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The Role of Commercial Services in
Officially-Sponsored Trade Promotion Programs:
Lessons from the Market and Technology Access Project

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I. Introduction

Firms engaged in developing international business relationships -- whether trading ventures, collaborative relationships, or direct investments -- face a variety of complex problems and requirements, such as assessing opportunities in new markets, understanding and dealing with difficult legal and regulatory problems, finding appropriate business partners, and acquiring the information, know-how, contacts, and resources needed to solve the myriad complications associated with launching new ventures in strange environments. To initiate new ventures, businesses have to be able to deal with these problems, either through resources internal to the firm or by relying on services provided by other firms, organizations, or individuals.

Typically, large multinational enterprises are able to deal with the requirements of international business by drawing on resources internal to their organizations, or else by relying on a small number of external resources -- typically their bankers, lawyers, and accountants. Small and medium sized firms, on the other hand, are generally less able to deal with the myriad problems associated with international business operations from

their own resources and need to rely to a greater degree than the multinationals on specialized service suppliers.

In developing country situations, business development problems are often more complex than in the industrialized countries; moreover, information is less readily available, and specialized services are generally lacking.

Developing country governments, recognizing the advantages of increased trade, technology, and investment flows, have resorted to a variety of measures to promote international business, including support for export processing zones, funding official or quasi-official trade and investment promotion organizations, and establishing incentive schemes.

For the most part, efforts to meet the service needs of enterprises have been centered in the official or quasi-official trade or investment promotion organizations and programs. The success of such programs and organizations among different countries at different points in time has varied considerably -- understandably so since successful promotional efforts are highly dependent upon factors such as the overall business environment within a particular country as well as global economic forces such as changes in patterns of international competition.

However, even in countries where official trade and investment promotion programs have been notably successful, the majority of

firms have not received assistance from such programs, but instead have relied on either their own resources or upon support services available from private suppliers.¹ Countries such as Hong Kong, Taiwan, Korea, and Singapore have actively encouraged the development of a wide range of business and financial services for exporters and buyers, including private consultancy firms.² Moreover, they have encouraged the active provision of information and assistance to exporters by associations of traders and manufacturers, chambers of commerce, and other industry groups, in addition to assistance provided by official export promotion organizations of other government agencies.

Even though comparative studies of official export promotion and investment promotion organizations provide evidence that such organizations under certain circumstances can provide cost-effective support and assistance, the overall track record of official export promotion efforts has been largely unspectacular. As better information has become available regarding the poor performance of many of the standard trade and investment promotion approaches, efforts to develop new approaches have increased.

¹ See Keesing, D. "The Four Successful Exceptions: Official Export Promotion and Support for Export Marketing in Hong Kong, Singapore, Taiwan, and the Republic of Korea". The World Bank. 1988.

² See Keesing, op.cit., p.8.

Many A.I.D.-funded projects in recent years have been formulated specifically to test new approaches for trade and investment promotion, including mechanisms for stimulating greater private sector involvement in project design and implementation. These projects are beginning to produce some very interesting data regarding what works or doesn't work in different environments, as well as providing information about A.I.D.'s abilities to support more effective promotional efforts.

The excellent research and evaluation studies produced in the past two years by Donald Keesing and his colleagues at the World Bank have provided particularly cogent insights regarding approaches for providing more effective assistance to manufactured exports from developing countries. In a recent paper, they offered the following four recommendations regarding ways of improving support services and assistance to exporters³:

1. "concentrate on overcoming weaknesses in supply, largely by providing consultant assistance to promising firms in adapting and improving their supply capabilities, in product groups with strong export prospects."

³ Keesing and Singer. "How to Provide High Impact Assistance to Manufactured Exports from Developing Countries", Unpublished paper, World Bank, 1989.

2. support "systematic steps to foster a plurality of predominantly private sector service suppliers, including branches of foreign or transnational firms, as the main method of creating a full array of services in support of export expansion."
3. direct "assistance for export marketing and support services for expansion of manufactured exports ... through specific, time-bound development projects (or project components) involving a temporary injection of resources over a period of a few years."
4. "create projects in many circumstances in the form of integrated promotional and service-fostering packages of assistance around one or more grant funds."

The second recommendation above suggests an approach that we would like to focus on for the balance of this paper, inasmuch as it is directly relevant to work that has been carried out since 1983 under a project supported by the Bureau for Science and Technology of A.I.D. -- the "Market and Technology Access Project (MTAP). In the discussion that follows, we will first describe the problems that MTAP was designed to explore and provide a

brief summary of some of the lessons that were learned from this project. Then we will examine the implications of the MTAP findings to future A.I.D. efforts in the area of trade promotion, including efforts being pursued in the LAC region.

