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DEVELOPING AN AID TRADE AND INVESTMENT STRATEGY

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DEVELOPING AN AID TRADE AND INVESTMENT STRATEGY

INTRODUCTION:

This study addresses three separate but related issues involving AID's Trade and Investment (T&I) programs:

Issues Addressed

- How AID can improve the internal coordination of its T&I programs.
- How AID can achieve better cooperation with other agencies on T&I issues.
- How AID can better advance U.S. commercial interests.

The study emphasizes that a number of forces – globalization of markets, privatization, intensifying competition and growing trade conflicts – are combining to focus attention on T&I issues. The developing countries are likely to seek more assistance in this area but AID is not internally well prepared to meet the requirements of trade and investment programs in the 1990's.

With respect to interagency cooperation, AID has not devoted the resources necessary to influence broader U.S. bilateral and multilateral trade and investment policies even though they have a major impact on the growth prospects of the less developed countries (LDCs). Also, despite some recent initiatives, AID has not made a concerted effort to identify the ways in which it could advance U.S. commercial interests in conjunction with the promotion of economic development objectives in the third world.

Internal Coordination of T&I Issues

AID lacks a clear policy on trade and investment. T&I is just one of many designated priority areas and the guidance on policy is too vague for establishing an overall approach to T&I programs. Missions are relatively free to set their own priorities and propose programs regardless of the circumstances. There is also considerable resistance to T&I initiatives in large parts of the Agency, although this seems to be diminishing.

Operationally useful guidance on the strategies for implementing T&I programs is lacking. PPC, PRE and the regional bureaus have been developing background analyses and policy prescriptions, but there is still no commonly accepted conceptual framework for planning T&I programs. This study proposes the following simple schema that could be used to categorize T&I activities and identifies some of the key issues that need to be resolved.

The Major Components of T&I Programs

- Policy Reform
  - improving recipient country T&I policies
  - improving the external T&I environment
- Institution Building
  - public sector organizations
  - private sector intermediaries
- Facilitating Services
  - marketing support
  - transactional or "deal-making" services
  - producer assistance

The major uncertainties center around the varying circumstances in which different types of programs are implemented and how these circumstances affect program design and implementation. AID also needs to determine where it is most likely to have a comparative advantage vis-a-vis other donors in T&I activities.

The study discusses the ways in which AID's decentralized approach to programming has resulted in a widely varied record of T&I results. Past experience has not been adequately analyzed for lessons learned and much of the available information has not been disseminated in a form useful to program planners. There is needless duplication of effort among projects because much market research and data on potential investors could be, but is not, centrally funded or documented. AID missions also often lack incentives to undertake T&I projects and do not have leverage with recipient countries because of limited central funding for T&I projects.

AID lacks a critical mass of in-house private sector expertise and missions have been disappointed with the back-stopping they receive from AID/W on T&I issues, although this is improving. AID has to rely heavily on contractors for design and implementation of projects because of personnel ceilings, but contractors often lack the expertise and commitment to project follow-up.

The study makes a number of recommendations including the following:

Recommendations on Internal Coordination

- A clearer overall policy statement
- Education of staff on T&I issues
- A comprehensive analysis of past programs
- A revised policy paper
- Research on new approaches to T&I
- Conferences within AID and with other donors
- Clarification of AID/W responsibilities for T&I
- More central funding for T&I
- Common approaches for evaluating T&I projects and disseminating the results
- Increased recruiting and training of T&I staff
- Better management of T&I contractors

Improving External Coordination of Trade Policy

Bilateral and multilateral trade policies will have a much greater impact on the growth prospects of the LDCs than AID programs, especially in the more advanced developing countries. A number of other U.S. tax and regulatory policies can also have a major impact on selected countries. Yet AID does not have an overall strategy for attempting to influence these policies.

Among the types of policies that have a major potential impact are: quotas on sugar, quotas on apparel under the Multifibre Agreement, granting or removing access to the U.S. market under the Generalized System of Preferences (GSP), tax regulations such as Section 936 incentives for firms to invest in the Caribbean area, and food and health safety requirements.

U.S. Government policy on these issues is typically made through interagency "advocacy proceedings" in which the various agencies argue their points of view. AID is the only agency likely to advocate U.S. interests in helping the third world to develop. AID has not, however, typically devoted the resources necessary to be an effective player in these fora and has not undertaken the analyses necessary to demonstrate to other agencies how LDC growth can contribute to meeting their particular objectives.

AID faces significant organizational problems in trying to influence interagency decisions on trade and other policies. PPC is the focal point for trade policy but lacks the mandate to draw effectively on PRE and the other AID/W bureaus or the missions to effectively support trade policy formulation.

Among the recommendations for improving coordination with other agencies on trade and related policies are that AID should:

Recommendations on External Coordination

- Analyze all the interagency policies that affect LDC development
- Evaluate the impact of development on the objectives relevant to other agencies
- Give much higher priority to trade policy
- Adopt an explicit outreach strategy of interagency coalition building
- Give PPC the resources to play a more active interagency role and the mandate to draw on all AID resources
- Add staff with interagency trade policy experience
- Educate all staff on the importance of external trade policies to LDC growth

Advancing U.S. Commercial Interests

Dramatic changes in the geopolitical environment suggest that U.S. competitiveness will become a more important issue in the 1990's. Comparisons will increasingly be made with development programs of other countries, especially Japan, which give much greater weight to commercial objectives in their aid activities.

The study concludes that substantial potential exists for increasing the U.S. commercial benefits of AID programs in ways that would not detract from their developmental effectiveness. However, AID has not developed a conceptual framework for evaluating the potential of various activities to advance U.S. commercial as well as development interests. Among the more important activities are capital projects, lead-in services, mixed credits, direct exporter assistance, tied-aid, and aid to U.S. firms competing for multilateral or other donor assistance projects.

One of the major problems in advancing U.S. commercial interests is that the greatest opportunities are in the more advanced developing countries which are typically not AID recipients. Even in the countries that are major AID recipients, there is little linkage between commercial and developmental interests. This is partly because AID personnel generally do not think in terms of U.S. commercial interests and partly because of interagency coordination problems. Indeed, a major emphasis on commercial objectives would require a cultural revolution within AID.

Overall the study concludes that capital projects can be highly effective vehicles for advancing both commercial and development objectives by overcoming infrastructure bottlenecks. A number of innovative public/private arrangements are being developed (e.g., build, operate, transfer schemes) and AID personnel could do much more to help encourage them. AID and the Trade and Development Program (TDP) could advance such concepts but TDP has not worked closely with AID. Also AID currently lacks the expertise, information and political support necessary to undertake a large capital projects program.

Mixed-credits (the practice of blending concessional and export financing loans to meet foreign competition) raise different issues. The goal of the U.S. Government is to eliminate such practices. Therefore, the U.S. response to mixed credits is driven largely by tactical negotiating considerations. AID has only limited funds to support mixed credits. AID and Eximbank have worked well together on mixed credit issues but the potential for influencing other donor behavior is relatively small. In fact, unless the United States is prepared to devote large amounts of funds to mixed credits, it may be preferable not to offer them at all in order to avoid giving other countries an excuse to continue their programs.

AID missions have excellent contacts with many recipient governments and could play a useful role in helping U.S. exporters and investors in selected instances where developmental and commercial objectives coincide. AID has had some success in placing personnel in key ministries with a charter to advance U.S. commercial and developmental objectives. If AID were to increase its direct support to U.S. exporters and investors it would have to work more closely with the Agriculture and Commerce Departments.

AID has not used its large procurement budget effectively to advance U.S. commercial interests. Policy guidance on non-project assistance is considered outdated by mission staff and AID/W cannot adequately track U.S. procurement. Much of AID's non-project aid is in the form of cash grants with no commercial focus and, although more commercially-oriented, the Commodity Import Programs (CIP) are often inefficient. Overall, AID has not adopted a proactive strategy to identify areas where its procurement could provide important "multipliers" that would facilitate follow-on sales without further support from AID.

The study recommends that AID should:

Recommendations on U.S. Commercial Interests

- Better evaluate the programs that can advance U.S. commercial as well as developmental objectives
- Determine the priority to be given to these programs
- Review the strategies for dealing with advanced developing countries
- Develop incentives for the regional bureaus and missions to support U.S. commercial interests
- Increase the modest capital projects programs and develop innovative arrangements for encouraging private investors to fund public sector infrastructure needs
- Encourage TDP to work more closely with AID, rely primarily on the Eximbank "war chest" for funding mixed credits, but participate in such projects sparingly on a case-by-case basis
- Make the policy decision concerning provision of direct assistance to U.S. business
- Review the steps necessary to realize greater leverage from AID procurement

CONCLUSION

Despite the many areas that need improvement, AID has made significant strides in developing and implementing T&I programs in the 1980's. Improved coordination and policy support from top management will further enhance overall T&I program impact.

Greater uncertainty exists regarding the appropriate level of effort that AID should devote to influencing interagency trade policies and promoting U.S. commercial interests. The development pay-off would be high if AID were to successfully influence U.S. and multilateral trade policies but this would require a significant increase in staff resources and effort. Similarly, the study concludes that there is significant potential for advancing U.S. commercial interests but such efforts would be controversial within AID and would require a strong commitment by top management to be successful.

CHAPTER I

INTRODUCTION

This report has been prepared under a subcontract to WPI Inc. under the Agency for International Development (AID) contract PDC-2028-Z-00-7121-00. The report addresses three separate but interrelated issues involving AID's Trade and Investment (T&I) programs:

- How AID can improve the internal coordination of its T&I programs.
- How AID can achieve greater cooperation with other agencies on T&I issues.
- How AID can better advance U.S. commercial interests while at the same time promoting its development objectives.

For the purpose of this study, T&I programs are defined as all activities directly oriented toward promoting exports or attracting foreign investment in recipient countries. T&I programs are often components of broader efforts to strengthen capital markets, promote the private sector or reform macro-economic policies. However, this study focused on only those activities aimed primarily at foreign trade and investment.

In commissioning the study, AID also specified the goal of generating common criteria that could be used to develop a framework or strategy for trade and investment programs. It indicated that this framework should apply to: the formulation of T&I reform programs; integrating U.S. and less developed country (LDC) economic and development interests; and bringing LDC development interests more explicitly into the U.S. Government policy making process.

Given the scope of these issues, this report can only touch on key aspects and interrelationships. Nonetheless, the authors believe that the report provides a good overview of the primary T&I issues facing AID and a guide for action and further research.

A. T&I in the 1990s

Several of the major trends of the 1980s are likely to accelerate in the 1990s. Among the most relevant of these are:

- **Globalization** of markets caused by reductions in the cost of communications, transactions and transportation.
- **Privatization** of economic activities as the most efficient way of increasing national output.
- **Intensifying worldwide competition** as more and more companies and countries fight for global market share.
- **Growing protectionism and trade friction** as leading countries focus increasingly on their economic well being rather than traditional national security concerns.

In this environment, the ability of the poorer countries to meet their development goals will depend critically upon their capacity to compete internationally. They will need substantial assistance in producing products of world class quality and in forging international market linkages. If they are successful, they will not only generate export earnings but will also establish benchmarks for efficiency in domestic production. The ability to attract qualified foreign investors will also be critical in acquiring the technology, management skills and financial resources to meet domestic needs as well as to exploit foreign market opportunities. Thus, there is likely to be even greater demand for export and investment promotion projects in the 1990s than in the past decade.

In addition, T&I programs in the 1990s must be designed to accommodate the challenges of a more contentious trade environment. U.S. and multilateral trade policies will probably have an increasing impact on the growth prospects of the LDCs as protectionist pressures force new restrictions on imports, cause the formation of trading blocs, and focus attention on lingering problem areas (such as trade in services and intellectual property rights). At the same time, domestic politics will force the United States to pay much greater attention to its commercial interests when planning foreign assistance programs.

As a result, AID will be under pressure to increase the resources devoted to T&I projects while simultaneously sharpening their focus to advance U.S. commercial interests. In the 1980s, AID undertook roughly 130 T&I projects, amounting to about $800 million. If this level of activity increases substantially in the 1990s, T&I could become a major component of the AID program and will require more top level management attention than in the past.

Such changes, however, will not come easily. Many professionals within AID and the external foreign aid community (especially Congress) harbor serious reservations about giving greater emphasis to T&I. Some of the resistance stems from the recognition that T&I programs are hard to manage and have frequently been failures (one AID private sector expert noted wryly that it is much more difficult to help businessmen than school children). Some of the resistance also comes from a philosophical aversion to aiding profit making ventures, especially when successful T&I projects often require working with larger and better funded LDC businesses that are more likely to be able to successfully compete internationally than small and micro-enterprises. Finally, many, if not most, AID staffers simply do not view it to be their job to help U.S. business, even if that turns out to be the most effective way of promoting development.

