

DESIGNING TRADE & INVESTMENT STRATEGIES

A Training Program



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INTRODUCTION

I RATIONALE FOR TRADE AND INVESTMENT PROGRAMS

A. Private Sector Development as an Engine of Economic Growth

In today's competitive international economy, expanded trade and investment (TI) is key to a more efficient and productive private sector. This is particularly true in the Third World where a strong and vigorous private sector is needed to propel economic growth. Increasingly, outward-oriented development strategies are seen as vital to lowering debt burdens and alleviating stagnation in developing countries. As a result, growing emphasis is being placed on TI promotion by both donor agencies and host country governments in their development strategies. The expected outcomes include job creation, foreign exchange earnings, increased flow of foreign investment, improved balance of payments, and greater diversification and international competitiveness of the productive base.

B. Why Interventions are Needed for Expanded Trade and Investment

Conventional economic theory argues that a developing country can achieve a more outward-oriented economy by changing unfavorable economic policies. While creating favorable policy environments is of critical importance, promotion and business support are also effective instruments for expanding trade and investment. Indeed, where there are large policy distortions, a country can rarely afford to wait for a perfectly rational policy environment to be achieved before promoting outward-oriented development.

Lack of access to technology and business know-how, and flawed information about opportunities are among the primary barriers to expanded trade and investment in developing countries. This barrier is a learning process which firms desiring to successfully enter the international market must undergo. With regard to exports, this learning process begins with acquiring knowledge of market opportunities followed by development of the capability to produce to buyers' specifications and, finally, learning what is entailed in the actual exporting process (shipping, customs, etc.)

Similarly, both foreign and local investors must learn the various steps to be taken to bring a project to completion. This learning process takes time and requires the kind of assistance supplied by business service providers. In this line of reasoning, providing business services that help individual firms move along this learning curve is justified, not only in the economic argument as a way to address the otherwise prohibitive cost to an individual firm of pioneering exports, but also as a means of counteracting disincentives to new investment. In most developing countries, intervention is justified because the local business community can not support the development of the specialized business services firms need in order to expand internationally.

Enterprise learning problems are most acute in the initial phase when firms are acquiring the basic information and know-how required to operate successful export businesses or to complete investment projects. In the early stages, the role of catalytic agents of innovators - - firms or individuals who possess the necessary information and know-how to make an export business or investment project work - - are critical. These catalytic agents often create pressure on governments to change unfavorable policies. Therefore, assistance interventions, by identifying and/or providing business services, can promote trade and investment directly and, indirectly, move governments toward modifications of inappropriate policy environments.

C. The Process of Trade and Investment Expansion

In order to establish effective trade and investment programming, public sector or private, non-profit institutions must decide which types of assistance programs are needed when helping private sector enterprises. Business service may include helping to attract foreign investment to developing countries, assisting individual firms with direct exports, or helping develop business linkages with foreign firms for technology or capital. This training program is organized to review issues relevant to the process of trade and investment expansion, including

- Designing Trade and Investment Programs
- The Needs (and Motivation) of the Enterprise
- Organizing the Service Mix to Promote Trade and Investment
- Intermediary Organizations
- Issues of Pricing and Fees
- Managing Private Sector Trade and Investment Strategies
- A I D Experience in Trade & Investment Promotion

**II. AN APPROACH FOR DESIGNING
TRADE AND INVESTMENT PROGRAMS**

At the end of this session, participants will

- 1 have a clear definition of trade and investment programs,
2. know the factors utilized to assess country context,
- 3 understand how the country context shapes possible strategies,
- 4 be aware of the importance of clarifying the desired transaction

A Definition of Trade and Investment Programming

For our purposes, trade and investment (TI) programming is defined as a set of services offered ultimately to an individual or firm to help it pursue a specific transaction such as exporting or executing a foreign investment. The simplest way to conceptualize trade and investment programming is to think of it relative to what transaction the beneficiary of the services is expected to accomplish, namely an export, investment, or formation of a joint venture or coventure. (While joint ventures involve equity-sharing, "co-ventures" refer to all other types of non-equity sharing cooperative relationships such as licensing agreements, production sharing, etc.) This approach of defining trade and investment services in terms of the transaction desired is a simple and practical typology for analyzing and designing TI programs.

Trade and investment programs are a collection of services supplied to particular enterprises to achieve specific goals.

Helping a firm export a product requires a very different set of services than does assisting a foreign firm in making a decision to invest. Linking medium-sized firms for non-traditional international business activities such as joint ventures is also quite distinct although there is some overlap with the requirements of export promotion and investment attraction. One reason to separate joint and coventures as major types of transactions is that services provided to both U.S. business and to local firms are often more complicated and of longer duration than traditional export promotion or investment attraction services.

Differentiating between export and investment promotion when analyzing and designing TI strategies is sometimes confusing since new investment, such as an investment in a free zone, often leads to exports. Similarly, export promotion and joint venture development usually lead to investment. The purpose of this design typology is to differentiate between export promotion programs, which deal mainly with helping local firms build the capacity and networks to export their own products, and investment attraction programs, which look outward to attract a foreign firm, usually by promoting the attributes of the host country and providing facilitation services to prospective investors. Complicating this distinction, however, is the fact that many organizations may house both investment attraction and export promotion activities. When both are housed together, there is a need to

carefully segregate activities and design different organization and control structures for each function

An important aspect of design is to clarify and distinguish the dramatically different services needed to assist a local exporter from those used to attract general investors, foreign investors, and to build joint and coventures

B. The Country Context Dictates the Possible Strategies

The first step in designing any TI intervention is an assessment of the country context. This context is comprised of many factors. Physical infrastructure affects business development, while the policy environment provides incentives or disincentives to engage in export or investment transactions. Often, the technical infrastructure (the presence of laboratories, training institutions, and other such organizations) is critical for the local business community to flourish or to attract foreign investment or technology transfer. Much has been written about the interrelationship of policies, natural resources and many other factors that make up the country context. This study acknowledges the critical aspect of the country context and argues that, in unfavorable contexts, some aspects of TI programs will probably not work.

At the simplest level, it is possible to categorize country contexts as favorable or unfavorable. Finer classifications can be drawn for more accurate positioning of different country environments, and can be helpful in making design choices. Even large amounts of funds will not be able to establish an effective investment attraction program in an unfavorable business context.

In contrast, an export promotion or coventure strategy that builds off local business capabilities is more likely to be successful in a difficult environment because the transaction desired does not rely on major risk involvement from a foreign firm. Many countries with difficult, or obviously undesirable investment environments, have pursued investment attraction programs with little success. But their programs to increase the capabilities of local firms to export or link with foreign firms for technology sharing or co-production have had some positive results. Hands-on export promotion and joint venture/coventure strategies had the best chances of success in countries with unfavorable country contexts, while investment attraction programs were successful only in more favorable country contexts, as illustrated in the following diagram.

II. AN APPROACH FOR DESIGNING TRADE AND INVESTMENT PROGRAMS

| | | COUNTRY CONTEXT | | |
|-------------|--|-----------------|--------------------|-----------------------|
| | | EXPORT | JOINT AND COMBINED | INVESTMENT ATTRACTION |
| FAVORABLE | | ✓ | ✓ | ✓ |
| UNFAVORABLE | | ✓ | ? | X |

The country context is a crucial issue to consider in designing trade and investment programming in order to avoid applying previously successful models to inappropriate country contexts. For example, the original structure of CINDE in Costa Rica was successfully aimed at attracting US firms to invest in free zones in that country. The organization, staffing and services developed were all geared to helping the US firm gain general information about Costa Rica, organize reconnaissance visits, and facilitate the firm in its decision-making and regulation-clearing with the government. The organization annually budgeted between 4 and 7 million dollars to maintain overseas offices in the US and Europe. These offices were staffed by Costa Ricans who could effectively communicate the reality of their home country business environment. This strategy, however, would not work in a country with an unattractive investment environment, nor would this organizational structure be appropriate to support the industry specific needs of local firms in export promotion or capacity-building.

In the last few years, CINDE has developed a new export promotion and capacity building program. This has required a different organizational structure and staff to channel industry experts and consultants into Costa Rica to work with the various industries. This inward-focused program uses very different services, networks and types of staff from those of the investment attraction program originally launched.

C. Clarifying the Desired Transaction

Trade and investment programming must ultimately affect individual firms. Whether a program provides financing, information, or technical assistance, it is designed to cause individual firms to take a certain action, i.e. to export, make an investment or form a joint or coventure.

Program planning is most effective when it is clear about the type of transaction it is trying to foster – exports, foreign investment or other international business linkages including joint ventures and coventures (contractual arrangements such as licensing, coproduction agreements, etc) However, in order for an enterprise to receive the most effective services, its practical needs must be identified, as discussed in the following section

III. THE NEEDS OF THE ENTERPRISE

At the end of this session, participants will

- 1 understand how the needs of the enterprise are served by trade and investment,
- 2 know the motivations that drive all trade and investment,
- 3 learn how trade and investment services match clients' needs and the transaction focus
- 4 review the phases of the project cycle and how trade and investment services assist an enterprise through all phases

A Identifying The Needs of the Enterprise

At the general level, action by an enterprise can be described as a decision-making process that begins by identifying a gap that exists between the company's present situation and an alternative future position. That gap must be clearly identified in terms of its root causes and the type of action necessary to achieve overall company goals. For example, a potential exporter must gain information that a specific export market exists, what equipment changes he will have to make, and how these investments will help him gain access to the potential market and generate the expected new income. To move from general gap identification (the identified opportunity) to actual new investment and business activity, a company must gather information for business plans, search out possible partners and financing options, investigate feasibility, and actually start up the new plant or product activity.

B Motivations of the Enterprise that Drive Trade and Investment

Companies are usually motivated to pursue trade and investment strategies by a desire to lower cost, acquire a new market position (with new products, new geographic expansion or other market differentiation), or to identify ways of gaining unexpected revenues (licensing, technical assistance agreements, sale of used equipment, etc).

The Same Basic Motives Drive All Trade and Investment

- To Lower Costs
- To Develop and/or Expand Markets
- To Gain Unexpected or Surprise Revenues

C. Trade and Investment Services that Meet Clients' Needs

Companies require a wide range of information, assistance and, especially, access to business networks to move them through the sequential steps of project development. Many trade and investment programs have failed to understand that identifying market opportunities and locating distribution channels or buyers is not enough. Clients in both developing and developed countries must also be assisted in improving their ability to capture these markets or invest abroad. This requires specialized technical assistance. Thus, in order to move the client move through the project development sequence the project cycle -

III. THE NEEDS OF THE ENTERPRISE

from opportunity identification to start up, programs must provide a comprehensive and appropriate set of services

Considering the different services required to support specific transactions, it is possible to loosely characterize any trade and investment program as a set of services that help a company move through the project cycle for a particular transaction, as illustrated below

TRADE AND INVESTMENT PROMOTION SERVICES THAT MATCH NEEDS OF CLIENTS AND TRANSACTION FOCUS

| CLIENT NEED / | TRANSACTION | | |
|---------------------------------|--|---|---|
| | EXPORT | JV/CV | INVESTMENT PROMOTION |
| Idea Clarification | Market research to identify business/export opportunity (local firm) | Identification of surprise revenue source through licensing of technology (developed country firm) | Investment Opportunity promoted (foreign firm) |
| Preplanning & Qualification | Market study for specific products (local firm) | Analysis of firm's needs and planning assistance (local/ foreign firms) | Information on business climate and investment incentives in particular country (foreign firm) |
| Search for Partners & Resources | <ul style="list-style-type: none"> • Locate distributors, brokers or buyers • Attend trade shows with products (foreign/local firms) | <ul style="list-style-type: none"> • Identify comparable firms • Brokerage Services (local/foreign firms) | <ul style="list-style-type: none"> • Locate appropriate sites of factory space • Support visits to country (foreign firm) |
| Detailed Feasibility | TA to improve product design and quality for export market specifications (local firms) | <ul style="list-style-type: none"> • Grant to cover travel or feasibility expenses • Deal-making assistance (local foreign firms) | <ul style="list-style-type: none"> • Grant for feasibility studies (local/foreign firms) |

The Project Cycle is characterized here by four distinct cycles. Regardless of the transaction focus (i.e. export, joint or coventure, or investment promotion), each company graduates from cycle 1 to 4 along the learning curve. For example, when the transaction focus is on exporting, the initial stage (i.e., idea clarification) involves the trade and investment (TI) service of extensive market

research to identify business and export opportunities. The second cycle (i.e. preplanning and qualification) involves the TI service of a market study for a specific product that the local firm shall produce for export. Once the opportunity has been identified and the specific product chosen, the third cycle (i.e. a search for partners and resources) commences. At this stage, the exporter is in need of the TI service of locating distributors, brokers, or buyers. This stage involves attending trade shows to introduce to potential partners the specific product intended for export. The fourth stage (i.e. detailed feasibility) requires the TI service of technical assistance to improve the design and quality of the export product so that it can be produced according to the specifications needed by the export market. By providing a unique bundle of services for a given transaction focus, TI services can assist the enterprise in moving along the learning curve to achieve desired goals. Although the specific TI services required by joint/coventures and investment promotion differ from those of the export transaction described above, each transaction requires a customized set of services to be utilized at each stage of the project cycle.

CONCLUSION

Many obstacles may inhibit a firm from moving through a project cycle to get a new venture moving. Scarce management expertise, limited financial resources and the inability to acquire or use information are major impediments. Also important is the psychological reluctance to attempt international business and the inability to plan effectively. These types of needs can be addressed by different TI program services. The design challenge lies in organizing a program that can package and deliver the most critical services in a way that enables a company/beneficiary to move through all the steps of the project cycle. Providing just one type of assistance - such as information - may be fruitless if the company can't remove other key constraints.

On a more industry-wide level, the need to provide business services to fledgling export sectors in developing countries is fairly evident. Until a country is able to achieve a basic level of success in exports of particular products, the cost to individual entrepreneurs of acquiring the necessary know-how to export (including specific information about product design, quality control, packaging, pricing, production processes, etc.) is very high. However, once a few successful export operations are established, the costs to other businessmen of replicating such success are considerably lower because sources of information and know-how are then available locally (and can often be acquired by hiring workers and managers away from the pioneering firms). Furthermore, once the learning process is underway, entrepreneurs benefit from increasing returns to scale from information acquisition and training. This is frequently demonstrated by a rapid acceleration of export sales once firms reach a certain point on the export learning curve.

IV **ORGANIZING THE SERVICE MIX TO
PROMOTE TRADE AND INVESTMENT**

At the end of this session, participants will

- 1 learn the major trade and investment services packaged in a program,
- 2 understand trade and investment goals and the focus of client support;
- 3 review several examples of trade and investment programs with differing objectives (export, investment, joint or co-ventures),
- 4 discuss findings of several trade and investment programs

A Major Trade and Investment Services Packaged in a Program

The provision of business services to firms, whether or not explicitly stated, is usually a major focus of TI programming. Services may be provided by a host of sponsors including governments, private institutions, and non-profit organizations. Services provided by governments include commercial representation abroad, publishing and disseminating trade statistics and information gathering. They also help to arrange participation of local exporters in specialized trade fairs. (It has been recommended that the activities of government organizations be limited to these types of services, arguing that more specialized technical assistance is best supplied by private sector service providers.) In the following section, there are summary examples of a number of different trade and investment programs including state government programs, the US & Foreign Commercial Service and a variety of AID supported initiatives. The examples are categorized into programs dealing primarily with export promotion, investment attraction, joint and coventure programs, and programs with combined approaches. The success and structure of the different programs is dependent, to a significant degree, on how they build services that are aimed at national firms, (export promotion), are directed outward (investment attraction) or which need to match local firms with foreign firms for nontraditional joint and coventures.

The investment attraction organizations (e.g. the Irish Development Authority (IDA)) tend to provide general information and investment facilitation services to foreign firms. Organizations which focus more on supporting local firms in exports (e.g. ProChile) or forming technology linkages abroad (e.g. Fundacion Chile) must offer much more industry-specific technical assistance that normally deals both with improving the local firm's production capability and ability to plan and execute new business transactions. The International Executive Service Corps (IESC) program supporting exporters and joint venture formation in Morocco uses volunteer industry experts to work in different industries to provide highly targeted assistance that moves the beneficiary through strategy development, partner searches, market identification, and up to and even including start up of new technology and production processes.

Investment attraction programs usually offer general information and facilitation services. Export promotion and formation of joint and coventures requires more industry-specific technical assistance.

The assorted service mixes of various trade and investment organizations can be loosely categorized into the following general list of major service choices

MAJOR TI SERVICES/PROGRAMS PACKAGED IN A PROGRAM

- **INFORMATION (TRADE AND OPPORTUNITY IDENTIFICATION)**
- **TECHNICAL ASSISTANCE (MARKETING AND PRODUCTION CAPABILITY)**
- **FINANCING AND GUARANTEES (CREDIT AND EQUITY)**
- **GOVERNMENT INCENTIVES (E G TAX OR DUTY RELIEF)**
- **PROMOTION ASSISTANCE (TRADE SHOWS, MISSIONS, FAIRS, ETC)**
- **SEARCH FOR PARTNERS AND RESOURCES (NETWORKING)**
- **EDUCATION AND TRAINING**
- **EXPORT AND INVESTMENT PROCESSING ASSISTANCE (CUSTOMS APPLICATIONS, ETC)**
- **MAJOR PROJECT FACILITATION (BIDDING SUPPORT, FEASIBILITY STUDIES, J V BROKERAGE, ETC)**

B Examples of Various Approaches in Developed and Developing Countries

In this section we will describe a variety of programs, using the analytical framework just developed to better illuminate types of services provided and other programmatic issues. Unfortunately, the ability to draw lessons from this examination is limited by the information available. First, little has been written on specific countries' overall Trade and Investment (TI) programs, i.e., the whole array of trade and investment services provided by both public and private sector institutions. Most case studies and evaluations look at particular organizations, not programs as a whole. Also, assessing success and failure is constrained by the fact that most of the studies and literature that are publicly available are descriptive, not evaluative, and are based on observation, not internal performance data. Nevertheless, descriptions of how organizations supply services to meet business needs are applicable to programs as well and can provide insights as to how TI programs can be effectively structured.

