TRADE AND INVESTMENT PROJECT GUIDEBOOK

Bureau for Asia and Private Enterprise
U.S. Agency for International Development

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EXECUTIVE SUMMARY

One of the greatest challenges for most developing nations in the 1990s will be to continue to (or, in some cases, begin to) re-orient their economies outward, toward world market opportunities. A.I.D. has been a pioneer is assisting developing nations to accomplish this goal by establishing successful trade and investment projects. This Guidebook presents practical, detailed guidance drawn from the experience of A.I.D. and other donors to assist Missions to design trade and investment projects.

Trade and investment projects represent an effective means for A.I.D. to catalyze long-term, broad-based, sustainable economic growth in developing countries. Trade and investment projects can support efforts to remove policy impediments which hinder long-term development, assist firms to export and to gain access to needed technology and business skills, and promote attractive export and investment opportunities.

Three Basic Elements of T&I Projects

This Guidebook identifies the three basic elements of successful trade and investment projects: Policy and Regulatory Improvement; Business Assistance; and Investment and Export Promotion. The proper mix of the three elements should depend on each country's initial conditions and goals.

Nations generally fall into one of three categories:

1. The first category contains countries whose commercial climates are insufficiently appealing to attract significant levels of investment or generate large quantities of exports. For these nations, policy assistance should be the highest priority.

2. Nations in the second category have improved their business climate, but the private business community lacks knowledge of export markets. In addition to on-going policy reform support, these nations need business assistance and promotion.

3. The most advanced nations have demonstrated export capabilities, and will benefit most from export and investment promotion, as well as policy refinement aimed at securing greater market access.

Six-Phased T&I Project Development Scheme

This Guidebook presents a six-phased development process for successful T&I projects. The development process is difficult to condense for the purposes of this Executive Summary, in that it is intended to provide Missions with detailed, pragmatic advice on all aspects of project design. However, the phases are summarized as follows:

Evaluate a country's potential for trade and investment. The first task is to identify the needs of exporters and potential investors, to ascertain the precise factors constraining export and investment, and to determine whether targeted interventions can overcome these constraints. The discussion contains several checklists to use to assess the potential effectiveness of a T&I project.

2. Examine the capabilities of the institutions likely to play a role in the T&I project. In the second phase, identify and assess the capabilities, responsibilities, and business orientation of local and international institutions currently or potentially involved with the project.

3. Select appropriate T&I objectives and subcomponents. Based on the diagnosis of constraints and the assessment of institutions, Missions can begin to set goals and select optimal project activities.

4. Identify the appropriate institutions and organizational structure for the project. In this fourth phase of project design, Missions must make a number of organizational decisions with significant implications for project success. The document provides guidance and checklists to assist Missions to answer the most critical project organization questions:

- What are the appropriate roles for public, private, and autonomous institutions?
- Should all project activities be implemented by a single institution?
- How can inter-institutional relations best be structured?
- Which functions should be undertaken by T&I promotion agencies, and which should be contracted out?
- Are overseas offices necessary, and if not, what alternative networks are available?
- Should Missions work with existing institutions or develop new ones?
- How should the lead promotion agency be structured?

5. Design an implementation plan. The Guidebook provides recommendations to assist in implementing a T&I project, and to assure that the project does not fall behind schedule. In particular, the Guidebook recommends:

   - Emphasize staff quality rather than quantity. Attracting high quality staff with the required business skills will require paying competitive salaries.
   - Utilize a phased approach. Policy improvement should precede (as well as accompany) business assistance and promotion.
   - Diversify target markets and industries to protect the project from external economic fluctuations.
   - Facilitate rapid adjustment to new market opportunities by making project documents flexible enough to allow lead promotion agency to make programmatic decisions within the strategic boundaries and accountability standards set by the Mission.

6. Set evaluative criteria early, and continually monitor performance. What gets measured, gets done. At the same time, project performance is likely to depend more on the host country's business climate (which can be affected through policy improvement) than on any actions taken by business assistance and promotion agencies.

   The Guidebook presents recommendations to assist Missions to develop evaluation systems for T&I projects. In particular, the Guidebook outlines four characteristics of successful T&I evaluation systems, as follows:

   - Export and investment goals and objectives are clearcut and measurable.
   - Goals and objectives, as well as the project itself and project administration, allow for changes in circumstances.
   - Institutional objectives are set to assure that goals, strutures, budgets, and staff are all well-integrated and coherent.
   - Feedback mechanisms are implemented to assure that information gained in one project activity is forwarded to all relevant institutions and individuals.

In short, this Guidebook attempts to provide Missions with detailed, pragmatic assistance with designing and implementing T&I projects. Based on A.I.D. and other donor experience, the Guidebook provides checklists, recommends guidelines, and provides successful and unsuccessful examples of T&I projects to aid Missions to develop T&I Project Identification Documents, Project Papers, and other project documentation, and to implement cost-effective projects that will catalyze long-term, broad based, self-sustaining economic growth and development.

TRADE AND INVESTMENT PROJECT GUIDEBOOK

I. INTRODUCTION AND PURPOSE

A.I.D. has played a pioneer role in promoting private sector-based development strategies and programs, spearheaded by the Bureau for Private Enterprise (PRE) and including major initiatives by all Central Bureaus and most USAID Missions. As a part of its overall private enterprise initiative, A.I.D. has built up considerable expertise on efforts to stimulate private sector-led trade and investment (T&I). In view of continuing interest in T&I activities, this report presents a framework that describes how to establish projects and programs based on a clear understanding of what makes these efforts effective.

The purpose of this report is to provide A.I.D. Missions and their developing country colleagues with a system for designing and implementing successful trade and investment initiatives. Based on lessons learned to date, the report seeks to assist project development officers in their efforts to design T&I initiatives.

The discussion is organized to contribute to the program/project development process and to provide inputs into necessary documentation such as Project Identification Documents (PIDs) and Project Papers (PPs). The report introduces a step-by-step system to help AID missions design, implement, and evaluate effective projects and programs. The design system presents a progressive, "decision tree" method for logically determining what type of program is most appropriate for any given economic environment. A major objective of this guidebook is to help Missions and host country governments to avoid some of the pitfalls that have been experienced in previous T&I efforts. A particular emphasis is given to the proper sequencing of activities and allocation of appropriate levels of resources.

This guidebook is organized as follows. The discussion in this chapter explores the rationale and general content of T&I activities. The main body of the report presents the T&I program design system for AID Missions. Finally, a series of appendices are included to provide easy reference to information that can provide inputs into the design of effective T&I initiatives.

The Rationale and Content of Trade and Investment Projects

The fundamental goal of T&I projects is to help developing countries take greater advantage of the opportunities created by international market forces. By encouraging and assisting firms to exploit international commercial opportunities, T&I programs work to integrate developing country economies more productively into the world economy and thereby increase trade and investment without depending on further development assistance. T&I initiatives are designed to act as catalysts in the integration process, but can only succeed if carefully designed and implemented.

Trade and investment programs in the A.I.D. context generally consist of activities designed to stimulate sustained increases in trade to and from developing countries, and investments in those nations. With the focus on sustained increases, T&I initiatives should be directed towards improving the ability of private firms, both local and foreign, to engage in profitable commercial activities.

The Rationale

In setting forth a sound justification for T&I initiatives, project development teams typically find the following arguments to be most compelling. These rationales are presented in summary form, but in order to assist project development teams they are described in fuller detail in Appendix A.

(1) Increased trade and investment are the engines of sustained economic growth and development.

(2) From the standpoint of economic theory and policy practice, T&I initiatives can help correct market failures and imperfections.

(3) T&I projects provide institutional and analytical support for commercial policy reform that is not readily available from local sources or other donors.

(4) T&I initiatives are relatively low-cost projects with proven methods and technologies.

(5) Commercial development projects are appropriate for a broad range of countries.

(6) A.I.D. has a comparative advantage in T&I initiatives relative to other donors.

(7) T&I initiatives support the strategic economic interests and policies of the United States.

(8) Trade and investment projects can serve as core elements in programs designed for advanced developing countries.

Trade and investment programs focus on investment and export promotion. Import development is not an explicit, near-term objective. However, policies that allow for more open access to imports, including more liberal trade regimes and greater reliance on competitive exchange rates to allow for a market allocation of imports, are key components of the set of outward-oriented and market-based policies required for successful investment and export development.

Promotion should not be viewed as simply marketing and public relations. Indeed, for many of the countries in which A.I.D. operates, such as most of Sub-Saharan Africa, direct promotion should be only a small part of T&I efforts and in most cases should come only as the final sequence of a comprehensive program. With the objective of self-sustained growth, T&I programs should concentrate on assisting and encouraging countries to create a more open and market-oriented economic environment, helping local and foreign firms take fuller advantage of trade and investment opportunities, and finally, directly promoting investment and trade opportunities once the groundwork is laid for potential success.

The Content

Trade and investment programs have three primary components:

(1) **Policy and Regulatory Improvement**

As T&I projects are usually small in scale, policy-related conditionality can rarely be an important component. Instead, the policy focus of T&I programs is on technical assistance and funding of problem-solving policy research and analysis to help governments improve their policy environments. In addition, T&I efforts provide institutional development funds to private sector-oriented groups that engage in policy dialogue with governments. T&I programs work to build a more long-lasting local commitment to appropriate policies, rather than seeking to force change through external pressure.

(2) **Business Assistance**

Where policy and regulatory changes work to create a better economic environment for firms, experience has shown that both local and foreign companies operating in many developing countries, or interested in establishing new ventures, often lack information or skills necessary to engage in profitable trading and investment activities. Local firms typically need training in basic business skills and lack information about foreign markets and trading practices. Foreign firms lack information about opportunities and business operating conditions in developing countries, and often need help in negotiating through the regulatory maze associated with establishing new ventures. T&I projects should include business information and assistance components to overcome this "startup" constraint.

(3) **Investment and Export Promotion and Transactional Support**

Once a country has created an acceptable investment climate and/or has the capability to export a range of goods, then investment and export promotion both local and abroad can be effective. In a competitive world, countries must vie for limited investment funds and trading opportunities. The marketing of any product is an important element of the competitive process. Unless "consumers" (traders and investors) are aware of the advantages and drawbacks of the "product" (the local business climate), few transactions will take place. The majority of A.I.D.-sponsored T&I initiatives undertaken to date have concentrated on creating, strengthening, and supporting promotion agencies in developing countries.

The funding of other types of activities, such as transportation infrastructure projects, credit programs or traditional technology transfer initiatives, can play a vital role in the promotion of trade and investment. In many countries, assistance in these areas should be coordinated with T&I programs in order to address the range of obstacles hindering trade and investment growth.

Two critically important characteristics underlie most successful T&I projects. Initiatives that incorporate these attributes as central guiding principles will be assured of a much higher probability of success than if they are neglected.

- **Information is the primary component of T&I projects.**
  Unlike most other development programs, it is the development and transfer of information, not material inputs or direct financial assistance, that drive T&I initiatives. Each of the three functional components described above is essentially a vehicle to transmit information.

  1. Policy and regulatory improvement efforts provide information and factually supported arguments to government authorities on how to establish a competitive business climate.

  2. Assistance to businesses is essentially a set of activities designed to provide local and foreign firms with information on business practices and techniques, and on investment and trade opportunities.

  3. Promotional activities should be viewed as efforts to inform and facilitate interaction among potential investors and traders about commercial opportunities. The medium of information transfer varies -- technical assistance, marketing campaigns, training and financial support of institutions that develop and disseminate information -- but the objective of T&I activities is always one of informing individuals and organizations.

- **A supportive policy and regulatory environment is key.**
  Commercial activities are generated by individuals and firms acting on economic incentives. Accordingly, the incentive structure determined by a nation's economic policies and regulations, resource endowments and comparative advantages, are the primary determinants of its commercial performance. Basic resource levels and comparative advantages can be changed only over the long term. Therefore, the greatest developmental impact in the near term will come from fundamental improvements in the domestic incentive structure determined by policies and regulations (and their enforcement). The policy and regulatory framework is the only area where countries can improve the incentive structure rapidly.

II. DEVELOPING T&I PROJECTS: A PRACTICAL DESIGN SYSTEM

It is in the design process that much of the success or failure of trade and investment programs is determined. The "Trade and Investment Program Design System" described below has been developed as a management aid and guide for A.I.D. Missions. It provides project and program development officers with a systematic methodology to ensure that the entire design process, from concept paper to PID and PP, is working at each stage to result in a set of activities that meet the priority T&I needs within the constraints dictated by the specific country's institutional capabilities and the Mission's financial resources.

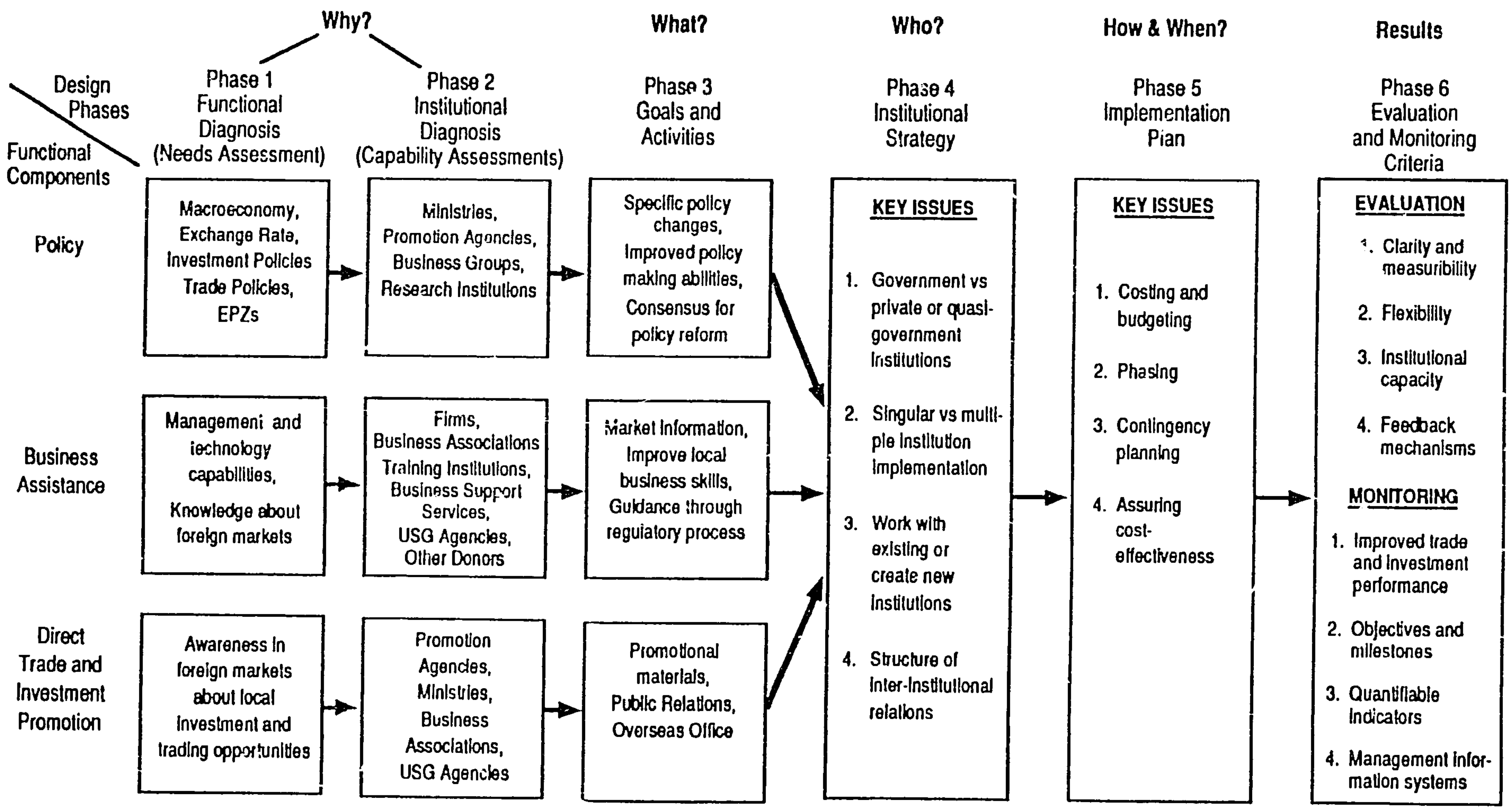
- The system breaks down trade and investment program design into discrete tasks to be conducted in a phased manner so that information generated from each step is used to reach informed decisions for the next phase.
- The design system incorporates a "go - no go" decision tree to determine whether a Mission should proceed with a trade and investment initiative. The decision tree is designed to enable Missions to identify overriding constraints to successful trade and investment promotion that cannot be addressed with T&I projects.
- Finally, the design system roughly follows the basic A.I.D. project development process. The information collected during the initial diagnosis phases can be used to prepare a concept paper. The prescriptive phases can be used for the PID. The final implementation strategy provides the detailed information used in Project Papers. This correspondence between the design system and the A.I.D. project development process helps Missions fulfill A.I.D. documentation requirements.

The system divides the T&I program design process into six separate steps leading ultimately to a fully articulated trade and investment program. A schematic explanation of the process is presented in Figure 1. In each phase, analysis and information is compartmentalized into areas associated with the three basic elements of trade and investment promotion: Policy and regulatory reform, investor and exporter assistance, and direct export and investment promotion. The six phases include the following:

(1) <u>Functional Diagnosis</u>. The objective of this phase is to assess the overall environment for trade and investment promotion, and to identify the obstacles to and prospects for self-sustained export and investment growth. It provides a checklist of policies, conditions, and constraints for evaluating a country's potential for trade and investment program success.