It seems likely, therefore, that any decisions to significantly increase T&I programs or shift their focus to more directly advance U.S. commercial interests or draw more directly upon U.S. business expertise will be controversial. Moreover, if T&I programs are to be well managed, AID will have to undertake a number of organizational and personnel development programs that will generate additional resistance.

While recognizing these concerns, the study team members are convinced that the United States has an important contributing role to play in helping the developing countries adapt to the increasingly competitive 1990s. If the poorer countries do not implement outward-oriented, efficient growth strategies, they risk being left on the economic sidelines with large segments of their populations remaining at the very edge of survival. The primary burden will continue to lie with the countries themselves to adopt sensible, growth-oriented policies. Nonetheless, external assistance in the proper amounts and forms, as well as appropriate trade policies, can often provide the critical margin of difference as a catalyst, source of expertise, or access to markets. Thus, the stakes will be high in reaching the right balance between T&I and other AID programs and in designing AID's trade policy interventions to be as effective as possible.

Decisions regarding T&I should, of course, be considered in the context of any broader refocussing of AID's programs to meet the challenges of the next decade. For example, the concluding words of the Administrator's 1989 Report were:

> "Radically reshaping future official assistance programs to face new realities .... must be both an immediate concern and a major long term national priority. Nothing less will serve the national interests of the United States."[1]

The future of AID's trade and investment programs will surely be a central consideration in any "radical reshaping" of U.S. foreign assistance.

B. Study Approach and Conclusions

The study team reviewed relevant AID documents and interviewed sixty current and former AID officials and experts in other U.S. Government and multilateral aid agencies. Half a dozen congressional staff members and private sector experts on foreign aid were also interviewed for additional perspective.

The interviews were held primarily with Washington based staff (AID/W) and other agency personnel in Washington. Overseas interviews were held only in Indonesia and the Philippines, although many other people interviewed had extensive prior field experience. Participation in a conference sponsored by the Latin American Bureau (LAC) and the Center for Development Information and Evaluation (CDIE) gave additional insights into mission interactions with AID/W on T&I issues. The study team members also drew on their personal experience in implementing T&I programs in the field.

The interviews were open-ended and therefore inherently somewhat subjective. Nonetheless, the members of the study team came away with a number of clear impressions based on consistent comments in the interviews. These findings lead logically to a number of recommendations for improving the coordination of

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1 Development and the National Interest: U.S. Economic Assistance into the 21st Century (Washington, D.C., U.S. Agency for International Development, February 1989) p. 121.

the Agency's T&I programs. The broadest conclusions are listed below, with more detail and specific recommendations in each chapter:

- AID has made substantial progress in the 1980s in mastering the complexities of implementing successful trade and investment programs. The programs have not been well orchestrated, however, and significant improvements in coordination and information exchange are still required for them to approach their full potential.
- There are compelling arguments for AID to play a much more proactive role in interagency trade policy bodies in order to inject development considerations into U.S. trade policy formulation. This more active role, however, will require AID to devote substantial top level attention and resources to these issues.
- There are also many opportunities for AID to advance U.S. commercial interests by supporting U.S. exporters and investors as one of the most effective ways of achieving development objectives in selected countries. Major initiatives in this direction, however, would be controversial and would require a virtual cultural revolution within AID.
- The decision whether or not to adopt more purposeful trade, investment, and competitiveness programs will affect the entire AID program throughout the 1990s. The new Administrator should make the choice explicitly and attempt to build congressional support and mobilize internal resources to support the chosen initiatives.

The following chapters discuss in turn: the coordination issues that AID faces internally in undertaking T&I programs; the interagency or "external" coordination problems AID must address in attempting to influence U.S. multilateral trade and investment policies; and, the issues involved in attempting to give greater weight to U.S. commercial interests.

CHAPTER II

IMPROVING INTERNAL COORDINATION ON T&I ISSUES

As economic competitiveness issues take on a higher priority in the developing countries themselves, AID will probably be called upon to undertake more ambitious T&I programs. For example, future T&I programs will probably be required to give greater emphasis to supporting trade-oriented policy reform, building new types of public/private institutions and generating concrete results through more transaction-oriented programs. Such initiatives will place new demands on the internal coordinating processes within AID.

This chapter focuses on the processes by which AID develops and implements T&I programs, with special emphasis on information requirements. In order to organize the findings, the discussion deals separately with: policy formulation; implementation of strategy; organization and management; information and evaluation; and personnel and staffing. Each of these areas entails particular problems, but all aspects of trade and investment programs are interrelated and need to be considered as a whole.

A. **Finding: AID's overall trade and investment policy statements are too broad to provide meaningful direction and are not accepted by many within AID and in the broader foreign assistance community.**

1. **Main Points**

a. Too Many Policy Priorities. Overall, AID has too many policy priorities, resulting in a lack of strategic direction regarding how much emphasis really should be given to T&I. Much of the problem stems from congressional guidance that specifies or "earmarks" a number of cross-cutting requirements (e.g., women in development, science & technology) as well as functional allocations (health, population, education). In addition to this top down patchwork of guidance, AID relies heavily on mission initiatives (described in Section C) to decide what programs to develop. As a result, no clear mechanism exists for determining what overall priority T&I programs are currently receiving or should be given in the future.

b. Current Policy Guidance Is Too Vague. This report follows the AID practice of differentiating between "policy" and "strategy". The prevailing view within AID is that the policy guidance is adequate even if the specific guidance on implementing strategies is not (i.e., the policy is that T&I programs are to be encouraged and should be considered an integral part of broader initiatives to support the private sector). Despite the general satisfaction with the current policy guidance within AID, the study team believes that the policy guidance needs to be sharpened.

Current policy guidance comes from a variety of sources including annual Congressional Presentation Documents, specific policy papers such as the Trade

Development paper[2] and special initiatives such as the Administrator's report cited in Chapter 1. These sources provide useful insights into overall T&I thinking but they are not specific enough to provide a good framework for planning T&I strategies.

For example, beyond saying that T&I is important, an operationally useful policy document would probably provide specific guidance on such issues as:

- Whether, as a matter of policy, AID should concentrate T&I programs on countries which have already adopted favorable economic regimes versus allowing all countries to propose programs regardless of the adequacy of supporting macro- and micro-economic policies.
- Whether, as a matter of policy, AID should concentrate T&I programs on certain categories of countries (e.g., the least developed versus advanced developing countries) or specific regions.
- Whether, as a matter of policy, AID should make a much greater effort to encourage the growth of true private sector trading and investing intermediaries (including willingness to subsidize them) in lieu of building governmental and parastatal trade and investment promotion organizations.

In these, as in a number of other cases, the study team found the overall policy so vague as to not constitute meaningful guidance.

c. Widely Varying Bureau and Mission Priority Given to T&I. At different points in time, the regional bureaus have given widely varying priorities to trade and investment. For example, throughout most of the 1980s, the Latin American and Caribbean Bureau (LAC) was the only bureau placing any significant emphasis on T&I, with about 80 percent of the agency-wide T&I projects being in the Latin American region. In the late 1980s, the Asia and Near East Bureau (ANE) began experimenting with much more substantial T&I programs and more recently the Africa Bureau (AF) has begun some aggressive and innovative programs. Perhaps most importantly, AID is now faced with an enormously important challenge in East Europe. Trade and investment appears to be the primary type of assistance sought by these emerging democracies, but the policy responses are still being developed and are not yet clear, especially the relation of AID programs to those of other entities such as the Polish and Hungarian-American Enterprise Funds.

The amount of T&I programs in any given region may, of course, appropriately vary at different times. These variations should be a result of top level policy judgments on the potential contribution of T&I to achieving overall U.S. objectives, rather than reactions to initiatives by individual missions, as appears to be the case today. The bottom up programming philosophy of AID, discussed more fully in Section C, indicates that decisions on undertaking T&I programs lie primarily with the missions. This results in widely varying emphasis on a country-by-country as well as on a regional basis.

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2 AID Policy Paper, Trade Development, (Washington, D.C., July 1986).

d. Continuing Resistance to T&I Initiatives. Both within and outside AID, there is considerable resistance to trade and investment activities. As a matter of principle, many AID professionals and Congressional supporters believe that the shift from project aid to a basic human needs (BHN) orientation in the 1970s was the correct approach. As a result, they do not accept the new growth-oriented strategies promulgated in the 1980s.

At a more pragmatic level, questions have also been raised about the cost-effectiveness of T&I programs, especially those more directly aimed at generating exports and foreign investments (i.e., those elements of T&I programs that can most easily be measured). In reality, a significant number of these programs have been expensive to run, the near term results not very significant, and the longer term payoffs hard to measure. As a result, skeptics have good reason to question the past efficiency of many T&I initiatives.

Policy guidance is needed not only to reaffirm the commitment to T&I programs, but perhaps more importantly to guide program design in appropriate directions while encouraging risk taking on T&I projects. Too often, program planners appear to have sought safety in specifying vague "policy dialogue" objectives that cannot be measured, or in building traditional governmental promotion organizations of limited utility. As discussed later in the report, the study team believes in the importance of instituting meaningful and specific reforms at the policy level and the need for greater emphasis on innovative public/private relationships and results-oriented initiatives to directly promote exports and investment at the transactional level. These are riskier and more difficult initiatives and are subject to more abuse and self-dealing. They will only be able to flourish if directed by AID policy guidance that encourages agency staff to move in these directions.

As an example, one narrow but troublesome issue that arose in several discussions is a confusion concerning whether AID policy allows or disallows direct subsidies to for-profit firms. The most frequent interpretation was that such subsidies are against AID policy, but that there is acceptance (or willingness to look the other way) for local promotion agencies supported by AID to offer subsidies to local companies (e.g., subsidized market research, support at trade shows, production assistance, etc.). There was much less agreement whether AID under current guidance, could directly subsidize U.S. private sector intermediaries to provide T&I services (although this was the central idea behind the innovative MTAP project run by the S&T Bureau).

2. Recommendations Regarding Policy

a. The Administrator should promulgate agency-wide policy guidance spelling out the priority to be accorded to T&I programs together with key criteria (e.g., regional or country category priorities, role of private sector intermediaries, etc.).

b. AID should step up its current efforts to educate and provide factual (not ideological) materials to staff and external constituencies demonstrating the critical role of the private sector and especially foreign trade and investment in meeting development goals.

c. AID should clarify whether and under what circumstances it will directly subsidize for-profit trading and investing intermediaries (e.g., under controlled situations that minimize the risks of favoritism and encourage risk sharing and ongoing self sustaining participation by the recipients).

B. Finding: Operationally useful guidance is lacking on implementing strategies for T&I programs.

1. Main Points

a. **No Commonly Agreed Conceptual Framework for Planning or Evaluating T&I Programs.** There is no accepted definition of what constitutes T&I programs or what their main components are.[3] Thus, in order to provide a framework for the following discussion, this report adopts a structure that includes policy reform, institution building, and facilitating services as shown in Figure 1.

FIGURE 1
THE MAJOR COMPONENTS OF T&I PROGRAMS

- Policy Reform
  - improving recipient country T&I policies
  - improving the external T&I environment
- Institution Building
  - public sector organizations
  - private sector intermediaries
- Facilitating Services
  - marketing support
  - transactional or "deal-making" services
  - producer assistance

Policy Reform. Policy reform or "policy dialogue" is often a key component of programs in T&I just as in most of AID's other program areas. Indeed, the single most important potential benefit of most T&I programs is the extent to which they will contribute to the adoption of policies encouraging trade and investment in the recipient countries.

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3 See for example, the <u>AID Policy Paper, Trade Development</u> op. cit. Also see a paper prepared by Louis Berger, Inc. for the LAC/CDIE conference. This later paper is the best available document, but has some deficiencies, such as treating policy dialogue issues as being an "uncontrollable" variable in project design. <u>Promoting Trade and Investment in Constrained Environments: AID's Experience in Latin America and the Caribbean</u>, Louis Berger International, Inc. (Washington, D.C., November 1989).

The policies considered by AID missions, however, are almost always limited to those in the recipient countries themselves. The study team believes that AID projects should also be designed to respond to, and where appropriate influence, the **external policy environment** (e.g., regional, U.S. and multilateral trade and investment policies) as well as recipient country policies. The reasons for this, and the necessary steps are discussed in Chapter III, which deals with interagency trade policy coordination. The point here is simply that some AID projects should be designed to influence the external as well as the internal policy environment.