Most TI organizations are administered by public agencies, and carry out either national or state/regional government programs. The number of private sector organizations, sponsored by public funds, that pursue trade and investment objectives is growing.

Among the variables examined are the client and transaction focus and the resulting service mix offered. Whether its objective is export promotion, investment attraction, joint venture or co-venture development, an organization will choose a certain mix of services and a specific structure to help deliver these services to the clients. Although there are many different mixes of strategies, TI organizations are structured to focus on exports, investment, joint ventures, and co-ventures, or a combination thereof. In the remainder of this section, we will review specific examples of TI programs from both developed and developing countries.

The main characteristics of trade and investment programs are associated with the types of transactions they promote exports, joint and coventures or investment attraction Other distinguishing characteristics that can be found in such programs include how carefully they can target their client needs, whether they are strategically focused, who the provider is, and what type of resources can be brought to bear to accomplish the desired goals In examining a slightly larger group of organizations which includes European, Asian, and African models, variations are found that reflect different assumptions about what is effective in stimulating different types of transactions

1. Examples of Export Promotion Programs Export promotion has been supported by governments for many decades These publicly supported efforts principally provide training, information and market contact assistance to national firms Many developed country governments also assist national firms with exports and bids on major contracts by providing export credits, guarantees and other subsidized financing One example of a comprehensive export program can be found in the United States

a The United States and Foreign Commercial Services (US & FCS) Established in 1982, the US&FCS is funded and managed by the US government About half of its 175 employees have been hired from the private sector - many with international trade experience The remainder are predominantly career civil servants The US&FCS is headquartered in Washington D C and is the only US government international trade agency with a world-wide delivery system The US&FCS has trade specialists based in 66 major US cities The district offices in the US work with 51 Direct Export Councils (DECs), which are comprised of approximately 1,700 business and trade experts who help US firms explore export opportunities About 500 foreign nationals provide continuity in commercial programs

The US&FCS has 126 overseas locations in almost every country where the US maintains an embassy or other political presence Although the US&FCS is structured principally to assist the US exporter, it also provides a few services to aid the US investor Some provisions have been made to stimulate joint ventures and cooperative ventures between US and foreign firms Although the US&FCS is not oriented toward attracting investment into the United States, it does maintain significant libraries and information services available to the foreign users

The US&FCS will introduce clients to foreign buyers at US trade shows and provide counselling services or trade specialists at no cost Other specialized services are available for a fee

The International Trade Administration (ITA) is part of the US&FCS and maintains 48 district and 19 branch offices in the United States and Puerto Rico

The ITA offers a commercial data base to help US companies develop marketing packages and identify upcoming export workshops, conferences and seminars in the area, as well as domestic and overseas trade events

The Commercial Information Management System (CIMS) electronically links world-wide economic and marketing information which can be delivered to US businesses. Information packages are available on economic and business climates, import regulations, tariff and non-tariff barriers, domestic and foreign competition, individual competitors and competitive factors, distribution practices, promotional methods in a particular market, policies and product standards, end-users, and identification of foreign agents, distributors, importers, manufacturers, retailers, and government purchasing officials

The "Matchmaker" service and trade missions target markets determined to have high-potential for a particular client industry. US&FCS experts will accompany the US client overseas, arranging appointments with qualified foreign agents, distributors or customers, and provide logistical and promotional support. US&FCS also sponsors state and industry organized trade missions. It has established a pilot program called "HOT TOP" as part of its Trade Opportunities Program (TOP). Under the regular TOP, commercial officers world-wide report foreign opportunity leads directly to the US&FCS headquarters in Washington. "HOT TOP" is designed to electronically distribute these leads to the US private sector within 24 hours.

The System for Tracking Export Licenses (STELA) is an automated service which answers questions regarding the status of license applications. Another program, the Export License Application and Information Network (ELAIN), electronically processes applications for American exporters.

This brief review of the United States' principal trade promotion program shows that it is aimed at assisting US firms locate and access foreign markets for exports. Other US agencies which offer services to assist firms to compete internationally are the Export-Import Bank, which provides trade financing, the Overseas Private Investment Corporation (OPIC), which provides guarantees and insurance to US firms investing or selling technology abroad, and the US Trade Development Program (TDP) which finances the planning of projects in a developing country when they are tied to potential export markets for US goods and services. Although many US firms' international business needs can be serviced by the highly-developed and active US private sector, companies also look to the government in order to utilize its extensive international networks, thereby lowering the costs of venture exploration. It also helps firms compete with foreign companies supported by their governments. However, the services provided by the US&FCS do not include those commercially available, such as financing and productivity improvement assistance, or those services which companies have in-house, such as project identification and development assistance (except for small and medium-sized firms).

**PRINCIPAL CHARACTERISTICS
of US&FCS**

FOCUS

Helping US firms export and compete abroad

SERVICES OFFERED

Trade information and data services, technical assistance (expert advisors), promotion assistance, market research and search services, export management assistance, and general education programs

RESOURCES

Worldwide network of embassies/consulates

Computerized data systems

No financing capability

ORGANIZATIONAL STRUCTURE

Extensive office structure in US and world markets

Public sector, although charge some fees for services

b ProChile The Chilean government pursues goals similar to those of the US&FCS, but with a much smaller program. ProChile, a government agency, focuses on assisting Chilean firms export to the United States and Europe by helping them carry out a variety of business development services. Although Chile is a developing country, it has a large and internationally active business sector capable of meeting the requirements of international export markets. Export services, therefore, concentrate on linking local firms with buyers and distributors abroad.

The staff of ProChile is comprised mainly of professional bureaucrats assigned to staff offices in Chile and in important international market areas of developed countries.

ProChile coordinates with the Chilean embassies but operates independently. Sometimes, the ProChile office assists foreign firms in acquiring information and providing technical assistance on investment plans for Chile, but only on a random basis. Chile also has an investment promotion organization, Fundacion Chile, which is described in the next section.

| |
|---|
| <p style="text-align: center;">PRINCIPAL CHARACTERISTICS of ProChile</p> <p style="text-align: center;">FOCUS</p> <p style="text-align: center;">Helping Chilean firms export</p> <p style="text-align: center;">SERVICES OFFERED</p> <p style="text-align: center;">Information, search assistance in a few developed markets, help in organizing trade show participation and trade missions, and promotion assistance</p> <p style="text-align: center;">RESOURCES</p> <p style="text-align: center;">No financing capability</p> <p style="text-align: center;">Some international office support</p> <p style="text-align: center;">ORGANIZATIONAL STRUCTURE</p> <p style="text-align: center;">Independent government agency with local offices and a limited number of offices abroad</p> |
|---|

The US & Foreign Commercial Service and ProChile are typical examples of government managed programs aimed at helping national firms enter international markets with traditional export strategies. The services offered correspond to meeting the local firms' needs for market research, export management assistance, promotion assistance, and other assistance in accessing markets. The US, with its much larger economy, has both the demand for and resources with which to provide a broad range of services.

2. Examples of Investment Attraction Programs. Almost all investment attraction activities are directed externally and have as their principal task inducing a foreign enterprise to commit new resources in the host country. These programs aim to increase the flow of resources to a country or region and/or to create jobs. General promotion regarding the advantages of a country is usually complemented by firm-specific services that help foreign firms identify sites and move easily through government controls. Some programs are very general in focus while others are targeted to certain industries, markets or companies. Many investment attraction programs seek technology as part of, or independent from, capital. This focus differs from those programs more explicitly aimed at helping local firms export which may include an investment promotion component. Investor attraction programs can have incremental

benefits in transfer of technology/management skills or in fostering collaboration with local firms, but these are not the primary focus

Many investment attraction programs change over time for a variety of reasons. For example, an investment attraction program may change its strategy and tactics when the local government makes a major change in policy or revamps its investment laws according to the particular national development cycle. Another explanation for changes in programming is that agencies have found that more targeted promotion activities lead to more definable results as opposed to the general benefits associated with broad image-building techniques, though these general techniques may serve a complementary purpose. Developing countries are less likely than developed countries to be able to build an image attractive to industries across the board, and so need to focus on the most promising industries. For example, investment promotion activities in Costa Rica and El Salvador, although continuing general image building, have increasingly shifted toward direct promotion to those companies operating in the most appropriate industrial sectors for the particular country.

When looked at from the perspective of the business being solicited, it is clear that there is a role for both generic-type services (general advertising and information dissemination) as well as industry and firm-specific services. From this vantage point, the businessman needs information in terms of general benefits and attributes of locating in a specific country, as well as help in identifying specific opportunities and then consummating a deal. A successful promotion program will be able to address both needs, though specific services are critical to actually closing an investment.

a The Irish Development Authority (IDA) The Irish Development Authority (IDA) program is well-known for its success in attracting US multinational corporations to invest in Ireland. Originally founded as part of a national strategy to counteract Ireland's stagnating economy, the program is clearly targeted toward larger companies who want to access the European Economic Community (EEC) through Ireland. The type of transaction it promotes is direct foreign investment into Ireland that can lead to a manufacturing base for export to the EEC or back to the United States. In this case, the IDA is capitalizing on traditional decision-making patterns of US multinationals and their interest in accessing EEC markets and Irish labor and infrastructure capabilities. The IDA provides incentives, financing assistance, and other aids specifically designed for the large foreign corporation.

Interestingly, the IDA presents itself as a complete service program that can act as a unique one stop agency. That means that IDA will take the investor every step of the way, from initial contact to production start-up. The IDA focuses on companies that have already developed an international strategy and project concept. Because most of these companies have in-house project development capabilities, the IDA simply seeks to lure the project to Ireland.

They help take the concept to fruition by offering the following services, including the provision of significant financial assistance

- Assist in accessing government financial incentives
- Access non-repayable capital, R&D, and training grants
- Guarantee loans
- Subsidize factory rents and interest charges
- Take equity stake in new ventures
- Provide advice on raising money, finding manpower, meeting legal formalities, selecting appropriate sites, training, etc

Although headquartered in Dublin, the IDA has offices in New York, London, and several other capitals of the world. These offices were established to seek out potential investors and provide them with information and facilitation services to encourage them to visit Ireland. Once there, the IDA could assist them in their search and feasibility efforts. One key advantage of the IDA is that it is working within a national policy structure that offers generous tax relief and provides excellent manpower and infrastructure resources to the foreign investor.

An important factor in evaluating IDA's thirty year program is its clear focus on the type of client it is seeking and its ability to offer significant packaging and financial services. Direct capital grants can reach 60% of fixed assets in projects designated for the underdeveloped part of Ireland (largely the western half of Ireland). The worker training grants can cover up to 100% of the cost of training programs for workers in new industries.

These types of programs have helped bring almost a thousand foreign firms to Ireland. However, it is not clear whether they came because of the services offered or because of the proximity and access to the EEC market. IDA's promotion material describes the advantages of access to 270 million consumers in the EEC by locating in a country (i.e. Ireland) that is a full member of the world's largest trading entity (i.e. the EEC) with tariff free access. These and other attributes are resources unique to Ireland and the IDA, which cautions against efforts to replicate IDA in other countries. (Some of the promotion strategies and techniques that were successful for the IDA in attracting US firms to Ireland did not provide the same results for Costa Rica, which followed the IDA model. The basic problem in Costa Rica was the lack of a strong local market and suitable infrastructure for attracting MNC direct foreign investment.) IDA's close coordination with the government ministries and its ability to form a "national consensus" are major factors contributing to its effectiveness.

**PRINCIPAL CHARACTERISTICS
of the Irish Development Authority**

FOCUS

Attracting clearly-targeted investors, namely developed-country large MNCs

Clear promotion strategy promote access to EEC markets

Not predisposed toward small or medium-sized clients

SERVICES

Mixed Provide assistance in search, feasibility studies, and direct financial assistance

RESOURCES

Policy coordination

Large staff and office structure

Significant financial assistance

Does not offer much assistance in early project qualification or
initial scouting and project packaging

ORGANIZATIONAL STRUCTURE

Operates with the backing of the Host Government

Government agency, facilitating coordination with relevant ministries

Operates with a large budget and maintains offices around the world to attract clients

Institutions such as Ireland's IDA and Puerto Rico's FOMENTO can promote investment based on unique factors (access to the EEC and special tax incentives, respectively) Other agencies operating in more difficult environments, such as Fundacion Chile, must offer more specialized services in order to attract the type of investment desired

b Fundacion Chile In addition to ProChile, described above, Chile has an investment promotion organization called Fundacion Chile (FCh) This organization is a joint venture between the Government of Chile and the US multinational ITT The focus of this non-profit organization is on attracting technology and investment into Chile rather than helping local firms export out of Chile To do so, FCh offers highly specific technical assistance Additionally, FCh acts as a venture capital organization and will take minority or majority

equity roles in new projects Many of its services are oriented to setting up contracts or other arrangements (co-ventures) with Chilean and developed country firms

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| <p style="text-align: center;">PRINCIPAL CHARACTERISTICS of Fundacion Chile</p> <p style="text-align: center;">FOCUS</p> <p style="text-align: center;">Oriented to attracting technology and investment</p> <p style="text-align: center;">SERVICES</p> <p style="text-align: center;">Extensive and highly specific technical assistance, particularly in agribusiness and telecommunications</p> <p style="text-align: center;">Deal negotiations</p> <p style="text-align: center;">RESOURCES</p> <p style="text-align: center;">Venture capital funds for some projects</p> <p style="text-align: center;">Technical expertise</p> <p style="text-align: center;">ORGANIZATIONAL STRUCTURE</p> <p style="text-align: center;">No international networks or offices</p> <p style="text-align: center;">Strong technical staff in Chile</p> <p style="text-align: center;">Non-profit organization funded by both public and private sector</p> |
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The IDA, an organization offering financing, grants, and investor services, is a classic example of an investor attraction program Fundacion Chile, on the other hand, illustrates the role that can be played by expert, industry-specific, technical assistance organizations in attracting new investment to a country

3 Example Program Encouraging Joint Ventures and Co-Ventures The development of joint ventures and co-ventures (licensing, co-production, etc) represents another mechanism for stimulating international business expansion Joint ventures and co-ventures provide the opportunity for combining the capabilities of one national firm with those of an enterprise in another country US and European firms whose international business strategies include offshore production may seek to establish a joint venture or enter into a long-term subcontracting relationship for component assembly in a developing country This type of cooperative venture, whether simply a contract or a more complicated investment arrangement, allows for the sharing of technology and

capital in a way that is especially beneficial to small and medium-sized enterprises. Promoting these types of transactions combines aspects of both export promotion and investment promotion programs.

Similar to other kinds of promotion activities, the initial difficulty in stimulating cooperative ventures is that of helping a firm identify an opportunity. In many cases, especially in developing countries, the local firm will require a long-term relationship with a service provider to help it access foreign markets, improve its production capability, and acquire new technologies. Considering the difficulties of attracting direct foreign investment arising from the international debt crisis, the formation of cooperative ventures is a major alternative for those countries trying to increase investment while at the same time helping firms gain access to new markets and technology.

The promotion of cooperative ventures involves some type of networking capability in the home country as well as overseas. Partners must be identified and assisted in both the local environment and in a variety of foreign settings. In most cases, both firms lack significant resource management and capital resources to assemble the venture independently. Thus, this type of investment and trade promotion activity requires extensive assistance capabilities in both the local and foreign setting.

Unlike training and information support for general export, and investment promotion, servicing cooperative ventures requires a high degree of industry specificity. It is not enough to simply identify a market or provide information on a country's legal environment. A cooperative venture requires more detailed assistance in putting together specific business plans, working out all the problems involved in assembling a venture such as how the control would be shared and, ultimately, how the operation will be run.

There are many different types of cooperative ventures. Traditional joint ventures involve two parties who contribute investment in the form of technology, goodwill, equipment or financial equity. These resources are combined in a new entity that operates with some degree of shared ownership. Other types of cooperative ventures include licensing, technical agreements, and production sharing or drawback operations. Most of the garments, electronics and footwear manufactured abroad, for instance, are produced under long-term production agreements in which the marketing partner supplies the technology but does not actually own control of the manufacturing activity.

The Investment Promotion Council (IPC) As part of the Caribbean Basin Initiative (a US effort to support growth in the Caribbean) USAID provided assistance in the development of a private sector institution mandated to help attract investment to the Dominican Republic. IPC's role was specifically to facilitate the development of cooperative agreements with US companies in the Dominican Republic and to promote trade and investment. IPC determined that

the local firms required technology and help in identifying foreign markets for their products. One means of providing this assistance was through the encouragement of direct foreign investment in the Dominican Republic by exploiting its unique transportation advantage and well-established structure of private and public free-zones.

The IPC developed a strategy and the corresponding internal industrial skills. It initially focused on only a few sectors, specifically electronics, footwear and data entry, in order not to spread its resources too thin. In 1989, IPC expanded its focus to include textile-related activities, and will probably add other sectors in the next few years.

The objective of IPC's program was to provide training, market analyses and opportunity identification to local firms, in addition to supporting technology transfers thereby making local firms more attractive to foreign co-venture partners. By the second year of the program, IPC had identified a wide variety of market opportunities in the United States for products made in the Dominican Republic, but found that its local businesses and those mixed ventures in the free-zone did not always have the capacity and entrepreneurial drive to exploit these market opportunities. The program subsequently identified sources of technical assistance in order to strengthen local capacity, primarily in the areas of upgrading product quality, lowering production costs, and strengthening the management of the Dominican firms.