Figure 1

TRADE AND INVESTMENT PROJECT DESIGN SYSTEM



(2) **Institutional Diagnosis**. This phase involves the examination of institutional capabilities (strengths, weaknesses and potential role) in the three functional areas of T&I initiatives.

(3) **Goals and Activities**. In this and the following (Institutional Strategy) phase, the actual design of the specific project begins to take shape. Potential functional and institutional T&I interventions are identified, and specific goals are established.

(4) **Institutional Strategy**. The institutional strategy phase is devoted to determining which implementing entities could best carry out needed activities and achieve program goals. Basic questions to be resolved include whether the Mission should work through existing institutions or create new ones, and whether one entity should be responsible for carrying out all activities (versus a number of organizations implementing different activities).

(5) **Implementation Plan**. This phase provides the final layer of the design process by determining in detail how the project will be implemented. This includes a comprehensive plan for identifying how each activity will be accomplished, by whom, through what contractual and operational modalities, and at what estimated cost.

(6) **Evaluation and Monitoring Criteria**. This phase develops the important quantitative and qualitative criteria for monitoring and evaluating T&I projects.

Trade, Investment or Both?

Should export promotion efforts be conducted separately from investment promotion initiatives? The relative priority between the need for investment or export growth should be clearly evident by the completion of the functional diagnosis.

From a practical standpoint, export and investment promotion are in most situations complementary and should be pursued in tandem. From the perspective of entrepreneurs, trade and investment are not necessary distinct, but rather lie along a continuum of business relationships. Arms-length sales and purchases (trade) often lead to long-term sourcing arrangements, joint ventures, branch operations or direct investments. Trade can lead to investment and vice versa.

Developing countries need both export earnings and investments to increase their export production capacity. While policy priorities may differ slightly, the same stable, market-based economic policies and regulatory stances that support rapid export growth will also attract foreign investment. In addition, the information that is developed and disseminated in promotional initiatives is of direct interest to both investors and exporters.

In most of the developing countries where A.I.D. is active, the majority of new foreign investment is directed towards export-oriented activities. Accordingly, investment promotion in many countries can and should be an important component of export promotion, especially in areas where local firms lack access to appropriate technologies and effective marketing capabilities in foreign markets.

The following sections in this Guidebook present a step-by-step process for identifying and developing effective trade and investment projects. The methodology proposed leads project development teams through a logical sequence of tasks designed to collectively address most issues that arise. As described below, the first step is to carry out an objective diagnosis of country-specific needs and opportunities.

Phase I

Phase 1: Functional Diagnosis

From a functional standpoint, efforts to promote exports differ from initiatives to promote investment in several important respects. Therefore, the functional diagnosis should vary according to the primary objective sought. The discussion below describes separately what this phase implies for export promotion versus investment promotion.

Export Promotion Diagnosis

The diagnostic phase should concentrate on determining the precise factors that are constraining export growth, and whether targeted interventions can overcome these constraints. The objective of the phase is two-fold:

1. Determining the needs of traders and investors and whether export promotion activities would be effective in the country's current to medium-term economic and political environment; and
2. Identifying the areas where A.I.D. assistance will most effectively support the country's export growth efforts.

Answering the former question requires a finding that there are no overriding constraints which would render any export promotion activities ineffective. It provides the design team with a systematic method to make a "go - no go" decision regarding export promotion activities. The following categories of factors should be examined in the diagnosis.

(a) Policy and regulatory climate

In the policy area, investigators should determine not only the status and prospects for policies supportive of rapid export growth, but also where changes are most needed and whether A.I.D.-funded initiatives could help build support for reform and assist in the design and implementation of appropriate policy change.

To compete internationally and increase production rapidly, exporters need a policy environment that includes the following elements:

Maintenance of a competitive exchange rate: An exchange rate system that maintains a competitive exchange rate is the single most effective export promotion instrument.

Access to inputs at internationally competitive prices: Meeting this condition requires liberalized trade regimes, elimination of monopolies and price controls, and other policies to foster greater domestic competition.

Table 1
Export Promotion Policies

Policy	Examples of Successful Implementation
Maintenance of competitive exchange rates	Korea: Exports began their rapid growth after Korea devalued and instituted a flexible exchange rate regime in 1964. Between 1964 and 1968 real exports increased by five-fold.
Access to inputs at internationally competitive prices	Dominican Republic: Legislation enabling the creation of EPZs which allow exporters to import goods duty free and to operate in an essentially tax-free environment, has lead to a doubling of non-traditional exports.
Access to international markets	Indonesia: As part of broad-based structural reform program to reduce the country's reliance on petroleum exports, Indonesia eliminated a panoply of export controls on agricultural products. As a result, exports of traditional crops increased sharply, especially from the more remote outer islands.
Access to credit	Korea: A system of domestic letters of credit was created, which allowed exporters and indirect exporters to obtain credit based on their guaranteed export order. The system encouraged banks to provide credit to exporters.

Access to international markets: Domestically, this requires the absence or elimination of restrictions on exporters, including export taxes, export licensing, and quantitative controls.

Access to credit and other financial services at internationally competitive rates adjusted for risks associated with local economic and political conditions: In general, the economy does not benefit from special below market rates of credit for exporters, but rather from policies that ensure that exporters can obtain credit at competitive rates. In many countries with tightly controlled financial markets, formal credit is unavailable at any price for non-traditional exporters.

General macro-economic conditions and policies: Overly expansive and unstable macro-economic policies will discourage long-run export growth.

(b) Capabilities of local firms

The legacy of overly interventionist policies, as well as inexperience with non-traditional exports, leave many local firms in developing countries in a poor position to take advantage of export activities. Even when governments make progress in improving the economic environment for exporters, local firms, which are accustomed to an inward-looking and government-regulated economic environment, often do not have the skills or knowledge necessary to expand exports rapidly.

In the short run, foreign firms can help fill this void to a certain extent. However, if export growth is to be sustained over the long run, local firms must eventually fully participate. The key capabilities for export success include:

- Managerial and general business skills.
- Technical skills and access to competitive technologies.
- Knowledge about external markets and foreign business practices.
- Ability to access inputs on a competitive basis.
- Capacity to operate in current policy climate.

(c) Attitudes toward trade opportunities/constraints

Expanding exports, particularly sales of non-traditional commodities, requires knowledge and active interest on the part of commercial firms. Perceptions and information on trade opportunities vary considerably from country to country. The "image" of certain nations (South Korea, Republic of China, Brazil) as traders needs little polishing. However, newcomers to trading find it necessary both to carry out both general marketing to "position" themselves in the minds of exporters and importers, and targeted marketing to provide specific information to prospective traders.

An objective assessment of prevailing attitudes toward and available information on national export capabilities is essential to the design of any new T&I initiative. Too often promotional activities are based on misguided notions (either excessively pessimistic or excessively optimistic) concerning export opportunities. Therefore, some effort should be given to gauging the views of both local and foreign business executives. This task need not be an exhaustive survey. It could consist of a review of existing literature and selective interviews with representative business leaders.

(d) Potential overriding constraints

Most countries can benefit from export promotion activities. However, in some rare cases, overriding constraints will severely limit the effectiveness of any export promotion. Overriding constraints include:

> Inadequate infrastructure: Insufficient or unreliable international transportation or telecommunication services may render export growth difficult or even impossible. Rapid export growth in this sector may require substantial infrastructure investments.
>
> Inhospitable policy climate: Total governmental inflexibility and antagonism to even minimal policy reforms and a lack of non-governmental organizations through which to build private sector support for necessary policy reforms would greatly limit any possibility of success of a trade and investment program.
>
> Political instability/military conflict: Commercial actors require a certain threshold of stability and safety in the environment in which they operate. Scarce development assistance funds have been wasted in countries which, due to instability and strife, are not in a position to attract export-oriented investment.

If these overriding constraints make export promotion infeasible, one should look at how other foreign assistance programs can be fashioned to support T&I objectives. For example, assistance might be provided to help the government rank infrastructure investments based on a private sector development rationale. In this way, projects that facilitate exports should become higher priorities.

Similarly, assistance in the agricultural sector can be used to move toward a more market-oriented marketing system and allow for greater integration with world markets, which in most developing countries should encourage greater exports. In countries with poor political climates for trade and investment, one can seek to ensure that existing programs in the health or education areas support the local private sector. For example, one focus of an education program could be on developing business skills.

Investment Promotion Diagnosis

Investment promotion is in many respects similar to export promotion, but generally includes more functional and institutional variables. Issues to be examined in the diagnosis include the following:

(a) Policy and regulatory climate

In general, the same type of open and market-oriented policies that stimulate rapid export growth will also encourage investment. The overall business climate is much more important to domestic and foreign investors than are tax exonerations or other investment incentives. Just like consumers, investors will not "check the price tag" unless they like the product. Numerous surveys have confirmed that the major incentives which attract prospective investors are policy stability and clear "rules of the game." Key policy categories include the following:

Overall macroeconomic policies and conditions: Foreign and local investors alike look for sound and stable macro-economic policies and conditions. As these policies have the greatest effect on the overall economic climate of a country, they are the most important in determining investment promotion success.

Investment operating procedures: Investors seek clear rules of the game, and prefer liberal and streamlined investment regulations. Yet, even more important than streamlined procedures is that the approval and regulatory process be transparent, so that investors know what is required of them, and know that if they meet stated criteria, they will be able to initiate and conduct ongoing business ventures.

Investment incentives: Given the competitive nature of the world economy, most developing nations provide some incentives to foreign investors, primarily in the form of tax holidays or exemptions. Incentives are important to investment decisions only on the margin. However, in decisions involving countries with similar business climates, investment incentives can play an important role.

Once a country has established a successful foreign investment promotion program, it may be possible to gradually reduce some of the investment incentives. Mauritius, for example, after initially allowing a tax holiday on corporate income tax, has now instituted a low but broad-based income tax of 10 percent.

Foreign exchange controls: Highly restrictive foreign exchange controls discourage investment, because firms are less able to react quickly to market developments. Moreover, restrictive foreign exchange controls can be counterproductive, as firms may respond by minimizing their use of foreign capital and relying more heavily on domestic sources of financing.

Capital repatriation: Stiff limits on capital repatriation will deter foreign investment. However, even with capital repatriation controls, firms may still seek to export capital through extraordinary means, such as transfer pricing or especially generous management contracts and licensing agreements. These latter techniques may be detrimental to the host country's economic interests.

Policies toward expatriate personnel: Developing countries often restrict the use of expatriate personnel by foreign investors because of their desire to promote domestic employment and encourage training and technology transfers. To be viable, however, firms need experienced and competent managers and technicians who are often in short supply in developing countries. As in other areas, excessive restrictions are often counterproductive.

(b) Local firm capabilities

Weaknesses in the business capacities of local firms limit the scope for domestic investments or joint ventures with foreign corporations. Moreover, the inability of local businesses to provide needed inputs and services at international quality standards and competitive price levels also can reduce investment opportunities.

Foreign firms' lack of information on local business practices can raise their local costs dramatically. Many established companies are hesitant to invest in many developing countries because of the differences in and intricacies of local business practices. A substantial part of the difficulties posed by local business practices is due to government regulation (legal and procedural) and general attitudes towards business. Streamlined and transparent procedures can overcome a substantial part of foreign investor hesitancy.

(c) Attitudes toward investment opportunities/constraints

The first two stages of the functional diagnosis should lead to objective conclusions as to whether the local business climate is attractive for foreign investors,

Table 2
Investment Promotion Policies

Policy	Examples of Successful Implementation
Sound and stable macro-economic policies	Taiwan and Singapore: Only after these countries maintained sound macro-economic policies did they earn reputations for an excellent business climate.
Streamlined and transparent foreign investment approval procedures	Dominican Republic Free Zones: Firms applying to invest in a Free Zone are guaranteed that a final decision will be made within 45 days based on clearly stated criteria. Since 1980, the number of firms investing in Dominican Free Zones has increased by 43 percent annually.
Competitive investment incentives	All the East Asian NICS (Korea, Hong Kong, Singapore and Taiwan) have maintained a relatively uniform package of tax holidays and duty-draw back systems for export oriented foreign investment. These policies were especiall important to attract initial investors.
Limited foreign exchange controls	Mauritius: Mauritius instituted a country-wide Export Processing Zone regime, which places no foreign exchange controls for foreign investors involved in non-traditional export activities.
Free capital repatriation	Tunisia: As part of a new investment code in 1987, foreign firms involved in export activities have guaranteed rights to repatriate all income, profits and sales of capital invested even at a higher price. Due to this and other investment liberalization measures, investment in non-traditional export activities increased sharply.
Unrestricted use of expatriate personnel	Neither Singapore or Hong Kong place restrictions on expatriate employment, yet the technological skill base of local labor has grown exponentially.

and identify where and how it can be improved. In this stage, one should assess the degree to which foreign investors are aware of opportunities in the country, specify the reasons for misperceptions or lack of information, and examine the channels through which information on this specific country is transmitted. The U.S. and Foreign Commercial Service (U.S.& FCS), local American Chambers of Commerce (AMCHAMS), and resident U.S. and other foreign firms are vital sources of information about the reasons for U.S. investment behavior.

(d) Overriding constraints to investment

In countries where governments are willing to work to improve the business climate, there are few instances where investment promotion activities would not be productive. However, several factors will continue to limit investment sharply even if effective investment programs are undertaken, since they reduce profitability or increase risks to the point where investment rewards do not match risks. Key factors that should encourage a "no-go" decision for an investment promotion program include the following:

> Government intransigence to policy reform: If governments of countries with fundamentally bad policy climates are unwilling to even begin to address the factors responsible for poor commercial performance, then little can be achieved in T&I projects except to work with the private sector to stimulate appropriate reforms.
>
> Political instability: Foreign investors are extremely wary of politically unstable countries. In this type of political environment, agreements and policies can change rapidly, totally reversing the assumptions upon which investment decisions were based. It is unlikely that investment promotion efforts will succeed in these situations until there are clear signals that some semblance of political stability will be established.

Phase II

Phase II

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Phase 2: Institutional Diagnosis

The purpose of this phase is to identify and assess the capabilities, responsibilities, and business orientation of institutions currently or potentially involved in the areas that the functional diagnosis has identified as important for export and investment promotion success. The diagnosis should identify strengths and weaknesses objectively.

The following section outlines what institutions are typically associated with each function. Figure 2 presents a checklist of types of institutions that should be assessed in a typical developing country. Institutional responsibilities obviously vary among countries. For example, in some countries investment regulation and approval is determined by individual ministries. In others, such as Cape Verde, a joint ministerial board with representatives from several ministries grants foreign investment approvals. In some countries, such as Indonesia, Ghana and recently Bangladesh, governments have established specialized investment agencies to oversee investment policies and regulations.

Policy and Regulation

Government agencies are responsible for the design and implementation of policies and regulations. The following ministries and agencies should be included or at least acknowledged in institutional diagnoses. Many will not be directly involved in T&I projects, but nevertheless exert strong influences on the business climate.

Central Bank: A country's overall monetary policy (i.e. exchange rate and capital repatriation policies) are determined by the Central Bank.

Ministry of Finance/Economy/Planning: This Ministry determines a country's overall fiscal policies, including tariff levels, taxation, investment incentives, subsidies and financial policies.

Ministry of Trade: This organization dictates trade policies, such as, import policies, customs regulations, export restrictions and trade negotiations.

Ministry of Industry: How attractive a business climate is depends on investment and technology licencing and regulation, investment approvals, and government mandated monopolies.

Office of Prime Minister or President: In many countries, the chief executive's office becomes heavily involved in the policy design process, especially in choosing between policy options or fashioning compromises between initiatives supported by different ministries.

Figure 2

INSTITUTIONAL CHECKLIST: T & I FUNCTIONS

	POLICY AND REGULATORY IMPROVEMENT	BUSINESS ASSISTANCE	DIRECT PROMOTION
Government Agencies			
Central Bank	Design and Implement	FX Incentives, Repatriation	—
Ministry of Finance	Design and Implement	Fiscal Incentives	—
Ministry of Trade	Design and Implement	Market Information	Export Promotion
Ministry of Industry	Design and Implement	Information, Direct aid	Investment Promotic
Chief Executive	Provide Direction	—	Support
Promotion Agencies	Analyze and Lobby	Full Range of Assistance	Full range of Promotic
Private Sector Groups			
Business Associations	Analyze and Lobby	Support	Support
Service Firms	—	Assistance for Fees	Support
Private Companies	Lobby	—	Support
International Organizations			
World Bank/IMF	Analyze and Lobby	—	Limited Financing
IFC/MIGA	Analyze and Lobby	Insurance, Finance	Support
UNIDO	—	—	Investment Promotior
U.S.G. Agencies			
A.I.D.	Dialogue, T.A.	Project Support	Project Support
U.S. & FCS	Assess and Report	Market Information	Limited Promotion
OPIC	—	Insurance	Promotion Missions
TDP	—	Feasibility Studies	Support
Eximbank	—	Credit	Support
Department of Agriculture	—	Information, Credit	Support
USTR	Analyze and Negotiate	—	—

Business Associations: Business groups including Chambers of Commerce, Exporters and Manufacturers Associations and other organizations are often key parts of T&I programs. They bring both investor and exporter concerns to the attention of the government and support exports. In addition, some are capable of developing specific policy initiatives. Local AmChams are key sources of U.S.-based investor policy concerns.