Institution Building. The bulk of AID's T&I effort has been oriented toward building **public sector** export and investment promotion agencies in recipient countries. There has been a definite shift away from programs to support traditional government agencies toward those which have a public/private composition and are partially self supporting, such as local chambers of commerce.

Despite this positive trend away from purely public sector intermediaries, the study team believes that AID has largely ignored the potential for encouraging the growth of **private sector** for profit intermediaries. For example, AID traditionally finances market research or technical assistance performed and dispensed by the government institutions themselves. In contrast, there has been very little experimentation in encouraging the growth of local intermediaries (e.g., market research firms, export management companies, freight forwarders) or linking them with intermediaries in developed countries by offering joint financing of services or other inducements. In order to focus attention on this issue, the proposed framework includes separate consideration of private (versus public) sector intermediaries.[4]

Trade and Investment Facilitation. T&I programs are called upon to provide a number of facilitating services to help LDC exporters penetrate foreign markets and attract foreign investors. In essence, three very different types of services are involved.

First, **marketing and promotional support** is often provided either in the form of developing information on specific foreign markets or investor opportunities or in providing general promotional support (e.g., promotional materials, representation at trade shows, staffing overseas and investment promotion offices, etc.). The purpose of these activities is to increase general knowledge of business opportunities for potential domestic as well as foreign partners in transactions.

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4 Private intermediaries offer a number of advantages, most importantly that they have to be results-oriented and become part of a long term infrastructure, versus public institutions which are often unresponsive or cease to function when foreign support is withdrawn. This is a point emphasized by Don Kessing and Andrew Singer who argue strongly for the creation of a "plurality of competing service suppliers, primarily in the private sector" in How to Provide High Impact Assistance to Manufactured Exports from Developing Countries. (World Bank, Washington, D.C., Revised draft, October 16, 1989), pp 9-16. Their findings parallel the experience of the members of the study team.

Second, **transactional** or **"deal-making"** services are often provided to facilitate specific sales or investments. Depending on the project, the approach may include support in consummating transactions through recruitment of investors, negotiating with potential buyers, or providing financial or other direct assistance to potential exporters or foreign investors.

Finally, **producer** or **supply side assistance** services are offered to improve product quality, production capacity or the attractiveness of local partners, sites or services for foreign investors. These activities are designed to alleviate various supply constraints and make the recipient country and business community a more effective competitor. In the experience of the study team, this area of facilitation is often given far too little attention and not linked closely enough to real market opportunities.

The lack of even a simple framework as presented above has hindered program planning and evaluation. AID officials and others often talk past each other due to the lack of common terminology and focus.

b. Lack of Operationally Useful Guidance on What Should Be Emphasized under Different Situations. Despite the fact that over 130 T&I projects have been undertaken, very little summary information exists to help planners in developing T&I projects. As a result, mission staff typically feel that they receive little useful input from the central and regional Washington bureaus.

The missions face numerous strategy choices in designing programs. For example, one of the most basic choices is between concentrating on directly stimulating exports or adding export capacity by helping to attract export-oriented foreign investors. At various times, one approach or the other has been favored but with little more than anecdotal evidence cited for the choice.

Similarly, AID has developed very little operationally useful guidance as to what elements should be favored in different types of countries under various conditions. For example, when should policy reform be emphasized over institution building or transactional support? Presumably countries at different stages of development or with varying policy environments require different types of programs. There is little distillation of past experience by AID that would clearly suggest one approach or another under different circumstances.

There is a similar lack of practical guidance on, for example, how best to go about influencing recipient country policies that directly affect the trade and investment climate (e.g., exchange rate regimes, investment performance requirements, etc.). Specific guidance is also lacking on strategies for building self-sustaining institutions, or for providing cost-effective transactions and deal-making services.

c. Failure to Identify Comparative Advantage and Coordinate with Other Donors. Until recently coordinating with other donors has not been a particular problem because they were generally not active in the T&I field. A few players, such as the UN's International Trade Center (ITC) in Geneva, have been long time actors in offering export advisory services to LDCs, but their overall impact has been small. Now a number of bilateral donors are beginning to get involved, and the World Bank is beginning to place major emphasis on export-oriented projects as well as conducting substantial research on the subject.

Despite the growing number of players in the field, AID does not appear to have devoted any thought at a central level to how it should interact with these other players. The lack of a coordinated approach is especially apparent in the policy dialogue process, where the World Bank and IMF are typically the primary entities pressuring for export-oriented growth policies. It would therefore seem that AID should be exploring some selected areas for emphasis in its T&I policy dialogue in order to reinforce and complement World Bank initiatives.

Coordination on T&I projects must take place on a country-by-country level. However, such interaction between AID/W staff and the World Bank appears to be spotty. This is at least partly because the primary responsibility for projects within AID is in the country missions, while project responsibility in the World Bank is primarily with Washington staff. Clearly communication could be much better. For example, in one Asian country, the thrust of AID's program was to build the institutional capacity of a trade ministry while the World Bank was simultaneously trying to shrink the ministry's bloated bureaucracy. This divergent approach might have been acceptable if the policies reflected genuine differences of opinion as to the best approach, however, it appeared that AID staff had neither discussed the issue with Bank staff in Washington nor in the host country.

d. Need for "Second Generation" T&I Programs for the 1990s. As outlined earlier, the next decade will present a much more competitive external environment for most LDCs. This will probably require substantial change in AID's implementing strategies for T&I programs.

One likely change will be a much tighter linkage between AID projects and probable U.S. trade policy. As discussed further in Chapter III, growing protectionist pressures will make it increasingly important that AID not sponsor T&I projects in areas where U.S. market access will subsequently be shut off by non-tariff or other restrictive actions. Conversely, AID should also more closely monitor areas where U.S. market access may increase and help LDC firms to identify and exploit these opportunities (such as greater quota access for selected countries under the multifiber agreement).

Another trend in the 1990s is likely to be greater emphasis on the U.S. commercial aspects of development policy as discussed in Chapter IV. The specific approaches that will be adopted have yet to be determined but it seems clear that project planners will need to be more alert to these considerations. The vehicles for keeping the missions and regional bureaus abreast of relevant developments (e.g., periodic cables, special AID/W briefings, etc.) do not appear to be systematically employed to help AID formulate policies or disseminate guidance to the field.

Perhaps even more importantly, the growing sophistication of the business community in many developing countries, together with the fruits of prior programs, suggests that the T&I programs will have to become correspondingly more sophisticated. At one extreme, many countries are poised to graduate into the ranks of advanced developing countries, under which circumstances AID has traditionally ceased its support. Currently, AID is reviewing this policy, but it is likely that significantly different program approaches will be required to realize potential mutual benefits from projects in these types of countries. As initial steps, for example, ANE is developing an ADC strategy for Thailand and PRE has initiated pilot programs in Turkey and Portugal.

At the other extreme, some of the least developed countries, especially in sub-Saharan Africa, may require much more comprehensive packages of policy reform, institution building and transactional support in order to realize the critical mass necessary to develop any meaningful value-added export potential or to attract foreign investors. In between these extremes, many countries will have pockets of successful international trade and investment that provide examples to be built upon. In these cases, future T&I programs may give greater emphasis to speeding the diffusion of existing skills and contacts to new producers or potential joint venture partners within those countries.

The point here is not to predict what these new or "second-generation" thrusts should be, but simply to point out that the implementing strategies for T&I programs in the 1990s should be adjusted to reflect changing international trade and investment realities. AID will need to develop improved mechanisms for tracking these issues and communicating their implications throughout the Agency.

2. Recommendations Regarding Implementing Strategies.

a. AID needs to undertake a comprehensive cross-cutting review of successful and unsuccessful measures used under various conditions. This effort can expand on the paper prepared for the LAC/CDIE conference to cover all regions and explicitly categorize countries by level of development, policy environment, and other relevant criteria.

b. As a high priority, AID should revise the existing Policy Paper on Trade Development to provide more operationally useful guidance on implementing strategies for T&I programs. (We understand that PPC and PRE are already doing this.)

c. AID should develop an action plan for research and development on new models and new approaches to better meet T&I objectives, with particular emphasis on ways to more fully utilize both U.S. and recipient country private sectors in T&I programs.

d. AID/W should hold periodic (e.g., annual) conferences with private sector offices for all bureaus similar to the recent LAC/CDIE conference designed to share insights on what does and does not appear to be working in T&I and why.

e. AID should consider hosting a T&I coordinating strategy meeting with the World Bank, IMF, and major bilateral donors such as Japan with the goal of exchanging information on strategies and exploring particular areas of comparative advantage of various donors.

C. **Finding: AID's decentralized approach to programming prevents a "global view" in managing T&I programs, thereby missing opportunities for synergies and efficiencies.**

1. **Main Points**

a. **The Bottom up Approach to Project Development Leads to a Widely Varied Record.** The potential for success in T&I projects varies widely among recipient countries but AID/W has not established country priorities or concentrated efforts on those with the best potential or greatest U.S. interest.

Many missions, especially smaller ones, lack the private sector staff experience to identify T&I opportunities or design projects. Even where private sector officers are assigned, the priority accorded to T&I depends heavily on the attitude and experience of the Mission Director. As a result, many good opportunities are not exploited, and in some cases projects are launched under unfavorable circumstances.

The regional bureaus and the PRE have recognized the need for additional assistance to some missions and are increasingly prepared to provide assistance to missions that request help. The bureaus are developing better internal capabilities as well as using Indefinite Quantity Contracts (IQCs) and other contracts to provide short term assistance to the missions. However, there is still a shortage of qualified experts and contractual vehicles to provide the required levels and range of assistance.

Some centrally funded programs have been developed to encourage experimentation and targeting on issues of interest. The most ambitious effort was the innovative Market and Technology Access Project (MTAP) undertaken by the Science & Technology Bureau (S&T). The project suffered from a number of design flaws, was not well coordinated with the regional bureaus and missions, and probably should have been run by PRE rather than S&T. Nonetheless, the project was precisely the type of path-breaking, centrally funded initiative that is likely to significantly enhance AID's expertise in the T&I area. PRE and the regional bureaus have undertaken a few limited centrally funded T&I programs.

With these exceptions, however, AID has primarily relied on each mission to develop its own T&I projects. The few regional projects (e.g., ROCAP in Central American, ASEAN in South East Asia) have operated relatively independently of the local missions and in at least one case, mission staff were told not to share information with the regional program officers. Despite the frequent lack of communication between the missions, the study team did not come across any instances where programs worked at cross purposes. However, there have clearly been numerous cases of unnecessary duplication and failure to learn from other missions' experiences.

b. T&I Projects Have Suffered from Needless Duplication of Effort. Trade and investment projects in different countries often have similar research requirements. The lack of any centralized oversight, however, has prevented the incorporation of prior research findings into related projects. As a result, each project tends to "reinvent the wheel" in terms of background research and data on potential markets and investors.

In the case of export promotion, for example, almost every project includes research on the U.S. market. In most cases, the research into areas such as U.S. market trends, distribution channels, product characteristics, packaging requirements, or import restrictions, is the same regardless of the potential country of origin. Yet there is no mechanism for AID to centrally track and disseminate research undertaken by other missions. At a more fundamental level, T&I projects have not been designed with this type of information as a clearly defined output of the project, so the projects typically do not generate information in a usable form.

Similarly, in the case of investment attraction projects, most projects begin from scratch in identifying potential investors for sectors of interest, even though the potential investors that might be interested in one AID recipient country are also likely to be interested in other countries. Yet each project develops its own information about these investors and this information is not disseminated to other missions with similar data requirements . As a result there is substantial duplication of effort.

The key question is how AID should organize to realize the economies of central data collection while still allowing each mission the flexibility of tailoring the information and its actions to its particular needs. This flexibility will become particularly important for projects with a heavy facilitation component. For example, at first look it may appear wasteful to have a number of AID financed contractors representing different countries at major trade shows (as is usually the case at the Bobbin Apparel Show and the High Point Furniture Show.). However, in these cases the countries are competing against each other and probably have to be separately supported. They could, nonetheless, easily have obtained the same market research and lists of potential contacts if AID had been organized to conduct and disseminate the commonly required research on a more centralized basis.

c. Predetermined Country Aid Levels Reduce the Potential for Leverage in Policy Dialogue and AID Programming. The study team believes that AID's most important contribution is to encourage recipient countries to adopt policies that will encourage self-sustaining trade and investment. Such policies often face internal political resistance, so AID needs to be in a position to add or withhold T&I funds in order to increase its negotiating leverage in the policy dialogue. Currently, threats to withhold aid are not credible because the level of aid for each country is set centrally; therefore, any change in T&I funding will result in an offsetting change in other programs to that country. As a result, AID has little bargaining power other than the force of its arguments to encourage policy reform. In these cases, having discretionary funds to support the advocates of reform can often make a difference. However, when the recipient country knows that total aid levels will not be affected by their willingness to adopt policy reforms, AID's leverage is nullified.