IPC elected to conserve its resources and not develop any foreign extension offices. Instead, it contracted well-known US consulting firms and volunteer groups to provide the different kinds of outreach and follow-up support needed in the United States. For most of its clients in the Dominican Republic, IPC provided information services and training workshops, and helped defray their costs of participation in trade shows. Technical assistance follow-up was complemented by utilizing the expertise of retired executives made available through the International Executive Service Corps. The program did not utilize other intermediaries extensively.

In addition to direct foreign investment, IPC analyzed opportunities to develop long-term marketing relationships and technology-sharing for local firms, especially in the areas of product design, packaging and marketing assistance.

Therefore, the principal focus of IPC was to develop cooperative and joint ventures, although it also facilitated direct foreign investment when appropriate. Although IPC clearly was desirous of generating foreign exchange earnings through export-related activities, it felt it could do this most effectively by encouraging a wide variety of ventures, including direct foreign investment.

**PRINCIPAL CHARACTERISTICS
of the Investment Promotion Council (IPC)
in the Dominican Republic**

FOCUS

Export and investment oriented with specific attention to cooperative ventures

SERVICES

Information, trade show assistance, individual firm research support,
and technical assistance to upgrade local capacity

RESOURCES

No financing

Industry-specific expertise

ORGANIZATIONAL STRUCTURE

No foreign offices

Worked through a few consulting and volunteer intermediaries

IPC is a good example of how some programs fostered joint and co-venture development as a means of fulfilling export and investment promotion mandates

IESC's Trade & Investment Services (TIS) Program in Turkey illustrates the advantages of working in/with an Advanced Developing Countries when attempting to attract investment. ADCs generally have much stronger and larger private sector associations and so have better resources to support investment promotion efforts. Additionally, government policies in ADCs are generally designed especially to attract foreign investors. Turkey's foreign investment law, for example, is one of the most liberal in the world, offering the foreign investor many incentives to invest in Turkey.

These facts make it far easier to interest a foreign firm in investing in Turkey than in a less developed country. IESC's Trade and Investment Services (TIS) program in Turkey, operated and funded in cooperation with AID and the Chambers of Commerce, Industry and Maritime Commerce & Commodity Exchanges of Turkey. The program is designed to generate US investment in Turkey through joint and coventures as well as direct investment. The Turkish TIS staff, located in the offices of the Turkish Chamber, is charged with promoting and generating interest in new transaction opportunities among the Chamber's more than 400,000 local member firms. The US staff of the TIS program is responsible for marketing the investment opportunities generated in

Turkey to U S companies Ideas and opportunities for transactions are pre-screened by the Turkish staff and then submitted to IESC volunteer experts through the TIS office in the U S for evaluation The volunteers, each expert in a specific industry, identify high-potential ideas The volunteers may also help the program staff market the ideas by identifying any appropriate U S decision-makers in that industry they believe may be good prospects This program relies on heavy and long-term direct marketing techniques that are combined with extensive follow up assistance to help complete the transaction For instance, in the U S , after interested American firms are identified, the TIS staff will help arrange meetings, coordinate technical assistance, provide information, help locate financing, etc - - whatever is needed to move the transaction forward On the Turkish side, because the Turkish Chamber is so well-respected and influential in both government and private sector circles, U S firms can be guided quickly through any bureaucratic problems, apprised of all favorable policies, incentives and financing options, etc - - anything needed to facilitate the investment transaction

TIS/Turkey was designed to take advantage of the resources and benefits available in an ADC and in working in partnership with a well-developed local association - - especially when the transaction goal of the program is investment attraction

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| <p style="text-align: center;">PRINCIPAL CHARACTERISTICS IESC's Trade and Investment Services Program in Turkey</p> <p style="text-align: center;">FOCUS</p> <p style="text-align: center;">Investment oriented with specific attention to joint and cooperative ventures</p> <p style="text-align: center;">SERVICES</p> <p style="text-align: center;">Expert guidance, investment approval facilitation, information, trade show assistance, individual firm research support, and technical assistance to upgrade local capacity</p> <p style="text-align: center;">RESOURCES</p> <p style="text-align: center;">Financing guidance and assistance Strong local association and business network Extensive volunteer expert network Extensive U.S business networks</p> <p style="text-align: center;">ORGANIZATIONAL STRUCTURE</p> <p style="text-align: center;">U S and Turkish Office</p> |
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4 Examples of Programs Combining Export Promotion, Investment Attraction, and Non-Traditional Venture Development. Export promotion, investment attraction or the formation of joint and co-ventures require significantly different kinds of resources and approaches. Because of overlapping services and other factors, however, a number of programs include, within one organization, services designed to promote investment, exports, and other kinds of transactions. In the United States, for example, state government trade and investment programs are often designed to assist exporters while simultaneously helping to facilitate investment into the area.

There are varying viewpoints as to whether or not export and investment promotion activities can or should be separated. On the one hand, new investment (e.g. a new or expanded facility) is often required in order to increase exports. Similarly, most foreign investment in developing countries is in export-oriented industries, and the argument develops for promoting both at the same time. The flipside of the debate argues that each type of promotional activity requires an entirely different approach because the target clients and desired transactions vary dramatically. If export and investment programs are not well-coordinated, they can actually work at cross-purposes, particularly when investment incentives are structured against exporting. Different staff, different skills, even different promotional literature, are necessary to attract an investor as opposed to assisting an exporter.

Despite the theoretical rationale for combining or keeping separate the various promotion orientations within one program, practical considerations often determine the choice. In developing countries, many TI institutions are forced to organize themselves to support a variety of transaction goals due to budget limitations. However, if promotion programs are combined, careful attention must be paid to which client is being served and to developing the appropriate networks. The following examples show how different programs have combined different approaches to meet their needs.

a State Programs in the United States In the United States, state trade organizations have argued that their role in export promotion (and investment attraction) is that of a broker. The programs, which are seen as an economic development tool, are designed to "underwrite technical support to establish cooperative ventures and/or export opportunities, and to arrange or provide capital to support trade expansion." Most of their services for local firms are associated with general training and information assistance, with some effort at helping clients locate distributors.

In 1986, an overall review of international trade promotion activities of all 50 states generated the following collective list of services for local firms

**NATIONAL GOVERNOR'S ASSOCIATION CLASSIFICATIONS
OF SERVICES FOR INTERNATIONAL TRADE SUPPORT**

- Seminars/Conferences
- Sales lead Dissemination
- Newsletters
- "How to" Handbooks
- One-on-One Counseling
- Market Study Preparation
- Foreign Office Representation
- Trade Missions
- Language Banks for Translation Assistance
- Referrals to Local Export Services

These services are useful in addressing the general needs of the clients at the initial idea, pre-planning and search stages. There does not seem to be much capability to provide specific technical assistance in developing more extensive project plans or feasibility analysis, although some financing is available in many states to help cover the costs of feasibility studies.

In addition to the above, local and foreign firms are provided a package of investment services, including access to special financial support. In most cases, however, the services offered to local (national) companies are different from those offered to foreign firms. Many state governments have special programs targeted to those foreign companies they wish to attract to invest or to trade with their state or region, as is the case of the Connecticut Department of Economic Development.

b The State of Connecticut Department of Economic Development (CTDED) The State of Connecticut has programs for both export promotion and investment attraction. Burdened with a shrinking manufacturing base, Connecticut looked to its assets of good ports and transportation access for exports, and its excellent investment location between Massachusetts' high-tech center and New York's financial center, to help keep its industry strong. The Trade Lead Program of Connecticut locates potential distributors/agents for Connecticut exporters. This state program has not overlooked the opportunity for licensing and joint venture transactions and has a marketing program oriented to promoting the US firm's interest through advertisements in European and Japanese papers and trade journals. The state also offers a number of managerial assistance and financing programs to help exporters and other firms involved in establishing a new operation that might include exports. Overall, the services offered often overlap and are used to promote both investments and exports.

**Services Provided by CTDED
(For local and foreign firms)**

Financing

- The Connecticut Development Authority development bonds and mortgage insurance guarantees
- Financing for new product development
- Low-interest loans for small manufacturers
- Comprehensive Readjustment of Northeast Economic Region revolving loan program
- Connecticut Exporters Revolving Loan Program

Investment Incentives

- Financial and tax benefits for capital investments
- Urban Enterprise Zones
- Employee buy-out assistance
- Low-cost state subsidized industrial parks

Technical Assistance

- Site and building selection assistance
- The Connecticut Technology Assistance Center
- Small business services
- State Business Ombudsman to aid companies work with state government
- Technical assistance for manufacturers
- Exporting assistance and sales leads

Employment Assistance

- Governor's Job Protection Plan
- Job training and employment assistance

This broad array of services is focused on local and international firms that wish to invest in the state or enter into joint ventures with Connecticut companies. The export support components of the program combine services that can help clients develop the initial idea and move all the way through plant start-up to finding a distributor abroad for exports. The variety of state industrial zone incentives and technical centers to nurture new companies (often called incubator programs for high tech-type industries) are not primarily organized to assist international transactions. The investment attraction services, primarily financial assistance and information support, are mainly oriented to encouraging joint ventures or investment into the state from other areas of the United States or from the developed countries.

**PRINCIPAL CHARACTERISTICS
of the
Connecticut Department of Export Development**

FOCUS
Combines investment and export promotion, mainly
for purpose of export development

SERVICES

Financing, government incentives, technical assistance for product development search and linkage, and training

RESOURCES

Financing, policy coordination, technical expertise, limited overseas outreach

ORGANIZATIONAL STRUCTURE

Government agency with subordinate providers

c The United States Investment Promotion Office of Egypt (USIPO) The United States Investment Promotion Office of Egypt (USIPO) offers general information and search services to attract US investment, defined as both direct foreign investment and joint and co-ventures, into Egypt. Jointly sponsored by Egypt's General Authority for Investment and Free Zones (GAFI), the US Agency for International Development, and the Egypt-US Business Council, USIPO has offices only in Cairo, Egypt. It promotes direct investment and interaction between US and Egyptian firms by providing information services, helping locate potential partners, and facilitating investor compliance with government controls and regulations. USIPO promotes co-venture opportunities generated by local business by assisting them in targeting and contacting the appropriate firms in the US.

**PRINCIPAL CHARACTERISTICS
of the US Investment Promotion Office of Egypt**

FOCUS

Attracting investments/joint and co-venture development

SERVICES

Information, search, investment application facilitation

RESOURCES

Coordinated network within Egypt

No financing

Limited overseas outreach capability

ORGANIZATIONAL STRUCTURE

Private, non-profit sponsored by public funds

One local office with some overseas support

d Trade & Investment Services Program in Morocco (TIS/Morocco) This two-year program, offered by the International Executive Service Corps (IESC) and supported by USAID/Morocco and the Private Enterprise Bureau (PRE) of AID, seeks to help the Moroccan private sector generate long-term trade and investment by developing commercial relations between Moroccan and US companies. Designed as a two-year pilot program to promote trade and investment simultaneously, TIS/Morocco was required to demonstrate results within 18-months when program evaluation was to commence. Consequently, the TIS staff decided to concentrate first on export development in order to obtain quick results. This approach was very successful. In its first two years, export sales orders of more than US \$3 million were obtained for 14 different Moroccan firms - exceeding the program's 2-year goal by US \$1 million.

During the first year of the program, as part of both its export and investment promotion components, nine industry surveys were completed in such sectors as agribusiness, tourism, and artisanal. IESC volunteer experts conducted surveys of targeted Moroccan industries to assess competitive advantages and disadvantages. The volunteer experts then developed highly specific strategies for venture development. The key to this approach is to the follow-up which is provided to the Moroccan firms at each stage of the venture development process, including technical assistance in training staff, improving productivity, preparing samples, improving or adapting production to meet buyer or potential partner specifications and actual packaging and shipment. TIS staff also provides market information, partner identification, coordinates travel arrangements for US buyers or partners who travel to Morocco to meet with local entrepreneurs. As anticipated, opportunities for joint and coventures developed from the contacts made as a result of the surveys and the export promotion activities.

While export promotion activities continue, the investment promotion activities of the program have been accelerated to help Moroccan companies find foreign (primarily US) partners for joint and cooperative ventures. This component is also expected to result in increased exports. TIS/Morocco's tourism sector program was given highest priority and its efforts are welcomed and supported by the Moroccan tourism authorities. The agribusiness sector program's campaign to attract US investment has produced serious interest by major international agribusiness firms. The TIS artisanal sector activities, which are already producing export income from pottery and handcraft sales, include increased technical assistance in order to adapt products for the overseas market.

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Because Morocco's economy is less internationalized than the US or Chile, more technical assistance is required at each stage of the the venture development process. This assistance is provided by IESC's volunteer industry experts. Both export, joint and coventure, and investment project opportunities are generated by 3 professional TIS staff in Morocco who meet with local firms, obtain pricing information and product samples which are relayed to the US TIS staff. The US TIS staff contacts US companies, distributes samples, obtains orders for Moroccan exporters, markets venture opportunities, provides information, identifies potential partners and sets up partner meetings.

**PRINCIPAL CHARACTERISTICS
of the IESC TIS/Morocco Program**

FOCUS

Promoting exports, attracting investments/joint and co-venture development

SERVICES

Linkage information services, s promotion assistance, technical assistance
in product development and marketing, planning assistance,
export facilitation, partner identification, training, financing information

Subsidized technical assistance and information services

RESOURCES

US Network of volunteer industry experts

Worldwide business network

US office support

No venture financing capability

ORGANIZATIONAL STRUCTURE

Private, non-profit volunteer organization with local and US offices

The CTDED and USIPO do not provide all the services required to support projects through to completion of the necessary transactions. In addition, both organizations are somewhat limited in their networking capability. The TIS/Morocco program was required to offer a broader range of technical assistance and other business support services than those of the CTDED and USIPO in order to obtain results. Most important, TIS/Morocco's ability to offer client firms access to IESC's unique US and worldwide business information and linkage networks. Although TIS/Morocco does not have resources to provide firms with venture financing, it does provide client firms with subsidies for both information/market research studies and direct technical assistance. Because it has the resources of IESC's volunteer industry experts and business networks, TIS/Morocco is well-positioned to also assist in stimulating joint and coventures between Moroccan firms and foreign partners.

The following chart compares USIPO , CTDED & TIS/Morocco

| | USIPO-EGYPT (Attract Investment and Coventures) | CTDED (Attract Investment and Promote Exports) | TIS/Morocco (Attract Investment & Coventures & Promote Exports) |
|---|---|--|--|
| <u>Services Offered</u> | | | |
| General Information | Yes | Yes | Yes |
| General Education | Limited | Yes | Yes |
| Promotion of sales of products or services | - | Yes | Yes |
| Scouting services Partners/Contacts | Yes | Yes | Yes |
| Industry Specific Technical Assistance | - | - | Yes |
| General Technical Assistance | Yes | Yes | Yes |
| Financial Resources/ Referrals | Yes | Yes | Limited |
| Direct Financial Support | - | Limited | Limited |

Although these programs offer similar services, USIPO does not promote sales of products/services since it does not focus on exports. In addition, although USIPO and CTDED do not offer industry-specific technical assistance or financial support directly, they can link clients to other organizations which do offer such support services. The same can be said for their information and scouting services. TIS/Morocco, on the other hand, offers access to worldwide networks, industry-specific technical assistance and information directly to client firms. Both USIPO and CTDED are currently evaluating mechanisms to add more industry specific support services to their activities in order to help clients at the more advanced stages of a project evolution. They are also exploring mechanisms to access broader networks and to provide more follow-up support outside of their own environments. Egyptian firms in particular need more help following-up activities in the United States, and the Connecticut program lacks an extensive overseas network to help carry through some of its export assistance and investment promotion efforts.

Both USIPO and CTDED promote a combination of transactions, seeking external support for services they do not have the resources to provide. Some smaller country TI promotion programs, such as in the Yemen Arab Republic

and Belize, deal with their limitation of resources for both promotion and other network-building activities by focusing greater attention on targeted promotion. These kinds of programs usually lack their own office structures and therefore work through other intermediaries capable of direct industry promotion. A good example of this latter program is that of FUSADES in El Salvador.

e The Salvadoran Foundation for Economic and Social Development (FUSADES). The Salvadoran Foundation for Economic and Social Development, better known as FUSADES, is a non-profit, private sector organization that has both an inward and outward focus. Plagued by internal civil wars and government policies which were stagnating the economy, the Salvadoran private sector established FUSADES to address TI constraints and offer policy guidance to the government. FUSADES helps local firms identify potential export markets, contact possible joint venture partners in the US and Europe, and locate sources of technology and technical assistance. It also has local training and outreach programs, which work through local associations, to improve market access and services to a wide variety of small, medium and large-sized firms. FUSADES is simultaneously helping national firms export while attracting US and European firms to invest in El Salvador or supply technology. In some cases, FUSADES can help US and other foreign firms organize financing to cover the cost of feasibility studies or training of staff in new projects. Because FUSADES' program strategies strive for exports, joint ventures, and investment attraction, the services offered must be extensive. Therefore, FUSADES accesses other service providers for those services which are not offered in house.

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| <p style="text-align: center;">PRINCIPAL CHARACTERISTICS of the Salvadoran Foundation for Economic and Social Development (FUSADES)</p> <p style="text-align: center;">FOCUS</p> <p style="text-align: center;">Export, investment, and co-venture promotion</p> <p style="text-align: center;">SERVICES</p> <p style="text-align: center;">Search, technical assistance, market research, policy research and dialogue, access to financing and training</p> <p style="text-align: center;">RESOURCES</p> <p style="text-align: center;">Strong local organization with limited overseas staff</p> <p style="text-align: center;">Access to other providers</p> <p style="text-align: center;">Coordinator with government</p> <p style="text-align: center;">ORGANIZATIONAL STRUCTURE</p> <p style="text-align: center;">Non-profit, mostly donor agency-sponsored</p> |
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The above examples illustrate the variety of ways organizations and programs offer a multiplicity of services, meeting different business needs. Certain programs view themselves primarily as brokers, limiting services to contact-making and information. Others combine within one institution (e.g. FUSADES) services to exporters and investors, taking advantage of overlapping requirements, while other programs (e.g. CTDED) look to a variety of providers to deliver a comprehensive set of services. Many programs also seek to establish links with external sources of support to provide financing or industry-specific technical assistance which are not provided in-house.