Local Research Institutes and Universities: These institutions can provide vital ongoing objective analysis to policy makers. In many cases leading academicians serve as key policy advisors to government officials.

Export and Investment Promotion Institutions: These agencies serve as the focal point for business views on commercial issues. In practice, they should also play a key supportive role for broader economic policy reforms which affect export performance and foreign investment flows, such as exchange rate policy, domestic pricing policies and financial sector reform.

One should not assume that either government agencies or business groups support market-oriented policies. Government bureaucrats tend to favor the "old way" of operation, which in many cases translates into government interventionism and/or import substitution. In addition, business groups representing the most preeminent local firms often discourage economic reform, because they have developed a vested interest in maintaining the status quo. While change may present greater long-term opportunities, many firms prefer to preserve a system that they know.

Business Assistance

Business Associations: These groups are often key providers of investor and export assistance, especially to local firms. They can offer information on foreign markets and joint-ventures, and serve as a conduit of information on policy and regulatory changes to private firms. In addition, they provide courses and other forms of training for members.

Government and quasi-government agencies: Government entities typically provide a range of services to both exporters and investors. While these services often include training and subsidies for some activities, they are most useful as information sources about international and domestic business developments and in limited cases as "matchmakers" for both trading and investment relationships between local and foreign firms.

Private Business Service Firms (Accounting, Engineering, Consulting and Law Firms): In countries with competent and sophisticated private business services, private firms can meet most trade and investment service needs, including accounting, legal affairs, technology acquisition, obtaining permits and handling other start-up considerations, negotiating with the government and explaining how to best manage government relations.

U.S. Government Agencies: These agencies provide an array of services to investors and traders. In formulating a T&I program, A.I.D. should assess the role and performance of these agencies in their country, and then take steps to ensure that the **T&I program is coordinated with and complements rather than duplicates their activities.** Of these agencies, only the United States & Foreign Commercial Service (US&FCS) of the Department of Commerce usually has a physical presence overseas. The others are operated out of Washington. In brief, these agencies carry out the following functions of relevance to T&I initiatives:

> The U.S. and Foreign Commercial Service (U.S.& FCS) provides market and local business condition information to U.S. firms and helps to match U.S. and local firms in all types of business relationships.
>
> The Trade and Development Program (TDP) provides funds for feasibility studies to be conducted by U.S. firms for projects in developing countries.
>
> The Overseas Private Investment Corporation (OPIC) is engaged primarily in the provision of political risk insurance for U.S. foreign direct investment. OPIC is becoming increasingly active in assisting in the financing of foreign direct investment as well.
>
> The U.S. Export Import Bank (Eximbank) provides trade credits and credit insurance to finance the purchase of U.S. manufactured goods by developing countries.

World Bank Agencies: MIGA, the Multilateral Investment and Guarantee Authority, provides insurance to foreign investors against non-commercial risks. The International Finance Corporation (IFC) can help foreign investors find local partners on commercial ventures and provide additional capital from its own resources.

Direct Promotion

In this phase, the performance and capabilities of institutions currently involved in trade and investment are assessed to determine their potential direct or indirect role in a T&I program. In addition, project development teams should identify institutions that are currently not involved in direct promotion but have the potential to play an effective role. The latter includes non-governmental business groups, but also some government agencies, especially the Foreign Ministry, that already have an overseas presence and are involved in projecting a public image of the country overseas. Finally, the institutional diagnosis of direct promotion should evaluate how the promotional activities of different institutions can be fashioned to complement each other.

Business Organizations: Private sector chambers and associations are oriented primarily toward serving the direct interests of their members, and as such lobby for policies in their members' interest and provide services to members. Nevertheless, these organizations do generally seek to expand business activity through information and promotion activities, and can serve as strong allies and play supporting promotional roles (participating in seminars and missions, meeting with prospective traders and investors, etc.). In some cases business organizations could act as primary implementing agencies. However, T&I project development teams should not overstate the interest or capabilities of such entities to carry out "development" projects. They often lack institutional capabilities and are managed by leaderships with mixed interests. Numerous mistakes have been made in projects that relied excessively on business organizations. Nevertheless, they should be carefully considered for active promotional roles.

Government Ministries (Foreign Ministry, Ministry of Trade, Ministry of Industry, etc.): In many nations, ministries include divisions that are charged with all facets of T&I promotion. The capacities and current and prospective roles of these groups should be evaluated objectively, since A.I.D.-assisted efforts should be coordinated with rather than duplicate existing activities. Considerable care should be given to engage existing agencies in the planning process to avoid opposition due to "turf battles."

Export and Investment Promotion Agencies: These organizations represent the "front lines" of T&I promotion, and are charged with developing and disseminating information on business conditions and opportunities, conducting marketing campaigns domestically and abroad, and assisting prospective traders and investors.

In the diagnostic stage, private and public sector promotion groups should be assessed for their strengths and weaknesses in the following areas:

- Staff qualifications and training.
- Appropriate use of resources.
- Organizational structure and management system.
- Research and analysis capacity.
- Quality of promotional materials.
- Marketing strategy and previous performance.
- Trade and investment inquiry response capability.
- Financial sustainability.

A.I.D. Missions expend considerable time and energy determining the most effective "implementing" entity, the extent to which institutional strengthening is necessary, or whether the prospects of existing entities are sufficiently poor to require the creation of a new organization. The latter is always the least preferred option due to time and resources required for institution building, possible duplication of effort, and the inability of these organizations to be "weaned" from A.I.D. funding. Nevertheless, in the design stage project development teams should keep an open mind about possible candidates to implement T&I initiatives.

Phase III

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Phase 3: Goals and Activities

With the information generated in the diagnostic stages in hand, project development teams can begin to fashion initiatives specific to the needs and capabilities of specific countries. Evaluations of T&I projects have repeatedly expressed the lesson that the success of T&I initiatives depends crucially on designing projects which are tailored to accommodate the unique circumstances prevailing in targeted countries.

The diagnostic stage should have revealed the strengths and weaknesses of the trade and investment climate, which in turn indicate priorities for action. With this information, goals can be set and specific activities detailed to meet them.

Alternative Strategies to Meet Different Needs and Conditions

Countries identified as potential candidates for T&I initiatives typically fall into one of three categories.

- Nations whose commercial climates are insufficiently appealing to attract significant levels of investment or generate large quantities of exports.

These countries are typically just beginning to exit from an inward-looking and statist economic policy regime, and are often the least developed and most geographically isolated. In these types of countries, a high priority should be directed toward the policy arena, and activities and resources should be devoted to assisting decisionmakers design and implement policy and regulatory changes which fundamentally improve the business climate. Programs for these types of countries should focus on improving the domestic commercial environment and on helping local firms improve their general business skills and abilities to interact internationally, rather than on promoting overseas.

- Countries which have made substantial progress in improving their business climate, but local firms lack knowledge of export markets.

These countries have not yet attracted significant levels of foreign investment or stimulated foreign demand for their goods. The capabilities of local firms are still weak and their international experience is limited. For these economies, a full range of activities is warranted -- further improvement in the policies, firm and investor assistance to provide market information and improve business skills, and a direct promotion program to generate foreign interest in exports and investment. These countries need both inward and outward focused activities. If progress on the policy front is sufficient or there are clear signs that there is a commitment to appropriate policies, these countries are often excellent candidates for programs to establish full scale export or investment promotion activities that provide all three elements of promotion in a coordinated fashion.

Nations in initial stages of outward-oriented economic strategies are often strong candidates for an Export Processing Zone program. Export Processing Zones provide a special liberal operating environment for enterprises devoted to export operations. In general, firms that meet established criteria can operate in a tax and duty free environment, and under special streamlined regulations. In most cases, EPZs specialize in manufacturing enterprises where most inputs other than labor are imported. EPZs provide a mechanism to create an attractive environment for exporters, especially foreign investors, without forcing the country to face the difficult political and adjustment costs of generalized economic reform. In some cases, EPZs offer an excellent intermediate step in the economic reform process. They can serve as "Trojan Horses" to introduce a liberal operating environment on a controlled basis, which can offer significant demonstration effects.

- Countries with demonstrated export capabilities are most likely to benefit from business assistance and promotion, and also from greater access to overseas markets.

These nations have generated significant levels of foreign investment and a demonstrated ability to export an increasingly diversified range of goods. The performance of these nations, however, could still be improved with targeted T&I initiatives. In many of these more advanced countries there are signs that the role of U.S. firms in their economies does not adequately reflect existing opportunities. Examples include South East Asian countries with A.I.D. programs such as Thailand, Philippines, and Indonesia.

Usually, countries in the third category already possess existing investment and export promotion agencies, but they often lack resources to promote outside commercial relations in their economies. In these situations, A.I.D. can often act to implement a transition phase to replace traditional assistance with bilateral commercial ties on a mutually beneficial basis. These efforts should be closely coordinated with other U.S. Government bodies involved in promoting bilateral trade and investment.

Alternative Project Inputs

In all three program elements, T&I initiative inputs consist primarily of technical assistance, institutional development and limited training. In rare occasions, some T&I funds may be used to develop the infrastructure for an Export Processing Zone. However, even for EPZs, A.I.D. funds are best used to develop the necessary policy and promotional infrastructure rather than building the zones themselves, which are most successful when privately owned and operated.

Experience has shown that projects oriented toward providing credit or other forms of financial assistance directly to firms are rarely successful, especially when they are not administered by market-oriented financial institutions. In most countries credit problems are a function of inappropriate financial policies, which do not mobilize resources to provide credit and which direct credit to pre-selected areas and thereby leave new entrepreneurs starved for funds. In addition, regulated interest rate structures in many developing countries often do not provide a margin sufficient for banks to cover transactions costs and lending risks. Moreover, these same low interest rate structures discourage deposits. Finally, in most countries, A.I.D. does not have sufficient funding to guarantee a sizeable impact on overall exports or investment. A.I.D. is better placed to introduce T&I initiatives that serve as catalysts for commercial development, rather than as direct funders of ventures.

Overall Project Goals and Purposes

Project Goals: Several alternatives are possible, including the following options; (1) **Generate accelerated and sustained rates of economic growth through the stimulation of greater private sector-led investment and trade.** (2) **Promote economic development by further integrating (country) into the world economy and assisting (country) to take greater advantage of opportunities for commercial activities.**

Project Purposes: Specific project purposes should flow directly from the project goal and indicate in functional terms how the goal is to be achieved. Examples of project purposes for each T&I component include the following. Activities and inputs designed to lead to goal/purpose attainment are listed with each specific purpose.

Policy and Regulatory Improvement

General purpose: **Design and implement laws, policies, regulations and procedures that support private sector-led export and investment growth.**

Support policy dialogue: Technical assistance, analyses and seminars to provide decision-makers information and factually-supported recommendations for appropriate policy reforms.

Improve governmental capacities to implement appropriate policy changes: Technical assistance to ministries, training of officials, and institutional development.

Build consensus for change: Institutional development funds and technical assistance to non-governmental organizations which represent interests of private sector exporters, investors, and other business groups committed to market-oriented policies.

Business Assistance

General purpose: **Assist firms to engage in productive international trade and investment transactions.**

Provide Market Information: Institutional development funding, technical assistance and training to export and investment promotion agencies, business organizations and government agencies charged with providing market information. This activity can be contracted to private firms who in turn make it available to private firms through these institutions or directly. Often this can be in the form of promotional material. If conducted through investment or export promotion agencies this activity should be closely coordinated with direct promotion activities. Information should flow in both directions.

For export and investment promotion, networks to match joint-venture partners and buyers and sellers of goods and technology is a more transaction-specific form of market information. Theoretically, this matchmaking activity is often needed, but it rarely meets its objectives. Only when they are highly targeted and work to enhance market driven information networks have networking programs come close to meeting their goals.

Improve local firms' business skills: Technical assistance and training for firms to be provided directly or through business organizations or investment and export promotion agencies.

Provide guidance to meet government regulatory requirements: Advisory service offered by T&I organization, either directly or through technical assistance or outside contracting with local firms.

Direct Promotion

General purpose: **Identify and attract private business entities to pursue investment and trade opportunities.**

Develop effective promotional materials. The most important initial component of direct promotion is the preparation and dissemination of information which provides an accurate and timely picture of business conditions in the host country. Above all, promotional materials should honestly portray the host country's performance and prospects to establish credibility. Information can be provided by investment and export promotion agencies, or other institutions that are coordinating a country's external commercial image. A.I.D. assistance can be provided through institutional development or technical assistance activities.

Design and conduct cost-effective marketing. This is an important but controversial element of trade and investment promotion, because the high cost of marketing can lead to wasted funds. When a country has a strong "product" to sell (either the business climate for investors or competitive goods for exporters), direct marketing can be a highly effective means of attracting investment and generating foreign demand. However, campaigns should be targeted, carefully designed and implemented, and closely monitored. Promotional efforts should also start small and be closely tracked to gauge their effectiveness. A.I.D. assistance can be provided through direct financial support, institutional funding, technical assistance and training to agencies and business organizations carrying out promotional activities.

Organize overseas marketing networks: In countries with substantial foreign investment and diversified exports, overseas offices can provide a range of services, including increased personal contact with the foreign business community, provision of investor and exporter assistance, and collection and development of market information. Given their high cost relative to other promotional activities, overseas offices can only be justified after home-based promotion agencies are fully operational. Using existing organizational bases or engaging in contracting out for this service should be given priority.

In the initial stages of trade and investment promotion, commercial and economic officers in embassies can provide much of the overseas information and public relations activities. While they cannot devote their full attention to promotional activities, with some training they can play a useful role in providing market information and assisting investors and traders, or a full time embassy staff person can be assigned these duties. Another option is to contract a private firm to provide these services overseas. These options allow for a lower-cost direct overseas presence. By closely monitoring transactions generated by these options, promotion agencies or A.I.D. can more effectively determine the point at which the expense for a specialized overseas office is or is not justified.

Project Activities and Subcomponents

Over the past decade, T&I projects have encompassed a broad range of activities. Specific initiatives include the following menu of subcomponents, organized under each of the three primary elements of T&I projects. Any given project need not include all subcomponents identified, but the following inventory of alternatives can serve as a checklist to project development teams.

Policy and Regulatory Improvement

Assessment of policy climate - Assist governments to understand how current policies constrain trade and investment growth and help them set priorities and an agenda for change through policy "audits" of the domestic laws, regulations, policies and procedures. These assessments can then be used as frameworks for more detailed reform initiatives.

Specific policy reform assistance - Provide technical assistance to ministries and regulatory agencies responsible for designing and implementing policy changes. Assistance can range from studies by economists to design appropriate tariff reform packages to legal advice to draft effective legislation and regulations. Assistance can also be provided by resident technical advisors. The objective is to provide the host country with resources necessary to conduct policy reform.

Institution building - Improve ability of host countries to make appropriate policy changes. This includes the provision of resources to strengthen host countries' capabilities to design and implement policy and regulatory changes. Activities included in this subcomponent are training, both at home and overseas, resources for data collection and management information systems, and long-term technical advisors to policymaking institutions to provide counsel on trade and investment policy and organizational management.

Consensus building - Assist private sector organizations' efforts to develop and support trade and investment policy analysis and dialogue capabilities. This type of assistance allows the private sector to play a constructive role in the design and implementation of trade and investment policies, and to ensure that private sector concerns are fully taken into account.

Policy conditionality and dialogue - Given the relatively small size of most trade and investment projects the scope for conditionality is limited. However, by coordinating trade and investment projects with larger World Bank sectoral loans, A.I.D. can influence conditionality. On smaller, more micro-oriented policy reforms, such as customs procedures, conditionality can be applied effectively. Also, in general discussions with officials, the priority of an attractive policy climate can be stressed.

<u>Business Assistance</u>

Provision of general business information - Counsel prospective traders and investors on local operating conditions, rules and ways of conducting business.

Meeting regulatory requirements - Assist firms to obtain necessary approvals, licenses and permits, and to meet other start-up requirements.

Business service referrals - Provide entrepreneurs with lists of reputable firms (legal, accounting, consulting, etc.) which can offer assistance on designing and implementing new ventures.

Production techniques - Identify problem areas, and suggest methods to implement improved production techniques.

Price quote preparation and accounting - Assist local businesses to prepare accurate price quotes that are in line with international competitors.

Quality control - Advise local businesses on adequate quality control standards and procedures.

Penetrating new markets - Advise local businesses on specific import requirements (i.e., pesticide residue levels for agriculture products, flame retardant requirements for children's sleepwear, labelling requirements, etc.) as well as general market trends.

Monitoring international markets - Provide up-to-date information on market conditions, including prices, futures prices, quotas, etc. to improve local decision-making. General information should be made easily available in an accessible library, or through a market specialist in the Investment & Trade Promotion Office who can answer general questions. Specific information should be gathered in reponse to requests, and fees can be collected for this service.

Locating financing - Provide local businesses with information on local and international subsidized and commercial credit.

Mentoring - Match local business executives with experienced international counterparts to train and advise on business improvement skills.

Matchmaking - Identify joint venture partners, subcontractors, distributors, or marketing representatives for local businesses.

Prefeasibility studies - Provide financing or technical assistance to promotion agencies to prepare sector, industry or firm level feasibility studies for trade or investment ventures.