The existence of fixed country program levels also reduces the mission's incentive to push for policy reform because of the pressure to obligate funds and the fact that any funding to support successful negotiations will require corresponding reductions in other programs. Thus, it is not surprising that the study team found very little interest within AID to make T&I projects conditional on host country performance in critical policy areas.[5]

d. AID Missions Want Help but Not Guidance on T&I Projects. As mentioned earlier, most mission personnel voiced a desire for better support in planning and implementing T&I projects. The requirements ranged from background information on what has worked in other countries to knowledgeable advice on particular program design elements and better access to highly qualified short term experts to help solve specific problems. At the same time, mission personnel uniformly voiced an aversion to detailed guidance from AID/W on what they should be doing. To some degree this reflects genuine concerns about the dangers of trying to design or second guess projects from afar. It also seems to reflect a belief that AID/W has generally lacked the practical private sector expertise to offer useful guidance, although most acknowledge that this is changing.

From an outsider's perspective, it does not appear that AID has found the right balance between AID/W and mission responsibilities in T&I projects. Primary reliance will clearly remain with the missions for project initiation and design. AID/W lacks "carrots and sticks" to provide missions with incentives to develop appropriate projects, establish overall priorities, exploit potential economies of scale through central funding of common research requirements or to offer supplementary funding where appropriate to give the missions leverage in the policy dialogue.

At present there are substantial differences in regional bureau approaches to mission autonomy and support. The AF private sector office appears to be adopting a much more proactive role and is undertaking a number of centrally managed T&I projects while LAC and ANE are relying more heavily on mission initiatives. In the vitally important case of the new Eastern European country programs, AID does not appear to be planning traditional missions at all. It is uncertain how T&I projects will be managed, given the coordinating role of the State Department and the autonomous nature of the Polish and Hungarian American Enterprise Funds.

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5 This resistance to attempt exploiting potential leverage stems from other legitimate concerns as well, such as problems of determining what policy reforms really are appropriate or feasible and worries about infringing on recipient country sovereignty or fear of triggering a backlash. Notwithstanding these other concerns, it seems clear that missions would have a greater incentive to press for reforms if they could lead to increased funding.

e. The Roles and Missions of the AID/W Bureaus Are Not Clear. Both PRE and the regional bureaus are building capabilities and expertise in the T&I area. In addition, PPC has important policy development and program review functions while other bureaus such as S&T have been occasional players.

The primary issue centers on the comparative advantage of PRE vis-a-vis the private sector offices in the regional bureaus. At this point there is no clear rationale for what each should be doing. In theory, there is a strong argument for PRE to play an overall coordinating role by sponsoring cross-cutting R&D programs, funding common research initiatives, developing a roster of T&I experts, etc. In practice, however, PRE has not been particularly active in these areas. In contrast, the regional bureaus have been building expertise and, more importantly, have recently begun coordinating among themselves, thereby developing useful cross-fertilization.

For most of the 1980s, LAC was the only really active bureau in the T&I area, but over the past year or so, both ANE and AF have significantly stepped up their activities. Thus far the coordination between the private sector offices seems to be largely on immediate planning and policy questions. It may not be too difficult for them to set up systematic procedures to develop and coordinate more operational T&I activities as well (e.g., generating and disseminating commonly useful market research or investor lists).

Beyond the question of PRE and the private sector offices in the regional bureaus, the major AID/W organizational issues are being resolved. Most importantly, the International Trade and Investment Programs (ITIP) office is being folded into PRE as is the Small and Microenterprise Development program from S&T. These steps will remove the most obvious cases of organizational overlap and duplication in Washington.

f. AID/W Does Not Coordinate Systematically with Other Agencies on T&I Programs. A number of other U.S. and multilateral agencies are involved in T&I type activities, particularly the Overseas Private Investment Corporation (OPIC), the Trade and Development Program (TDP) and the World Bank. In a number of cases coordination does occur at the working level, but this is usually the result of personal relationships or initiatives rather than structure.

OPIC and TDP are included with AID under the umbrella of the International Development Coordination Agency (IDCA). However, IDCA has been moribund for the past decade although the structure has not been eliminated. As a result, any overall coordination that might have been imposed by IDCA has not occurred. Moreover, there is no clear set of responsibilities in the central or regional bureaus to manage these interagency relationships.

In the case of OPIC, good coordination often occurs at the working level, although AID missions and OPIC could probably still provide much better mutual support if properly tasked. TDP, on the other hand, appears to be much less interested in collaborating with AID. TDP instead views its primary functions as being closer to the Department of Commerce and, therefore, it aims most of its attention in that direction (see Chapter IV for further discussion of AID/TDP coordination).

AID also has a great deal of potential for useful interaction with the World Bank (and to a lesser degree, the other regional development banks) on T&I issues. Again, there appears to be a fair amount of coordination on an ad hoc individual basis in Washington and in the field on various topics. There is, however, no discernable mechanism to identify specific areas of interest, such as T&I. There is also a lack of responsibility for tracking developments of note in the World Bank or other agencies, identifying issues, providing guidance, and disseminating information on relevant developments to interested parties in AID.

2. Recommendations Regarding Organization and Management

a. Establish clear mandates (either in PPC, PRE and/or a committee of private sector offices in the regional bureaus) for central oversight and support of T&I programs, covering global priority setting on T&I projects, R&D agendas, staff training, etc.

b. A substantial amount of T&I funding should be controlled centrally (PRE and/or the mandated regional bureaus) with missions competing for funds on the basis of country priority and quality of projects.

c. Develop a process for identifying common T&I research needs (e.g., market studies, investor lists), fund them centrally, and disseminate the results to relevant Missions and other interested bureaus, in order to avoid unnecessary duplication.

d. Fund one or more IQC contracts specifically for T&I (in addition to the existing broader private sector development contracts) in order to build a stable of trade and investment promotion experts with the evaluation and control capacity to assure the Missions access to the expertise they need.

e. Adopt a flexible approach toward mission autonomy, recognizing the need for AID/W support to smaller missions and "carrots and sticks" through central funding to encourage more systematic attention to T&I.

f. Clarify responsibilities within AID for coordinating with other U.S. and multilateral agencies on T&I issues.

D. Finding: AID has not effectively collected, analyzed, and disseminated information on T&I projects.

1. Main Points

a. **Project Evaluations Have Not Been Particularly Useful for Project Planning.** T&I projects have been evaluated on an individual basis with no common evaluation criteria or cross-cutting analyses of successes and failures. CDIE in conjunction with LAC did sponsor a useful research effort in preparation for a conference last fall and is now apparently considering a more ambitious cross-cutting review. However, to date, program officers in Washington or the field do not have adequate summary information that distills AID's considerable experience with T&I projects.

The lack of agreed criteria for evaluating projects is a special problem in T&I because the gestation period for these projects is often long, and program strategies are not clear (e.g., policy reform vs. institution building vs. facilitating transactions). Also in most instances, it is difficult to determine the degree to which interventions by AID actually caused incremental exports or investments that would not have occurred anyway for other reasons (i.e., whether the program created "additionality").

The wide range of determinants of program success suggests that an "all-purpose" evaluation framework will have to be flexible and will be complex. Nonetheless, it is somewhat surprising that AID has not specified a set of outputs to be considered in all projects (e.g., categories of policy reforms, dollar value of exports, investments, etc.) together with some weighting schemes to determine just how successful the AID programs were in achieving the desired results (e.g,. by surveying participants to get their assessments of whether the AID programs were "essential," helpful," or "marginal" to their exports or investments).

AID also lacks clear guidelines as to the results that T&I projects can reasonably be expected to achieve. For example, most AID projects have a relatively short time frame of three years or less for achieving results, whereas the "gestation" period for T&I initiatives can easily be five years or longer. Similarly, AID planners often appear not to recognize that market development initiatives are inherently labor intensive and expensive.[6]

b. Projects Have Not Been Structured to Generate Business Relevant Information. It appears that many program planners and AID contractors have not appreciated the commercial value of much of the information generated in T&I projects. Market surveys, buyer contacts, lists of potential investors, and other information are collected, but generally are not compiled in forms that are useful in later years to the recipient countries, much less disseminated to other countries where AID would otherwise fund similar work. The problem is that this type of information is not an explicit output of T&I projects.

One example of duplication is in the furniture promotion area (exports and investment), in which extensive work was done by FIDE in Honduras in 1986-88 and which is now being duplicated in Guatemala. FIDE commissioned a contractor report in July 1987 entitled **Analysis of U.S. Market Potential for Mahogany**

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6 For example, the study team believes that export values over five years might reasonably be expected to equal ten times program costs. This arbitrary target is based on the fact that trading companies typically charge in the range of 5% (i.e., implying export values 20 times program costs) to fulfill countertrade obligations over five to ten years. Because AID is usually working in more difficult settings and imposes a number of program and bureaucratic restrictions, a performance target half of that which might be achieved by a purely private venture would appear reasonable.

Furniture Exports from Honduras, which included a list of 22 U.S. companies surveyed. In addition, FIDE's monthly status reports from that period included ongoing export and investment contacts with over 50 U.S. furniture companies. Because this valuable information was not collected as an output of the Honduras Export Development and Services Project, it is not available for new programs gearing up in Guatemala and elsewhere.

c. Dissemination of Information on T&I Is Ad Hoc. A number of mission personnel indicated that they did not know where to go to get relevant information. As a result, requests may be routed to PRE, the regional bureaus, or CDIE depending largely on personal relationships. The areas of responsibility among these entities for developing or disseminating information are not clear and there were several complaints about lack of coordination (e.g., CDIE sending studies or recommendations that the private sector offices in the bureaus either had not seen or, in some cases, actually disagreed with).

At the time of this study, ITIP was beginning to make progress on its TIMS system which collects relevant trade and commercial data on selected countries of interest. It did not, however, appear to be well understood within AID and it remains to be seen whether it might form the nucleus of a broader information system for T&I program planning and operational coordination.

d. There Is No Research Agenda for Developing Better Information on T&I Needs. As discussed briefly earlier, no entity in AID has developed a research agenda for systematically clarifying areas of program uncertainty. For example, a strong case can be made for attempting to encourage the growth of multiple local private sector trade and investment intermediaries[7]. Yet it may be that only the larger or more advanced countries can realistically be expected to develop and support multiple competing entities. Even more importantly, there are no road maps for cost-effective programs for encouraging the growth of such entities. At this time, however, no one in PPC, PRE, or the regional bureaus has been tasked with developing an overall research agenda to address the most important questions.

One relatively minor, but potentially troublesome concern is the need to develop procedures to minimize the risk of fraud and abuse on T&I programs. Just as in the case of most other private sector development programs, T&I projects that have the potential for directly creating profits for recipients are particularly prone to favoritism if not outright graft and corruption. There does not, however, appear to have been much research on where the potential problems are the greatest and what can be done to mitigate them without unduly interfering with effective project management.

7 See Keesing and Singer op. cit.

2. **Recommendations on Information & Evaluation**

a. The entity given overall responsibility for T&I planning should work with CDIE to develop and apply a standard design and evaluation format for all T&I programs.

b. The responsible entity should also develop guidelines to assure that all business relevant information developed for individual T&I projects is collected, properly documented, and submitted to a focal point for possible dissemination to other missions.

c. AID should consider a quick review of the primary risks and means of preventing fraud and abuse in T&I projects, probably as part of a review of all private sector activities.

E. Finding: Staffing of T&I projects is difficult because of experience requirements and heavy reliance on contractors

1. **Main Points**

a. **AID Lacks a Critical Mass of In-House Private Sector Expertise.** AID has significantly increased the number of individuals with relevant experience to design and run T&I projects. Staff from regional private sector offices and PRE have moved to missions and new individuals with strong private sector backgrounds have joined the Agency. However, many individuals responsible for planning and implementing T&I programs still lack practical international business experience or the knowledge of how to design programs to influence international private sector activities.