5. IV Promotion As Development Tool - - European Examples. Many European trade and investment programs attract investment by offering significant facilitation services and financial assistance and concessions. For exporters, they provide the traditional marketing, search and training services, and export financing programs. Interestingly, for TI programs involving developing countries, much of the European effort is spent on developing joint ventures involving their national enterprises. Three examples of European trade and investment programs for developing countries follow:

a. **Centre for Industrial Development (CID)** The CID was established under the Lome Convention of the EEC to help advance the industrial development of over 60 developing countries which were parties to the agreement. Headquartered in Brussels, the CID is uniquely designed to stimulate joint ventures between EEC and LDC firms. The CID claims to offer assistance at all stages of an industrial project. Their services are aimed at different stages of the project development cycle, summarized as the initial pre-investment phase, the investment phase, and the operational phase, similar to the project cycle stages outlined in this paper. Much of CID's assistance efforts focus on those stages after an LDC or EEC firm has identified a project opportunity. The program also facilitates improved business growth in developing countries by helping extend the business capabilities of EEC national firms, especially small and medium-sized firms, with limited international capability.

The principal services of CID include helping locate partners and financial resources. In some cases, CID has covered a portion of the travel expenses incurred during the early scouting stage. The major advantage of CID is its ability to bring together funds to co-finance feasibility and implementation studies. As a "neutral and experienced mediator," CID also provides assistance in negotiating joint venture agreements and related contracts. CID uses model texts to help clients draft letters of intent, joint venture agreements, management agreements, plant specifications, performance agreements, and marketing agreements. Technical assistance is limited to those general skills of the CID staff or the cooperating national organizations. Qualified consultants

and technical advisors are available at normal rates CID also assists directly in raising investment funds

To help package financing, CID cooperates closely with the following development finance corporations in the LDCs and in the EEC

- **Belgian Corporation for International Investment (SBI) - Belgium**
- **The Industrialization Fund For Developing Countries (IFU) - Denmark**
- **Caisse Centrale de Cooperation Economique (CCCE) - France**
- **Societe de Promotion et de Participation pour la Cooperation Economique (PROPARCO) - France**
- **Deutsche Finanzierungsgesellschaft fur Beteiligungen in Entwicklungslandern GmbH (DEG) - Germany**
- **Kreditanstalt fur Wiederaufbau (KfW) - Germany**
- **Netherlands Finance Company for Developing Countries (FMO) - The Netherlands**
- **Commonwealth Development Corporation (CDC) - The United Kingdom**
- **The European Investment Bank (EIB) - EEC**

CID also draws on those intergovernmental development finance institutions which provide equity and loan financing for joint ventures, such as the International Finance Corporation (IFC) in Washington, D C , the Islamic Development Bank, the Asian Development Bank, and the SIFIDA Investment Company for Africa

CID's staff also facilitate arrangements with those firms providing export credit services, export insurance and investment insurance In summary, CID acts to stimulate joint ventures through a combination of technical assistance services and financing coordination with national institutions, the latter which almost always have financing tied to some national interest in equipment sales, investment or trade expansion Therefore, CID promotes joint ventures as a mechanism to help both developing countries and the industries of the participating developed countries in the EEC

b Industrial Fund for Developing Countries (IFU) Denmark's IFU was established to promote joint venture investments involving Danish firms and industries IFU strives to play an active role in the establishment of joint ventures in a developing country by contributing share capital (up to 30% of the venture) Loan financing is also available, and a portion of these funds can be used to defray the cost of feasibility studies

IFU identifies those projects it will support in coordination with a number of external agencies. It cooperated with Norway, Sweden and Finland through an institution called Nordact, and with the EEC program of CID through the Interact Group. In certain cases, IFU has entered into cooperation agreements with developing country institutions, for example with the Banco Nacional do Desenvolvimento Economico e Social of Brazil and with the Centro de Desarrollo Industrial of Ecuador. Similar arrangements have been made with Senegal and the Sudan. Networking such as this enables the IFU to focus its resources on the actual financing of projects.

IFU, in acting as a catalytic financial agent, places emphasis on funding feasibility and start-up activities rather than supporting general project promotion and search activities. Outreach to foreign companies is carried out through institutional relationships with other government agencies. In Denmark, companies willing to consider joint ventures are included on a comprehensive list published by IFU and made available to developing countries.

c The German Business Cooperation Programme (BCP) The BCP for private sector development takes a more aggressive role in promoting business development projects. This advisory service for commerce and industry in developing countries was designed to complement assistance programs providing credit, equity investments and training. The service employs 30 advisers in developing countries and 23 in the Federal Republic of Germany, who are charged with establishing cooperative ventures between developing country firms and German small and medium sized enterprises. The program argues that small and medium sized firms, "with their manageable size and un-bureaucratic structure have the combination of the necessary scale of resources and the flexibility needed to come up with appropriate solutions" (Federal Ministry for Economic Cooperation, 1987).

BCP has focused on stimulating a variety of joint and co-ventures, including simple trade transactions. The core staff offers specialized management consulting support to develop joint ventures, transfer of technical and business know-how, and new markets, all activities are undertaken as part of long term cooperation agreements between LDC and German firms. In the development of its program, the BCP will attach a resident consultant to an LDC organization representing the private sector or an official investment/export promotion center. In some instances, the consultant is placed in the local development bank. The BCP approach includes early study and assessment of project opportunities, in addition to services that help clients find partners, structure contracts, and locate funds to support training and start-up.

The BCP is linked to official German bilateral technical cooperation agreements and cooperates with the German Finance Company for Investment in Developing Countries (DEG). The DEG focuses on implementing direct

foreign investment strategies which is has developed To develop an outreach capability to the German industry, BCP employs the services of several German private consulting firms In brief, BCP provides general information, consulting support and search services for transactions involving trade, technology transfer or direct investment The German agency believes that over the long run, the 5,100 production companies based in Germany with less than 1,000 employees represents the broadest base of suitable technology and investment partners for the third world

This brief review of European efforts points out how they have combined their interests in increasing exports and growth of national firms with their foreign assistance efforts By using joint ventures as a major transaction goal for assistance efforts with developing countries, both goals are met The CID, and related EEC institutions, have concluded that long term economic development and technology transfer requires the joint venture approach, which simultaneously creates longer term linkages between EEC and LDC companies They place little emphasis on funding organizations in developing countries to promote trade and investment

**PRINCIPAL CHARACTERISTICS of European
Trade and Investment Strategies for Developing Countries**

FOCUS

Use of joint venture strategies to link EEC firms to
developing country markets and enterprises

SERVICES

Emphasis on financing and other business incentives

Provision of limited information and technical assistance programs

Limited use of technical assistance or networks to develop
joint ventures and other collaborative efforts with LDCs

RESOURCES

Use of development bank programs to
provide information and financial assistance
to LDCs if joint venture with EEC firm is involved

Very limited support for institution building for TI promotion
in developing countries

ORGANIZATIONAL STRUCTURE

Varies, but most are governmental

The general strategy of the European organizations have been to encourage their own national industries to form joint ventures in the developing world, which then act as an efficient transfer mechanism for technology and capital while promoting the international expansion of the European companies. The Europeans have also placed greater emphasis on financial rather than technical assistance, with the German Business Cooperation Program somewhat of an exception.

A review of some of the TI programs briefly discussed in this research affords us a sense of the different types of transactions being pursued and the type of services and structure favored by the different groups. These programs can also be categorized as to the sector in which the managing agency is found, although all programs are at least partially funded by the public sector.

Government Managed Programs

Irish Development Agency (IDA)
Business Cooperation Programme of Germany (BCP)
Centre for Industrial Development of the EEC (CID)
Denmark's Industrialization Fund for Developing Countries (IFU)
US Foreign and Commercial Service (USFCS)
Connecticut Department of Economic Development (CTDED)
ProChile

Private Sector Managed Institutions

Fundacion Chile (FCh)
Investment Promotion Center of the Dominican Republic (IPC)
US Investment Promotion Office of Egypt (USIPO)
The Salvadoran Foundation for Economic and Social Development (FUSADES)

All the private sector examples, with the exception of Fundacion Chile, receive some funding from AID. These organizations share the common goal of promoting a stronger private sector through trade and investment linkage with the US. They also suffer the common dilemmas of how to best deploy their resources, offer effective services, and build long-term networks. IPC is an example of an institution which has used consultant contractors and private volunteer organizations to establish outreach efforts and to provide a wide variety of technical assistance to their clients. This approach, if well-managed, can limit the cost of networking while providing a greater variety of service options.

Those organizations that do not maintain their own offices abroad or do not have the institutional capacity to use the various intermediary systems available, are not able to effectively tap foreign markets or intermediaries. At the

IV ORGANIZING THE SERVICE MIX TO PROMOTE TRADE AND INVESTMENT

same time, organizations which concentrated their resources on developing their own office networks, have limited themselves in regard to the industry or type of transaction they support. Several organizations (e.g. IPC, USIPO, and FUSADES) have used intermediaries to complement and extend their networking and technical assistance capability without incurring the cost of operating extensive office structures internationally.

The major design parameters that have emerged relate to the type of transaction being promoted, operating offices overseas, the use of intermediaries, the resources available to and the sector of the provider, and the principal type of comparative advantage or market deficiency upon which the program is based (which necessarily takes into consideration the country context).

The following chart presents the major design parameters relevant to the example TI programs reviewed in this chapter.

| EXAMPLE TI PROGRAMS AND MAJOR DESIGN PARAMETERS | | | | |
|--|---------------------------|----------------------------|---------------------------------|------------------------|
| Program | Trans-Action Focus | Own Office Overseas | Use Intermediary Network | Promotion Focus |
| IDA | DFI | Limited | Yes | EEC Mkt |
| BCP | JV | Yes | | JV-LDC |
| CID-EEC | JV | | | JV Financing |
| IFD-Denmark | JV | | | JV-LDC |
| CTDED | DFI, Exports, | Limited | Limited | DFI |
| TIS/Morocco | DFI, JV, CV Exports | Yes | Yes (Worldwide) | DFI, JV, CV Exports |
| ProChile | Exports | | Limited | Global Mkts |
| FCh | Technology | Yes | Local | Growth |
| IPC | DFI, JV | | Yes | Labor, Free Zones |
| USIPO | DFI, JV | | | Labor, Regional Mkts |
| FUSADES | DFI, JV, Exports | Ltd | Yes | Labor, Local Resources |

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SUMMARY FINDINGS OF TRADE AND INVESTMENT PROGRAMS

The programmatic and organizational findings arising from this review can be summarized as follows

- Successful investor attraction programs, especially for traditional direct foreign investment (DFI), are commonly found in those countries with hospitable policy environments and large markets. Investment promotion in smaller countries lacking attractive policies, markets or natural resources, must usually be complemented or replaced by the promotion of other types of ventures (subcontracting, production-sharing, licensing, etc.)
- Investment attraction and promotion programs have tended to evolve from general country promotion activities to more venture or industry-specific objectives, at least in countries without a large market. The latter approach usually requires the involvement of experts to help structure new types of venture strategies as well as to provide industry-specific technical assistance when needed.
- Export promotion in developed countries or other economies with active international business sectors can focus on direct linkage services such as, computerized information systems, matchmaking services and negotiation assistance. Less developed country programs usually require capacity building technical assistance as well.
- Trade and Investment promotion activities are increasingly oriented toward using forms of technical assistance to help "nurture or incubate" specific new deals rather than simply promote the general attributes of a country or region.
- To supply technical assistance and industry specific advice, TI organizations sometimes develop cooperative programs with technical assistance groups, intermediaries, associations and other groups that offer networking and technical follow-up capability.
- Many TI programs are focused only at the initial idea or contact stages and provide little or no technical assistance in the follow up stages. Some TI programs use combined services to offer a more complete system of assistance to a client, taking them from idea to start-up. In these cases, trade missions, education, and financial services are considered part of an

integrated and flexible service base rather than discreet activities with little preliminary or follow up support

- Government managed programs usually focus on information and matchmaking services and/or financial assistance, technical expertise is sometimes available
- Private sector organizations usually have less resources with which to offer financing or extensive data banks, but are often good providers of industry and firm-specific technical assistance
- While many government programs utilize their foreign service networks for TI promotion, some private sector (usually non-profit) TI programs are also opening their own offices to establish outreach and services to specific foreign communities. The industry credibility and technical skills of both types of offices will play a major role in the success of the controlled network. Often these controlled overseas offices utilize specialized intermediaries or other organizations to provide complementary services in addition to the basic TI activity
- TI programs are pursuing new types of venture strategies, especially in regard to developing countries. The promotion of joint ventures, co-production, licensing, and other non-traditional strategies offers a new approach to increasing the flow of exports and investment

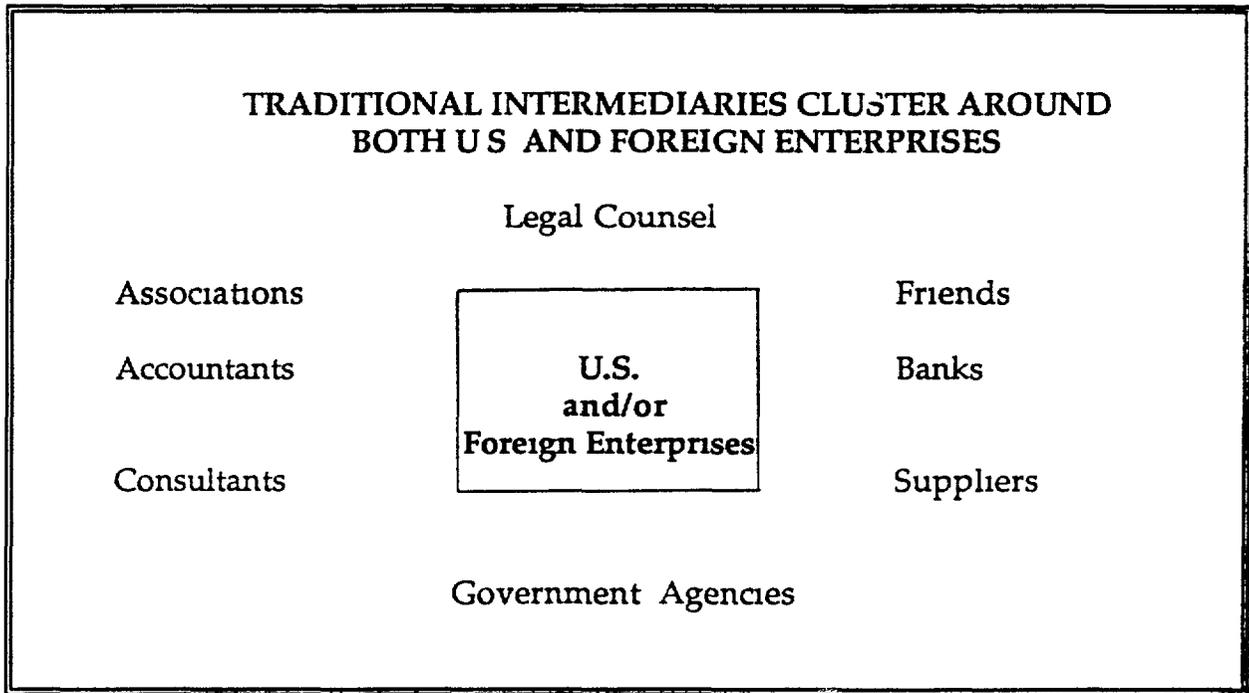
V INTERMEDIARY ORGANIZATIONS DELIVER SERVICES

At the end of this session, participants will

- 1 have an understanding of how trade and investment services cover all types of intermediation for US and foreign enterprises,
- 2 review the characteristics of successful trade and investment service organizations,
- 3 have an overview of how trade and investment services are delivered in developing countries,
- 4 review various trade and investment service providers

A Many Types of Intermediaries Provide Trade & Investment (TI) Services

TI services have traditionally been provided by a variety of service firms which operate in the commercial environment of the business community. Banks, law firms, consulting firms and other types of service organizations have long assisted client enterprises in many ways. However, seldom are these service firms involved in TI services as their principal business. Most of these organizations provide a variety of services of which TI services or brokering is a secondary or less important function. One way of viewing these traditional intermediaries is as a group of service firms clustered around any business enterprise, whether in a developed or developing country.



Accounting firms, banks, suppliers, associations, law firms, consultants and related government agencies are all in regular contact with the enterprise. When the enterprise considers a new development or business expansion, it contacts these entities which supply advice, counsel and technical assistance. It is not at all surprising to also find these service companies or intermediaries bringing the initial idea or concept to the particular enterprise. In many situations, the service organizations will further link the enterprise to other appropriate networks and resource suppliers if they can.

However, most small and medium-sized enterprises in the U.S. and developing countries are not served by internationally capable organizations.