Feasibility studies - Provide financing or technical assistance to firms interested in preparing venture feasibility studies.

Direct Promotion

In many cases, the activities described below can be carried on reactively (responding to existing leads) at first, at a lower level of effort and resources, and can be expanded to a proactive activity once the institutions are built and the human and financial resources are available.

Strategic planning - Assess investment climate in comparison to competitors, and select appropriate target industries and target geographic areas.

Institutional design - Design organizational structure and job descriptions, and assist in hiring qualified staff.

Institutional development - Prepare and implement standardized procedures, including automated management information system if appropriate, personnel policies, financial control systems, etc.

Staff development and training - Craft individual training programs for all staff members. Identify and provide appropriate courses, either locally or overseas. Typical training courses include: Mastering Business English; Mastering English Correspondence; Computer System Operation and Maintenance; Importing Under the U.S. 807 and 807A Regimes; Handling Foreign Investment and Trade Prospects; Free Zone Operation and Financing; Economic Development; Influencing the Site Selection Decision; Fundamentals of Investment Promotion; Developing Selling Skills; Prospecting for Leads; Lead Follow-up; Closing the Sale; Boothmanship; Understanding the U.S. Legislative Process; Influencing the U.S. Legislative Process; etc.

Promotional material development - Design attractive, persuasive, informative packages of materials to provide to prospective investment and trade leads. Desktop publishing can lower costs and ease updating. Information packages can be simple, containing only one-color, printed materials, or can be expanded to include full-color printed materials, videos, interactive computer presentations, slide presentations set to music or a script, and so forth.

Reactive lead follow-up - Provide investment and trade information to entrepreneurs that contact embassies or investment and trade promotion offices.

Proactive investment and trade lead development - Obtain names, addresses and phone numbers of high-quality investment and trade leads through direct mail brokers, associations, embassies, commercial offices, etc.

Reactive liaison with press - Respond to media requests for information, photos, and individuals to interview.

Proactive public relations - Provide accurate, timely information on business developments to the U.S. and world press in order to create a positive image of the country as an investment location. Draft and submit press releases on improvements in the business operating environment, firms which have decided to locate in the country, export figures, new products, etc.

Advertising - Use focus groups, market segmentation, and an excellent understanding of the product being marketed (the country's trade and investment climate) to design a persuasive marketing message. Design ads. Identify cost-effective magazines, newspapers and other media as appropriate, in which to place ads. Track ad response to assure cost-effectiveness of ad campaigns.

Trade show presence - Identify appropriate trade shows, seminars, and conferences for selling the nation's exports and attracting investment. Design booth and train trade show participants in "boothmanship" and selling skills. Fees can be charged to participants to recoup some costs.

Phase IV

Phase 4: Institutional Strategy

Where the goals and activities phase of the design process determines what should be done, this phase addresses important institutional strategy issues.

(1) Should private organizations or governmental agencies implement trade and investment projects?.

In the past, all of the most successful promotional agencies were government operated. These include the Industrial Development and Investment Center of Taiwan, the Economic Development Board of Singapore and the Industrial Development Authority of Ireland. In recent years, however, the experience of A.I.D. has been that private institutions or quasi-governmental agencies have tended to be more successful at promotional activities than have government organizations. Three problems emerge with government promotion institutions:

- First, government bodies tend to be overly bureaucratic, which delays the transmission of information and other services. The bureaucratic tradition of government bodies also inhibits personal initiative, which is important for promotional activities.
- Second, as noted above, government ministries tend to have a regulatory focus when dealing with private business; accordingly, promotional activities run contrary to their institutional attitudes.
- Third, successful investment and export promotion agencies require professional staff with business backgrounds and skills, unless most functions are to be contracted out. In most cases, government salary caps effectively limit the hiring of well qualified professionals with business backgrounds.

Because of the positive experience of the "models" used in Taiwan, Singapore, South Korea and other countries, agencies run by government ministries should not be ruled out. However, these countries were successful in large part because there was a firm consensus in favor of market oriented policies and a desire to build close working relationships between the government and the private sector.

Fully private or mixed "public/private," non-profit investment and export promotion institutions have generated the best results in recent years. These types of promotional institutions have catalyzed rapid increases in exports and foreign investment in the Dominican Republic, Costa Rica and Guatemala. The weakness of private institutions is their dependence on outside funding (usually from donor agencies), as host governments tend to be reluctant to give funds to "private" promotion organizations.

In many cases, independent government promotion authorities that are not connected to any single ministry and whose sole purpose is to manage investment and export promotion activities might represent a reasonable compromise. Some of the most successful investment promotion agencies have followed this institutional model (e.g. Irish Development Authority and the Board of Investment in Thailand).

A.I.D. is assisting currently in the establishment of a Export and Investment promotion agency in Cape Verde which will follow this institutional model. These agencies can be operated in large part like a private institution, with substantial private sector representation on the supervising Board of Directors, but can still be funded directly from government revenues. Their autonomous status allows them to act independently and more actively support appropriate policies.

To a large extent the institutional strategy will be directed by decisions about the goals and activities of the program. For example, if the focus of the initiative is to be on policy improvement, with little or no attention given to more direct promotional activities, then projects should directly involve relevant government agencies and business groups best able to build support for economic policy reform. However, if exporter and investor assistance and direct promotion activities are also involved, then the institutional strategy becomes more complicated.

(2) Should different program activities be implemented and coordinated by one institution, or should each activity be conducted by different institutions?

In reaching this strategic decision, it is necessary to balance the desire to work with a single institution against the costs and benefits of engaging several organizations. The latter approach requires coordination of different activities and the additional cost and management difficulties in working with multiple institutions. However, expertise and working experience in policy, business assistance and promotion is difficult to find in any single organization. Therefore, taking the single organization route generally involves training, technical assistance and time to allow implementing agents to move up the "learning curve" in certain functional areas.

From the perspective of coordination, it is desirable to have a single organization to at least oversee all three functions. Because of the critical linkages between the three components (policy, business assistance and promotion), a single implementing or coordinating organization will be better able to integrate findings from each component into the other components. For example, constant interaction with exporters, investors and potential investors will highlight the pros and cons of the investment climate, and this knowledge can be passed on to the government in the form of policy recommendations.

A similar critical linkage occurs between business assistance and promotion. Business advice should be tailored to the realities of the international market, as indicated by the potential traders or joint venture partners who respond to the promotion campaign. For example, international buyers will indicate exact styles, methods, quality of inputs, delivery schedules, and quality of outputs that are acceptable to them. The business assistance activity should focus on assisting the potential exporters to meet real market conditions as indicated by market participants, and assist domestic producers in filling international orders successfully.

To look at the coordination question in another way, if program coordination is not accomplished by the lead promotion organization (whether the organization implements or contracts out functional activities), it will fall to the USAID Mission, an option which is usually untenable given the many demands on Mission staff.

Therefore, it is advisable either to select a single organization to implement the three activities, or to designate a lead organization to coordinate them.

(3) How can inter-institutional relations be structured for best results?

If the Mission selects a lead organization to manage but not implement the three activities, it is critical to place the supporting organizations clearly under the control of the lead organization, as in a contracting relationship. Distributing relatively small subgrants to supporting organizations which rival the lead organization in size or domestic prestige is unlikely to provide sufficient incentives to assure adequate cooperation. Care must be taken to preserve the existing formal or informal "hierarchy" of organizations, both public and private, by avoiding placing a relatively low-prestige institution over other more high-prestige organizations.

Contracts, not grants, should be utilized where possible for both the lead and supporting organizations. Contracts, which must be fulfilled, offer greater managerial control than do grants, which offer the supporting agency less incentive to cooperate.

(4) What functions should be assigned to the trade and investment promotion organizations, and what functions should be contracted out?

The answer to this question depends fundamentally on the capabilities of the organization selected and on comparative advantages of alternatives. In general, however, the following guidelines apply.

a. **The lead promotion agency** should be charged directly with administering all aspects of the promotion plan, including design of annual strategic plans and quarterly workplans.

b. **Comparative policy climate analysis** should be contracted out, locally or internationally, to avoid the necessity of building up research capabilities. However, analytical work should be under the control of project managers and/or boards.

c. **Legislative and regulatory reform measures** should be designed locally by groups assembled by the lead promotion organization, in order to build local support groups for reform, as well as to provide reality checks on the feasibility of recommendations.

d. **Business assistance** can either be contracted out or performed in-house. Either way, it must be "market driven" -- based as closely as possible on assessments made by current market participants. One reason to contract out would be to maintain maximum flexibility to shift to new target industries without having to incur transition costs of hiring or letting go staff.

e. **Marketing messages** should be contracted out to firms or individuals in the target country, so that the message is understandable and effective. Central control should be maintained so that the marketing message is coherent throughout the target countries. Similarly, technical assistance should be sought out in each target country regarding selection of appropriate trade shows, mailing lists, advertising media, etc.

f. **Follow-up of potential contracts** and/or investments should be carried out by the lead promotion organization itself. Because this function represents the culmination of all preceding efforts, it should not be contracted out, but rather should be a main focus of the lead promotion agency. Past experience indicates that lead follow-up is more effective if accomplished by the people who know the country and the products, rather than an individual who may be an industry expert but is not fully familiar with the local capabilities. In addition, the temporary nature of even 2-year or 3-year technical assistance contracts introduces the risk of important leads "slipping through the cracks" since many site location decisions are made over a period of 18 months, and even up to 5 years or more (although contracting decisions are made much more rapidly).

These guidelines point to an important conclusion. While many functions can be transferred from technical assistance providers to the staff of the lead promotion organization (staffing decisions, creation and maintenance of management information systems, and strategic planning) as local capabilities are developed through experience and training, several functions may need to be contracted out, even in the long term. In particular, comparative investment climate assessment, and overseas marketing, both depend on access to information that is not available in-country, and which is continually changing.

(5) <u>How should overseas promotion be handled? Should an overseas office(s) be created? If so, how should functions be distributed between overseas offices and the headquarters</u>?

Many investment promotion organizations create too many overseas offices too soon, an expensive mistake. Overseas offices offer both benefits and risks. Correctly managed, they perform an essential purpose. Incorrectly managed, they result in lost leads and high budget overruns.

An overseas presence is important if communications are difficult between target countries (that is, source countries for contracts, joint ventures, and investments) and the headquarters of the lead promotion agency. If telephone, telefax, and mail between target countries and the headquarter are reasonably priced and reliable, the need for an overseas presence is greatly reduced.

An overseas office can perform the following functions: Receive and make follow-up calls from investors; receive and send follow-up mail from investors; send direct mail campaigns; conduct cold calls to elicit investor interest; and develop market information. With the exception of receiving calls from investors, each of these functions can either be conducted at the headquarters, or contracted out to a specialized firm such as a mailing house or a VIP post office box service. It is hard to justify a large overseas office in a high-prestige location such as New York City from a cost standpoint. A small, one-person or two-person office in a central location (to facilitate visits to investors) would be preferable and less costly.

Trade and investment projects should not create overseas offices until lead control procedures are established and being followed. Standard operating procedures should be in place to assure that all leads are followed up, regardless of place of origin. Ideally, all overseas offices should be linked by computer network to the main headquarters computer, so that they can respond quickly and accurately to all inquiries.

Overseas embassies, whose main purpose is not trade and investment, can best serve as reactive rather than proactive networks. With appropriate assistance and guidance, embassies and commercial offices can play a more productive promotional role. Such offices should be well stocked with promotional brochures, and the forms necessary to transmit the leads back to headquarters. However, embassy staff are unlikely to have the time or knowledge to counsel investors or buyers over the phone. Rather, their main purpose should be to quickly pass the lead to headquarters for follow-up.

(6) Should Missions work with existing institutions or develop new ones?

As a general principle, it is better to work with existing institutions and help them build necessary capabilities to provide the services required than to create new entities. However, for trade and investment promotion institutions, success often hinges on the policy and attitudinal orientation of an institution. For example, a government foreign investment regulation agency may have experience in investor assistance and direct promotion activities, but might be ideologically oriented towards regulation and state intervention. In such instances a new organization with strong private sector representation would be preferable; however, this option raises the problem of financial sustainability.

(7) How should the lead promotion agency be organized internally?

Unless project activities are to be largely contracted out, three organizational guidelines for trade and investment projects are proposed:

- Keep organizational size small and manageable, especially at first. A director and two or three investment/export counsellors with adequate support staff is an excellent beginning for a new organization, and can handle up to approximately 600 new leads each year. Beyond that point, additional staff will be necessary.

- Insist on high quality staff, particularly those individuals who will work one-on-one with foreign leads, or who understand contracting out and can write appropriate documentation. Language capabilities and appropriate industry knowledge are essential.

- Organize staff by industry, not geographically, at least at first. While at first glance this difference may seem trivial, it has profound implications for the success of the promotional campaign. An individual with industry-specific knowledge is much more useful to a potential investor or buyer than a generalist. Organizing the team by industry assures that staff slots are filled with appropriate specialists, and that individuals continually refine and deepen their industry-specific knowledge through contact with clients.

If, because of the existence of overseas offices, tied-aid, or other reasons, a layer of geographically-organized staff also exists, leads should be passed from the geographic specialist to the industry specialist as soon as they are identified. Initial lead identification can be accomplished effectively by a generalist through direct mail, advertising, or cold calls, but successful follow-up is best left to the industry specialist.

Similarly, trade shows should be staffed only by specialists. Generalists who attend trade shows with brochures instead of samples, with general knowledge of the investment climate but lacking knowledge of industry requirements, and unsupported by domestic manufacturers selling their goods and capabilities, constitute a waste of resources and indeed could worsen a country's trade image.

Phase V

Phase 5: Implementation Plan

By the implementation plan phase, the trade and investment program should be well articulated. In the implementation plan phase, project development teams need to ensure that there are sufficient resources to meet project goals and that activities are integrated and phased effectively.

Costing and Budgets

The training and technical assistance components of trade and investment programs follow the same costing patterns as other A.I.D. programs. The costing patterns of institutional components differ from those of other projects in several respects.

A strong emphasis should be placed on quality rather than quantity. This is especially true for promotion agencies. To be successful, promotion agencies must be staffed by highly-motivated professionals. Assessments of trade and investment programs conclude that qualified personnel is the most critical factor for achieving success. To recruit and retain qualified staff, salaries must be commensurate with those in the private sector, which in many countries is two to three times the salary of top civil servants. However, because these agencies should be streamlined and leanly staffed, overall personnel costs should be reasonable.

Promotional expenses can boost costs sharply. Developing solid basic information and follow-up capabilities is far more important than marketing. Accordingly, project development teams should carefully scrutinize marketing budgets, particularly overseas promotion and travel, and insist that these activities be closely monitored and evaluated. Moreover, agencies should prove their management capabilities at less expensive, domestic promotion before projects begin to finance much more expensive, overseas marketing activities.

Sustainability and Self-Financing

Efforts to make these organizations "self-financing" have not proved successful, largely because trade and investment promotion, by providing a "public good," requires a certain degree of subsidization. For example, projects should seek to acquire fees for services rendered, but often these can only cover the "marginal" costs of brochures, postage or seminar expenses, and not the "overhead" charges associated with staff time. In general, prospective investors are unwilling to pay major fees for the types of services provided by promotion organizations.

However, considerable strides have been made in designing and implementing self-financing funding strategies, particularly when a broad array of income producing sources is developed, including fees for services, membership dues, corporate grants and in-kind contributions, multiple donor project funding, government grants and contracts, or corporate registries and other fund-raising activities. Financial sustainability plans should be prepared on an "entrepreneurial" basis, allowing for all possible sources of funding. Efforts to achieve non-A.I.D. financing are particularly relevant for programs in advanced developing countries, where private firms and business associations have a greater capacity for paying fees and making financial contributions.

Phasing

As stressed throughout this report, trade and promotion projects should be designed to match the needs and capabilities of target countries. However, conditions can change and therefore programs should be designed to adjust to these changing conditions.

The start-up phase of any project generally requires higher than average thresholds of funding. Following this stage and in the first few years of T&I initiatives, when the focus is on inward-looking promotion, improving the policy and regulatory climate and assisting local firms, costs are generally lower than average. However, if these programs are successful and the business climate is improved, then funding for more expensive promotional activities should be made available. In the latter stages of projects, cash requirements again decline, as agencies find additional financing from other sources and as local personnel develop sufficient skills and experience.

Obstacles to Project Implementation

The greatest obstacle to the success of a trade and investment project is an unattractive trade and investment climate. No amount of business assistance or promotion will result in increased exports and investment if the business climate is negative and stagnant, or deteriorating. Therefore, <u>the policy component of trade and investment projects is critically important</u>. Based on past experience with T&I projects, policy improvement should precede as well as accompany business assistance or promotion.

In addition to a negative business climate, a number of other obstacles exist to the successful implementation of T&I projects. Obviously, <u>external market conditions</u> have a strong impact on exports and investment. Recessions or weak markets in target countries, and protectionist legislation, can play havoc with project quantitative goals. Little can be done to protect a T&I project from a worldwide economic slowdown, although an improved policy climate is likely to stimulate an increase in local investment and production (assuming the local market is healthy).

The Need for Flexibility

In the course of implementing the trade and investment project, local and international events are bound to force changes in specific activities. Target industries and countries selected initially may prove to be unfruitful, and new trade opportunities may arise. Key individuals and institutions can change. To minimize waste and take maximum advantage of new opportunities, the project should be sufficiently flexible to be modified as needed to adjust to changing world market conditions. Planning documents should be worded so that the lead promotion organization can make programmatic decisions within the strategic boundaries set by the USAID Mission.