It will not be easy for AID to readily attract individuals who combine the requisite hands-on experience in putting international deals together with an appreciation of the public sector constraints and objectives facing AID. Moreover, it will be important that a broader range of AID officials (e.g., economists, program officers, functional experts) have enough exposure to T&I issues to be able to respond to requests, help design projects and be alert for areas of interaction with other activities such as broader macro-economic policy dialogue.

b. **Missions Have Been Disappointed in the Backstopping from AID/W.** Although recent steps to bolster private sector offices and PRE should help alleviate this concern, mission personnel consistently stated that they had not received the highly specialized support that they needed in designing and running T&I programs.

The missions often cited the need for quick reaction assistance, brief concept papers on key issues, or short term contractor support. Particularly in the case of contractor support, there was a general belief that AID/W has to provide better quality control because the missions often do not know exactly what they need or cannot judge the suitability of candidates from their resumes.

c. **Contractors Often Lack the Requisite Expertise and Commitment.** AID is becoming more reliant on contractors and many of the problems with T&I contractors are symptomatic of broader issues in contract management. The range of issues covered by T&I projects, however, exacerbates many of the routine problems. For example, it is difficult to find contractors with a breadth of skills ranging from policy dialogue issues, to market entry programs, to practical deal making skills, to supply side production assistance. In addition, the goal of most T&I projects is to build long term export and investor relationships, but traditional contractors pull out as soon as the contract is completed.

In many instances, the contractors are the only ones close enough to the scene to have a good feel for specific government policies that might be hindering exports or investments. Typically these contractors have not been tasked to consider policy reform issues or they do not have the capabilities or background to enable them to contribute to, much less participate meaningfully in, the policy dialogue.

At the other end of the spectrum, T&I contractors are also likely to be called upon to provide facilitating services for direct transactions. However, most AID contractors specialize in more conceptual or analytical consulting for government agencies and few have real expertise in putting deals together. As a result, there is often an emphasis on process or inputs (e.g., institution building, calls made) rather than on export sales or investments consummated.

AID appears to be on the right track in experimenting with projects that are designed to encourage contractor risk sharing and building a stake in ongoing involvement even after contract funding is terminated. This approach has been tried in several export and investment promotion projects as well as some financial markets development activities. It was the underlying rationale for the MTAP project, which did not work particularly well, but did entice several intermediaries to expand in areas where they continue to have ongoing activities that are no longer supported by AID.

2. Recommendations on Personnel and Contractors

a. AID should continue to build private sector T&I expertise, both through selected outside hires and internal training programs.

b. To the degree permitted by overall personnel ceilings, AID should attempt to increase the proportion of direct hire staffing on T&I projects in order for AID staff to participate more directly in the substance of T&I projects and to better manage contractor efforts.

c. AID should continue to experiment with MTAP type programs in order to encourage contractors to develop vested interests to continue to support T&I efforts as self-sustaining intermediaries following the cessation of project funding.

CHAPTER III

IMPROVING EXTERNAL COORDINATION FOR POLICY CHANGE

In addition to devoting more attention to internal coordination, several trends suggest that AID should also pay more attention to improving its coordination with other U.S. Government agencies in the 1990s.

First, as discussed earlier, trade and investment flows will account for increasing shares of national income in most LDCs, making these countries more vulnerable to disruption from protectionist trade and investment policies. As a result, the positions that the U.S. Government takes in multilateral negotiations (e.g., the GATT) or on specific U.S. trade actions (e.g., quota allocations by country, anti-dumping actions, Generalized System of Preferences eligibility, etc.) will become increasingly important to the achievement of future LDC development goals.

Second, other U.S. Government agencies are becoming more heavily involved in overseas activities, including in the LDCs. Some of these activities (e.g., PL-480 food aid, OPIC investment insurance, Eximbank credits) are traditionally considered to be part of foreign aid or related programs and have been, with varying degrees of success, coordinated under the IDCA umbrella or in other formal interagency processes in Washington and by the country team overseas. Increasingly, however, the activities of other agencies such as the Treasury Department on tax policy or the Environmental Protection Agency (EPA) on environmental regulations, are taking actions that directly affect the LDCs and can overlap with AID activities (especially trade and investment) in key countries. To date, however, AID has not developed good procedures for coordinating with these other agencies on non-trade, non-foreign aid activities.

Although the range of potential interactions with other agencies is large, by far the most urgent priority is for AID to play a more proactive role in interagency trade policy formulation. Access to developed country markets, especially the United States, is likely to be vastly more important to the growth prospects for most LDCs than any specific T&I project assistance offered to them by AID.

A. **Finding: AID has no strategy for injecting LDC development considerations into the interagency decision-making process.**

1. **Main Points**

a. **Interagency policy is made through a sort of messy "advocacy proceedings" in which each agency pushes its particular objectives.** At the risk of belaboring the obvious, AID officials need to continually remind themselves that most other agencies involved in formulating bilateral and multilateral trade and investment policies have very different policy agendas. Agencies such as Treasury, Commerce, and the United States Trade Representative (USTR) are driven primarily by strong imperatives to advance U.S. economic and commercial objectives, while others, such as State and Defense are oriented toward broader foreign policy and national security concerns.

Because of these divergent objectives, U.S. Government agencies are virtually never all moving in the same direction on any given issue and, in fact, are often working at cross purposes. AID has to acknowledge, therefore, that it will often be a minor player caught in the middle of intense policy debates in which most agencies view LDC development objectives as largely, if not totally, irrelevant.

Moreover, the higher or more political the level at which decisions are made, the less likely it is that development objectives will be a significant consideration on their own merits. This is partly because the major departments and agencies are preoccupied with the domestic economic and national security well-being of the United States, not that of LDCs. Congress and the general public also rate foreign aid low among their priorities and will respond primarily to powerful domestic political interests if legislative choices need to be made. As a result, AID must be selective in deciding where it can reasonably expect to influence interagency decisions.

b. **AID has not systematically analyzed which types of interagency decisions have the greatest impact on T&I goals.** Although various U.S. Government actions can affect virtually any of AID's program areas (health, population, rural development, etc.), U.S. trade and investment policies are likely to be the most important because they directly impact the export and investment potential of most LDCs. Specifically, actions by other U.S. Government agencies are important in the following areas:

- **Multilateral trade and investment negotiations** in which policy is made in multilateral groups like GATT or UNCTAD, covering the global rules of the game for all countries. The U.S. negotiating position on these issues is usually determined through the interagency process.
- **U.S. bilateral trade and investment policies**, dealing primarily with preferential trading agreements or specific quota, non-tariff barriers, or commercial treaty issues. These decisions are also typically the result of interagency deliberations.
- **Regulatory or other administrative decisions by U.S. Government agencies** which often have a major impact on T&I interests in developing countries, such as the tax rulings by the Treasury or application of various food safety regulations by the Department of Agriculture. These decisions are usually made unilaterally by the administering agency.
- **Program decisions by other agencies in AID recipient countries** which are usually coordinated with AID only through informal contacts or at the country team level, if at all (e.g., overseas technical assistance provided by domestic agencies).

The study team has not been able to identify any systematic analysis by AID of the relative importance of these various types of activities, either across-the-board or for specific regions or countries. It was beyond the scope of this study to undertake such an analysis, but impressions and limited anecdotal evidence suggest that potential impact of decisions by other agencies on AID's T&I objectives can be huge. For example:

- Quotas on imports of sugar into the United States have probably reduced the foreign exchange earnings of the Caribbean Basin Initiative countries by far more than they have received under the CBI foreign aid program.
- The Multifiber Agreement (MFA) which limits apparel imports into the U.S. creates significant market and industrial development opportunities for some AID recipient countries while severely limiting others.
- Decisions to grant Mexico significantly expanded access to the U.S. market through the GSP may reduce the export prospects of competing countries throughout Central America and the Caribbean.
- Tax regulations such as the Section 936 incentives for firms to invest in Puerto Rico also have substantial spill-over potential for developing countries in the region.

Many other specific actions are less significant in their individual impact but in the aggregate are extremely important. However, absent a comprehensive look at all these policies, it is difficult to determine just how substantial the cumulative impact will be on the future growth prospects of the LDCs and which policies are likely to be the most important.

c. **AID lacks a policy and strategy for influencing interagency policy decisions.** Because development considerations are usually of secondary importance in broader trade policy issues, AID needs to decide carefully where it should concentrate its resources in order to maximize its influence. Not only does AID need to assess how important a particular decision is to its interests, but it also needs to calculate its ability to affect that decision. AID has typically not done this as an institution, but has relied on the judgement of the few staff members who might be involved at any given time.

To some degree, the emphasis that AID will give to interagency trade policy coordination will depend on the interests and personal influence of the Administrator and a few senior staff. If they are not inclined to think in terms of the impact of trade policies on LDC growth prospects, they are unlikely to devote much effort to participating in decisions regarding those policies. Given the personalized nature of their priorities, it is not surprising that AID's formal trade policy guidance is aimed primarily at broad audiences in the missions and the program planners and evaluators in AID/W. The **Trade Policy Paper**, for example, discusses in some detail the need to consider the potential impact of specific projects on U.S. trade interests, but nowhere does it spell out whether it should be AID's policy to try to influence selective U.S. trade policy decisions to advance LDC development interests.

Perhaps more importantly, the study team did not find any guidance as to the strategies that AID might use in attempting to influence the trade policy process. Recognizing that each specific decision will depend on the circumstances and personalities involved, there still are some general principles which should be relevant most of the time.

For example, an AID strategy will almost certainly have to be built around demonstrating how LDC development objectives will contribute to specific commercial, foreign policy, or security concerns of other agencies. To a limited degree some of the central agencies (i.e., CEA, OMB) may be persuaded by generic economic efficiency arguments, but the other agencies usually have much more concrete concerns. In these cases, however, AID has seldom provided other agencies with any relevant analysis showing how an adverse impact on specific developing countries would hinder the achievement of those agencies' goals as well.

Also, to be successful in the interagency arena, AID has to be proactive in deliberately seeking out allies and building coalitions with other agencies. Part of AID's historical ineffectiveness in most interagency bodies stems from the simple lack of effort to be aggressive in building support. It also results from a general lack of homework in analyzing how specific trade actions (a) affect the growth prospects of LDCs of particular interest and (b) how that would impinge on the particular interests of the other agencies.

2. **Recommendations Regarding Interagency Trade Policy Strategy**

a. AID should prepare a systematic analysis and summary of the various trade and other agency policies that affect the development prospects of the LDCs.

b. AID should develop a conceptual framework for evaluating the impact of LDC growth on the achievement of primary commercial, economic, foreign policy, and security objectives of the United States. This framework should be specific enough to be used to analyze the impact of particular trade policies on a case-by-case basis.

c. AID should adopt a conscious strategy of coalition building with other agencies on key issues, based on the above analysis of the contributions of LDC development to the achievement of their objectives. AID should concentrate its efforts on those policy issues where its interventions are most likely to generate interagency support.

B. Finding: AID has not been well organized internally to influence interagency trade and other policy decisions.

1. **Main Points**

a. PPC has been the focal point for trade policy coordination, but has typically been understaffed to provide the types of analyses required to influence interagency decisions. PPC is the only unit within AID below the Administrator's office with a comprehensive perspective and with the ability to integrate other private sector concerns with broader AID policy considerations. In the trade policy arena, PPC has been responsible for representing AID in the interagency coordinating bodies chaired by the USTR under the general direction of the Economic Policy Committee (EPC).

The STR chairs the cabinet level Trade Policy Committee (TPC) which meets only rarely to deal with major issues. The AID Administrator, as acting IDCA

Director, is a member of the TPC. The more important operating bodies are the Assistant Secretary level Trade Policy Review Group (TPRG) and the Office Director level Trade Policy Staff Committee (TPSC). The Assistant Administrator for PPC is the designated participant in the TPRG and the head of the Economic Affairs Office is the representative on the TPSC. Although the degree of interest has fluctuated over the years, PPC has generally stayed involved in the interagency trade policy coordinating process.