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However, most small and medium-sized enterprises in the U S and developing countries are not served by internationally capable organizations. The small firm in the U S tends to use local accounting firms and local or regional banks, which seldom have a need for sophisticated international linkages of their own. A similar situation exists in the developing country. Thus, the firms that have the greatest potential for contributing to each other are isolated because their particular service communities are not linked effectively to each other. Partly in response to this shortcoming, but also because traditional intermediaries could not fully serve the needs of smaller enterprises in terms of TI services, a new type of intermediary has begun to emerge. This type of organization is characterized by a primary focus on TI services as a main business activity (as opposed to an ancillary service). Such intermediaries have existed in certain other countries for a long time and have been an essential force behind the internationalization of their businesses. A prime example of such an organization is the Japanese trading company. In the U S this type of role has been played primarily by individual entrepreneurs (usually specializing in a particular industry) and generally by small companies. The increasing complexities of doing business internationally, especially in the aftermath of the debt crisis, has spurred in the U S the emergence of both large and small companies which offer a wide range of intermediation services as their principal line of business. Unlike the more traditional service organizations where TI services are a secondary component, these firms are targeted at bringing together enterprises, market opportunities and technical assistance programs to gain access to goods that can be traded internationally. Others are developing a capability to manage joint ventures with developing country enterprises that may or may not include trade. It is too early to determine how successful these firms will be. It is clear, however, that they are filling a niche not fully served by the larger international accounting, consulting and legal intermediaries.

The new breed of TI service organizations, who are not normally involved with the service community of the client enterprises, must be able to win the confidence not only of the enterprise, but of those organizations that traditionally serve the firm in planning, financing, risk management, etc. One task the independent intermediary might have to accomplish besides developing commitment from the client, is the education of, and collaboration with, other service organizations clustered about the client enterprise.

In the following sections, we examine characteristics of successful TI service organizations and service delivery in the developing countries.

B. Characteristics of Successful TI Service Organizations

Based on the above findings, TI service organizations working with small U S or LDC enterprises must exhibit certain characteristics to be successful. These are summarized in the following paragraphs.

Successful Client Development

This is probably the most critical characteristic of successful intermediation. It involves the identification and cultivation of a number of potential clients with active or passive interest in international business and the stimulation of ideas and concepts jointly with the client until a venture can be initiated. An important ingredient at this stage is the ability to convince clients that they can overcome obstacles and perceived risk by creating effective and profitable collaborative ventures. It is also important for TI service organizations to properly organize and "sell" ventures to help enterprises overcome their natural resistance to such new ventures. Unless the TI organization can convince the participating firms that the risk is manageable, no action will take place.

Credibility and Trust

A necessary quality for successful client development is the ability to generate credibility and trust among prospective clients. In most situations, the enterprise is facing a significant risk decision when it considers a collaborative venture. The TI service provider must be able to demonstrate that he will act in the firm's best interests and with appropriate business ethics throughout the entire planning and development stage. Credibility and trust are especially important as the TI service organization will not only need to have access to different types of information about the different enterprises involved, but also to deal with the doubts, confusions and fears of the different partners. The key role of credibility and trust in convincing smaller enterprises to enter into collaborative ventures explains why TI has traditionally been carried out by such trusted business associates of the enterprise as lawyers, bankers and accountants.

Information Handling and Analysis

Information handling and analysis is another important characteristic of successful TI service organizations. Potential and existing clients need assistance in sorting through and selecting relevant data from the large volume of information that overwhelms most decision-makers. This is especially true for smaller firms which usually have little or no knowledge of international markets and how to penetrate them.

Developing and Using Networks

Probably the most important resource a TI organization brings to an enterprise is its skill in developing and using networks. These networks may simply be information sources or they may be active participants in the intermediation process. Usually they are made up of personal contacts in a variety of industries and places. These networks provide accurate and current information as well as assistance in targeting resources and other enterprises that will be required to make a project work. It should be noted that many firms and individuals become TI service providers because they are already working within

an existing network of contacts with industrial, functional and geographic specializations. The necessity of establishing networks both in the US and overseas, as well as traveling long distances, substantially increases the initial cost of setting up an intermediary function for international business. Therefore, organizations which are already part of a network may enter the TI business with far greater ease.

Access to Financial Resources

The capability to access financial backing for a collaborative venture is obviously an important ingredient of successful TI. However, this does not mean that the TI organization itself needs to have direct linkage to financing channels. Rather, the TI organization needs to have knowledge of how to access alternative sources of funding (from banks, government sources, development funds, etc.) Since prospective ventures may often include a mixture of investment and trade financing, for both developed and developing countries, a wide variety of funding must be accessible. However, a large number of sources of funds are available, especially for smaller firms, if the TI organization knows how to access them. Available funds are not always fully utilized because local enterprises cannot develop good project ideas, perform appropriate planning, access adequate information, etc.

Ability to Manage Other Services Needed

It is obvious that successful project completion requires many different types of skills and resources which must be identified, secured and coordinated by the TI organization. It is very difficult and often uneconomical for a TI organization to possess all these skills and resources unto itself. Therefore, it needs to associate itself with other organizations. In many cases, consortia involving a variety of different organizations, such as private voluntary organizations, large international firms and small consulting firms, lead to more effective business linkages because they provide a more complete range of services and expertise. Certainly, the larger international firms, such as accounting firms and banks, often require access to industry specialization in order to help develop effective planning and organization of a new project. On the other hand, smaller TI organizations or brokers increasingly need to turn to the larger organizations for information and access to international networks and other resources.

In this connection, the role of multinational corporations (MNCs) in facilitating TI should not be discounted. Many companies that traditionally operate abroad through branches or controlled subsidiaries are exploring different ways to maintain market presence or to enter new industries. There is increasing evidence that MNCs will require greater access to countertrade, offset arrangements and other complex ventures. Limited capital and management resources, to some extent, also inhibit the MNCs from approaching a variety of markets. The multinationals are, therefore, increasingly open to new kinds of

consortium and joint venture activity through TI or other specialized organizations

C. Service Delivery in the Developing Countries

TI as a service to business tends to grow according to the needs of the local economy. International business activities have usually begun with simple trading services, and have quickly been replaced by branches, subsidiaries and joint ventures. As the overall business system grows, and the local economy increases its sophistication, local business services are stimulated. Law firms, consulting firms and trading activities grow with the international capability of the economy.

With the increasing demand for international trade (especially exports), local enterprises require greater assistance in developing international business strategies, more competitive products and skills in accessing foreign markets. The larger the economy, the greater the probability that specialized and sophisticated business services will develop, a preliminary step leading to international TI. In the smaller countries, such as Costa Rica, a wide variety of traditional accounting, consulting, banking and legal services represent one category of intermediaries. Smaller consulting firms who aggressively try to develop clients by providing unique marketing and technology planning assistance also exist. In the larger countries, such as Brazil and Korea, these services are more widely available and their capability of serving the client more extensive. However, even in the larger countries, with a variety of intermediaries in different business service groups, there is apparently a significant inability to link their services to similar services available in the United States.

In developing countries, there is much less demand for traditional consulting and sophisticated business services. At the same time, the local consulting and service firms appear flexible and are anxious to engage in TI. Most importantly, developing country TI organizations lack the rich sources of information and networks available to their US counterparts. Because of these factors, TI organizations in the developing countries are significantly constrained in developing appropriate collaborative venture activities that would involve smaller firms in the US, appropriate US technology or other external resources.

In developing countries, the business community is not adequately experienced with the use of business services. Private enterprises are not as accustomed to using local associations, consultants, and specialized information services. Since the firms have not developed the management sophistication to use outside resources to the same degree as in the developed world, there is less active demand. Yet, at the same time, the need for TI services is much greater.

The developing country enterprises, now under great pressure to improve their productivity and to develop international markets, have a great need for technology, market linkages and other services. Unfortunately, the developing country enterprises have not developed management planning or service utilization skills, and thus are not able to convert their needs into effective demand for local TI services.

Because the developing country enterprises have less understanding of the value of business services, they are more reluctant to pay for planning, organizing, and other business development services. In many developing countries, local enterprises have only recently been willing to invest in basic marketing assistance, legal services, and more sophisticated accounting systems. If TI services are to become an effective resource in developing countries, the local suppliers of TI services must be capable of providing the service, and the users must similarly develop an understanding of the value of these services. Both must recognize that services should be paid for in relationship to the value of the future product, project and business development.

SUMMARY

There is clearly a need in developing countries to demonstrate the value and utility of TI services. To some degree, due to the lack of international capability of smaller US firms, this same demonstration process must take place in the United States if we are to reach a more effective level of collaborative ventures between developing and developed country enterprises. The developing country intermediaries are faced with similar problems as those faced by their developed country colleagues. The major characteristics which describe the TI organizations in the smaller developing countries include the following:

- Within the science and technology infrastructure, consulting and specialized TI services have not developed as extensively as in the developed countries.
- Business enterprises in the developing countries lack the ability to identify and use external business services, including TI, effectively.
- Developing country enterprises have a great need for TI services but are less capable of seeking out these services and are generally unwilling to pay for them.

- Developing country enterprises have a great need for TI services but because they are unaccustomed to and less capable of seeking out these services, they do not value them and are generally unwilling to pay for them
- The institutional community, including banks and technical institutions have generally not aggressively tried to develop TI skills and capabilities in the developing countries, although this may be changing in some countries
- Developing country enterprises and their supporting service companies have difficulty in establishing international linkages and face other problems such as difficulty paying for international services in hard currency

D. Examples of Trade and Investment Service Providers

In this section, we provide an overview of the major types of US- based organizations providing TI services to US and LDC businesses. Specific examples of pricing and fees of TI organization services are discussed in the next chapter

1 Large Consulting Firms

Large consulting firms derive their principal income from fees in exchange for consulting services. To the extent they serve international clients, these firms must have, to one degree or another, established international networks. So far, TI has been an incidental business for most such firms. Often, and this is especially true for the public accounting firms, TI is provided as a service to clients for a nominal fee or no fee. However, it appears that the firms in this category are moving in the direction of formalizing TI. This line of business will then be actively pursued and will be expected to generate its share of income.

One characteristic of the larger consulting and public accounting firms is that they generally operate under a set of professional codes or standards which are sometimes in conflict with the operating style and methods which may be necessary for TI to be a profitable business. For example, collecting contingent fees is not currently allowed among accounting firms, but may be the only kind of payment that can be expected from clients in many situations. Also, consulting firms in general are not set up to take active part in trade or investment activities. However, there is evidence that commercially viable TI services may involve both of these activities.

Large consulting firms may move into the TI business either by developing their own functionally separate organizations to lessen these constraints, or they may acquire the skills and capabilities they are missing by affiliating with other types of organizations such as small consulting firms, private voluntary organizations, law firms or trading companies. At this point, it appears that they are following the second of these alternatives, as this is less difficult from a managerial and corporate cultural viewpoint. However, nothing precludes a switch to the first alternative once these firms are convinced that intermediation can be a profitable business line and find ways to accommodate the changes required. At this date, the larger management consulting firms are still "waiting" to see just how profitable intermediation can be.

Consulting engineers, however, have been involved in TI services for well over a decade. They have acted in virtually every role of TI service and project development by offering equity, marketing assistance, and partner location in order to compete for larger contracts in a diminishing global market for big engineering projects.

2 Small Consulting Firms

Because of the unique conditions of the developing country environments, a few smaller consulting firms are beginning to specialize in intermediation. In the United States, these firms provide specialized services for bringing together firms for joint licensing, investment, and other program development. Unlike many of the larger firms, smaller firms are more flexible and can employ a variety of brokering mechanisms and payment arrangements. However, these smaller firms are often constrained due to a lack of capital and existing networks. A related problem is that they have to rely on fee generation from TI more heavily than do the larger firms. Opportunities to receive specialized grants and research support may prove extremely valuable in helping them develop the necessary size and linkages to make TI a viable business service. They also may be anxious to link to development programs that need an aggressive TI component.

3 Banks and Financing Institutions

Commercial banks, especially the large international banks, are already involved in a variety of TI activities. Facilitating the development of collaborative venture programs is not a primary responsibility of the banks. Yet, almost all international banks are involved in some type of routine information exchange and brokering activities. There is an indication that regional U.S. banks are increasingly involved in intermediation.

In the developing countries, aside from international banks, local banks are very anxious to develop more effective TI programs. Their clients are under great pressure to penetrate external markets and gain access to new and more productive technologies. Thus, organizations such as national development banks are aggressively seeking access to new information channels and TI systems that can help their clients achieve new growth and access to markets.

Investment banks are actively seeking information on foreign venture opportunities but usually for large clients and large scale projects. Some groups act as a type of merchant bank to provide consulting, financing and even export management services.

4 Trading Companies

Trading companies represent another channel for TI. In the past, Japanese and European trading companies have been much more active than similar U.S. entities in facilitating collaborative ventures. However, the current emphasis on trade development in the U.S. has stimulated a wide variety of specialized trading activities in companies as well known as Sears Roebuck, Lockheed, Grumman, and General Electric. These kinds of firms believe that their success in trading will ultimately depend on their ability to provide improved access to technology and market systems so that products can be upgraded for international markets.

With the passage of the Export Trading Company Act, a number of new trading companies have been created, some with the participation of banks or bank holding companies as equity holders. However, the results of the Act have fallen somewhat short of expectations and many of the trading companies formed have yet to be profitable.

It appears that many companies involved in trading are moving towards adding consulting and technology-related services. At the same time, there are indications that more traditional consulting firms are simultaneously moving toward the inclusion of trading as a new service they will offer. The convergence of trading, consulting and technology services is understandable, considering the difficulty that so many developing countries have with payment for services. Trading and barter (i.e., payment in-kind) arrangements, allow purchase of other goods and services normally requiring payment with scarce foreign currency. Overall, there appears to be a significant degree of turbulence among trading companies, an indication that the industry is still evolving.

5 Voluntary Organizations

Private voluntary organizations appear to be increasingly involved in TI Organizations such as Volunteers for International Technology Assistance (VITA), TechnoServe and the Agribusiness Council periodically pursue TI programs. The International Executive Service Corps (IESC) has recently launched a linkage program known as American Business Linkage Enterprise (ABLE), which is specifically designed to help developing country firms gain access to small U.S. companies and improve information availability regarding international markets and technology.

6 Information Services

Information handling firms specialize in stimulating TI through the provision of valuable information and data bases. These organizations do not stop with providing information, they offer guidance for the location of consultants and other services to help bring together the resources for successful project development. Such companies have functioned in the information brokering business for quite some time. Their role in the emerging TI industry is not quite clear yet.

7 Government Institutions

In the developing countries, there has been a rapid development of unique technology institutions. These institutions have initially concentrated on developing applied engineering and research assistance programs. As a result of successful experiments in Korea and similar newly industrialized countries (NICs), developing country institutions are increasingly looking toward their science and technology institutions to help link companies to foreign sources of technology and other resources. For example, Fundacion Chile, an applied science and technology center in Santiago, offers a broad range of services to diagnose needs, find technology, install systems and sometimes even invest in projects.

8 International Organizations

Multinational corporations, traditionally geared to direct foreign investment and local market development, are also pursuing TI strategies. In many situations, companies are involved in helping to bring together firms to join them in developing projects. In some cases, the multinationals are providing independent training and technology search programs. Thus a company like Champion International not only operates its normal pulp and paper operations, but provides services that help bring other kinds of firms and technology into their local markets. Many of these strategies are pursued as mechanisms to help maintain presence in the country, but also as unique new ways to generate revenue and diversify their businesses.

9 Associations and Societies

Trade associations and professional societies represent important agents for linkage and TI within the United States. However, few associations are organized to deal with international TI linking U.S. and developing country enterprises. The Agribusiness Council and similar organizations do have specific goals of bringing about collaborative venture projects, but these organizations remain the exception.

The larger association community may move slowly toward new intermediation TI as a result of emerging U.S. private sector development policy. However, present association activities relate principally to the particular interests of their members and tend to center on providing information and services unique to a specific industrial focus. These interests are dominated by U.S. market and international export interests. Since the emergence of new forms of collaborative venture development is relatively new, it is not surprising to find that most associations are not involved in this type of activity. In addition, the need for international networks as a prerequisite for facilitating these types of ventures and the presence of the more promising immediate service opportunities inhibit the pursuit of international TI activities.

The basic definition of trade associations provides a partial explanation of why they generally are not involved in inter-national intermediation

" a non-profit, cooperative, voluntarily-joined organization of business competitors designed to assist its members and its industry in dealing with mutual business problems "

Mutual problems would include accounting practices, commercial research, standardization, statistics and trade promotion. Since members are not clearly aware of potential benefits of new collaborative venture forms, there is little incentive among the associations to offer such services. In contrast, national legislation in the U S , consumer issues, trade restrictions and other programs are of much greater concern. Individual projects are perceived as more naturally being the responsibility of the individual firm and its particular service organizations such as law firms, consulting firms, etc

A final factor concerning anti-trust issues is important to consider. The Sherman Anti-Trust Act of 1890 outlawed agreements or activities that lead to a restraint of trade. The Federal Trade Commission Act of 1914 made unfair methods of competition in commerce illegal. Export trade is another matter and the Webb-Pomerene Export Trade Act of 1918 permitted the formation of associations to serve as agents for members' products intended for foreign commerce. This allowed the formation of joint marketing research, advertising, and shipping as well as the establishment of uniform contracts, quotas, production standards and prices. However, Webb-Pomerene associations are not trade associations in the conventional sense. To the extent that they have been successful (their success has been limited), Webb-Pomerene associations have been and will continue to be valuable intermediaries for their members

SUMMARY

Many trade associations see themselves as able to help companies exploit overseas markets and they provide such services at standard fees or membership guidelines. Acting to assist individual firms in developing unique collaborative venture activities does not, in their view, fall into their present purview or meet the needs of their overall membership and supporting communities

VI ISSUES OF PRICING AND FEES

At the end of this session, participants will

- 1 understand how fees for trade and investment services are structured,
- 2 learn the primary fee structures,
- 3 have an understanding of the role of risk in structuring fees,
- 4 review how fees differ between various trade and investment service providers

Trade and investment (TI) organizations, or intermediaries in general, generate revenues from their activities in a number of different ways. Most firms charge for professional time involved, but some relate their fees to the successful completion of activities, such as raising funds or bringing about successful joint venture projects. The amount of risk-taking by a TI organization is reflected in different types of price structures, as well as the firm's overall perception of the market with regard to the value and uniqueness of the various services provided. For example, investment banking institutions, because of their willingness to take risks when financing programs and their perception of their networks as unique and extremely valuable, usually receive larger fees for the coordination of certain types of ventures. In contrast, accounting firms may provide similar services, but avoid risk participation, due to their professional identification and practice standards.