Enhancing Cost Effectiveness

To maximize the performance of a T&I project (or indeed any project) evaluative criteria must be set early, and they must be continually or frequently monitored. In short, what gets measured, gets done. As noted below, the identification and use of realistic quantitative performance indicators are important ingredients to enhance the prospects for project success.

A project management information system (MIS) should be developed to make available to top management detailed data on promotional activities, including number of leads generated, the number of leads being followed-up regularly, and the conversion rate (number of leads which ultimately come to fruition as investments or export transactions), as well as detailed cost information. Charge number systems should be implemented to track expenditures by industry and by activity in order to make strategic judgments about the cost-effectiveness of promotion in different industries (e.g., leads generated per dollar spent), as well as the cost-effectiveness of alternative promotion techniques (advertising vs. direct mail vs. trade show attendance, etc.).

Phase VI

4oa

Phase VI

Phase 6: Evaluation and Monitoring Criteria

The ultimate measure of the performance of investment and export promotion activities is the number and size of new investments and the increase in the value of exports in promoted areas. Many projects have used employment generated in new ventures during the project as a measure of performance.

The Importance of Quantitative Performance Indicators

At the level of macroeconomic performance, there is no practical ex post facto method to determine the relative impact of promotional efforts as distinct from the general business climate or other factors. The causality underlying either positive or negative commercial decisions is necessarily complex and involves many factors beyond the control of T&I promotion initiatives. Most business executives will downplay the importance of promotion efforts, since they would prefer to conclude that their investment or trade venture decision was based on their own objective assessment of developing country conditions and capabilities. Trade and investment initiatives work to improve these conditions and capabilities, but it would be presumptuous to conclude that these activities were the instrumental factor in creating these conditions. Without A.I.D. assistance, however, these policies might be delayed, and their design and implementation might be less effective.

While attempts to trace the causal factors behind commercial decisions could prove to be a relatively unproductive exercise, the net result of combined T&I projects should be increased exports and/or foreign investment. Therefore, it is fitting to use certain macroeconomic goals such as increases in exports and investment as indicative performance indicators. Certain indicators would also take the form of "microeconomic impacts." such as investment leads generated, or reduction in the costs firms incur for project development. At the initial design stage of the project, the logic of how the project will meet these objectives should be made clear, and at the end of the project, performance should be measured against goals set forth at the outset. However, the introduction of these macroeconomic goals should be applied carefully to reflect trends and events beyond the control of the project.

In assessing the effectiveness and success of T&I initiatives on the ultimate objective of increasing exports and foreign investment, one should keep in mind that in most countries promotional programs take time to work. Immediate or dramatic results from T&I activities are unlikely and should not be expected. Apart from significant policy changes, such as a major devaluation or trade reform, promotional efforts take time to yield discernible results because they are essentially educational exercises. The more obscure a country, or the more negative its image, the longer the lead time that will be required for projects to bear fruit. The payout period can be shortened only marginally by even substantially more ambitious programs and expenditures.

Even though a quantitative direct link between T&I activities and actual trade and investment performance cannot be evaluated accurately at the macroeconomic level of analysis, both the overall program and each component within it can and should be evaluated with objective, quantifiable criteria at the microeconomic level: Most targets would fall into the category of "project outputs" rather than project impacts. Each component is designed to meet specific objectives and goals toward which progress can be measured. For example, in the policy area, an objective may be to assist the government in the design of a more liberal trade regime or duty drawback system. One can enumerate the number of policy studies prepared, and evaluate whether and how well policy recommendations were designed and implemented. In direct investment promotion areas, one can quantify how many leads external promotional campaigns generate, by having promotion offices keep accurate logs of cold calls and unsolicited inquiries, which include information on how they heard about opportunities in the host country.

Given the importance of objectives in evaluating a project's progress and performance, careful attention must be spent in specifying objectives and milestones to monitor performance. These objectives and milestones should not be viewed simply as a bureaucratic requirement. They are key management and implementation tools. If promotional activities do not achieve their targets, a decision process should be initiated to determine whether funding should be halted. The objectives and goals listed in Phase 3 provide readers with a initial list of broad objectives. These should be tailored carefully to meet the special characteristics of different environments.

The following quantifiable indicators are presented as alternatives. They are divided into two categories. The first is "project outputs," which identify the number of activities planned and undertaken. The second is "performance indicators," which measure the ultimate impact of the project activities undertaken.

Project Outputs

Policy and Regulatory Improvement

- Number of policy studies completed
- Number of policy dialogue activities (e.g., seminars, workshops, etc.) completed

Business Assistance

- Number of firms provided general information
- Number of firms provided targeted technical assistance
- Number of training seminars completed, and number of business participants at training sessions

Direct Promotion

- Number of promotional activities (e.g., cold calls, mailings, seminars, missions, etc.) carried out
- Number of follow-up interest activities (e.g., reconnaissance visits, investment applications, etc.) attained
- Number of trade and investment leads generated

Performance Indicators

For the first three "macroeconomic" indicators noted below, the most appropriate measure is increases in rates of growth over and above a historical average (typically three or five year) growth rate.

- Increases in export value
- Increases in domestic private investment
- Increases in the number or value of new foreign investments
- Number of policy/regulatory reforms achieved
- Reductions in firms' costs incurred for venture development
- Number of trade and investment transactions consummated
- Number of jobs created by trade and investment activities assisted

Each proposal for a T&I program and project should be judged on its own merits, acknowledging differences in local conditions, needs and past performance. Notwithstanding this caveat, a consistent set of relatively simple guidelines can be used to evaluate overall programs and program components. These guidelines should be adjusted to the specific nature of problems that each program is addressing.

T&I Project Evaluation Guidelines

A. CLARITY AND MEASURABILITY

1. Clearcut goals and objectives have been determined.
2. Quantifiable final and interim targets have been established.
3. Goals are consistent with realities of overall business climate.
4. Goals are consistent with other economic development policies.

B. FLEXIBILITY

1. Includes provision for modifying programs if targets are not met.
2. Includes provision for adjusting program in change in business climate or economic conditions.
3. Incorporates administrative flexibility.

C. INSTITUTIONAL CAPACITY

1. Structure and authority of assisted institutions are consistent with program goals and objectives.
2. Size and budgets of institutions are commensurate with goals and objectives.
3. Staff is well-trained and sensitive to needs of private sector traders and investors.
4. Relationship of assisted institutions with other relevant officials and agencies is productive and well defined.
5. Mechanism exists for coordination of related promotional activities.

D. FEEDBACK MECHANISMS

1. Promotional efforts are supported by accurate and up-to-date information on local and foreign business climates.
2. Includes system for tracking potential investments and export orders through the decision process.
3. Provides mechanism for input from foreign and local business communities.

Appendix A

APPENDIX A

THE RATIONALE FOR TRADE AND INVESTMENT INITIATIVES

Numerous arguments can be put forward as rationales for T&I activities in A.I.D. project development documents. While the specific justifications should be presented to meet the particular needs and opportunities present in individual countries, the most important arguments are as follows:

(1) Increased trade and investment are the engines of sustained economic growth and development. The striking success of several East Asian nations that have transformed impoverished agricultural economies into manufacturing powerhouses, through the adoption of outward-oriented and market-based economic strategies, has helped to persuade many developing country policy-makers that rapid economic development requires these types of policies. The success of these economies in increasing personal income ten to twenty fold in less than thirty years was based on increased integration with the world economy both through rapid export and import growth, and on high levels of foreign and domestic investment.

Recent research by economists at the World Bank indicates that foreign firms played a vital role in catalyzing rapid growth, once governments had begun to implement appropriate policies.[1] Foreign firms were the key initial suppliers of the appropriate technologies and access to foreign markets upon which the success of these economies depended. Relationships with foreign firms were based both on trade and investment.

In all parts of the developing world, countries that followed more open, outward-oriented and market-based strategies (compared to those following closed, inward-looking statist policies) have enjoyed more rapid and sustained growth.

- The Southeast Asian members of ASEAN are in a virtual race to join the ranks of the NICs to their north.
- In Africa, Botswana and Mauritius have achieved rapid growth through these types of policies.
- In Latin America, countries such as Costa Rica and the Dominican Republic have developed vibrant new investment-led export sectors by instituting policies that provide exporting firms with a less restrictive regulatory environment.

In most of these countries, A.I.D. Missions have actively supported the investment/export thrust by providing substantial institutional development funds and technical assistance.

1 Rhee, Yung Whee and Belot, Therese, "The Role of Catalytic Agents in Entering International Markets" World Bank Industry Series Paper #5, March, 1989.

(2) From the standpoint of economic theory and policy practice, T&I initiatives can help correct market failures and imperfections. Markets are not perfect, particularly in developing countries. The assumptions of perfect information and neutral policies do not hold, and labor markets often do not "clear" by matching supply and demand. T&I projects help to overcome information gaps, and also to reduce or remove biases created by inappropriate policies. Research has also shown that the "social returns" generated by productive investment and trade often exceeds their "private returns," due to training, technology transfer, labor absorption and other benefits associated with commercial ventures.

(3) T&I projects provide institutional and analytical support for economic policy and regulatory reform that is not readily available from local sources or other donors. A key component of most T&I initiatives is assistance to existing organizations, or the establishment of new institutions, which support a country's efforts to promote trade and investment. In all of the East Asian nations that have enjoyed rapid economic growth, these institutions served to bolster the governments' efforts to reform policy and regulatory structures.

South Korea, Taiwan, Hong Kong and Singapore all established export and investment promotion agencies once they had decided to adopt outward-oriented and market-based economic strategies. These institutions provided a key role in pushing economic decision-making towards reform, often taking on vested interests that benefited from inward-looking policies. The most successful T&I projects seek both to collaborate with government decision-making bodies and to assist private sector groups to voice their views on commercial policies more effectively.

(4) T&I initiatives are relatively low-cost projects with proven methods and technologies. T&I efforts tend to be low in cost compared to traditional A.I.D. programs. Relatively large scale T&I program budgets are in the $1-2 million per year range, and in smaller countries effective programs can be conducted on much more limited budgets. At these budget levels, T&I projects are within the capabilities of even the smallest Mission programs.

(5) Commercial development projects are appropriate for a broad range of countries. T&I projects can be effective in most if not all situations, from low-income African nations to the advanced developing countries of South East Asia and Latin America. Projects will vary broadly depending on a country's level of development and its policy environment, but some combination of the three-component T&I promotion "menu" -- policy and regulatory improvement, business assistance and direct promotion -- will be relevant.

(6) A.I.D. has a comparative advantage in T&I initiatives relative to other donors. A.I.D. has much more experience with T&I assistance than other donors because of its pioneer role in private enterprise development. This experience allows A.I.D. to draw

upon a cadre of seasoned in-house staff and external consultant resources, accessible to Missions and countries through a range of contracts. Other donors with less experience do not have these resources. Moreover, the U.S. role as a champion of market-oriented development strategies make it especially appropriate for A.I.D. to fill the T&I program donor "niche."

(7) T&I initiatives support the strategic economic interests and policies of the United States. Congress, the Executive Branch and the U.S. business community have increasingly pressed for the U.S. foreign assistance program to take greater account of U.S. commercial interests. T&I assistance allows Missions to meet this additional commercial objective while fully maintaining A.I.D.'s primary development goals. By promoting increased openness of the trade and investment regime, T&I projects not only seek sustained economic development, but also support U.S. policies for increased market access to developing country markets.

(8) Trade and investment projects can serve as core elements in programs designed for advanced developing countries. A number of A.I.D. Missions are in the process of designing transitional programs for countries slated for "graduation" from U.S. economic assistance. T&I initiatives represent appropriate candidates to replace official loans and grants with bilateral commercial relations which cement long-term ties and increase mutually beneficial trade and investment flows between the United States and these nations. These efforts can also forge collaborative linkages with and assistance to U.S. Government agencies (Eximbank, Trade and Development Program (TDP), OPIC, U.S. and Foreign Commercial Service) engaged in programs to promote U.S. commercial relations overseas.

Appendix B

APPENDIX B

LESSONS LEARNED ON INVESTMENT AND EXPORT PROMOTION

In addition to the general evaluation guideline described above, direct field experience and reviews of A.I.D. evaluations of T&I projects have revealed a number of fundamental lessons that translated into principles which should underlie investment and export promotion activities in virtually any national context. Most problems encountered in the design and execution of investment and export promotion programs ultimately can be traced to violation of one or more of these principles.

1. Before promotional programs are developed, an honest examination of the host country's business climate should be undertaken.

Both investment and export promoters should have an objective picture of the nature and quality of the "product" they are selling. Those charged with promoting investments to and exports from a country must understand the prospective investor's and trader's perception of the country's business climate. The basic policies and regulatory procedures affecting private enterprise are fundamentally more important to attracting investment and generating exports than are direct promotional activities.

Even the most sophisticated direct promotional programs cannot sell a bad investment climate or poor quality goods to anyone other than relatively naive entrepreneurs. Crafting and maintaining a consistent, coherent, open and market-oriented business climate is the single most effective action a host country can take to promote foreign investment and exports. Direct promotion efforts must necessarily capitalize on a country's strengths. Where problems are identified, they should be corrected and then the "new" reality should be promoted.

2. Trade and investment projects should be tailored to a host country's national character and objectives.

No single set of activities or techniques work for every country. Rather, the most effective programs are those which are carefully crafted to fit each country's specific strengths weaknesses and economic goals. All countries have some marketable investment and export attributes. These should be identified and promoted.

3. Trade and investment project goals and quantifiable performance indicators should be as specific as possible in order to increase the likelihood of effective design and execution.

While program activities ultimately are all intended to increase investment and export activity in order to meet national economic development goals, the objectives of programs must be more finely tuned. For example, objectives might include assisting in the implementation of a trade regime that provides inputs for export activity at international prices, or generating a specific number of investor inquiries for a given sector in the country. A country just beginning to improve its business climate, such as Ghana, cannot be expected to generate the same number of investor inquiries as a Thailand, which is currently one of the most attractive investment climates in the world. Moreover, these objectives will also need to be adjusted frequently as a function of changes in the domestic and international business climates.

As most trade and investment activities are more art than science, objective goal setting will establish standards for measuring the effectiveness of program components. In addition, standards can serve to insulate programs from unjustified political attacks by demonstrating the objective results of resources allocated in these activities. Similarly, these standards can also help justify budget increases from both domestic and international sources, as more ambitious goals are set.

4. Initially, promotional activities should be characterized by modest programs and expectations.

In most situations, slow and deliberate project development is more likely to succeed than expensive, ambitious efforts. Furthermore, grandiose project designs and exotic promotion techniques often raise false expectations. Therefore, promotion activities are more likely to succeed if they are undertaken judiciously and grow incrementally, with experience as a guide.

5. Private and public sector promotion organizations should be involved in the development and review of relevant policies.

Promotion agencies should be integrated into the policy review process in order to benefit from their direct knowledge of the business view on policy issues. In turn, promotion agencies can serve as vital interlocutors between their primary clients, investors, exporters and purchasers of host country goods, and relevant government ministries. Effective promotion agencies should be in a position to help identify and remove investment and export barriers, not gloss them over with direct promotional techniques.

6. The business climate is the most critical element in both investment and export promotion success.

Attracting foreign investment to countries with unattractive business climates and promoting exports from countries without a minimum set of outward-oriented policies is nearly impossible. Reviews of the most and least successful T&I initiatives continuously reconfirm this lesson. A.I.D.-supported activities have been able to catalyze substantial increases in investment and exports when there was an attractive "product" to promote.

In the absence of a supportive business climate, almost no amount of resources will generate a sustained increase in investment or exports. Substantial subsidies to investors or exporters for credit, equipment or primary inputs will generate some new projects. However, once the subsidies are removed, the enterprises will fail, as the source of their profitability will also have been eliminated.

7. For most developing nations, export-oriented investment is one of the most successful means of export promotion, especially for nontraditional exports.

Local businesses in the smaller, more isolated and poorer developing nations rarely have the managerial or technical skills needed to produce nontraditional manufactured goods for international markets, nor do they have access to sufficient amounts of investment capital resources or adequate marketing knowledge of foreign markets. Reviews of the East Asian NICs' experience show that all depended on foreign firms, at least initially, for a majority of the critical elements behind their export success. Moreover, the most successful of nontraditional export promotion programs were based on export-oriented investment promotion programs. These programs include CINDE in Costa Rica and the Investment Promotion Council in the Dominican Republic.

8. Export Processing Zones provide a rapid and effective means for governments to establish a supportive business environment to increase exports and attract investment, while more gradually reforming the overall economic policy environment.

Rapid liberalization of a formerly inward-looking economic environment can lead to dramatic adjustment costs. EPZs provide a means to give exporters, both foreign and domestic, a policy climate necessary for competitive export production. Well run EPZ programs, combined with a realistic exchange rate, have led to rapid increases in manufacturing exports in Mauritius, the Dominican Republic and Taiwan. Moreover, exporting firms in Costa Rica operate under special policy conditions that approach those of an EPZ. In addition to promoting exports, EPZ's also have an important demonstration effect that can inspire governments to move more decisively towards market-oriented policies. However, for long-run sustained export growth, EPZs must be viewed only as intermediate step towards economy-wide reform.