Typically PPC has not, however, been in a position to devote the degree of staff resources necessary to be a fully effective player. The bulk of the interagency work is done in the TPSC which typically has several dozen subcommittees responsible for particular areas, often supplemented by several task forces dealing with particularly important issues. In a typical year the TPSC will consider between one and two hundred policy position papers and AID is expected to review and clear on all of them. Roughly three quarters deal with cross-cutting issues (e.g., "import-relief measures") rather than country issues (e.g., "trade with Japan") and most are potentially relevant to trade with the LDCs. PPC staff can monitor these policy position papers, but they have not had the resources to evaluate systematically which are likely to be of meaningful interest to AID and to undertake the types of substantive, policy-relevant analyses recommended in Section A.

b. PPC has not been in a position to tap the resources of the missions and the other bureaus. AID has a unique resource in its overseas missions. Only the State Department has anything like AID's overseas representation in most LDCs, and AID personnel have access to a different set of recipient country officials in the course of their business. Thus the missions represent a tremendous, but largely untapped resource. AID could use missions to identify and analyze the potential impact of proposed trade policies and to represent U.S. views to those governments. Indeed, the potential for utilizing the missions is probably the most important asset that AID has for gaining influence in the interagency process. To a lesser degree the regional and central bureaus, especially PRE, could also contribute to trade policy, but they have not been tasked to do so by PPC.

The problem is that the missions have little time or incentive to support AID/W on trade related issues. The missions are preoccupied with the very real problems of running their projects and have not been tasked as a high priority to think in terms of attempting to improve the external trade and investment climate. Nonetheless, the missions (and the regional bureaus) have in-depth geographic expertise and knowledge of the development prospects of the recipient countries. This type of expertise would provide AID with a useful product to gain influence in interagency policy making, but this can happen only if the Agency as a whole broadens the perception of its mission.

To a considerable degree, this broadening of the Agency's mission can come about only at the strong direction of the Administrator and his top staff. It would require a real commitment to devote staff resources and his own time to trade policy, much of which would be only peripherally related to AID's direct interests. Nonetheless, AID must be prepared to participate across the board in order to "earn its seat at the table" and be able to weigh in effectively on the issues of primary concern.

Probably less than 10 percent of the policy issues considered in the interagency trade process will be of meaningful interest to AID. Yet unless AID fully understands the relationships of those issues to the other 90 percent, it will not be able to take all the previous trade-offs, deals, and compromises into account in determining where it might or might not be able to influence the outcome.

There is no way to calculate the precise benefits of putting more resources into interagency trade policy coordination. As a working hypothesis, however, the allocation of a few weeks per year to trade policy by the Administrator and a half dozen additional good analysts would yield substantial direct benefits in allowing AID to influence such issues as:

- **Quotas under MFA.** The apparel quotas are unusual in that they are set outside the GATT rules of non-discrimination. The quotas are based initially on historical levels but then modified through negotiations with individual countries. With some investment of time, AID could influence STR to increase quotas in countries in which relevant T&I programs were being launched, either as a spur for specific export or investment promotion efforts in the apparel area, or as general rewards for undertaking difficult policy reforms.[8]
- **GSP eligibility.** The GSP still offers significant real and psychological benefits to selected countries. Decisions whether or not to grant GSP access for specific products and countries have a large discretionary element. To date political and trade considerations have been dominant (e.g., additional access for Andean Pact countries or Mexico), but it seems clear that greater weight could be given to developmental goals if AID made the effort.
- **Regulatory actions.** Although usually not a part of the interagency trade policy process per se, various agency regulations can create severe impediments to T&I initiatives. As a current example, USDA regulations prohibit the import of most fresh fruits and vegetables from Nicaragua because of a lack of ongoing information on insect pests during the period of the trade embargo. As a result, the Animal and Plant Health Inspection Service is just now beginning the process of approving products. The requirements are very complicated and time consuming and it could take up to two years for a list of products to be approved for import under normal processes. Given the foreign policy and development imperative of immediate export earnings for Nicaragua, these types of problems need to be solved immediately. Knowledgeable AID personnel could serve as expediters and ombudsmen to help the new Nicaraguan Agriculture and Trade Ministry officials cope with these complicated U.S. regulations.
- **Policy disputes.** Other issues arise as a result of policy disputes with developing countries. For example, many U.S. exporters have objected strenuously to "preshipment inspection" requirements levied by LDCs which mandated review

8 Apparel quotas are a particularly interesting subject because the apparel industry is often a first step in much broader industrialization. Moreover, the quotas confer a direct "comparative advantage" to countries with unused allocations, and these could be used much more aggressively by AID to promote development. See for example the relevant discussion paper by James W. Fox, A Strategy for Export Led Growth in The Caribbean Basin (AID/LAC/DP, November 8, 1989) p. 15.

and approval by private inspection companies of the price and quality of goods being shipped to them. The LDCs are legitimately concerned about commercial fraud and under- or over-invoicing. However, exporters and various U.S. Government agencies saw the requirements as a hindrance to exports. Without arguing the merits of the case, preshipment inspection is the type of policy issue of great importance to the LDCs in which AID should have been, but was not, an honest broker sorting out the various interests of all parties.

If AID were willing to devote additional personnel to address these issues in AID/W and to require the missions to provide appropriate reporting and negotiating support, the Agency could begin to play the more ambitious role originally envisioned for IDCA. It would, to repeat, require a push by the Administrator and top level management support to free up the time and resources in the Washington bureaus and the field to enable AID to become a significantly more effective player in the interagency process.

c. **Interagency coordination requirements arise in many fora.** The most important coordination requirements entail interagency coordination of trade policy. There are, however, a number of other important coordinating activities in which AID has an interest. The most important interagency coordinating bodies are the National Security Council (NSC) and the EPC. The Administrator is not an **ex-officio** member of either Council, but may attend when relevant issues arise. AID interests in these bodies are largely represented by the Secretary of State, but AID has not consistently developed strategies for assuring that the relevant State Department officials understand the ramifications of proposed policies (e.g., international narcotics control initiatives or debt relief initiatives) on development. As a result, AID is often excluded from these high level interagency deliberations or is brought in so late that it cannot influence decisions in ways that might have been more effective in fostering development goals.

The Treasury-chaired National Advisory Council (NAC) is another potentially important coordinating body. The NAC is responsible for reviewing international financial programs, such as Eximbank loans and U.S. positions in the multilateral development banks. The Treasury typically is reluctant to raise meaningful policy issues in the NAC, which often results in a pro forma review of specific loans rather than meaningful coordination. Nonetheless, a proactive coalition building strategy might allow AID to raise the level of dialogue in the NAC. This could focus greater attention on coordination issues between AID, Eximbank and the multilateral development banks or on other international financial policies such as debt relief which is absolutely central to the development prospects of many LDCs.

A USDA-chaired subcommittee of the Development Coordinating Committee (which was set up under IDCA) continues to coordinate PL-480 food aid policy. PL-480 is similar to a CIP program, but tied to surplus U.S. agricultural commodities. Because of its surplus disposal orientation, the program has always suffered from conflicting objectives and has not typically been particularly effective in advancing either U.S. commercial or developmental objectives. From the commercial perspective, little focus is given to identifying and opening new markets (although there have been occasional efforts to defend major markets against subsidized dumping, especially by the EEC). From the development perspective, many observers are concerned that the program can be counterproductive by depressing food prices and creating a disincentive to local production. Moreover, the potential of the program for leverage for policy reform is not given much weight in program planning. PPC and the regional bureaus have relatively little influence in the coordinating process although they are key to linking the program to policy reform and have recently become more active in the decision-making process.

Finally, the development prospects of the LDCs are influenced by unilateral actions of various agencies, such as the rules for Section 936 tax treatment for Puerto Rico or the implementation of USDA food safety regulations mentioned above. In these cases, AID has not typically adopted active intelligence gathering on upcoming issues and acted to position itself as a player. For example, Congress is now moving toward a mandatory seafood safety inspection system which will probably require foreign suppliers to adopt inspection regimes similar to the United States. Many LDCs currently lack the public administration infrastructure to meet the proposed requirements, and a number of AID aquaculture projects could be undercut by this U.S. policy. AID should be a player in the interagency deliberations on this type of issue, both to influence policies in ways that minimize the adverse impact on LDCs while meeting other U.S. goals, and to begin actions to mitigate any adverse impact on AID programs and LDC growth prospects (e.g., by beginning some technical assistance programs to local food inspection organizations).

2. Recommendations Regarding Organization and Management

a. The Administrator should give interagency trade policy coordination significantly higher priority than has been the case in the recent past.

b. PPC, or possibly PRE, should be tasked to develop a much more purposeful trade policy agenda and should be given the necessary resources to undertake the decision-relevant research necessary to support a proactive interagency strategy.

c. The missions, regional bureaus, and PRE need to be given explicit guidance and incentives to support PPC in trade policy formulation, including allocation of additional personnel and relief from other duties when responding to major initiatives.

C. Finding: AID is not adequately staffed for interagency trade policy issues and does not have good internal communications on these issues.

1. Main Points

a. **AID does not have a cadre of officers with interagency trade policy experience.** Trade policy is a somewhat arcane field where institutional memory, relevant expertise, and personal contacts are critical. AID has typically had only a few individuals with the requisite experience at any given time, and these individuals have often been pulled off on other duties and assignments.

The most important requirement is probably for a senior level individual to represent AID at the TPRG and to interact with the Assistant Secretary and Deputy Assistant Secretary level participants in the other agencies. Several years ago PPC had several senior staff members who devoted a large portion of their time to trade policy issues. The top staff person was able to set up and chair an STR interagency group that looked specifically at developing country interests in the current Uruguay round of GATT negotiations and was a significant player in the trade community. Since that time, AID has not devoted as much high level personnel time to trade policy, although the level of effort has been increasing.

In addition, staffing for the TPSC has been thinner than desirable. Typically only one staff person has concentrated on trade policy, although there is now an additional individual assigned to cover trade issues for the head of the Office of Economic Affairs, the PPC representative on the TPSC. A group this small simply cannot be expected to undertake the type of original research and analysis required to build an effective case on most trade policy issues.

Finally, the relevant economists and program officers in the regional bureaus and missions often do not have the necessary background or training to fully support AID trade policy initiatives. This is primarily because the Agency itself has focused on individual projects rather than improving the external conditions for growth. As a result, U.S. trade policy is simply "not on the radar" for most bureau and mission personnel, despite its potential impact on LDC development. Furthermore, most AID staff are not sufficiently acquainted with trade policy issues to contribute to strategy formulation unless given considerable direction and support.

b. PPC has not developed the relationships and information dissemination processes to keep regional bureaus and missions informed of trade policy issues. Given intermittent top level interest and limited staff resources, PPC staff has not had incentive nor capability to develop closer relationships with potentially relevant players nor to provide them with requisite information to keep them appraised of relevant trade policy issues.

The problem is primarily that trade policy entails a complex set of interrelated issues and that it is very difficult to deal with any particular issue without understanding its relationship to the whole. However, absent a very high priority from the top, most AID personnel will correctly focus on issues that they will be held accountable for rather than taking the time to develop a general understanding of trade policy issues. Thus, PPC would be faced with the burden of preparing a great deal of background analysis to provide guidance to anyone asked to help develop supporting materials. PPC has not had the staff to accomplish this.

If AID were to make a serious effort to influence U.S. trade policy, therefore, PPC would have to build systematically its linkages to the potential key players in other bureaus and missions. In addition to a policy decision to emphasize this area, this type initiative should probably combine formal conferences to discuss issues and build interest within the Agency, informal networking among interested staff, and frequent reporting to all concerned on emerging issues and progress to date.

2. Recommendations Regarding Personnel and Information

a. If AID is to play a more active role, it should increase staff experience by hiring personnel with interagency trade experience, training current staff, and more fully exploiting the expertise of staff who previously worked on trade policy issues.

b. PPC should consider convening a general conference for other bureaus and missions on the role of U.S. trade policy in LDC development. This should be designed to stimulate interest in the issues and identify what information is needed and how the bureaus and missions could best contribute to a more effective AID role in trade policy formulation.

CHAPTER IV

ADVANCING U.S. COMMERCIAL AS WELL AS DEVELOPMENT INTEREST

If current trends continue, concern about U.S. competitiveness as a national objective is likely to accelerate dramatically in the 1990s. The military and ideological threat from the Soviet Union and communism is declining rapidly as events in Eastern Europe play out. Simultaneously the economic challenges from European integration and the East Asian region loom steadily larger.

Heightened emphasis on U.S. competitiveness will influence AID programs in the coming years. Greater attention will be paid to U.S. commercial interests because of the need to increase exports. AID programs will also be compared with those of other donors, especially the Japanese who have recently become the world's largest provider of development assistance.[9]

Comparisons with Japanese aid will be particularly interesting because the underlying premises of the U.S. and Japanese programs are so different. To oversimplify, the bilateral U.S. aid program is oriented primarily to meet either (a) U.S. foreign policy objectives (largely through military assistance and Economic Support Funds), or (b) direct poverty alleviation through targeted programs (e.g., rural development, food production, population planning). In contrast, the Japanese program is based on the East Asian experience of export led growth with aid focused on providing financial help to alleviate infrastructure bottlenecks (e.g., communication, transportation, industry and power).