A. Fee Structures

Of the TI groups studied, it is apparent that pricing may be categorized in one or a combination of seven particular fee structures, such as

- Professional service (accounting, legal, and/or consulting) fees
- Professional/Contingency fees
- Investment counseling/banking fees
- Joint venture equity
- Trading and marketing fees
- Licensing or service royalties
- Volunteer service charges

Each of these fee structures or payment strategies reflects not only risk taking, but the particular type of TI service that has been provided. For example, if the work performed can be defined in terms of manpower required, accounting, legal and consulting services may be billed on a per hour basis. On the other hand, certain types of TI organizations who are helping to bring together critical technology and marketing channels may be willing to take greater risks in return for royalty payments for a percentage of future profits that may be generated over a certain period by the new venture. Finally, some services, such as raising capital or obtaining other critical investment resources, are perceived to be so critical that very substantial fees may be charged if the services are successfully performed.

Professional Services Fees Legal firms, accounting partnerships, and consultants provide important planning, networking, and follow-through services. As a rule, these organizations do not look for contingency payments, but prefer to bill time on an hourly, daily or monthly basis. As a rule of thumb, an average-size professional firm will bill its manpower at approximately 2.5 to 4 times the salaried rate of the professional involved.

This multiplier covers the costs of other expenses such as overhead and support staff and also provides a margin for profitability. A well-established accounting or legal firm might bill a senior partner at a fee of \$150 to \$250 per hour. Technical and engineering type staff tend to be priced somewhat less—between \$100 to \$150 per hour. Academics and other part-time consultants normally provide their services for significantly less, possibly \$25 to \$50 an hour. Currently, USAID's limit on fees paid to individuals is \$260 a day. However, larger consulting, accounting and technical service firms which have been appropriately audited by AID could charge upwards of \$1,000 a day for senior staff.

Professional/Contingency Fees Though most professional firms prefer to bill on a straight time basis, many companies will accept a form of contingency payment. This normally means that the professional service firm will bill at a minimum rate if the objectives of the project are not clearly achieved. In some instances, law firms and smaller consulting firms may base their billing on the successful outcome of a proposed plan or venture program. In this case, a significantly higher fee would be charged, based on the time involved and whether or not the project was successful. In other cases, firms might ask for a minimum billing amount or retainer plus a bonus that reflects the characteristics of a successful outcome. It is a common practice in law firms—though less popular in accounting firms—to vary the hourly rate if a project has led to a successful outcome for the client. In the future, we might expect professional firms to offer contingent billing plans as a means of offsetting some of the project development risks.

Brokerage/Performance Fees Many individuals and some professional firms accept payment strictly based on the successful development of a new project. Often, the development of financing, location of partners, or development of certain types of additional support is critical to the successful initiation of a new project. In these situations, fees are paid only if the project is successfully initiated. Fees tend to vary dramatically in terms of the size of the project involved. The most widely used standard, or rule of thumb, is known as the "5,4,3,2,1 Guideline." This formula provides that, if the broker is successful, he would receive five percent of the first million dollars resulting from the project, four percent of the second, three percent of the third, etc. This fee structure seems to be reasonably well accepted for projects that vary from three to five million dollars. Larger projects tend to be governed by a straight percentage.

of one to three percent, smaller projects normally involve explicit dollar amounts ranging from five to ten percent of the overall project size

Joint Venture Equity TI organizations may provide a range of assistance and receive payment through some type of equity participation. This approach normally evolves when management guidance, marketing assistance, etc. has been (or is still being) provided. The service provider, by qualifying the value of the activity or time spent, would receive an equivalent share of capital such as dividend payments or some other profit distribution arrangement.

Trading and Marketing Fees The TI organization's role may sometimes lead to long-term trading and marketing relationships. In this instance, the organization may accept a fee for technical assistance work, but will principally seek remuneration through a long-term royalty arrangement associated with the trading of goods and services. A company which is handling two to five million dollars worth of goods may expect to charge a fee of two to five percent of sales. In other situations, the TI organization may be involved in an ongoing role as both representative and marketing agent and could receive both a fixed fee plus some percentage of the total sales handled. These formulas, again, reflect the willingness of a firm to be paid in relationship to the long-term success of a project.

Licensing/Management Fees TI organizations may also play a critical role in the organization of access to technology, skilled manpower, management systems, or other types of unique resources. In this situation, it is common to see a mix of professional fees plus a long-term percentage royalty from the resulting project. If a TI organization has helped locate, negotiate, and install a technology system, it might request a one percent royalty, in addition to recovering some charges for providing the specific technology required. For example, if an organization helped a company acquire formulas and processes for a new product, the company supplying the technology could expect a four percent royalty for five to ten years, the TI organization would receive an additional percentage for itself. In other situations, the licensor may pay the TI organization a part of that base four percent royalty.

Volunteer Service Charges Volunteer organizations, when acting as intermediaries, usually expect their incremental costs to be recouped. Normally, this is achieved by charging for professional staff time and some fees which are used to maintain the overall organization. Volunteer services tend to cost about one-half to one-third the equivalent professional service in the same market area.

B. An Example Comparison

To understand the impact of different pricing strategies and what the intermediary will require, it is useful to look at standard project and price variations according to different approaches (See Exhibit entitled Comparison of Payment Alternatives) In this example, a TI organization would be involved over a one-year period to help put together two companies for a five million dollar joint investment This particular project would result in a new program with annual export sales worth ten million dollars In order to put together the project, the TI organization would have to find potential partners, assist in planning, provide guidance for financing channels, and help establish some kind of marketing and export activity Naturally, the professional service firms would have better capability of providing early-on planning and organization skills, while the trading and marketing companies may be stronger in terms of their later marketing and trade contributions However, this type of project could be put together by any of the basic types of TI organizations discussed in this paper

For professional service fees, assuming there are no contingent relationships, the fee for the year of activity would be \$100,800 Time would be billed at \$150 per hour for a senior partner and \$60 per hour for management and technical assistance personnel Assuming three days a month for the senior partner, and ten days a month for the middle level individual, the client will ultimately pay for 36 senior executive days and 120 middle management days This means that billable time would be \$43,200 for the senior partner and \$57,600 for the middle level individual The total fee, assuming a service direct time approach, would be \$100,800

A mixed professional fee and contingent approach would combine a minimum set of direct time billing which might be at \$30 per hour for senior time, and \$20 per hour for the middle management experts This would lead to \$11,640 for senior partner time and \$19,200 for the junior partner The minimum professional fees drawn would then be \$30,840 If the project was successfully completed along the pre-established guidelines, then the facilitating firm might receive an additional \$100,000 to \$150,000 In short, for a successful project the TI service organization would receive \$150,000 to \$200,000 in fees and if the project did not go through, they would only receive the initial \$30,800 This approach mixes billable time with some type of risk taking on both the part of the TI service organization and the client Unlike the standard professional fee model, the client pays less if it is an unsuccessful development and pays more if it is successful

Looking at the same project as an investment service or investment banking approach, we can see that the client might pay upwards of \$400,000 in fees to the investment banking firm This fee is calculated on a range of two percent to eight percent of the overall financial package The degree to which the

investment banking firm is committed to the final program would change the percentage dramatically. For example, if it were to underwrite part of the financing package, the percentage fee for participation in the project might grow to as much as 25 percent of the overall package.

The brokerage commission approach, as in the "5,4,3,2,1" formula would cost the project \$750,000 in fees. As stated earlier, five percent of the first million, plus four percent of the second million, etc. leads to a total fee of \$750,000 if a successful joint venture is brought together. In this situation, the TI organization is probably not paid any other fees or costs. The fees are paid only upon the successful initiation of the planned project. Thus, the TI organization is assuming significant risk.

In the trading and marketing approach, the TI organization may receive some fees and expense coverage during the development stages. However, principal payment will be associated with a long-term royalty or sales commission linked to the ongoing activity. A three percent trading commission would lead to fees of \$300,000 a year or \$1,500,000 over a five-year period. In this approach, the trading company has helped put together the deal in order to gain access to the product and benefits through trading commissions. It should be noted that the firm would still incur its own costs to support trading and marketing activities. If the project required the establishment of a permanent sales and marketing office, linked to the client, the client would probably have to support some additional "out of pocket" costs, in addition to its sales fees.

Licensing and technology fees are another form of long-term profit sharing with a successful venture. TI organizations, who often play a key role in technology organization and access will take fees through a long-term management assistance agreement or technology fee. In many countries, the timing, scope, and size of the royalty payment are limited by government. In most developing countries, a four percent fee over a five-year period would be acceptable. The TI organization, in many cases would be willing to accept an additional percentage point over the licensing fee to cover its work, if it is not the actual holder of the technology. Thus of course, would be a fee of \$100,000 per year and a total of \$500,000 for a five-year contract.

Volunteer organizations, acting as TI service organizations normally have specific cost reimbursement programs. For example, the International Executive Service Corps (IESC) might have a client cover travel, per diem, and some recruiting costs to have a retired executive work for three months in a particular developing country. This means the client would pay about \$20,000 for three months of volunteer time. Assuming nine months of involvement over an entire year, the client would pay about \$60,000 of cost reimbursement fees to the volunteer organization.

VI ISSUES OF PRICING AND FEES

The following chart summarizes and compares different fees, all dealing with a similar \$5,000,000 investment, leading to \$10,000,000 in annual export sales for the new venture

COMPARISON OF PAYMENT ALTERNATIVES
 Intermediation to Establish a \$5 Million Investment
 (Sales - All Exports \$10 Million Annually)

| Type of Intermediary | Index | Principal Role | Total Costs |
|--|---|--|--|
| <ul style="list-style-type: none"> Professional Services Direct Fees only - Lawyers, Accountants, Consultants | \$150 00 per hour & \$60 00 per hour | <ul style="list-style-type: none"> Plans Networking' Follow-up No Risk | \$100,800 |
| <ul style="list-style-type: none"> Professional Service Fees & Contingent Payment | Minimum \$20-\$30 per hr Maximum Full fee plus bonus | <ul style="list-style-type: none"> Plans Networking Follow-up Some Risk | Minimum \$30,840 Maximum \$160,000 |
| <ul style="list-style-type: none"> Investment Banking | 2-10% of Package | <ul style="list-style-type: none"> Network Financing Plan Credibility Some Risk | Minimum \$40,000 Maximum \$500,000 |
| <ul style="list-style-type: none"> Trading/Marketing Licensing/Service Royalties | 3% to 5% of Sales | <ul style="list-style-type: none"> Network Plans Market Access Some Risk | Royalty or Management Fee \$50,000 per Yr |
| <ul style="list-style-type: none"> Joint Venture | Some Part of Equity & Fees | <ul style="list-style-type: none"> Plans Networks Ongoing Management Assistance Risk | Dividend when Paid |
| <ul style="list-style-type: none"> Volunteer Organizations | Cost Recovery | <ul style="list-style-type: none"> Technical Assistance Networks No Risk | \$30,000 - \$60,000 |

A survey of 15 intermediary organizations was conducted to further explore and confirm how pricing options were being used and the degree to which various combinations contributed to a firm's total annual revenues. The following chart illustrates the intermediaries (by type) who participated in this survey

VL ISSUES OF PRICING AND FEES

| Intermediary Type | Number |
|-------------------|--------|
| Consulting Firms* | 9 |
| Law Firms | 3 |
| Investment Banks | 2 |
| Importers | 1 |
| TOTAL | 15 |

**Includes PVO's, individual consultants and firms*

The following chart illustrates the frequency of pricing alternatives reported used by intermediary type. It is based on a simple "yes" or "no" answer to the question, "Is this a method of payment you use in your business?" Responses are presented as the number answering "yes" over the total number of respondents in that category. For example, 5/9 would indicate that 5 of the 9 respondents in that category use this pricing strategy while 4 do not.

FEE GENERATION OPTIONS

| PRICING OPTION | INTERMEDIARY TYPE | | | | TOTAL |
|--|-------------------|------|----------|-----------|-------|
| | Conslt. | Lwys | Inv. Bks | Importers | |
| Fees | 9/9 | 3/3 | 2/2 | 1/1 | 15/15 |
| Fees w/Bonus | 5/9 | 0/3 | 0/2 | 1/1 | 6/15 |
| Brokerage | 0/9 | 0/3 | 1/2 | 0/1 | 1/15 |
| JV Equity | 4/9 | 0/3 | 1/2 | 0/1 | 5/15 |
| Trade/Mktg Commissions | 4/9 | 0/3 | 2/2 | 1/1 | 7/15 |
| Licensing Royalties | 0/9 | 0/3 | 0/2 | 0/1 | 0/15 |
| Volunteer Services w/Cost Reimbursement | 6/9 | 0/3 | 0/2 | 0/1 | 6/15 |

This distribution gives an indication of how often different pricing strategies are employed, both among types of intermediaries as well as within particular categories. With the exception of licensing royalties, every category was used by at least one type of intermediary surveyed.

Some points of interest

Law firms billed for their services on a straight fee for time basis. These respondents mentioned the possibility of conflicts of interest that can arise when a law firm or individual attorney takes an equity position, receives finder's fees or receives other forms of compensation for legal work. Although the attorneys who participated in this survey claimed not to substitute other forms of compensation for their work, each mentioned knowing of others who did in lieu of fees. In the area of volunteer services with cost reimbursement, law firms mentioned that pro bono work was a normal part of doing business, but this work was not done with the expectation of receiving any direct financial rewards as a result in the future. Consulting firms, on the other hand, saw this more in terms of a marketing strategy and sales approach. Six of the nine consultants described this category as a routine aspect of new business and client development.

Every type of intermediary saw fees as a primary and preferred way of getting paid for their services. A frequently mentioned method was to set up a retainer arrangement whereby a client would commit a certain sum to fund the research and other project development work required. One investment

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banking firm would deduct this amount from the fees they would receive from raising the capital

TOTAL REVENUES BY PRICING ALTERNATIVE

The preceding chart may be somewhat misleading as it illustrates the frequency of use of these various pricing options, but does not indicate the total annual revenues accruing to the firm from any option. In other words, although an option may be used by a firm, it may not produce any significant revenues

The following chart illustrates the relationship between pricing options and annual revenues from each and is based on respondents' estimates in answer to the question, "What percent of your firm's total annual revenues would you estimate result from ?" (each option mentioned in turn)

TOTAL REVENUES BY FEE ALTERNATIVE

INTERMEDIARY TYPE

| <u>FEE OPTION</u> | <u>Consultants</u> | <u>Lawyers</u> | <u>Invest. Banks</u> | <u>Importers</u> |
|--|---------------------------|-----------------------|-----------------------------|-------------------------|
| Fees | 93% | 100% | 40% | 80% |
| Fees w/Bonus | 6% | 0 | 5% | 0 |
| Brokerage | 0 | 0 | 40% | 0 |
| JV Equity | 0 | 0 | 0 | 0 |
| Trade/Mktg Commission | 0 | 0 | 10% | 20% |
| Licensing Royalties | 0 | 0 | 0 | 0 |
| Volunteer Services w/ Cost Reimbursement | 0 | 0 | 0 | 0 |
| Other/muscellaneous | % | 0 | 5% | 0 |

This chart gives an indication that although many pricing options and fee arrangements are theoretically possible, the fact of the matter is that fees represent almost all revenues earned by the firms contacted for this survey

C. Pricing Strategy

Formulating the appropriate pricing strategy for an international business venture often involves subjectivity and creativity in isolating and valuing the various tasks involved. A typical venture follows:

XYZ is a joint venture between a US and developing country firm. This project will take about one year to mature, and requires the TI organization's involvement during this period. The venture will require a \$5 million investment, and is expected to yield export sales to the US of \$10 million per year for a minimum of five years. Tasks involve:

- a) Finding a US partner,
- b) Assisting in planning, plus providing guidance for financing, and
- c) Establishing marketing avenues in the US

Some general observations:

In this example,

- A law firm would probably bill on a straight fee for time basis
- An investment banker would probably quantify expected compensation by valuing individual tasks. For example,
 - A \$5,000 per month retainer for six months with out-of-pocket expenses billed separately. This \$30,000 would be deducted from the revenues received from capital margins and marketing fees should the project come to fruition.
- A three percent margin for debt financing (assumed at \$3MM) and a five to eight percent margin for equity financing (assumed at \$2MM)
- A marketing or brokerage fee based on the volume of products sold, with one to two percent of total annual sales
- An alternative to this marketing commission would be to set up a joint venture marketing company in the US with the supplier selling to this company at something less than prevailing market prices for the product. Profits would be split 50/50

Thus

| | |
|--|------------------------------------|
| <u>Retainer</u> | \$ 30,000 |
| 8% on equity portion of \$2MM | 160,000 |
| 3% on debt portion of \$3MM | <u>90,000</u> |
| | 250,000 |
| <u>Less Retainer</u> | (30,000) |
| Total | <u>\$ 220,000</u> |
| PLUS , 2% of \$10MM annual sales volume \$200,000/year for 5 years | \$1,000,000 |
| | <u><u> </u></u> |
| Total cost of financing and marketing | \$ 1,220,000 |

A consultant responding to this example would tend to be more concerned with the work itself, and more inclined to make explicit assumptions about the partners' roles and capabilities

- A consultant may view the overseas partner as supplying the product while the US partner would provide the marketing and distribution. Thus, she may not see her firm earning any trading or marketing fees based on the volume of products imported and sold.
- However, if the consultant had particular expertise in engineering and construction projects, she may view the \$5 million as financing for plant and equipment in the host country. In this scenario, she views her firm as being compensated for its international engineering and project management capabilities.