9. T&I projects take time to show results, especially in countries with initially weak business climates. A.I.D. should be prepared to finance promotional programs at a minimum of three to five years and in most cases five to ten years in order to show high returns on the intervention.

Almost every review of T&I projects has stressed the point that promotional programs take time. In most A.I.D. countries, the poor policy environment, the weakness of infrastructure and the general inexperience of local firms with exporting and working with foreign firms, imply that efforts to improve countries' trade and investment performance will take time. These obstacles cannot be overcome quickly.

Program objectives and goals should take into account the time necessary to achieve increased investment or exports. In the initial years, objectives should focus on the specific activities of the program, such as institutional development, information generation, and improved policy design and implementation capabilities, rather than the final desired output of increased exports, investment or jobs created.

Even the most successful T&I efforts, including support of the IPC in the Dominican Republic and CINDE in Costa Rica, took several years before institutional capabilities were developed, even though the policy environment was already adequate. As these institutions strengthened along with the capabilities of local firms, investment and export performance increased sharply.

10. T&I projects should be flexible to adjust to changing business environments and promotional priorities.

Given the time T&I projects take to yield results, the conditions upon which the original program goals were based can change. Accordingly, to be successful, T&I initiatives must have sufficient flexibility in their operations to adjust their activities to address new problems and priorities created by the changes.

For example, initially the IPC of the Dominican Republic did not target promotional efforts to the footwear industry. However, after its first year in operation, it became clear that footwear was an area with potentially strong interest among exporters and investors. Reacting to this new element, footwear was made a target sector and within two years has become the sector with the greatest new investor interest. The Dominican experience indicates that promotion agencies must have the flexibility to choose where to target resources depending on market and institutional conditions.

11. Highly-motivated, capable professional personnel with business experience or training and excellent communication skills are fundamental to trade and investment promotion success.

All promotional activities require that professional personnel be able to perform technical tasks and communicate with senior management and technical personnel of foreign firms. If U.S. investment is targeted, promotional staff should be at least bilingual, with English as a second language. In addition, senior personnel of the promotion institution must be able to identify market opportunities and adjust promotion strategies to them on an on-going basis. Promotional agencies must be willing to pay sufficient salaries to attract and retain professionals with these skills.

NAFED, the Indonesian export promotion agency, is an example of where under-qualified personnel have limited the effectiveness of the institution. NAFED is a government agency, and until recently was a low priority institution staffed primarily by middle rank bureaucrats with limited possibilities for advancement. According to a survey of East Asian export promotion programs conducted by Saunders & Company for USAID/Jakarta, the staff was unable to meet the informational needs of Indonesian exporters and potential buyers of Indonesian goods. The staff was not motivated, and did not possess sufficient bureaucratic influence to push the concerns of exporters in ministerial meetings. Rarely could personnel speak foreign languages, and therefore they could not even communicate directly foreign entrepreneurs.

The most successful promotion programs such as CINDE and the IPC pay competitive salaries, and attract highly qualified bilingual personnel. The quality and motivation of personnel has led directly to better implementation of and results from promotional activities.

12. <u>Fully self-financing of T&I initiatives is not a realistic goal, although non-A.I.D. funds generated from a variety of sources can make a significant contribution to the overall budget in the medium-term</u>.

No export or investment promotion agency has ever been able to become totally self-financing. Several East Asian agencies are financially secure because a percentage of trade taxes are earmarked to them. Other agencies receive the bulk of their revenues from host government budgets or from donor agencies.

Competition among promotion agencies makes it infeasible to charge potential investors or purchasers of exports high fees for services provided. Some fees can be collected, but are generally only sufficient to cover marginal costs (e.g., publications, seminars, trade shows, etc.).

If promotion agencies effectively "prove their worth," then funding to cover significant shares of their costs can be sought from a number of sources. These include membership fees, corporate or individual contributions (cash or in kind), funding from host governments, grants from non-A.I.D donors, and fund-raising activities such as corporate service registries. In most countries, governments ultimately must be convinced of the merits of promotion agencies and fill the void created when A.I.D. funding is eliminated. If programs are successful, most government's will be willing to provide the necessary financing.

Efforts to develop non-A.I.D. funding sources should be made in all T&I programs, but especially those located in advanced developing countries. In these nations, private firms and business associations tend to have a higher capacity and willingness to pay fees for services, make cash and in-kind contributions, and pay membership dues.

13. <u>Investment and export promotion agencies should target their resources towards industries that analysis has shown to have the greatest potential for growth</u>.

Most promotion agencies do not have enough resources to effectively promote investments in all sectors. Activities should be targeted toward those select sectors where the host country is most competitive. Targeting resources does not mean that an institution should not respond quickly to all leads regardless of industry, but rather that scarce "pro-active" resources and campaigns should be directed towards priority industries.

Organizing staff along industry lines allows investment counsellors to become experts in their industry. This specialized knowledge allows them to respond more effectively to potential investors and traders. Organizing staff along geographic lines makes it difficult to become sufficiently knowledgeable about the businesses they are trying to promote.

14. Promotion agencies should not attempt to be the monopoly provider of market information or business advisory services to local or foreign firms. Rather, they should encourage the generation of competitive, private fee-based provision of these services.

Given the diversity and the high degree of specialization of the information needed by firms for investment and trade purposes, it is not feasible for one institution to be capable of providing it. Moreover, competition for these services should help to increase their effectiveness.

Promotion agencies should accordingly encourage firms to use private firms to meet their specialized informational needs. The success of the USAID/Indonesia program, where use of private consulting services for potential investors was partially funded by A.I.D., indicates the efficacy of employing private firms to provide specialized information.

Appendix C

APPENDIX C

SOURCES OF ASSISTANCE ON T&I PROJECT DEVELOPMENT

During the preparation of trade and investment projects, Missions often seek technical assistance in developing concept papers, Project Identification Documents (PIDs) and Project Papers (PPs). A number of Central Bureau projects and contracts can provide specialists in many aspects of T&I initiatives.

As a point of reference, this appendix includes summary descriptions of current resources that can be drawn upon by Missions. This material was drawn from The A.I.D./Washington Private Sector Project Handbook, (1990), prepared by Ernst & Young under the PEDS project in September 1990. Although some of the information is slightly dated, it provides an accurate guide to available project resources.

Bureau for Private Enterprise
Office of Project Development

TRADE & INVESTMENT SERVICES

Aim of Project:	To establish investment promotion offices within private, non-profit and business associations (eg. Chambers of Commerce) to promote joint ventures with U.S. companies.
Sectors of Activity:	• Agriculture • Energy • Environment • Finance • Industry
Areas of Assistance:	• Trade & Investment Promotion
Contractor:	International Executive Service Corps (IESC)
Contact Person:	Ed Wise, PRE/PD Phone: (202) 647-7474 Fax: (202) 647-1805

Bureau for Private Enterprise
Office of Project Development

PRIVATE ENTERPRISE DEVELOPMENT SUPPORT (PEDS)

Aim of Project:	To support a variety of efforts aimed at reinforcing the private sector in A.I.D. recipient countries.
Resources:	$6 million uncommitted funds
Resource Access:	Through buy-ins to the project
PACD:	September 1992
Sectors of Activity:	• Agriculture • Education • Environment • Finance • Industry
Areas of Assistance:	• Private Sector Strategy Development • Private Sector Project Design & Implementation • Policy Reform • Trade & Investment Promotion • Legal & Regulatory Reform
Contractors:	Ernst & Young (Prime) SRI International J.E. Austin Associates Management Systems International The Services Group
Contact Person:	Carol A. Grigsby, PRE/PD Phone: (202) 647-7474 Fax: (202) 647-1805

Bureau for Private Enterprise
Office for Project Development

FINANCIAL MARKETS DEVELOPMENT

Aim of Project:	To promote financial and capital markets development and reform.
Resources:	$3 million core funding and $7 million buy-in
Resource Access:	Through buy-ins to the project
PACD:	September 1993
Sector of Activity:	• Finance
Areas of Assistance:	• Financial Market Development • Policy Reform • Legal & Regulatory Reform • Legal & Institutional Reform • Private Sector Project Design & Implementation
Contractors:	Price Waterhouse (Prime) Shearson Lehman Hutton, Inc. Robert Nathan Associates Financial Markets International Research Institute Emerging Markets Investors Corp.
Contact Person:	Sandra Frydman or Michael W. Newman, PRE/PD Phone: (202) 647-7474 Fax: (202) 647-1805

Bureau for Private Enterprise
Office of Project Development

INTERNATIONAL EXECUTIVE SERVICES CORPS

Aim of Project:	To provide direct technical and management assistance to enterprises in developing countries.
Resources:	$20 million over four year life of project
Resource Access:	Directly through IESC where there is a country Director, or through A.I.D./Washington if IESC has no country representatives
PACD:	December 1992
Sectors of Activity:	• Business aspects of all sectors
Areas of Assistance:	• Training/Human Resource Development • Privatization • Small/Microenterprise Development • Financial Market Development
Contractor:	International Executive Service Corps
Contact Person:	Penny Farley, PRE/PD Phone: (202) 647-7474 Fax: (202) 647-1805

Bureau for Private Enterprise
Office of Project Development

DIVESTITURE & PRIVATIZATION

Aim of Project:	To provide technical assistance to A.I.D. missions and host governments for the purpose of promoting divestiture and privatization of state owned enterprises.
Resources:	$23 million
Resource Access:	Through buy-ins to the project
PACD:	June 1990
Sectors of Activity:	• Agriculture • Industry
Areas of Assistance:	• Privatization • Trade & Investment Promotion • Gender Analysis • Small/Microenterprise Development • Training/Human Resource Development
Contractors:	Scientex Corporation (Prime) Ernst & Young Equity Expansion Group Ferris, Baker, & Co. International Pheonix Corporation Public Administration Service
Cable Reference:	STATE 014595
Contact Persons:	David Cowles or Rebecca Maestri, PRE/PD Phone: (202) 647-7478 Fax: (202) 647-1805

Bureau for Private Enterprise
Office of Small & Medium Scale & Informal Enterprises

EMPLOYMENT & ENTERPRISE POLICY ANALYSIS (EEPA)

Aim of Project:	To facilitate efficient policy reform and to eliminate inefficient policy biases, thereby enhancing enterprise development, productive employment generation, and economic growth.
Resources:	$1.2 million remaining buy-in capacity
Resource Access:	Through buy-ins to the project
PACD:	September 1991
Sectors of Activity:	• Industry • Finance
Areas of Assistance:	• Policy Reform • Small/Microenterprise Development • Private Sector Project Design & Implementation • Private Sector Strategy Development
Contractors:	Harvard Institute for International Development Michigan State University
Contact Person:	Dr. Robert C. Young, PRE/SMIE Phone: (202) 647-5624 Fax: (202) 647-6902

Bureau for Private Enterprise
Office of Small & Medium Scale & Informal Enterprises

GROWTH & EQUITY THROUGH MICROENTERPRISE INVESTMENTS & INSTITUTIONS (GEMINI)

Aim of Project:	To provide technical leadership, research, and institutional support in microenterprise development to A.I.D. field programs, to U.S. and host country PVOs, and to other institutions that work with microenterprises.
Resources:	$5.7 million core budget, life of project $10.0 million remaining buy-in capacity
Resource Access:	Through buy-ins to project; minimum amount: $25,000
PACD:	September 1994
Sectors of Activity:	• Finance • Industry
Areas of Assistance:	• Small/Microenterprise Development • Training/Human Resource Development • Private Sector Strategy Development • Private Sector Project Design & Implementation
Contractors:	Development Alternatives, Inc. (Prime) Accion International Opportunity International Technoserve Management Systems International
Contact Person:	Dr. Beth Rhyne or Ross Bigelow, PRE/SMIE Phone: (202) 647-5624 Fax: (202) 647-6901

Bureau for Private Enterprise
Office of Small & Medium Scale & Informal Enterprises

MARKET TECHNOLOGY & ACCESS (MTAP)

Aim of Project:	To develop programs and services capable of accelerating the growth of U.S.-L.D.C. trade and technology linkages on a cost-effective, economically sustainable basis.
Resources:	$4.76 million core budget, life of project $10.0 million remaining buy-in capacity
Resource Access:	Non-competitive 8(a) contracts (IMCC only); Direct Purchase Orders under $25,000
PACD:	September 1993
Sectors of Activity:	• Agriculture • Industry
Areas of Assistance:	• Trade & Investment Promotion • Training/Human Resource Development
Contractors:	National Association of State Development Agencies IMCC
Contact Person:	Melody Bacha, PRE/SMIE Phone: (202) 647-5624 Fax: (202) 647-6901

Bureau for Asia, Near East and Eastern Europe
Office of Private Sector Development

REGIONAL PRIVATE ENTERPRISE DEVELOPMENT

Aim of Project:	To provide policy support and guidance for the development of priority private sector initiatives in the ANE program.
Resources:	$1.0 million for FY 90 - in the process of obligation
Resource Access:	Via field cable request or outside grantee/contractor proposal
PACD:	September 1993
Sectors of Activity:	• Agriculture • Energy • Finance • Industry
Areas of Assistance:	• Private Sector Strategy Development • Legal & Regulatory Reform • Trade & Investment Promotion • Financial Market Development • Private Sector Project Design & Implementation
Contractors:	ICEG PECC ASACI
Contact Person:	Gary Vaughn, ANE/PSD Phone: (202) 647-3720 Fax; (202) 647-6791
NOTE:	ANE/PSD also provides policy guidance and selected TDY and backstopping support for ANE field missions' private sector initiatives. For further information on these services, missions should contact the office directly.

Bureau for Program & Policy Coordination
Office of Economic Affairs

CONSULTATIVE ASSISTANCE FOR POLICY REFORM

Aim of Project:	To provide technical expertise in support of economic policy reform.
Resource Access:	Through buy-ins to PPC/EA
Sectors of Activity:	• Agriculture • Environment • Finance • Industry
Areas of Assistance:	• Policy Reform • Privatization • Legal & Regulatory Reform • Legal & Institutional Reform • Private Sector Strategy Development
Contractors:	Harvard Institute for International Development (Prime) Development Alternatives, Inc.
Contact Person:	Alan Batchelder, PPC/EA Phone: (202) 647-8558 Fax: (202) 647-8518

Bureau for Program & Policy Coordination
Office of Economic Affairs

MACRO & INTERNATIONAL ECONOMIC ANALYSIS - IQC

Aim of Project:	To provide high quality consulting services in a wide range of macro- and micro-economic areas.
Resource Access:	Through buy-ins to PPC/EA
PACD:	1992
Sectors of Activity:	• Agriculture • Energy • Environment • Finance • Industry
Areas of Assistance:	• Policy Reform • Privatization • Small/Microenterprise Development • Trade & Investment Promotion • Financial Market Development
Contractors:	Robert Nathan & Associates (Co-Prime) Development Alternatives, Inc. (Co-Prime)
Cable Reference:	STATE 344760
Contact Person:	Richard Delaney, PPC/EA Phone: (202) 647-8573 Fax: (202) 647-8518

Bureau for Program & Policy Coordination
Office of Women in Development

GENDER IN ECONOMIC & SOCIAL SYSTEMS (GENESYS)

Aim of Project:	To assist A.I.D. Bureaus and Missions to design, implement, and evaluate program and project activities to enhance the contribution of both men and women to sustainable economic development.
Resources:	$19.0 million in core, buy-in, and matching funds over 5 years
Resource Access:	Cable to PPC/WID with initial scope of work and budget
PACD:	September 1994
Sectors of Activity:	• Agriculture • Education • Industry • Environment
Areas of Assistance:	• Gender Analysis • Small/Microenterprise Development • Private Sector Project Design & Implementation • Training/Human Resource Development • Private Sector Strategy Development
Contractors:	The Futures Group (Prime) Ernst & Young Management Systems International
Cable Reference:	STATE 036193, February 1990
Contact Persons:	Tulin Pulley or Ron Grosz, PPC/WID Phone: (202) 647-3938 Fax: (202)647-5340

Office of International Training
Participant Programming Division

ENTREPRENEURS INTERNATIONAL

Aim of Project: To provide on-the-job training for private sector decision-makers in management, marketing, production, and technology in a wide variety of sectors; includes participation in industry conferences and short-term technical seminars and exploration of trade relations with U.S. hosts.

Resource Access: Mission PIO/Ps

PACD: Continuing

Sectors of Activity:
- Agriculture
- Energy
- Environment
- Finance
- Health & Nutrition
- Industry

Areas of Assistance:
- Training/Human Resource Development
- Trade & Investment Promotion

Contractors: Partners for International Education & Training (Prime)
National Association of Investment Companies

Contact Person: Aileen Kishaba, OIT/PP
Phone: (703) 875-4258
Fax: (703) 875-4346

NOTE: 1990 Revised Information Manual to be distributed to Missions this summer.

Appendix D

APPENDIX D

TRADE AND INVESTMENT ASSISTANCE OFFERED BY THE U.S. GOVERNMENT AND THE WORLD BANK GROUP

A major shortcoming of many T&I projects in the past was the short shrift they gave to existing sources of assistance in U.S. Government and international agencies. Considerable resources can be leveraged into coherent packages of assistance if the services provided by these organizations are effectively tapped.

Table of Contents

Department of Agriculture
Washington D.C. 20250-1000 USA
Phone: (202) 447-7454

The following discussion outlines the services that the Department of Agriculture provides to businesses. For general information, or information on programs not listed below, contact the USDA General Information Center at (202) 447-7454.