II. The Market and Technology Access Project: Original Objectives and Lessons Learned.

A. Original Objectives

The Market and Technology Access Project was launched in 1983 with funding provided by the Bureau for Science and Technology (Office of Rural Development) of USAID. The original objectives of the project were to develop more effective approaches for promoting collaborative ventures -- trade relationships, licensing agreements, contract production relationships, joint ventures, etc. -- between U.S. and developing country firms. In particular, the project set out to investigate the role of commercial brokers and intermediaries in promoting such ventures and to determine whether efforts to involve commercial intermediaries in A.I.D.-supported projects would result in promotional efforts that were cost-effective and, hopefully, even commercially viable.

The project included two components: 1) a research and evaluation

component designed to generate information about the effectiveness of different approaches for promoting collaborative ventures, and 2) a field trials component designed to provide practical information about ways of involving commercial intermediaries in A.I.D. - supported trade promotion efforts. Three firms were selected to carry out the field trials. Funding was provided on a cost-sharing basis for a 2-3 year time frame. The research and evaluation contractor monitored the field trial activities to assess their effectiveness of the contractors in promoting new ventures. Additional data was collected on the operations of other types of commercial service suppliers involved in trade promotion activities. Comparative data derived from other A.I.D. projects, programs supported by other donors, and selected trade promotion efforts supported by other governments was reviewed to provide a broader perspective on problems of providing effective support services to firms engaged in international venture development.

B. Lessons Learned

The MTAP field trials provide some support for the view that trade development programs could be improved by measures to support the development of a "plurality of private sector service suppliers" as a means of providing the full array of specialized services that are needed by firms engaged in export expansion or the development of collaborative ventures. The MTAP experiences

also point out a number of difficulties that A.I.D. faces in supporting the development of private service suppliers.

Advantages of Involving Commercial Service Providers in Officially-Supported Trade Promotion Activities

MTAP findings that indicate that A.I.D.-funded trade promotion projects could be improved by efforts to involve private service suppliers and foster their development include the following:

1. Cost savings

MTAP has clearly demonstrated that involving commercial service suppliers as agents for providing trade promotion support has clear cost advantages. The MTAP research confirmed that a wide variety of commercial firms are willing to participate in trade promotion efforts on a cost-sharing basis. In the MTAP field trials, providing limited front-end support to commercial firms engaged in international deal-making resulted in costs to A.I.D. that were generally one-third to one-half the costs of standard consulting contracts or institutional support contracts for similar levels of efforts. If more flexible funding mechanisms had been used, even greater cost savings would have been possible.

2. Cost-effectiveness

The performance of the different intermediary firms involved in

the MTAP field trials varied considerably, ranging from highly successful operations in Turkey to only minimally productive operations in Yemen and Tunisia, with intermediate levels of success (and failure) in India, Thailand, and Costa Rica. On average, however, the MTAP field trials demonstrated that commercial intermediaries are able, in the short-term, to consummate deals and launch new ventures as effectively as other kinds of organizations that A.I.D. has engaged in its trade promotion efforts, with significantly lower levels of project funding. In the longer-term, given the fact that the majority of the MTAP intermediaries have continued with their business promotion efforts after project funding has ended, we expect the MTAP results will demonstrate even higher levels of cost-effectiveness.

3. Commercial viability/sustainability

The MTAP findings with respect to the commercial viability or sustainability of the types of brokerage or promotional efforts that were carried out under the field trials strongly indicate that the approaches tested under MTAP are feasible only in countries with relatively favorable business environments and adequate industrial capabilities. The firms operating in Turkey, Thailand, and India have established operations that are clearly commercially viable and likely to continue into the future. In Costa Rica, the prospects are less sanguine, although the firm

concerned, ICS, is still vigorously pursuing trade promotion activities two years after project funding has ended. The operations in Yemen and Tunisia clearly were not commercially viable, although they did generate a small amount of revenue for the firm concerned.

4. Complementarity with official promotional efforts

The MTAP field trials suggest that commercial service supplies, particularly firms that have developed specialized capabilities, are a useful complement to official promotional efforts. They are better able to supply specialized services that firms require in pursuing specific areas of business development than a single, centralized promotional organization. Since they have a variety of fee-generating options available to them, they are often more motivated to pursue deals over a longer time frame than most types of officially supported organizations. On the other hand, they are generally not motivated to provide services that produce significant external benefits but few benefits that accrue to them as a firm, unless they are rewarded in some way by official agencies who are directly interested in the external benefits that are produced.

5. Flexibility/Adaptability

The MTAP field trials showed that commercial intermediaries have

a much greater ability than standard types of official trade promotion organizations to change their strategies, methods, and even staffing to achieve successful results. This flexibility allows them to be responsive to the needs of their clients and to be able to respond to new areas of opportunity. Moreover, it is an essential element in achieving sustainable, profitable business operations.