Intermediaries tend to adopt a creative stance when it comes to finding ways to structure a compensation scheme. With the exception of law firms, pricing and fees vary based on factors identified as being important considerations or qualifying conditions. Each type of TI organization sees a different dimension of the project. Law firms see the legal issues involved, investment bankers focus on raising capital, and consultants are more concerned with the development phases and tasks involved.

| |
|----------------|
| SUMMARY |
|----------------|

As can be seen from the foregoing discussion, the issue of pricing, fees and valuing TI services is a complex subject. With the exception of the more standardized services such as legal and accounting work (which are generally accepted as being necessary requirements in business dealings and venture development), many firms are either unable to value or are unwilling to pay for

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other types of TI work. Thus, these TI organizations must first sell the need for the specialized information and skills they bring to the venture development process even before they sell their own active participation and involvement.

Without adequate support, many TI organizations face a difficult set of challenges. They must convince clients or would be clients of the need for their services and the value of their involvement in the venture development process. These clients may be unfamiliar with the difficulties involved in forming collaborative ventures with overseas partners. The TI organization is then put in the position of having to first demonstrate his worth in order to be adequately compensated. Generally, it must find a way to structure a compensation plan that is tied somehow to the success of the project, a plan that hopefully will yield adequate compensation in the future.

But when we look at the "new breed" of intermediary entrepreneurs who are attempting to forge new alliances and introduce new forms of collaborative ventures, we see mostly small firms and individuals paving the way. These intermediaries are generally the least able, from a cash flow point of view, to absorb the overhead and travel expenses and forego fees during the often extensive development process from concept to commercialization. Also, these intermediaries are being forced to assume a burden of risk that may be unrealistic given their limited resources. It is also fair to say that many intermediaries are specialists in particular aspects of the venture development process (e.g., market research, planning, technology transfer) and are somewhat naive when it comes to structuring and negotiating equity and performance payment packages.

The larger firms that conceivably could handle the risk and cash flow problems more easily are not pursuing TI as a primary (or even secondary) business activity. TI in these larger companies tends to be ad hoc, sporadic, and opportunistic as opposed to being an integral part of their routine business activities. It would appear that valuing and pricing TI services, at least in the short to medium-term, will be heavily influenced by market forces and individual firms' marketing, selling and negotiating skills. At this stage of its evolution, TI cannot be considered an "industry" in the sense that common standards, established practices, standard pricing and the other more formalized policies and practices exist or are widely shared among a group of similar firms.

**VII MANAGING PRIVATE SECTOR
TRADE AND INVESTMENT STRATEGIES**

At the end of this session, participants will

- 1 have an understanding of the issues involved when providing trade and investment services is coupled with simultaneous institution building,
- 2 be introduced to the challenges of organizational development,
- 3 review the private sector initiatives that drive private sector support strategy,
- 4 be familiar with the organizational needs of new institutions,
- 5 learn the constraints on successful trade and investment development,
- 6 have further information on the stages of development for private sector institutions

A. Introduction

Assistance organizations, in many developing countries, often have chosen private sector mechanisms to promote trade and investment. It is appropriate that the private sector be a principal force in creating the programs and services that promote certain aspects of trade and investment. However, many initiatives have combined the launching of trade and investment programs simultaneously with the formation of new private sector institutions.

In some instances, organization development activities have been very difficult. Non-profit institutions are difficult to design, organize, and manage. Often, a time span of several years is necessary before these institutions can establish a structure and staff that can take on complex programming. The relative absence of such institutions reflects the inherent difficulty in establishing effective private sector organizations.

In some developing countries, the creation of new types of private sector lead institutions (chambers of commerce and technical assistance organizations) which can encourage and support private enterprise has been made possible by channeling essential assistance resources through them to both enterprises and individuals. However, supporting the delivery of sophisticated services like trade and investment promotion while simultaneously building basic organizational structures can prove difficult and costly.

In this chapter, we shall explore the issues involved in managing private sector trade and investment strategies. These topics include basic assistance initiatives, organizational needs of new institutions, constraints on successful trade and investment development, the typical stages that private sector institutions pass through, and the role of trade and investment services in stabilizing institutions.

B. Institution Building and Private Enterprise Goals

Often, the creation of a private sector institution represents a key development strategy to establish a vehicle for policy improvement, the coordination of technical assistance and the promotion of trade and investment linkages with international markets and technology suppliers. However, the great difficulties in creating appropriate boards of director support for these institutions as well as establishing effective services, training staff, and creating effective planning and control systems, explain the relative lack of these kinds of organizations. The challenges of organizational development are formidable and the difficulties often compounded by the needs to show quick results and establish credibility among skeptical local entrepreneurs and numerous political constituencies.

Private sector institutions normally supply services and assistance which correspond to one or more of the seven basic assistance initiatives listed below that are designed to strengthen private sector activities and free market processes

Trade and investment promotion is but one of these assistance initiatives which require vastly different skills and techniques

Private Sector Initiatives

- 1 Technical Assistance and Technology Transfer
- 2 Information Services
- 3 Export Promotion and Investment Promotion
- 4 Training and Manpower Development
- 5 Financial Markets
- 6 Public Policy Reform
- 7 Association Building and Technical Infrastructure Support

There are many types of private sector initiatives and different terminologies for describing them. But, generally, the seven alternatives listed above represent the options from which various assistance programs choose to create a private sector support strategy. Of overriding importance is the need to build key private sector institutions which can channel resources and coordinate individual or multiple initiatives. In most cases, government agencies continue to be the chief organizing organizations for activities such as investment promotion and technology transfer.

In the Caribbean Basin, US AID missions have placed a special emphasis on developing private sector initiatives which can be implemented through newly formed or enhanced private sector institutions.

Example Caribbean Basin Private Sector Institutions

Costa Rica ~ Coalition for Industrial Development (CINDE)

Dominican Republic ~ Investment Promotion Council (IPC)

E. Caribbean ~ Eastern Caribbean Investment Promotion Service (ECIPS)

El Salvador ~ Foundation for Social and Economic Development (FUSADES)

Guatemala ~ Manufacturers Association for Non-traditional Exports (GREMIAL)

Guatemala ~ Guatemalan Chamber of Commerce (CAEM-Camara Empreserial)

Honduras ~ Foundation for Investment and Export Development (FIDE)

Honduras ~ Foundation for Development of Exports (FEPROEXA)

In Bolivia, Sri Lanka, Indonesia, Egypt, and Thailand similar initiatives are being developed and implemented. Again, the intention is to strengthen these private sector institutions and flow programming through them, resulting in the creation of a more experienced and capable private sector that will play an important long-term role in the public sector. These programs are designed ultimately to provide services to enterprises to help them become more competitive within the international economy and more responsive to free market factors. The importance of the focus on institution building cannot be underestimated, however, questions may be raised about the expectations for and capabilities of these institutions to offer effective enterprise support in the short run.

C. Organizational Needs of New Institutions

Unfortunately, non-profit institutions are often difficult to organize and manage. Each organization, for example, must deal with multiple clients and support groups which include enterprises, associations, government agencies, as well as US A I D mission interests. Their communication programs must be able to promote the involvement of diverse industries having varying levels of competence and confidence. Limited managerial resources in developing countries make it difficult to locate and acquire appropriate staff, keeping staff is even more difficult. In many cases, the new staff is confused about who they actually work for - the professional senior staff, the board, the assisting contractors or individual board of directors members who may have been the channels through which they were hired.

Planning and control is difficult since objectives are hard to quantify and evaluate. Success may be determined more by gaining new resources than by serving immediate clients. Political linkages are critical and may prove more important than the technical efficiency of service provision. All the traditional management processes - planning, controlling, organizing, and directing - are more abstract and difficult to apply in complex non-profit organizations.

Adding to the confusion and organizational development problems is the fact that most trade and investment programs are faced with limited terms of support from foreign assistance organizations. Pressure builds quickly to self-finance activities even though the local market may not understand the value of

or be culturally oriented toward payment for various assistance services. Most enterprises are not accustomed to using intermediary organizations, consultants, or technical assistance to help them work through planning and organizing dilemmas.

Boards of directors, usually comprised of outstanding local businessmen, find themselves quickly immersed in complex planning and project evaluation. In many cases, due to the inexperience of local professional staff, boards are asked to assist in project planning and control, thus involving more time and effort. Most of these businessmen are accustomed to competitive business environments and are easily discouraged by confusing procedures that tend to proliferate. There is also little incentive for risk-taking and a tendency to avoid controversial decisions, especially when government agencies, colleagues and USAID are anxiously awaiting success or failure. Additionally, US government and local government policies may contradict the expressed goals and programs.

Early in trade and investment (TI) program development, efforts must be made to coordinate and develop effective programming, particularly in the areas of technical assistance. A TI program must create "hard hitting" activities that can attract a skeptical business community. Generalized programs tend to hurt credibility, therefore pressure builds to establish "targeted" activities that fit the needs of specific industries. In addition, a TI program cannot be limited to simply identifying project opportunities or providing independent information services or assistance.

The diversity and limited experience of the community creates both the opportunity and major constraint for the organization. Thus, one of the most difficult problems for the fledgling TI program is to locate cost-effective networks and resources through which to funnel services to clients.

BUILDING THE SERVICE MIX FROM AVAILABLE RESOURCES

Example Services

Example Resource Suppliers

Training Programs
 Technical Assistance
 Entrepreneur Workshops
 Deal Packaging
 Information Services
 Contact Services
 Trade Shows
 Sample Programs
 Organizations
 Legal Services

Large Consulting Firms
 Small Consulting Firms
 Individual Experts
 Private Volunteer Organizations
 Associations and Chambers
 Universities
 MNCs Trade Missions
 Intergovernmental

To orchestrate a variety of specific programming, the TI program has to shop for resource suppliers who can assist in the building and delivery of programming. Usually US AID missions provide major contractors that help to get the TI program started. These contractors are normally responsible for both organization development activities and help in starting the initial programming in technical assistance, trade and investment promotion. It has been demonstrated that these contractors are hard pressed to get the TI program structured and to build an effective organization at the same time.

Ultimately, the TI program must strike a balance between the outreach and assistance programs it can offer with its own staff and those services it must deliver through cooperation with other suppliers. Finally, the service mix must be built with future self-financing in mind.

D. Constraints on Successful Trade and Investment Development

Although most TI programs have been promoted with the idea that they could ultimately develop a self-sustaining program base, this has not been the result to date. This is due primarily to a number of constraints in a business environment that is not capable of sustaining the technical infrastructure components that a more developed economy can support (laboratories, associations, consultants, etc). To complicate the situation, the local community is not accustomed to paying for many of the services that the TI program needs to offer. Thus the TI program must build its client base, while simultaneously educating clients on the value and utility of its services - even though its typical TI internal staff cannot immediately provide valued services.

Certain factors negatively impact on the ability of the institution to deliver effective TI services while others restrict its internal ability to create effective management systems. The major constraints affecting the development of a TI program include the following:

Limited industrial capacity within the local environment means that there are only a few firms capable of immediately exploiting programs that can assist them in new export or international joint venture activities. In most cases, the TI program must do more than simply link the firm to external markets, extensive technical assistance may be required to move the firm toward a capability suitable to the identified opportunities.

Strong competition in international markets discourages many firms from trying new opportunities. The most successful firms are making good returns in the local market; the least successful are not capable of exploiting the opportunities available. Many TI programs cannot orchestrate the combination of technical assistance and international linkage necessary to motivate an enterprise to move into new venture areas.

Contradictory local legislation and US policies create confusion among local enterprises. In one case US AID programs were helping to develop cut flower export enterprises while US Department of Commerce programs were establishing specific trade barriers to these products in the United States. In other cases, local government regulations make it extremely difficult to import necessary samples, establish new joint ventures, or even provide effective insurance coverage for new cooperative ventures.

Limited support industries such as packaging and tool making often slow down the ability to make rapid advances in different industries. In one case, cosmetic companies in the US were prepared to increase their activities in a developing country, but the lack of appropriate plastics and printing services forced them to merely fill containers there. Transportation support is often a major bottleneck in trying to expand opportunities for subcontracting and coproduction.

Growing US protectionist sentiment creates higher perceived risk on the part of the developing country firms considering export and international joint ventures. The possibility of new quotas or tariff barriers discourages many firms from even beginning the planning and analysis of ventures.

Limited manpower and skilled technicians block different types of projects. Even in industries as simple as garment assembly, the lack of skilled mechanics, pattern makers and other technicians makes it impossible for local firms to compete. Often, local training programs are not geared to the needs of international competition. Many enterprises are suspicious of the value of general training programs and are unwilling to invest in more specific training since they are accustomed to high turnover.

It should be noted that distrust in cooperative programs keeps many enterprises from sharing information and joining together to finance cooperative trade missions, research services, etc. Also, the desire to create unique competitive advantages holds firms back from various programs that could allow cost-effective access to technology and business networks.

E. Managing the Development Stages of the Organization

As previously noted, private sector institutions develop through predictable stages which are often characterized by difficult transactions and major reorganizational crises. Unfortunately, these problems are hard to mitigate and only the best managed evade the negative consequences of the changes. The survival of many TI programs and their associated programs will depend on careful management of these stages and the ability to stabilize the evolution of the organization. Many business managers and technicians fail to understand the enormously difficult problems inherent in designing and

managing a multi disciplinary organization that has ambivalent clients and widely divergent program needs

From the beginning, the design of the organization usually focuses on goals and programming content. Development of staff management information systems, and control programs is left to the founders or to a major contractor brought in to help start up or re-structure the institution. The objective of gaining local participation results in having the professional staff selected by board members, key founders, or by a nucleus staff. With limited managerial resources available in the country, it is difficult to recruit experienced individuals. Additionally, the more personalized environment in many developing countries leads to staff selection based on personal relations or family ties which may rapidly identify the TI program with particular factions or stakeholder groups in the country.

The original funding agency, possibly a US A I D mission, or World Bank Program, will often be drawn into the staffing and structuring activities before the principal contractor or key staff members are in place. Pressure builds to generate action because of performance expectations and limited funding duration.

The early pressure to perform and the confused loyalty of staff can soon put the organization at odds with different contractors, suppliers, and clients. Initial enthusiasm and excitement can rapidly lead to internal struggles over control, program direction and conflicts regarding political alignment. The technical discipline required demands a much more experienced staff and control function than is usually available. Without rapid success, there is often an increasing disenchantment with professional management procedures, open communications and links with external organizations.

The following is a summary description of the four stages that may develop if clear leadership and management are absent:

Stage 1 Organization Development and Start-up

Stage 2 Disenchantment and Search for New Supporters

Stage 3 Centralization and Restructuring

Stage 4 Balancing of Networks and Programming

Stage 1 - Organization Development Start-up

At initiation, the organization is characterized by positive attitudes and an openness to new board members, suppliers, and contractors. The focus of the organization is on start-up and is usually characterized by unrealistic goals. Early success from program opportunities is readily available and maintains confidence as the new staff makes plans and organizational structures are created. The larger business community is skeptical but tends to take a "wait and see" approach. Usually, younger staff members are quickly drawn into a variety of areas without much technical support or preparation, and they soon begin to present a confused and unserious service mix to the community.

Stage 2 - Disenchantment and Search for New Resources

Conflict within the organization may begin within the first year as outside contractors, funding organizations, or different staff groups begin to compete for resources and program responsibilities. Early available clients are quickly exhausted and staff begins having problems developing new clients or effective programs. Without strong leadership, staff begins seeking personal support groups outside the organization such as clients, board members, etc.

Managerial activities begin to focus on re-planning and increasingly involve board members to add credibility to the re-analysis efforts. Program officers also can become risk averse. Trust can also break down between them and available contractors and advisors. Ultimately, the staff will either become isolated or will turn to outside power groups for support and protection. A type of ethnocentricity may prevail as the organization becomes more distrustful of outside networks, supporters, and advisors.

Nonproductive planning may increase and there will be a greater tendency to involve board members in lower level planning and review. This leads to further confusion and withdrawal by some board members and formal support groups. The organization will now seriously begin to look for new allies to develop programming and will tend to seek out nationals or well-known groups not involved in earlier stages. Inexperience with complex organizational development and inability to control lowers confidence.

The search stage is usually accompanied by demands for increased budgets to justify more fixed staff to replace the external networks. Often the group develops a deep concern that outside agents are failing to deliver meaningful support. External funding organizations will be called upon to help restructure relations with contractors and suppliers and give the organization greater capability to integrate the various activities which were previously the province of outside expert groups. Meanwhile the organization could be losing credibility with the local business groups and associations it is designed to engage.

Stage 3 - Centralization and Restructuring

As a result of reorganization and declining credibility, the institution might evolve into a highly centralized organization relying increasingly on trusted associates. Programming will slow down due to the absence of technical networks and diminishing credibility in the local community. Available consultants and other intermediaries can be brought into the programming on an "ad hoc" basis.

Top leadership will play a key role in either accelerating the centralization of the institution or helping to bring it back into some kind of balance with other local associations, clients or intermediary groups. If careful analysis of organizational capabilities takes place at this stage and leadership is vigorous, the institution can refocus on organizational development and concentrate on developing reasonable programming which will almost certainly require outside network and technical support.

Stage 4 - Reorganization and Balancing

In the final stage, the organization comes to terms with the need to husband scarce resources. It moves to develop relationships with outside networks and intermediaries who can provide industry-specific support and deal packaging skills. Normally, tasks associated with activities within the country will be managed by the TI staff; international and specialized technical support has to be provided by appropriate consulting or association activities.