Inform Producers of U.S. Health Regulations: The Animal and Plant Health Inspection Service (APHIS) provides potential exporters with valuable information on health and sanitation standards for animals, plants, and agricultural products entering and exiting the U.S. market. The Agricultural Research Service (ARS) also publishes studies on insect control, controlling pesticide residues, and the best ways to select, pack and ship for export.

A list of APHIS publications is available from USDA/APHIS/PDBM, 6505 Bellcrest Rd., G-110, Hyattsville, MD, 20782, USA. Phone: (301) 436-8413, Fax: (301) 436-8445.

To receive information about ARS publications and reports, write or call: Information Staff, Agricultural Research Service, U.S. Department of Agriculture, Room 107, Building 005, BARC-West, Beltsville, MD, 20705, USA. Phone: (301) 344-2264.

Provide Credit and Credit Guarantees for Commodity Purchases: The Commodity Credit Corporation (CCC) assists foreign buyers to purchase U.S. farm commodities from private U.S. exporters, with financing of from 3 - 10 years from U.S. banks at commercial rates. As of September 30, 1987, CCC had $15.1 billion in loans outstanding for the purchase of crops for both domestic and foreign sale. Commodities available for sale with CCC financing usually include wheat, corn, soybeans, cotton, rice, tobacco, milk and milk products, wool, mohair, barley, oats, sorghum, rye, honey, peanuts and sugar. No processed products are available (with the exception of dairy products). Credit guarantees may be available for additional commodities on a case-by-case basis.

For more information on purchasing commodities, contact the General Sales Manager, Foreign Agricultural Service, Room 4509-South Building, U.S. Department of Agriculture, Washington, D.C. 20250, U.S.A. Phone: (202) 447-3224.

Provide Access to Trade Opportunities: Located in 72 posts covering more than 100 countries, the Foreign Agricultural Service (FAS) assists foreign buyers and potential buyers by providing up-to-date information on trade opportunities. A weekly publication, "Buyer Alert," announces commodities available for sale by U.S. exporters, including complete product specifications, a bank reference, and information on how to contact the seller. A second weekly, "Export Briefs," (for domestic distribution only) lists products sought by foreign buyers. The FAS receives and disseminates approximately 4,000 trade leads each year. Electronic access to trade leads is also available. "U.S. Supplier Lists" are also available.

To list a request to purchase a product, contact the Foreign Agricultural Service representative at the nearest U.S. Embassy. To subscribe to publications, fill out and return the attached AIMS Subscription Request Form, or call (202) 447-7115, or write to Agricultural Information and Marketing Services, Room 4951, South Building, Foreign Agricultural Service, USDA, Washington, DC, 20250-1000, USA. For more information on this service, contact the Foreign Agricultural Service at (202) 447-3031 or 447-3416.

Provide Timely Market Research Information: The Economic Research Service offers timely analytical and statistical periodicals that can be used for market research, and to estimate trends in prices and demand for particular products or commodities in the U.S. and world markets. A partial publications listing is provided below.

"National Food Review" discusses the latest development in food prices, product safety, nutrition programs, consumption patterns, and marketing.

"Foreign Agricultural Trade of the United States" lists the quantity and value of U.S. farm exports and imports, and includes price trends.

"Situation and Outlook Reports" analyze and forecast many major agricultural commodities, including aquaculture, cotton and wool, dairy, feed, fruit and tree nuts, livestock and poultry, oil crops, rice, sugar and sweetener, tobacco, vegetables, and wheat.

"National Agricultural Statistics Service Periodicals" estimate production, stocks, utilization, and prices of dozens of agricultural commodities, most at a product-specific level.

"Food Consumption" lists per capita consumption and food expenditures, by commodity, 1966 - 87.

"AgExporter" provides information on foreign buying trends, new competitors and products, trade policy development, and promotion activities around the world.

For more information on these services, contact the Economic Research Service at (202) 786-1494. To order free publications catalog, call (within the U.S.) (800) 999-6779, or write to ERS-NASS, P.O. Box 1608, Rockville, MD, 20850, USA.

Assure Quality of Food Imported from the U.S.: The Food Safety and Inspection Service assures that meat and poultry products are properly labeled and U.S. inspected and approved. The Food Quality Acceptance Service assures, on a fee basis, that any product shipped overseas meets specific contract specifications.

For more information on the Food Safety and Inspection Service, write or call: Deputy Administrator, Food Safety and Inspection Service, U.S. Department of Agriculture, Room 341-E, Administration Building, Washington, DC, 20250, USA. Phone: (202) 447-3473.

For additional information on the Food Quality Acceptance Service, contact:

Dairy:	(202) 382-9382
Poultry and Egg:	(202) 447-3271
Fruit and Vegetable:	(202) 447-5840
Meat:	(202) 382-1113

Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230 USA

Assist Businesses to Locate Supply Sources: Operating in 66 U.S. embassies around the world, the U.S. & Foreign Commercial Service (U.S. & FCS) of the International Trade Administration disseminates information, including specifications and prices, on U.S. products. Most Foreign Commercial Service (FCS) offices have catalogues displaying a wide variety of agricultural and industrial goods. For assistance, contact the FCS office located in the nearest U.S. embassy.

A second department within Commerce also assists businesses to locate sources of U.S. goods. Trade Development, within the International Trade Administration, participates in trade fairs and other promotional activities. Inquiries about upcoming trade fairs should be directed to Trade Development at the address above, or by calling (202) 377-1461.

Obtain Credit Checks of Prospective Trading Partners: An additional service offered by the FCS is to check on the financial history of potential trading partners. Contact the FCS office in the nearest U.S. embassy for details.

Learn of Opportunities to Serve as Local Agents or Representatives: The FCS assists U.S. firms to locate agents and representatives overseas. To find out about opportunities to promote U.S. products, contact the FCS office in the nearest U.S. embassy.

Learn About U.S. Tourism Products and Packages: To receive attractive advertising material, and participate in travel trade shows, seminars, and familiarization tours, interested firms should contact the Tourism Marketing Division of the Travel and Tourism Administration, which is part of Commerce. Inquiries should be directed to Tourism Marketing Division, Travel and Tourism Administration, at the above address, phone: (202) 377-4752.

Export-Import Bank of the United States (Eximbank)
811 Vermont Avenue, NW
Washington, DC 20571
Phone: (202) 566-8871
Fax: (202) 566-7524

Eximbank is an independent U.S. government agency dedicated to facilitating the financing and purchase of U.S. exports. Eximbank provides a wide range of programs to achieve this objective including medium- and long-term direct loans to foreign purchasers and their financial intermediaries, medium-and long-term loan guarantees, and an array of credit insurance programs. In recent years, Eximbank has initiated several programs to support small- and medium-scale U.S. firms' export efforts.

Except for the direct loan program, and in rare cases the guarantee program, Eximbank services are contracted with either a bank or other financial intermediary providing export financing, or the exporter. The foreign buyer benefits from these programs indirectly, as Eximbank programs allow banks and firms to provide better financing terms.

In order to allow for effective financial planning, Eximbank will provide an Preliminary Commitment detailing, in advance of a particular transaction, the terms and conditions of loan/guarantee support. This commitment is valid for 180 days and is renewable at the discretion of Eximbank.

Apart from the direct loan program and the guarantee program, the foreign buyer rarely contacts Eximbank directly, but rather would direct his supplier or bank to do so in order to facilitate the financing. All programs require an $100 processing fee with application. Requests for applications and further information can be received from the Office of the Corporate Secretary at the above address and phone and fax numbers. Eximbank has no foreign offices.

Loan Programs

Eximbank has two loan programs, a direct loan program to foreign buyers of U.S. goods and an intermediary loan program to financial intermediaries. Both will cover up to 100 percent of the U.S. content, provided the total amount covered does not exceed 85 percent of the contract price of the transaction and the total U.S. content is not less than 50 percent of the contract price.

Direct Loans to Foreign Purchasers

Eximbank will lend directly to the foreign purchaser of U.S. capital equipment and services with repayment periods of 2 to 10 years. Borrowers from low and middle income countries, which would include most developing nations, are eligible for loans at less than market rates ranging from 8.3 to 9.65 percent per annum. Direct loans require evidence of foreign competition except for exports produced by small businesses where the loan amount is $2.5 million or less and the term is seven years or less.

Intermediary Loans

This program provides fixed medium- and long-term loans to financial intermediaries to finance the export of U.S. capital equipment and services. Loans of less than $10 million are priced at rates from 0.5 to 1.5 percentage points less than a market rate established by multilateral negotiations, provided that the intermediary lends to the foreign borrower at the minimum multilateral fixed rates. Loans greater than $10 million are lent at the multilaterally established market rate.

Guarantee Programs

Guarantee of Export Loans

Under this program, Eximbank will guarantee the repayment of fixed or floating rate export loans from U.S. or foreign lenders to foreign buyers of U.S. exports. The guarantee covers up to 100 percent of the financed portion and interest up to the Treasury rate plus 0.5 percentage points on fixed loans, and Prime minus 2 percentage points or LIBOR minus 0.25 percentage points for floating rate loans. Any responsible lender or borrower (foreign buyer) is eligible to purchase this guarantee, which is unconditional and freely transferable, based on pre-approval of documents. This program can be, and is often combined with an intermediary loan (usually for medium-term transactions.) The fee for the guarantee includes an up-front Exposure Fee based on term, country risk and category of borrower which is paid by the Exporter, but can be included in the export price. In addition, a Commitment Fee of 1/8 percentage point per annum is charged on the undisbursed balance of the guaranteed loan.

Working Capital Guarantees

Eximbank will guarantee export-related working capital loans to small and medium-sized U.S. based businesses. The guarantee can be for a single export-related loan or a revolving line of credit. With a Preliminary Commitment from Eximbank, the exporter can "shop" for a lender. The guarantee covers up to 90 percent of the principal amount and interest up to the U.S. Treasury rate plus 1 percent. Its fee includes an up-front Facility Fee of 0.5 percent of the loan and a Quarterly Usage Fee of 1/4 of a percentage point of the average outstanding balance.

Insurance Programs

Eximbank, through its agent, the Foreign Credit Insurance Association (FCIA) offers a broad range of credit insurance policies to cover the risk of non-payment on export credit transactions such as sales of products and services, leasing of equipment and consignments in foreign countries.

FCIA policies cover political and commercial risks of non-payment on short-term (up to 180 days) and medium-term (181 days to 5 years) export receivables. Political risks include war risk, cancellation of an existing export or import license, expropriation, confiscation of or intervention in the buyer's business, or transfer risk. Commercial risks cover nonpayment for reasons other than specified political risk.

Information and applications for Eximbank Export Credit Insurance can be obtained from Eximbank directly at the above address or from FCIA offices in five major U.S. cities listed below.

New York: (212) 227-7020
40 Rector St.
New York, NY 10006

Chicago: (312) 641-1915
20 North Clark Street, #910
Chicago, IL 60602

Houston: (713) 227-0987
Texas Commerce Tower
600 Travis, #2860
Houston, TX 77702

Los Angeles: (213) 687-3890
Wells Fargo Center, #2580
333 South Grand Avenue
Los Angeles, CA 90071

Miami: (305) 372-8540
World Trade Center
80 Southwest 8th Street
Miami, FL 33130

Office of the United States Trade Representative (USTR)
600 17th St. NW
Washington DC, 20506
Phone: (202) 395-3350
Fax: (202) 395-3911

USTR is the presidential office that coordinates U.S. trade negotiations. As most of its activities are focussed on negotiations, it provides only limited direct services to the private sector. However, as the agency supervising the United States Generalized System of Preferences (GSP), USTR does provide some informational services explaining how to export to the U.S. under GSP. GSP is a system of preferential tariff duties reserved for certain goods from developing countries. GSP is designed to help developing nations compete against more developed nations in the markets of industrial nations. Most other industrial nations have GSP programs as well.

USTR publishes a GSP guidebook entitled, The Guide to the U.S. Generalized System of Preferences. This book explains how the United States GSP operates, which countries and which goods are eligible and how an exporter can gain access to the system. In addition, the guidebook provides a comprehensive listing of GSP tariffs for eligible goods. This book is available directly from USTR at the above address.

In addition to the GSP guidebook, USTR provides occasional technical seminars overseas on GSP for private sector audiences. These seminars explain how to use GSP, what forms to fill out and how GSP coverage can be expanded. These seminars are organized on official request from foreign governments. Requests can be made through the U.S. Embassy, to USTR directly through Mr. Hiram Lawrence, Executive Director, GSP, at the above address or through the United Nations, which coordinates GSP informational services for member governments.

Overseas Private Investment Corporation (OPIC)
1615 M Street, N.W.
Washington, D.C. 20527 USA
Phone: (202) 457-7010 or (800) 424-6742

OPIC provides qualified businesses in over 100 developing countries with political risk insurance; loans and loan guarantees; pre-investment information and assistance; and special programs for contracting, exporting, energy exploration and leasing. Each of these programs is described below. For more information about OPIC, its programs and services, write or phone the Information Officer at the above address.

Political Risk Insurance

OPIC insures against inconvertibility; expropriation; and war, revolution, insurrection and civil strife. Inconvertibility coverage protects an investor against the inability to convert local currency into U.S. dollars. Coverage for expropriation compensates an investor in the case of confiscation or nationalization of an investment without fair compensation. Civil strife coverage, protecting an investor against losses due to politically motivated violent acts (but not student or labor riots) is available as a rider to war coverage. Typical rates are illustrated in the following table:

Coverage	Annual Base Rate per $100 of Coverage
Inconvertibility	$0.30
Expropriation	$0.60
War, Revolution, Insurrection	$0.60
Civil Strife Rider	$0.15

Since its inception, OPIC has settled more than 220 insurance claims totalling more than $466 million; it has denied only eight percent of the claims received.

An Insurance Registration Form is included on the following page.

Loans and Loan Guarantees

OPIC loans, available only for ventures sponsored by, or significantly involving, U.S. small businesses or cooperatives, usually range from $100,000 to $6 million. A small business is defined as a firm with annual gross sales below $120 million. Interest rates charged vary according to a project's financial and political risk.

In contrast, loan guarantees are available to all businesses regardless of size. The guarantee, covering both commercial and political risks, can range from $1 million to $50 million. Interest rates are comparable to those of other U.S. Government-backed issues. In addition, OPIC charges the borrower a guarantee fee that ranges from 1 1/2 to 2 1/2 percent, depending on a project's commercial and political risk, not its country of location.

Loan and loan guarantee repayment is normally made in equal, semi-annual principal payments following a suitable grace period. Maturity generally ranges from 5 - 12 years.

To obtain OPIC financing, the venture must be commercially and financially sound, within the demonstrated competence of the proposed management, and sponsored by an investor with a proven success record in the industry. OPIC can finance up to 50 percent of a new venture, and more of an expansion, but the debt/equity ratio should remain close to 60/40.

Pre-Investment Assistance

OPIC provides interested firms with information on the business environment in developing nations. The Investor Information Service (IIS) provides, for a nominal fee, information kits on over 100 countries, including materials covering the economies, trade laws, business regulations, political conditions, and investment incentives.

Investment Opportunity Matchmaking

OPIC sponsors investment missions to bring potential U.S. investors to developing nations. Host-country participants can utilize the missions to develop possible joint venture, subcontracting, or trading relationships.

In addition, OPIC operates a computer data system to match overseas investment opportunities with potential U.S. investors. Known as the Opportunity Bank, the database contains information on more than 4,000 potential U.S. investors seeking opportunities overseas, as well as 1,000 profiles of investment projects, located in developing countries, for which a joint venture partner is sought. Registration is free, and a modest fee is charge for "match" requests. To participate in the Opportunity Bank, fill out and return the Opportunity Bank Company Profile on the following page.

Special Programs OPIC offers contractors and exporters political risk insurance against the arbitrary or unfair drawing of letters of credit. Contractors and exporters may also obtain coverage against a government owner failing to settle a dispute in accordance with contract provisions. Special insurance and finance programs are also available for U.S. investors involved in oil and gas, oil shale, geothermal, mineral, solar, and other energy projects, as well as for U.S. investors involved in international leasing.

Eligibility Criteria for OPIC Assistance

OPIC programs are available only if:

1) The investor's project is a new venture or an expansion of an existing enterprise;

2) The project is located in a developing country where OPIC operates;

3) The project will assist in the social and economic development of the host country;

4) The project is approved by the host government; and

5) The project is consistent with the economic interest of the U.S. and will not have a significant adverse effect on the U.S. economy or U.S. employment.

In addition, the following general restrictions and guidelines apply.

Insurance. OPIC can only issue insurance to "eligible investors," who are defined as citizens of the United States; or U.S. firms of at least 50 percent U.S. ownership; or foreign firms at least 95 percent owned by investors eligible under one of the other two criteria. OPIC will insure no more than 90 percent of an investment plus earnings, thus the investor must bear 10 percent of the risk. OPIC insurance is not available retroactively. Investors must obtain an OPIC insurance registration letter before the investment has been made or irrevocably committed.

Finance. Direct loans are issued only for investment projects sponsored by, or significantly involving, U.S. small businesses or cooperatives. Loan guarantees are issued to U.S. lenders having over 50 percent U.S. ownership, or foreign lending institutions that are at least 95 percent U.S. owned.