The Japanese aid program is heavily oriented toward developing countries in Asia, where Japan serves as the leading source of finance, technology, and market linkages. Although the geographic scope and coverage is expanding (e.g., increased emphasis on environment, aid to Mexico) the approach is still heavily project oriented, with JICA (the technical assistance arm) providing over $1 billion annually for grant funded feasibility studies, technical consultants and pilot projects and the OECF (the loan agency) providing about $4 billion in concessional funding for the resulting projects.

The focus on projects in countries with substantial infrastructure needs clearly fits the Japanese development philosophy. It also has the major commercial benefit of increasing Japanese exports, creating business relationships, and developing

9 For example, the FY 1990 emergency supplemental appropriation bill (HR 4404, sect. 176) directs the Secretary of Commerce to examine foreign assistance programs of the U.S., Japan, Germany, France and the U.K., and "explore mechanisms by which the international economic competitiveness of the United States may be enhanced through such programs."

mutually beneficial trading linkages with those countries that are most likely to be promising markets and suppliers for Japan in the future. One can debate endlessly whether the development or the commercial objectives rank higher in Japanese priorities. The relevant point is that the Japanese assistance program (and to a lesser degree those of many other donors as well) is based on a set of development and commercial principles that enable both goals to be achieved simultaneously.

Because of the successful integration of commercial and developmental goals in the Japanese assistance program, AID will also probably be encouraged to adopt similar approaches for at least some portions of the U.S. development assistance program. Few would argue that the entire AID program should be reoriented along Japanese lines (which would represent a shift back toward the project-oriented AID programs of the 1950s and 60s). On the other hand, a sound case can be made for giving greater emphasis to projects and policies which generate long term business opportunities for the United States.

A. **Finding: The U.S. Government cannot agree on the priority to give to commercial objectives in the foreign aid program or how best to achieve them.**

1. **Main Points**

a. AID does not have a conceptual framework for integrating commercial and development objectives. U.S. commercial interests can be advanced in a number of ways that also promote LDC development goals. In many cases, the promotion of U.S. exports or investments that overcome bottlenecks to LDC growth may in fact be the most cost-effective means to promote development. In other cases steps to advance U.S. commercial interests may impose incremental costs on AID programs, but the loss in development efficiency may be well worth paying in view of the gains to the U.S. economy and in public support for the program.

One of the difficulties in determining the appropriate balance in program priorities is the lack of an agreed framework for considering U.S. commercial objectives. For the purposes of this report, a number of activities can enhance U.S. commercial and LDC development goals. Among these are:

- **Capital projects.** AID can finance the sale of U.S. equipment and associated services, thereby creating U.S. jobs, exports, and market presence for U.S. firms. These projects usually involve large infrastructure activities.
- **Lead-in Services.** One aspect of a capital projects strategy is the provision of low cost or grant assistance for initial planning services to develop specifications or other arrangements that give American suppliers an advantage in competing for the subsequent project, such as the current TDP activities.
- **Offsetting programs to "level the playing field."** This has been the objective of U.S. initiatives to match the so-called "mixed credits" (i.e., the combination of concessional aid and commercial export credits) offered by other countries to gain a competitive advantage for their suppliers. The U.S. Government has consistently opposed the concept of mixed credits, but offers them in order to maintain leverage in attempting to persuade other countries to stop.

- **Direct Exporter and Investor Support.** AID mission personnel as well as other foreign aid officials are often in a position to help potential U.S. exporters or investors through advice, setting up meetings, or other types of more proactive assistance.
- **Tied Funds.** Most assistance programs "tie" the use of funds to purchases from the donor country. In practice, however, there are lots of exceptions to the requirement, so there is latitude to increase or decrease the amount of tying.
- **Procurement Assistance.** U.S. firms often need help in competing for multilaterally financed aid programs or programs of other aid donors when they are not tied to donor country procurements.

The decision whether or not to employ one or more of these instruments in any particular case raises a number of complex issues. For example, AID developed a set of criteria in 1982 to govern its participation in mixed credit transactions.[10] It has modified them somewhat since and applied them to cases such as the recent high profile decision to offer mixed credits for the AT&T telecommunications project in Indonesia. These considerations include:

- **Developmental Soundness.** The project must be a clear development priority.
- **Efficiency Test.** The credit should not subsidize an otherwise non-competitive supplier.
- **Significant Trade Benefits.** It should result in a substantial increase in U.S. exports.
- **Defensive.** A mixed credit should be in response to offers on similar credits by other governments.
- **Excess Profits.** The credit should not allow the supplier to earn excess profits because of the financing subsidy.
- **Non-distortionary.** A mixed credit should not distort the allocation of AID programs within or among countries.

In varying degrees, these criteria apply to the other types of commercial promotion programs as well. There is, however, no overall framework that provides guidance on the conditions that would favor one or another type of initiative or how they might relate to each other using criteria similar to those listed above.

b. AID has not undertaken the research and analysis to document the benefits or costs of emphasizing commercially-oriented programs. Over any extended period of time, programs to alleviate critical infrastructure or service capacity bottlenecks should yield high developmental benefits. Certainly on **a priori** grounds, such programs should usually be more effective in stimulating overall growth than assistance programs to micro-enterprises or other direct poverty alleviation activities.

The problem is that there is very little generally accepted empirical evidence to document the effectiveness or lack of effectiveness of various types of programs.

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10 Policy Determination PD-2, Mixed Credits (Agency for International Development, Washington, D.C., September 29, 1982).

This is primarily because the development process is so complex and the impact of AID interventions relatively small. Thus the evaluations of projects are typically limited to their direct costs and benefits. In many cases, moreover, AID has not even conducted a cost benefit analysis of projects, especially with respect to the potential U.S. commercial benefits.

In the case of capital projects, the information and analytical requirements are relatively straightforward in estimating direct costs and benefits. Direct developmental benefits can be estimated through probable rates of return plus any anticipated externalities created by alleviating bottlenecks. Other projects, such as mixed credits present more complex information and analytical requirements. For example, because of the requirement that mixed credits be "defensive," the projects would be financed by a competitor anyway, so there is no particular developmental benefit in having AID versus another donor fund the project. The analysis must, therefore, address the much more elusive question of what AID or the other donors would do with the funds that are freed up if they loose the competition for the particular mixed credit in question and use the funds for development purposes elsewhere. In addition, the analysis also needs to consider the amount of commercial bank or corporate co-financing that would be made available for development purposes as a result of the mixed credit.

Not surprisingly, such elaborate calculations of second round effects have not been made in practice. In fact, relatively little economic analysis of the direct development and commercial benefits accruing to capital projects or other programs has been made or incorporated in the planning for AID projects.

Notwithstanding the lack of rigorous overall analysis, the author's experience on T&I projects suggests that physical infrastructure is often second only to the policy environment as a determinant of trade and investment performance. Moreover, in the increasingly competitive 1990s, countries with inadequate telecommunications, transportation, and supporting services are almost certain to find themselves slipping even further behind in relative terms. Thus, at least as far as export-oriented growth strategies are concerned, programs that target funds on major physical and service bottlenecks are likely to become increasingly important and yield corresponding economy-wide benefits.

2. Recommendations Regarding the Weight to Give to Commercial Interests.

a. AID should develop a comprehensive list of programs for enhancing U.S commercial interests and a conceptual framework for relating them to each other and to other development goals.

b. AID should sponsor a set of research studies to develop better estimates of the impact of the various programs on U.S. commercial and developmental goals.

B. **Finding: The U.S. Government is poorly structured to combine commercial and development objectives.**

1. **Main Points**

a. The primary U.S. commercial interest is in the advanced developing countries where AID is not active. The largest potential markets for U.S. goods and services are in the wealthier and faster growing countries of Asia and Latin America where AID does not have programs. Therefore, one of the key issues is whether AID should adopt an advanced developing country strategy. The objectives would be to permit selective funding of capital projects or encourage other lead-in activities to enhance U.S. export and investment opportunities or other mutual benefits. AID is currently reviewing its policy toward the advanced developing countries, but at this point has not agreed on a set of relevant programs.

At present, the Commerce Department is the primary entity for helping U.S. firms identify and exploit opportunities in the advanced developing countries. The Trade and Development Program (TDP) also helps U.S. firms gain some competitive advantage by funding feasibility studies and consulting projects that will give U.S. firms a better chance to undertake the projects. Unless or until AID adopts an advanced developing countries strategy, however, it will not be able to promote either commercial or developmental objectives in these countries.

b. Even in AID recipient countries, there is little linkage between development and commercial interests. With only limited exceptions, AID personnel do not usually think in terms of U.S. commercial interests. Especially in the missions, personnel have virtually no incentive to help U.S. exporters or investors; indeed, to the extent that such efforts might complicate their assigned tasks, they have a strong disincentive.

Conversely, except for OPIC and TDP which have explicit development dimensions in their charters, no other U.S. agency has a reason to take LDC development needs into account except as they directly affect their own goals. As a result, any synthesis of commercial and developmental goals either has to occur within AID, where there is no mandate or process for making this linkage, or as a result of coordination through the EPC or other interagency bodies.

At the interagency level, only a few highly visible cases, such as the Indonesia AT&T mixed credit bid, are sufficiently important to warrant being raised. Except for these few cases, the decision whether to give greater emphasis to commercial interests remains largely with AID as it develops and implements programs and projects on a case-by-case basis. Occasionally OMB or Congress may get involved in budget reviews or legislative oversight, but these interventions do not provide a systematic basis for balancing commercial and development interests.

Within AID, a few central entities, primarily PPC and the Office of Procurement, have a reason and some incentive to look at U.S. competitiveness and commercial interests. Otherwise, the focus of the regional bureaus and the missions has been on development goals. The perspective of the regional bureaus has been broadened somewhat by their private sector offices which are interested in tapping the expertise of the U.S. business community in meeting AID's goals. Because of their work with U.S. companies, some of these offices have been sensitized to U.S. commercial needs. Nonetheless, there are no procedures in AID for systematically identifying U.S. commercial interests in developing countries, determining their compatibility with LDC development goals or raising any resulting opportunities for review and decision.

2. **Recommendations Regarding Commercial Interest Programs**

a. AID should give high priority to the current review of its strategy options for increasing mutually beneficial programs with the advanced developing countries.

b. To the extent that AID decides to give greater weight to U.S. commercial interests, it will have to develop internal mechanisms and incentives for the regional bureaus and missions to identify and support measures to increase developmentally sound U.S. exports and investments.

C. **Finding: AID has not given sufficient emphasis to capital projects, in view of their substantial commercial and developmental benefits.**

1. **Main Points**

a. **Capital projects can be highly effective commercial and development instruments.** As discussed earlier, capital projects can provide substantial leverage by helping LDCs overcome critical infrastructure bottlenecks. This is particularly apparent in conjunction with T&I programs where local exporters or potential investors are often thwarted by difficulties with international or internal telecommunications, unreliable power supplies, congested ports, inadequate air freight facilities, etc. AID currently supports a small number of capital projects, but these are almost entirely in the ESF program and account for less than four percent of the program total.

Capital projects can also substantially enhance the competitive position of U.S. suppliers, especially if emphasis is given to high leverage projects. In view of the tremendous unmet need for infrastructure in most LDCs, the demand for concessional aid funds will far outrun availability for the foreseeable future. Willingness to provide concessional financing for a given capital project will, therefore, usually assure that the project will be carried out by firms from that country as long as the aid is tied. From a commercial perspective, additional benefits can be gained if the initial project leads to future procurements financed on non-concessional terms. As a result, most donors put a special premium on supporting projects that will set standards or otherwise lead to follow-on procurements.

The concept of capital projects is particularly appealing in relation to AID's current emphasis on cash grants and other balance of payments support provided directly to governments. This type of program lending is usually justified on the basis of its contribution to policy reform in recipient countries. However, these programs are usually in countries where overall aid levels are fixed in advance for foreign policy or other reasons and the U.S. has little negotiating power. Furthermore, this type of program lending is probably not an area of comparative advantage for AID vis-a-vis the World Bank and other multilateral donors. Therefore, a strong developmental as well as commercial case can be made for shifting much of AID's cash grant and CIP programs to a project basis.

b. AID needs to encourage innovative public/private arrangements for infrastructure projects. The limited local tax base and foreign exchange earnings for many LDCs suggests that their governments may not be able to finance desired projects through conventional domestic public finance channels. Instead, many governments may turn to private sources to finance and often operate public infrastructure projects.

