ready to support even modest sales or agent relationships. Larger firms operate with global strategies and change along expected planning and market analysis approaches, but smaller firms are not in a position to consider major international strategies. They are, however, available to participate in ventures that accomplish many international objectives without the risk of dramatic foreign investment or of "going it alone" for market development or defense. Our pilot studies show that U.S. firms are prepared to join in new types of coventures that can accomplish the following goals:

COVENTURE GOALS FOR SMEs

- Lower production costs or other business costs

- Spread costs of entering or developing new markets, products, marketing channels, etc.

- Develop unexpected new sources of income like technology sales or co-marketing programs that let partners share channels to sell and distribute products and services.

Developing Country Firms Seek Market Networks and Technology

Developing country enterprises see the need of American firms to lower cost, develop new capital, and marshal new resources as a business expansion opportunity. In the less developed

world, entrepreneurs and government programs are increasingly geared toward building U.S. business relationships. Foreign firms have the same need to compete; their problem usually is a lack of market access and technology support. The basis for a wide variety of coventures is based on the complementary fit between developing country firms with capital, lower-cost technical and labor resources, and possible alternate market channels. Joined with a U.S. firm, a foreign enterprise can organize a competitive capability that neither could create independently.

PROGRAMS TO STIMULATE INTERNATIONAL VENTURES

Joint ventures and coventures are not a new idea to the international community. Alternative programs have been developed to stimulate and direct joint venture programming. For example, the Canadian government program, known as "The Starter Program" has provided travel monies and market research assistance in a number of countries. The program is somewhat similar to the IESC Joint Venture Feasibility Fund. At the same time, a wide variety of countries are promoting industry-specific trade and promotion activities such as offices representing Chile, Jamaica, Korea and many other countries. These offices provide a variety of services that help encourage and link U.S. partners to potential partners in developing countries.

From our examination, we feel that the most effective programs include the following activities:

KEY PROGRAM CHARACTERISTICS

Provide information or linkage for a specific industry target.

Provide funds and resources to help cover initial planning, travel, etc.

Help clients bring together a variety of government loans, insuring or other services that help reduce the long-term risk of foreign operations.

Assist developing country enterprises make representations in critical markets, trade fairs, etc.

EXPANDING INTERNATIONAL BUSINESS ACTIVITY

U.S. smaller and medium-sized enterprises will be brought into international business activities only through specific venture promotion. Some type of "push" must help companies clearly identify the opportunities that exist and know that

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assistance is available to move the program through the various steps of project evolution. The most important tactics to accomplish these "industry-specific" activities include the following:

- Use experienced consultants, retired executives, and large company volunteers to help diagnose cost reduction, export development and new product opportunities of U.S. companies.

- Use a centralized information service to help supply low cost feasibility and preplanning research services to assist firms, qualify opportunities, and market data necessary to make decisions for further investment.

- Provide cases and training materials to show how to package different types of projects and what critical management issues may be involved.

- Organize product committees to help brainstorm product innovations and development of new marketing channels.

- Link various committees and local institutions to international networks that can target potential partners, financing sources, and special government programs that give access to new resources of U.S. firms.

- Establish a pool of dollar resources and man-power that can follow-up with firms to start-up new projects, develop analysis, etc.

COOPERATING WITH FOREIGN FIRMS AND PROGRAMS

Foreign firms are also hungry for new product opportunities and access to non-traditional markets. Effective coventure and joint ventures depend on highly specific linkage and continuing follow-up assistance. To complement the U.S. effort, linkage must be made to foreign firms through trade institutions, associations, and private consultant networks. Similar services must be offered including opportunity identification, support straining and partner linkage.

IESC has been involved in three different projects that have tested systems to link developing country firms with U.S. companies for joint and coventure activities. Overall, these programs demonstrate emerging new techniques and systems that lead to more competitive businesses in the U.S. and the developing countries. The new ventures allow firms to compete more effectively in the United States, share resources to approach foreign markets, and join to reduce costs of joint technology and product development.

The upcoming workshops will review these systems and specific techniques and analyze them in regard to existing trade and

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investment promotion efforts in the United States and other countries. Conclusions on these issues will also have an impact on overall policies and assistance strategies of the U.S. and other governmental organizations. Further elaboration of our research and pilot studies will be provided prior to the roundtable programs.

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