REQUEST FOR REGISTRATION FOR POLITICAL RISK INVESTMENT INSURANCE

[illegible]
3420-0001
[illegible]

PRIVILEGED BUSINESS INFORMATION

OVERSEAS PRIVATE INVESTMENT CORPORATION
(An Agency of the United States Government)
Washington, D.C. 20527
Telephone: (202) 457-7059

Registration letters will not be issued for any investment which has been made or irrevocably committed prior to the date of this request. An investor wishing to proceed to make a commitment, but also to protect its eligibility for insurance coverage with respect to a new investment, should notify OPIC of its intention to invest by submitting this form to OPIC. A registration letter issued by OPIC does not constitute an assurance that political risk insurance will be issued. For such insurance to be issued the investor must submit a complete application for insurance (wherein the information submitted below may, if necessary, be amended) and the investment must meet all statutory and policy requirements.

1. Applicant:

Company Name ____________________

Address ____________________

City ________ State: ________ Zip Code: ________ Tel.: ( )

Name of parent company, if any ____________________

Applicant's most recent consolidated annual sales: $ ________ Net Worth: $ ________

Company Contact: ________ Title: ________ Tel.: ( )

2. Broker and/or Authorized Representative:

Do you wish to designate a U.S. licensed broker or agent as the broker of record for this project and/or appoint an Authorized Representative with whom you would like OPIC to deal? (Note: do not designate any individual associated with your firm.) ☐ Broker only ☐ Authorized Representative only ☐ Broker and Authorized Representative

Name ________ Title: ________

Company Name ____________________

Address ____________________

City ________ State ________ Zip Code ________ Tel. ( )

3. Applicant is:

____ U.S. citizen

____ Entity organized and existing under the laws of the U.S., or any State or Territory thereof, and at least 51% beneficially owned by U.S. citizens (organized or incorporated under the laws of the State of ________); or

____ Foreign subsidiary 95% or more owned by such a U.S. entity

4. Country of Investment: ____________________

5. Foreign Enterprise (Recipient of the proposed investment)

A. Name: ________ (Local Contact ________)

Street ____________________

City: ________ Country: ________

B. The Foreign Enterprise is:

____ New or

____ Existing and being improved or expanded. (If any part of the investment is for acquisition of any existing business assets or stock, explain in detail in an attached statement.)

C. Form of business organization and place of organization: ____________________

6. Investment to be made by applicant:

Amount

$ ________:
consisting of:
Cash $ ________
Machinery* $ ________
Other (Describe) $ ________

*New ( )
Used ( )

Form

Equity $ ________
Loan/Loan Guaranty $ ________
Technical Assistance $ ________
Bid, Performance or Advance Payment Guaranties $ ________
Other (Describe) ________ $ ________

Coverage Requested

Inconvertibility ( )
Expropriation ( )
War, Revolution, Insurrection and Civil Strife ( )
Business Income ( )

7. Project: (Briefly describe the nature of the project to which the investment will be applied, including product or service rendered.)

____

Project Location ____________________

8. What investment, if any, will the host government have in the Foreign Enterprise?

____

9. Will more than 50% of total project cost be expended in developed countries other than the United States?

____ Yes ____ No

10. Will the investment or project cause, or be associated with, the replacement or reduction of U.S. production or employment?

____ Yes ____ No

11. OPIC provides various financial services to qualifying foreign investments, including direct financing and loan guaranties. Do you wish more information about these financial services?

____ Yes ____ No

I hereby affirm that no portion of this investment has been made or irrevocably committed as of the date appearing below.

Applicant ____________________ By: ____________________

Date ____________________ Title: ____________________

OPIC 32
[illegible]

OPIC

Opportunity Bank Company Profile

1615 M Street, N.W., Washington, D.C. 20527
202/457-7200

The following data will allow us to register your firm in our Opportunity Bank. All information provided may be made available to other Opportunity Bank clients requesting investment data related to your interests.

Please print or type.

Today's Date ____________________

Company Contact:

Name ____________________

Title ____________________

Company ____________________

Year Company Established ____________________

Address ____________________

City ____________________

State ____________________ Zip ____________________

Telephone ____________________ Telex/Cable ____________________

Parent Company ____________________

1. Please check the following selections which best indicate your current situation. Is your company a . . .

	YES	NO
a) current OPIC client?	☐	☐
b) past OPIC client?	☐	☐
c) current overseas investor?	☐	☐
d) current overseas exporter?	☐	☐

2. List the major products and/or services of your company:

____

____

____

____

3. List all countries in which your company is active, and those in which it has future interest:

Current active countries:

____

____

____

Future interest countries:

____

____

____

4. List nature of your overseas investment activities:

☐ Equity Investment
☐ Contracting of Services
☐ Licensing
☐ Turnkey Project
☐ Management Assistance
☐ Equipment Supply
☐ Technical Assistance
☐ Leasing
☐ Exporting

5. Describe your project interests:

____

____

____

____

____

____

____

6. Please check the amount available to invest in a project:

☐ $100,000 or less
☐ $100,000 to $300,000
☐ $300,000 to $1 million
☐ $1 to $5 million
☐ $5 to $10 million
☐ $10 million or more

7. Your company's annual sales as of ____________________.
month year

☐ $500,000 or less
☐ $500,000 to $1 million
☐ $1 to $10 million
☐ $10 to $50 million
☐ $50 to $125 million
☐ $125 million or more

Your company's annual net worth as of ____________________:
month year

☐ $500,000 or less
☐ $500,000 to $1 million
☐ $1 to $10 million
☐ $10 to $50 million
☐ $50 to $125 million
☐ $125 million or more

8. Please check the number of employees you have in your company:

☐ 50 or less
☐ 50 to 150
☐ 150 to 300
☐ 300 to 500
☐ 500 to 750
☐ 750 or more

Thank you for your cooperation

Trade and Development Program
Room 309, SA-16
Washington, D.C. 20523-1602 USA
Phone: (703) 875-4357
Fax: (703) 875-4009

The Trade and Development Program (TDP) provides U.S. investors with interest-free financing for feasibility studies and other planning services for projects in developing countries. TDP also funds project assessments for foreign governments for projects that are likely to result in large purchases of U.S. technology if implemented.

Each year, TDP lends approximately $19 million to study 90 to 100 projects. Recent projects planned with TDP financing include irrigation in Algeria, coal gasification in Brazil, port development in Gabon, airport management in Pakistan, and electrical transmission in Thailand.

TDP Services

TDP finances five types of project planning services.

Definitional studies make an initial assessment of a public sector project at the early "idea stage," in order to determine whether or not to pursue further planning services.

Pre-feasibility studies are preliminary technical, economic and financial analyses to assess whether a project should be undertaken.

Feasibility studies determine the technical, economic, and financial feasibility of a project. A feasibility study includes an engineering analysis, a cost-benefit analysis, a cash-flow assessment, and a marketing plan.

Technology symposia bring together project planners with sources of U.S. technology, and often include site visits.

Technology orientation missions allow key host country decision-makers to visit potential U.S. suppliers.

TDP Financing Options

TDP pays either all, part, or none of the costs of project planning, depending on the circumstances. The program co-finances planning services for projects in which a private U.S. investor intends to have an equity participation. In those cases, TDP usually makes a 4-year, interest-free loan to cover 50 percent of the cost of the feasibility study. TDP fully funds feasibility studies for major public sector projects. If TDP coordinates technical assistance on a government-to-government basis, all costs are borne by the recipient country.

Criteria for Funding Eligibility

A project is eligible for TDP participation if:

1) The project is high on the list of development priorities of the host country;

2) The project involves substantial procurement of goods or services (i.e., evidence of likely minimum procurement from U.S. sources of 75 to 100 times the TDP expenditure within 5 years);

3) Funding for project implementation is available and open to U.S. firms or agencies; and

4) Planning services facilitate the use of U.S. technology. (TDP will not finance projects if it is likely that U.S. technology would be used without TDP involvement, or if U.S. technology is unlikely to be employed regardless of TDP involvement.)

A country is eligible for TDP planning services if it is a "friendly country" as determined by the Department of State, and is likely to allocate substantial resources for procurement of foreign goods and services for major development projects.

Additional Information

Inquiries concerning TDP should be directed to the address listed above.

International Finance Corporation (IFC)
1818 H St. N.W.
Washington, D.C. 20433 USA
Phone: (202) 477-1234
Fax: (202) 471-8164

The IFC, an affiliate of the World Bank, is the largest source of direct project financing for private investment in the developing world. Its primary objective is to raise capital needed for business ventures in developing countries by serving as a bridge between international capital markets and local businessmen. The IFC will participate financially in a minority position, through a broad array of financial instruments, but more importantly works to obtain the participation of other investors. The IFC does not compete with or replace private initiative or capital, but rather works to raise funds for viable projects that otherwise would be held back because adequate funding is unavailable.

Eligibility

The primary criteria for IFC participation are that the project have realistic prospects of being profitable and that it will benefit the economy of the host country (financial and economic profitability). Any type of private enterprise in a developing country that meets IFC investment criteria is eligible. The IFC will also participate in joint ventures between private and government entities, but each case is evaluated regarding the extent of government control, the nature of the enterprise, efficiency of management and the possibility of increasing the extent of private ownership and control in the future.

In addition to financial and economic profitability, IFC investment criteria are also based on the ownership structure of the enterprise. IFC will never invest alone, and will not finance any venture for which, in its opinion, sufficient private capital can be obtained on reasonable terms. Immediate or eventual local participation is required. Finally, the IFC attached great importance to the extent of the sponsor's participation in the share capital of an enterprise.

IFC Direct Investment Programs

IFC investments for its own account are usually limited to no more than 25 percent of the project cost, and generally range between $1 and $50 million. However, investments less than $1 million are possible for projects in smaller and least developed countries, pilot operations, and promotional companies.

Possible IFC investment vehicles include both equity and loans. Normally, the IFC prefers to make both an equity investment and loan, but when appropriate, will provide just a loan or just equity. Equity investments are limited to 25 percent of the share capital. The IFC typically seeks to sell its equity share once an investment matures. Loans, usually denominated in U.S. dollars, are offered at both fixed and flexible rates. Rates are determined on a commercial basis. Terms and grace periods are designed to accommodate the cash flow needs of each venture. Overall terms usually range from 7 to 12 years.

Financing and Technical Services

In addition to its own financial contribution to private sector projects the IFC provides services to help ventures obtain needed capital from other sources, and provides a range of technical services. The IFC helps to structure financial packages, and acting as a catalyst, brings in other lenders and shareholders. In many cases, it also coordinates financing from foreign and local banks, export credit agencies and other institutions. In short, the IFC operates like an international investment bank specializing in the private sector of developing countries.

Syndication

The IFC has developed a participation instrument to facilitate the syndication of large loans. Under the participation agreement, there is a single agreement between the borrower and the IFC. However, the loan has two parts, one funded by the IFC subject to IFC conditions, the other funded by participants and subject to their particular conditions, with each participant entering into a separate agreement with the IFC. Although the participant (usually a bank) accepts the credit risk on their funds, any default by the borrower is treated as a direct default to IFC. Since default to an international agency such as the IFC can have more serious repercussions than default to a private institution, the possibility of default due to transfer or political risk is lessened.

Underwriting and Contingent Financing

The IFC can provide underwriting services in support of both public offerings and private placements of shares, or other corporate securities. In certain circumstances, the IFC can also provide contingent financing, full or partial guarantees of other sources of financing, and help arrange liability swaps.

Technical Assistance

Apart from the sizeable technical assistance provided in the course of appraising and monitoring individual projects, the IFC has several specific technical assistance programs. These include the Africa Project Development Facility (APDF) and the Caribbean Project Development Facility, which help local businesses in these areas develop sound investment projects and find financing. The IFC also provides advice on a fee basis, independently of project financing. These services include assistance with corporate restructuring, privatization and business plan evaluation.

Application Procedures

There is no standard form of application for IFC financing. A company or entrepreneur, foreign or domestic, can approach IFC directly by requesting a meeting or by submitting preliminary project or corporate information. The IFC can be contacted at its headquarters in Washington at the above address, at 10 regional offices in developing countries, including Abidjan, Bangkok, Cairo, Casablanca, Istanbul, Jakarta, Lagos, Manila, Nairobi and New Delhi, or at offices in major international capital markets, including Tokyo, London and Paris. After a preliminary review, the IFC will request a detailed feasibility study or business plan to determine whether to appraise the project.

An appraisal team is sent out to fully evaluate the technical, financial and economic aspects of the project. An appraisal team includes an investment officer with expertise of the country in which the project is located, and an engineer with the relevant technical expertise. The process entails visits to the proposed site of the project and extensive discussions with the project sponsors. Based on the appraisal team's recommendations, senior IFC management will determine whether financing is merited. If financing is approved, legal documents are drafted. Outstanding issues are negotiated with the company, government or financial institutions involved and the project is submitted to the IFC's Board of Directors for approval.

Multilateral Investment Guarantee Authority (MIGA)
1818 H St. NW
Washington, DC 20433 USA
Phone: (202) 473-6188
Fax: (202) 334-0265

MIGA, the newest member of the World Bank Group, is dedicated to promoting foreign investment in developing countries by providing:

-- guarantees to foreign investors against a range of political and legal risks; and

-- advisory and investment promotion services to developing member countries on means to improve their attractiveness to foreign investment and to increase investor awareness of opportunities in these countries.

Guarantee Program (Political Risk Insurance)

MIGA offers guarantees (insurance) against loss caused by non-commercial risks to eligible investors on qualified investments in developing member countries.

Four types of guarantees are available including:

(1) **Currency Transfer.** Protects against losses resulting from changes in exchange controls affecting the conversion of local currency into freely usable currency.

(2) **Expropriation.** Protects the investor against losses incurred due to government measures which deprive the investor of ownership or control of his or her investment. Both direct and "creeping" expropriation are covered.

(3) **War, Revolution and Civil Disturbance.** Protects against losses from damage to physical assets and business interruption arising from a military action or civil disturbance in the host country.

(4) **Breach of Contract.** Protects the investor against losses resulting from a repudiation or breach by the host government of a contract.

These guarantees can be purchased individually or as a package.

Premium Rates and Duration of Coverage

Premium rates are determined separately for each project and are dependent on MIGA's assessment of several variables, including the type of guarantee requested and the type of project to be insured. Rates for each type of risk range from

0.3 to 1.5 percent of the amount of guarantee per annum. If the applicant chooses tc buy a "package" of guarantees, MIGA may give a discount on the sum of the individual rates.

The Contract of Guarantee is normally issued for a maximum of 15 years, but can be extended to 20 years in special circumstances. The contract may be terminated by the investor at any time after the third year of the contract. MIGA cannot terminate the contract except in the case of non-payment of premiums.

Eligible Investors and Investments

MIGA insures new investments between member countries where the investment project is located in a developing country. (Not all developing countries are members. The Philippines has signed the MIGA agreement, but has not ratified it, i.e., paid its share of the agency's capital.) Both equity as well as loans and loan guarantees made by equity holders are eligible for MIGA coverage. In addition, some non-equity forms of direct investment are also eligible, such as technical and management contracts, and franchising and licensing agreements, provided that they have terms of at least three years and the contractor-investor's remuneration will depend substantially on the assisted project's operating results.

MIGA can insure up to 90 percent of the investment amount, subject to a project limit, currently set at $50 million. There is no minimum investment amount required.

Eligible investors must be national of a member country, while a corporation is eligible for coverage if it is either incorporated in and has its principal place of business in a member country, or if it is majority-owned by nationals of member countries. State owned enterprises are eligible if they operate on a commercial basis.

MIGA's Board of Directors may extend eligibility to investors who are nationals of the proposed host country of an investment if they finance the investment with resources transferred from abroad.

How to Obtain a Guarantee

Issuance of a MIGA Contract of Guarantee is a three step process, requiring (1) the submission and approval of a **Preliminary Application for Guarantee;** (2) the submission and approval of a **Definitive Application for Guarantee**; and (3) **Host Government Approval.**

If the investment and investor are provisionally eligible, a Definitive Application for Guarantee is sent to the investor. The Definitive Application provides information for MIGA to determine investor, investment and project eligibility, including: details of the investment to be insured, the types of guarantees desired, the economic and developmental effects of the project on the host country, and data detailing the economic viability of the project.

Before MIGA can issue a Contract of Guarantee the approval of the host government must be obtained. This is normally requested by MIGA, and the request will not be initiated until the investor so authorizes.

Further Information: Contact Mr. Leigh P. Hollywood, Vice-President, Guarantees, at the above address and telephone and telefax numbers.

Advisory and Promotional Services

Operating under MIGA's Policy Advisory Service (PAS) department, MIGA provides both an investment advisory service to developing country member countries and investment promotion activities.

In cooperation with the IFC, MIGA operates the Foreign Investment Advisory Service (FIAS). FIAS provides technical assistance to developing country governments on how to improve the climate for foreign investment both through policy reforms and institutional changes.

Promotional activities include the organization and partial financing of investment missions of potential foreign investors to member developing countries. These missions are designed to inform foreign investors of the opportunities in developing countries and to put them in contact with potential partners and suppliers, as well as relevant government officials.

Requests for these advisory and promotional services should be directed to Mr. Ghassan El-Rifai, Vice-President, Policy Advisory Services at the above address and telefax number. Mr. El-Rifai's telephone number is (202) 473-6162.

Appendix E

APPENDIX E

BIBLIOGRAPHY

A growing body of literature provides insights into various aspects of trade and investment initiatives. The following sources are recommended for those seeking more detailed information and analyses.

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