To date the World Bank has taken the lead in supporting new approaches, such as build, operate, transfer (BOT) schemes under which private investors build facilities, operate them for extended periods (e.g., 30 years) under a predetermined revenue sharing formula, and then turn them over to relevant government or private bodies in the LDCs. In addition to BOT schemes, a number of other opportunities could be devised for governments to develop new regulatory regimes that would allow private companies to provide urgently needed capacity. For example, with appropriate rules of the game, it is technologically easy to set up toll transportation facilities, private cellular or business communications networks that piggyback on existing telephone systems or to encourage the growth of co-generation facilities. The institutional arrangements for structuring these types of projects are complex, however, in order to protect the interests of all parties.

AID has not been very active in providing technical assistance to help develop approaches that would enable LDC governments to set up these types of public/private institutional arrangements. However, if these type arrangements are developed, AID would be in a good position to structure them so that U.S. companies would at least have a fair chance to compete for the subsequent business. This appears to be especially true in areas where the United States has already deregulated its industry, such as telecommunications, and there are a number of potential suppliers with experience in putting public/private ventures together.

As a footnote, these public/private ventures are particularly appealing in LDCs with uncertain foreign exchange regimes because investors will be looking for ways to assure that they can repatriate earnings in hard currency. As a result these investors have an additional incentive to identify and help develop local export opportunities without any of the rigidities and distortions of formal countertrade obligations, thereby further advancing AID's T&I goals.

c. TDP has not worked closely with AID. Despite the logical complementarity between TDP and AID, the two agencies have not worked well together. This primarily appears to be the result of TDP's view that its mission to promote U.S. commercial interests is not compatible with AID's development orientation. To some degree that might change if AID were to adopt a much more explicit commercial promotion dimension to its development program.

Under any circumstances, however, some bureaucratic tension is likely to remain. For example, a senior TDP official speculated that TDP probably would not fund prefeasibility studies for AID-financed capital projects even if the Agency were to initiate a large capital projects program. The rationale was that TDP should save its resources for projects funded by the World Bank or other donors of untied aid where TDP's up-front participation might be more likely to tip the purchase to a U.S. supplier (versus AID projects funded on concessional terms which should virtually assure the business to U.S. suppliers whether or not TDP provided assistance). This position is intellectually defensible, but hard to accept in practice, since such prefeasibility studies could be instrumental in helping AID decide which projects to fund as well as in positioning the U.S. to finance the projects with the best long term commercial as well as developmental potential.

d. AID currently lacks the expertise and information systems to undertake a large capital projects program. When AID ran a large capital projects program in the late 1950s and 60s it had a cadre of experienced project engineers and it would need similar skills if it were to resume large scale capital projects. In addition, in the more competitive environment of the 1990s, AID would also need to expand its abilities to evaluate the competitive position of the U.S. versus other potential suppliers, both for specific projects and in terms of their long term effects.

AID currently does not collect or evaluate the type of information on sectors of U.S. competitive advantage, foreign commercial strategies, or potential U.S. commercial interests likely to be served by particular actions. Some of the information necessary to plan these projects could come from the Commerce Department, Eximbank, and possibly Treasury. But AID would still need to develop a new internal information base and staff resources to adequately support the required economic, business and engineering analyses of a large capital projects program.

e. The national content of large projects will become even more blurred in the future. Already most large projects draw on components and personnel from a wide variety of countries. Thus, projects supported by AID will often have a large foreign component, raising questions about the long term payback in terms of commercial benefits to the United States.

The recent ATT mixed credit in Indonesia is an interesting case in point because less than one-third of the foreign exchange portion of the project will come from the United States. Because it is a mixed credit project, over two-thirds of the financing would come from Holland and Spain, which would also produce most of the equipment. In the case of an aid-funded capital project, however, it is not clear how the non-U.S. share of an important project could or should be funded. The only thing that is certain is that the problem of national origin will become more complex as large projects increasingly incorporate components from countries all around the world.

2. **Recommendations regarding capital projects.**

a. AID should increase its modest capital projects program, initially by further reducing cash grant and CIP programs wherever possible.

b. AID should complete its internal review as a first step in deciding whether to consider a significantly larger and more proactive capital projects program.

c. AID should undertake a high priority research program to identify the most promising areas for innovative public/private arrangements for meeting LDC infrastructure needs. This research should develop an action plan for providing advisory services to select LDCs to help them tap U.S. firms for needed public services.

d. AID should find ways to encourage TDP to work more closely with it in a collaborative manner, especially if a new capital projects program is launched. If AID does initiate a major capital projects program there is a sound argument for reincorporating TDP within AID.

e. If AID initiates a capital projects program it should develop new data bases on areas of U.S. competitive advantage, analyze the areas being targeted by competitors through their assistance programs, and develop better networks with other agencies promoting U.S. commercial interests, especially Commerce.

D. **Finding: Mixed Credits are difficult for AID to support**

1. **Main Points**

a. **The U.S. goal is to eliminate mixed credits.** The U.S. Government provides some funding for mixed credits in order to maintain leverage in negotiations with other countries. These negotiations are aimed at eliminating the practice of offering mixed credits. The dominant consideration in U.S. policy making, therefore, is how to use the U.S. mixed credit program to maximize its impact as a bargaining tool. The primary tool for dealing with mixed credit issues has been the so-called "war chest" which has periodically provided Eximbank with access to concessional funds to match foreign mixed credits. AID, however, has also been asked to provide concessional funds to supplement the war chest in a number of instances.

Given the overriding international negotiating motive behind mixed credits, it will be difficult for AID to keep a high priority on development goals (and often even on commercial goals). The imperative will be to match foreign competition and the basic tactical decisions as to which projects to emphasize will necessarily come from Eximbank and Treasury which are responsible for the negotiations. As a result AID may often find itself under pressure to support projects which would not otherwise be a priority – although there will presumably continue to be some projects, like the ATT telecommunications project in Indonesia, in which the commercial, developmental, and tactical negotiating goals are all met.

As a broad policy issue, the United States is unlikely to gain much negotiating leverage from a small mixed credits program. Indeed, a small program may only provide an excuse for other countries to continue their own programs. Thus, U.S. government policy regarding mixed credits needs to be based on a realistic appraisal of the amount of funding that will be available for mixed credits and what strategy will provide the greatest negotiating leverage with competitor countries.

b. AID has limited funds to support mixed credits. The current AID policy of only using ESF funds not otherwise encumbered by previous commitments implies that very little funding will be available for blending with Eximbank to finance mixed credits. Unless this restrictive policy is relaxed, it will be very difficult to plan AID participation in future programs as AID will depend on fortuitous circumstances to free up funds. As a result, AID participation in funding mixed credit programs will probably be a sporadic event and the ATT Indonesia Telecommunications project an unusual occurrence.

Given the limited funds available to support mixed credits, AID might be able to collaborate with TDP to support lead-in activities on projects likely to face foreign mixed credit financing. This approach, however, does not appear to have been considered in AID and the feasibility and utility of this or other low cost alternatives has not been demonstrated.

c. AID and Eximbank staff have developed a good working relationship. Eximbank staff has welcomed the opportunity to collaborate with AID. Continuation of this relationship could be helpful to AID if it moves beyond mixed credits to launch a more commercially as well as developmentally oriented capital projects program. In many cases, inputs from Eximbank (as well as Commerce and other relevant agencies) should be helpful in enabling AID to tap expertise on industry developments, competitive assessments, or potential interactions with other U.S. Government programs.

2. Recommendations regarding mixed credits

a. Additional funding for Eximbank's "war chest" is preferable to setting aside in advance AID funds for mixed credits because of the dominant role played by tactical negotiating considerations in deciding on when and where to offer mixed credits.

b. AID should only consider supporting mixed credits on a case-by-case basis where they clearly meet U.S. development as well as commercial goals.

E. Finding: AID missions could provide valuable support to U.S. exporters and investors if this was made a priority

1. Main Points

a. AID personnel have excellent, but under-utilized contacts with ministry and other government officials. Given the continuing statist orientation of many LDCs and the importance of personal contacts in doing business in these countries, AID personnel usually have better understanding of what is happening in key sectors of a recipient country and its key ministries than most other U.S. Government personnel. These contacts and knowledge would often be very helpful to U.S. exporters and investors.

Potential support from the missions or regional bureaus is seldom exploited, however, because AID personnel have not been tasked to provide it, generally do not feel that it is their job, and seldom have much time available after dealing with the heavy paperwork and reporting workload imposed on them. As a result, most U.S. businessmen who have contacts with AID staff overseas come away with an unfavorable image of the Agency. This hurts the Agency in the short run and misses opportunities to advance certain LDC development goals where production of certain exports or investments could overcome problems.

b. AID has experimented with some innovative approaches to supporting U.S. businessmen overseas. The institutional impediments to getting AID personnel overseas to be more proactive in helping U.S. businessmen will be difficult to overcome. In some instances, however, AID has experimented with alternative approaches. For example, ANE supported an individual for several years in Indonesia who was seconded to the Ministry of Technology. This individual was tasked to support U.S. business and received very high marks for his activities, especially his ability to support the development programs of the Ministry and U.S. commercial interests.

c. Private sector offices in overseas missions could also be tasked to help U.S. businessmen. In many instances, the role of the private sector offices overseas is not clear. The primary focus is usually on local private sector development, but where large T&I projects are in place there is often considerable interaction with U.S. businessmen. In these cases, it would not be a major departure to explicitly task these officers to aid U.S. exporters or investors in particular sectors where this could advance AID's development goals.

The key to success in encouraging private sector offices to assume this responsibility would lie partly in defining clear roles vis-a-vis the Foreign & Commercial Service (FCS) and the Foreign Agricultural Service (FAS). The primary criterion would probably be that AID personnel would work only in a few sectors where the sales of U.S. equipment and services (or capital projects) or investments would alleviate bottlenecks. An additional consideration would be whether AID personnel had preferential access to government decision makers in those sectors because of ongoing assistance programs or had some other comparative advantage in supporting commercial goals.

In order to be effective, AID would have to make an extra effort to work closely with the FCS and FAS to insure that the relationships in the field are collaborative and not competitive. That would not be easy, but with appropriate guidance it is feasible. It could be especially promising if all the relevant Agency personnel in the field would collaborate with PRE and the private sector offices in the regional bureaus to plan the best ways of promoting public/private initiatives as discussed in Section C.2.

2. **Recommendations regarding direct assistance**

a. AID/W should make a policy decision whether it wants to task some or all missions to provide more active support to U.S. businessmen furthering U.S. commercial and LDC T&I objectives. If so, the private sector officers should be given the responsibility and relieved of some other burdens on their time to enable them to do so.

b. AID should pick a small number of key countries and offer to place U.S. personnel in important ministries, as in Indonesia, with an explicit charter to help identify U.S. business opportunities. A major focus of these efforts should be to help plan innovative public/private sector approaches for meeting traditional government requirements.

F. Finding: AID does not use its large procurement budget systematically to support U.S. exporters.

1. **Main Points**

a. **AID lacks policy guidance to ensure consistent attention to U.S. commercial interests in procurement.** Little attention has been paid to ensuring a high percentage of U.S. procurement or to documenting results. AID Handbook 4, which covers non-project assistance, is considered outdated by mission staff and in need of revision. An indication of past lack of AID/W attention to this area is the current inability to track U.S. procurement among all missions, particularly in light of the large number of cash transfers and mission-approved project agreements and waivers. For example, a recent assessment of USAID Bangkok's procurement showed only 22 percent U.S. procurement, and other country reviews are underway. In light of Congressional interest in this area, tightening up of U.S. procurement is warranted.

There are many options available for increasing the amount of U.S. procurement. These range from exercising more central control over waiver authority and disbursement decisions, to assigning each mission a procurement target and requiring the mission to meet the target and provide the necessary documentation. The point is that firm policy guidance should drive this process.

b. **Commodity import programs (CIP) are widely used in Africa but much less so in Latin America.** Several missions in Africa have apparently been successful in using CIP to enhance the position of U.S. exporters while filling important gaps in local equipment and commodity needs. In Zimbabwe, for example, U.S. exporters of heavy machinery and computers have developed good long term business prospects due to the leverage provided by CIP. In contrast, missions in Latin America have tended to use large cash transfers as the preferred method of financial assistance. These transfers can, at best, be traced indirectly to U.S. exports.