Problems Associated with Involving Commercial Service Providers in Officially-Sponsored Trade Promotion Efforts

In spite of the positive evidence that the MTAP field trials have produced regarding the utility of involving commercial service providers and intermediaries in A.I.D.-funded trade promotion efforts, the MTAP research has also identified a number of major problems associated with a wide-spread adoption of this strategy.

1. A.I.D. procurement procedures and project management requirements

Experiences with the MTAP field trials suggest that standard A.I.D. procurement and project management procedures are somewhat problematical when attempting to involve commercial intermediaries in A.I.D.-supported trade promotion efforts. The types of commercial service providers needed to provide specialized trade promotion support are generally not familiar

with standard government procurement regulations and requirements. They do not read the Commerce Business Daily. They are outside of the normal A.I.D. procurement loop. In many cases they are discouraged from participating in government-funded efforts by what they view as onerous reporting requirements. Learning to deal with A.I.D. requirements imposes transaction costs that firms are frequently unwilling to put up with. Learning A.I.D. requirements and positioning themselves to receive government funding often conflicts with their regular business operations.

On the other hand, the costs of dealing with new types of firms is high for A.I.D. project officers. Funding new types of agents involves risk. It also requires extra effort to identify and get approval for new project designs, funding arrangements and oversight procedures. Since few such mechanisms are currently available, experimentation is needed to develop appropriate approaches. A.I.D. project development and management procedures generally provide few rewards for experimentation and risk taking; consequently efforts to develop new approaches for trade promotion --such as involving private service providers -- are not likely to be generally popular.

The experiences with MTAP in this regard are not entirely negative, however. In developing the original MTAP field trials, cost-sharing procedures were developed and approved by the A.I.D.

contracts officer. In the current phase of MTAP these cost sharing procedures were refined and new arrangements developed that provided greater flexibility as well as greater outreach to involve new types of service organizations. In several instances, missions or other centrally-funded projects have begun to experiment with flexible funding arrangements designed to support different types of commercial service providers and intermediaries.

2. Accountability/attribution

New collaborative business ventures are difficult to develop. They take time -- frequently 3-5 years -- which makes it difficult to measure results in the normal course of A.I.D. projects. Suppliers of business services generate external benefits that are hard to measure or take credit for. Consequently, even though business promotion efforts involving specialized commercial support services may ultimately prove to be the most effective and viable means of stimulating real, long-term results, in the short-term they may not be as popular within A.I.D. as more visible institution-building or monument-creating efforts.

3. Time factor

Fostering the development of specialized service suppliers takes

time. Initial demand for services is weak. Unfavorable business environments constrain the growth of service suppliers just as they do the growth of other types of enterprises. Few A.I.D. countries offer an attractive environment for the growth of specialized service suppliers. Consequently, front-end subsidies are required in order to use specialized commercial support devices to achieve a multiplier effect in trade promotion efforts, and even then a sustained effort may be required over several years in order to produce visible results.

4. Ideological constraints

The idea that A.I.D. projects should foster the development of commercial service suppliers is not a popular one. Host government officials frequently do not like it (the MTAP field trials in Tunisia provided an extreme case of government aversion to funding private intermediaries). Commercial intermediaries and service suppliers share with merchants and traders in the "anti-middleman bias" that is still quite common in developing countries.

5. The institutional development bias

A.I.D. projects frequently favor support for a single organization as the focus for a particular program -- the development of institutional monuments that A.I.D. can take

credit for. Traditional technical assistance formulas favor institutional development efforts. Providing support to help develop a "plurality of private service suppliers" requires new, non-standard approaches requiring more creativity and higher degrees of risk.

5. Competition for project resources

Institutions that are the major recipients of A.I.D. project funds often resist efforts to involve or support other service suppliers. They are frequently perceived as threats or competitors, rather than being viewed as possible partners and collaborators.

III. Implications for Future A.I.D. Trade Promotion Efforts

The MTAP experience supports the World Bank recommendations of Keesing and his colleagues that trade promotion efforts could be improved significantly by seeking new approaches for fostering the development of a plurality of private service suppliers, rather than focusing project support on single, centralized trade promotion organizations. As noted above, such an approach would offer advantages of cost savings, improved cost-effectiveness, greater flexibility and responsiveness, and improved prospects for commercially sustainable operations.

On the other hand, pursuing new approaches such as this involve higher levels of risk -- for project officers, contracting officers, and A.I.D. management. Until effective new procedures are developed and become accepted within A.I.D. or other development organizations that are compatible with strategies designed to foster the growth of private service suppliers, such strategies are not likely to be popular or widely used.

However, as both the World Bank studies and the MTAP findings suggest, this is the time to be bold and imaginative in trying out new approaches that build upon both the lessons of the past as well as an understanding of present and future possibilities. Sufficient information is available to produce significant improvements over what has usually been done in the past, providing that sufficient organizational will exists to use such information in designing and undertaking new approaches.