If the TI program is to help catalyze local firms into developing more competitive capabilities, especially in the international market, it must have some type of long-term external linkage system to offer while maintaining costs at a modest level. This is not possible without engaging existing business associations, private volunteer organizations or established commercial networks that have goals complementary to those of the TI program.

In the newly organized form, the TI program has the opportunity to develop more realistic plans. Expectations will be greatly modified after the initial start up and following conflict stages. External funding organizations will be supportive of this stage if they continue to see practical programming and the potential for some sort of self-financing. Ultimately, the organization will have to specialize in at least a few areas so it can begin billing for services, some of which are being channeled through the organization from outside suppliers. The focus of the organization must move toward collaboration rather than competition. Otherwise, the cost and effectiveness issues will slowly undermine support and lead to a gradual dissolution of the institution or at least a greatly diminished program base.

F The Role of Trade and Investment Services In Stabilizing Institutions

The key to TI program success lies with the management systems and delivery of meaningful services. With some technical assistance, it is feasible for the local staff to serve the internal needs of the country e.g. building association capabilities, training in general skills, and influencing policy. Supporting entrepreneurs and promoting major changes in enterprises requires long-term support from credible suppliers who can deliver a variety of industry-specific assistance.

The trade and investment activities of TI programs offer opportunities to bring in outside intermediaries (consultants, banks, etc.) and volunteer organizations to help provide diverse industry resources. However, the temptation to manage this task with "in-house" resources is strong. Usually, the TI program will mix in-house resources with some kind of outside support from consultants or volunteer organizations.

Trade and investment services can play a powerful role in building credibility and a supportive constituency for the TI program. However, when inadequately delivered, trade and investment services can have the reverse effect - harming the nascent identity and support of the institution. Considering the novelty of TI programs in most settings, initial success is important and is only achieved when there is a "full service" capability. Offering one aspect of support while failing to deliver other important requirements, can frustrate and confuse clients. Thus, the development of the trade and investment strategy is both a major opportunity and a major threat to the new organization.

SUMMARY

The effective planning and organizing of trade and investment services requires several key elements, such as

1. Organization development - This includes careful staff election and training which provides adequate support for stable organizational growth.
2. Outside intermediaries - The selection and management of outside intermediaries and advisors requires realistic programming guidelines, training, and support from the Board of Directors level.

- 3 Early success - Carefully targeted goals must be pursued with resources that will not be distracted by the ongoing complexities of organization development. Initial success will build support and credibility for the trade and investment program.
- 4 External networks - Access to and management of external networks is cost effective and can fulfill varied assistance requirements. Careful planning and organization is required to help select and develop appropriate control systems for these outside resources.
- 5 Appropriate models - Certain international programs may be adapted with greater ease than others. Environmental factors and specific conditions should be compared carefully before any given model is to be chosen as a guide.

VIII **AID EXPERIENCE IN TRADE
AND INVESTMENT PROMOTION**

At the end of this session, participants will

- 1 understand how AID programs fared when measured against AID's developmental goals,
- 2 review the determinants of success as derived from AID experience
- 3 be exposed to a brief history of and lessons learned from example AID programs,
- 4 be aware of the implications for future design and implementation of AID programs,

A. Introduction

During the 1980's, the United States Agency for International Development (A I D) supported a wide variety of programs involving trade and investment promotion. Some targeted investment promotion while others concentrated on export or joint venture linkages. A few provided a full-service program offering assistance from idea formulation, resource/partner searches to start-up and on-going production assistance to marketing. Others focused on more limited interventions such as training, policy changes, or grants for feasibility studies. Almost all tried to measure success against goals of increased investments, export earnings and/or jobs created, although other kinds of results such as developing local business capacity, association strengthening and attitudinal changes were recognized as having an impact on overall trade and investment.

With a few exceptions, reported results of A I D Trade and Investment (TI) programs did not live up to initial expectations. In some cases, the disappointing outcome can simply be attributed to inappropriate expectations, high costs or a program time frame that was too short to achieve expected goals. For many, however, a closer look is needed to determine why program performance was not all that was hoped for.

In this chapter, we review numerous A I D programs providing TI services, outlining the primary factors found to affect program results. We also identify the lessons learned from these experiences which we believe have the greatest implications for on-going program design.

Before examining the cases and findings in detail, however, more fundamental questions posed by the perceived ineffectiveness of TI programs in developing countries, as indicated by the A I D experience, must be addressed.

B. Justification and Terminology

It is our contention that, in almost every case, appropriately designed and scaled programs based on a thorough analysis of the country context are justifiable and consistent with A I D's developmental goals. In terms of trade and investment promotion, government and donor agency sponsors generally have higher-order objectives of increasing investment, expanding exports and creating jobs. Government or donor support for TI programs is justified when, as is often the case in LDCs, market mechanisms fail to provide for the trade and investment needs of the country at a socially desirable level. It should be pointed out, however, that A I D TI programs have not always been explicitly oriented toward serving foreign or domestic firms. Strategies are more often directed toward increasing "the flow of resources" to the LDC, helping technology transfer, etc. This lack of clarity as to the concrete aims of TI programs has led to confusion in purpose and inappropriate expectations.

As stated above, once objectives and justification are identified, a government sponsor takes responsibility by developing a strategy for TI promotion (A strategy is basically a choice of interventions) This level of planning is often referred to by A I D as a "program " For the purposes of this chapter, however, we will define a TI program as a set of services or activities designed to assist a firm, directly or indirectly, in concluding one or several types of transactions To further clarify, an A I D TI "project" may contain more than one program [For example, the Industrial Stabilization and Recovery Project in El Salvador contained both the PRIDEX/TIPS program, implemented by FUSADES, and a complementary export promotion program in the Ministry of Foreign Trade] A program can be provided by a single institution or a variety of organizations, but the program's service mix is determined by the type of transaction being encouraged and the client being served

The findings, case examples and lessons learned summarized in this section have clear implications for designing strategies and implementing programs Below we outline the main findings (at both the strategy and operations level) from the A I D experience, and a few program design issues which were important to results Next we will present key cases that were representative of different types of interventions as well as illustrative of our overall conclusions In addition, A I D studies analyzing trade and investment programs are reviewed In the last section, we will discuss the lessons learned in more detail in hopes of providing guidance to future TI program designs

C. Determinants of Success

While many findings emerge from a review of the A I D experience, six overriding factors seemed to determine the outcome of a program Any one of these six factors was capable of undermining an otherwise well-designed program, but all six seemed to be needed in order for a program to achieve results considered satisfactory The examples offered are mostly derived from A I D program evaluations (Note the first three factors are more strategy-level, while the next three are at the operational level)

(1) Consideration of the Country and Policy Context

Numerous program designs, goals and/or service mixes were not consistent with the particular circumstances of the host country or region, or did not have the flexibility to change as the context did More specifically, insufficient or faulty analysis of the business environment was performed before program start-up or program models from dissimilar environments were transplanted as opposed to developing ones to fit the local environment This set up inappropriate expectations as to what was and was not possible and in what time frame

Example: Investment promotion was an overly ambitious goal for El Salvador considering its political instability and image abroad

(2) Objectives and Service Mix that Reflect
Business Capacity and Needs of Targeted Clients

Many programs offered linkage services or credit to domestic clients which could not be well-utilized, at least not without complementary technical assistance, because business capacity was not sufficiently developed. More explicitly, export development programs in countries where the business sectors have limited capacity or experience with international markets provide capacity-building services in addition to services seeking to link exporters to foreign markets. Similarly, promotion efforts to attract foreign firms were rendered ineffective in many countries when complementary technical assistance and "marriage counseling" services were not available to nurture deals and develop local capacity. This was the case whether the intervention was taking place in an attractive or difficult environment.

The key issue is not which interventions are likely to be successful, but rather, given the particular country context and certain strategic decisions regarding goals, which set of services is most appropriate to achieve the desired country actions.

Example. The Belize Export and Investment Promotion Unit (BEIPU) had trouble offering promotion services to the tourism industry after early studies indicated that more efforts were needed in building capacity (increasing the number of hotel rooms and ground services, training service personnel, etc.) so that marketing would not backfire.

(3) Involvement of Both Public and Private Sectors

Programs met with greater success when responsibility for TI promotion was appropriately divided and there was cooperation between the sectors. Most TI services are more efficiently provided by the private sector, which is more market-responsive, although a few services, such as general public relations and data collection, are well-suited to the public sector. Also, public-private interchange and cooperation avoids conflict, helps clients through red-tape, and can lead to policy changes needed to improve the business climate.

Example: Even though an export development program run by the World Trade Institute (a US private, non-profit providing training, market research and other market and product development assistance to LDCs) was well-managed, export expansion could not be achieved by any of the main actors (exporters, government policy makers and export promotion agencies) acting alone. Export expansion requires the interdependent efforts of all groups to succeed.

(4) Manageability of the Program

Numerous programs, as opposed to providers, did not have clear goals or a strategic focus, were not adequately or appropriately staffed, had poor leadership and management controls, and/or had insufficient resources, including international networks, to achieve results

Example Booker T Washington Foundation staff did not have appropriate incentives or management oversight for this African investment promotion program, program resources did not provide for staff travel to follow-up leads, and the anticipated US network did not materialize

(5) Capability and Credibility of Service Providers

Many programs failed to achieve results because implementation depended on providers (both public sector and private sector) which lacked a.) credibility with their private sector clients, b.) the capabilities for the aggressive, person-to-person nature of trade and investment promotion or c.) the technical expertise to provide needed assistance. Similarly, choice of public sector sponsoring agencies was often inappropriate, i.e. regulatory agencies given responsibility for promotion

Example. BKPM, an Indonesian government licensing board for investors, did not have the commitment nor experience required to be an aggressive promoter of investments

(6) Institution-Building

With the goal of making TI interventions of more lasting value, institution-building was often a component of AID programs. Problems of delivering effective services, however, were compounded by the problems of building or strengthening local institutions, and more often than not detracted from the provision of viable services. The difficulty of delivering TI services while simultaneously building basic organizational structures was often underestimated. Further, institution-building activities in the public sector (or in donor-funded private institutions which end up mimicking public institutions) can result in the creation of permanent public or quasi-public institutions which stifle or discourage the private provision of business services. Public sector provision of business services should be "time-bound", i.e., providing them only until the private sector is able to take over

"Target inflation" (setting unrealistic quantitative targets during the program design stage) creates additional pressures for the new institutions, many times forcing them to concentrate on meeting short-term targets versus achieving longer term, sustainable development. The AID experience has also demonstrated the functional disharmony between AID objectives of promoting the self-sufficiency of private sector institutions as a means of sustaining TI activities over the long-term and two phenomena that accompany AID funding

1) additional costs and administrative burdens which A I D requirements and operating style imposed on private sector organizations, and 2) the use of A I D funding, regulations, and administrative procedures which often resulted in private sector recipient organizations moving in the direction of becoming mini-A I D 's, reproducing A I D objectives, staff orientation and operation style Furthermore, particularly for new institutions, demonstrating value for services and convincing potential users that they should pay for such services, is a long-term process Institutions that were required to charge for services were often unable to generate sufficient revenues to cover costs, at least not initially, and rarely within the 3-5 year normal A I D program time period

Example Program designers for CATCO drastically underestimated the time required for it to become commercially viable and the effort and time required both to create an institution and provide developmental services

D. The Results to Date from TI Promotion

In surveying various TI programs around the world, it is often difficult to define success and failure However, programs are perceived as successful or as less than fully successful The word "perceived" is important since there are many different ways of qualifying a project This summary uses a very general set of reported perceptions that have more to do with the initial goals of the program than with other criteria that may indicate that these projects were in fact successful

Placing some countries in a "favorable" category and others in an "unfavorable" one is equally as hazardous No highly detailed function has qualified country business environments Rather, countries with generally unfavorable policy environments, small markets, limited business capacity and undeveloped physical infrastructure are perceived as unattractive, e g El Salvador and Sri Lanka In contrast, a country with a difficult government policy structure could be seen as favorable if it had a large market or business infrastructure that could overcome the policy negatives, e g India.

The following chart arranges various projects in terms of favorable and unfavorable country context The projects with mixed or negative perceptions, often failed in trying to promote investment into their environment or had overly ambitious expectations regarding the ability of their local industries to exploit identified foreign markets or venture opportunities The example negatively perceived projects in favorable country contexts had design characteristics that were problematic, including government involvement, lack of follow-up capacity, or improper targeting of client transactions The programs reporting success, tended to be associated with more industry-specific technical assistance and follow-up rather than foreign investment attraction The technical assistance efforts in the Sri Lanka and El Salvador projects were considered much more successful than the investment attraction efforts of these two projects

VIII. AID EXPERIENCE IN TRADE AND INVESTMENT PROMOTION

RESULTS OF EXAMPLE AID PROJECTS

| RESULTS | | POSITIVE RESULTS/PERCEPTIONS | NEGATIVE OR MIXED RESULTS/PERCEPTIONS |
|--------------------------------|--|--|---|
| FAVORABLE COUNTRY CONTEXT | | CINDE-PE/ Costa Rica IPC/Dominican Republic INDONESIAN SERVICES INDIA (PACT) | THAI BOARD OF INVESTMENT BANEX/Costa Rica (1) Non-Traditional Agriculture/Colombia (2) |
| UNFAVORABLE COUNTRY CONTEXT | | JAMAICA/Technical Assistance & Training PROEXAG/Technical Assistance SRI LANKA/ Technical Assistance (3) FUSADES/Technical Assistance | PDAP HIAMP FUSADES/Investment Promotion FIDE FEPROEXA SRI LANKA/ Investment Promotion (4) |

(1) See Latin America Report
 (2) See ATAP Report of AID Experience
 (3) See Arthur G. LIBRETTI Report, 1987
 (4) See the Report of AID, 1988

TI promotion tends to be more effective when it provides targeted and industry-specific support. Programs taking a "promoter" approach (defined as enterprise specific technical assistance and brokering services to a limited number of producers in a limited number of sectors) were more suited to the weak business environments in which AID operates than programs taking a "transmitter" or "facilitator" approach, which are less pro-active and concentrate more on information-gathering, trade show representation and general investor services. Programs like CINDE, the Sri Lanka Business Development Center, and FUSADES in El Salvador, which were originally oriented toward the foreign investor, show an evolution to programing that can build the capacity of local firms while also linking them to international markets.

Also, while plenty of international market and venture opportunities could be identified, local firms had little capacity to exploit these opportunities. To address this problem, the investment and market access programs of FUSADES in Salvador, IPC in the Dominican Republic, and the IESC Indonesian Shrimp (Export) Assistance Program (ISAP) developed technical assistance support services to strengthen local companies while also providing market and investor outreach. In these three cases, private consulting intermediaries were utilized along with private volunteer resources such as the IESC retired executive specialists.

SUMMARY

At its most fundamental level, then, the success of a trade and investment program will depend on whether it has a clear, strategic focus and plan, a service mix consistent with the particular country context and transaction focus, and effective implementation by appropriate and capable service providers. Other

important conclusions regarding effective provision of TI services are summarized as follows

- a The business sector in most developing countries is not large enough to support or sufficiently aware of the services provided by specialized consulting firms and other intermediaries, which in turn have not developed to the extent they have in industrialized countries. Therefore, TI programs have to focus on how to create and deliver business services until the market place has adjusted to provide these services
- b Because enterprises in developing countries have little experience in identifying and utilizing external business services, including intermediation, programs must not only deliver appropriate services but also educate beneficiaries and promote the use of such services
- c Trade and investment linkage activities usually need to be complemented with enterprise-specific technical assistance to build the capacity of firms to meet international market demands
- d Trade and investment programs must provide long term continuity to allow establishment of credible networks of business contacts and service providers, as well as to allow firms to move through several different project cycle stages to completion of an investment or export transaction
- e Increasingly, international business linkages will involve non-traditional ventures such as joint ventures and coventures

In general, success was associated with those firms that had access to strong networks in larger countries. The pilot contracts operating in the smaller countries could not develop adequate project opportunities nor consistently bring ventures to completion. Even in these cases, however, where the contractors did not always meet the expected goals, they did provide an important business service to local firms at a relatively low cost. This approach, using commercial intermediaries to offer business services, may not always be the most cost-effective use of TI resources, but it is certainly an option if the United States wants to maintain some type of low-cost trade and investment assistance to Third World firms to improve their capability of accessing foreign technology and market opportunities

E. Examples of Key A.I.D. Program Experiences

The A I D programs in the examples that follow represent activities associated with government programs and activities associated with private sector institutions in developing countries. Certain programs focused solely on export promotion, others on investment attraction, while several combined investment promotion, export, trade linkage, and some degree of local capacity building. The example cases include a brief description of the program, highlights of program successes and weaknesses, and a "lesson learned" from the experience. It should be noted that the key "lesson learned" is not the only lesson to be learned from the case, nor is the case necessarily the only one to represent the "lesson learned."

1 Export Promotion Programs

Programs included under this heading are those which concentrated primarily on developing the export capability of the recipient region or host country. These programs included such components as supplying market information, identifying distributors and new market channels, providing trading services, defraying trade show participation costs and strengthening local productive capacity.

a The Caribbean Agricultural Trading Company Program (CATCO)

This joint EEC/A I D program (1982-88) sought to establish a joint public/private entity, CATCO, as a commercially viable regional agricultural trading company. The basic objectives of CATCO were to promote increased production, consumption, and export of local fruits and vegetables, to open new marketing channels (vs compete with existing brokers for regional market share), and to reduce extra-regional food imports. A I D provided a loan of US\$4 million (later reduced to \$1.3 million) to establish the company and a grant of \$255,000 for technical assistance to assist in setting up the management team, developing standard procedures for measuring, packing, grading produce and forward contracting, providing field staff to implement the procedures and monitoring performance, and preparing a business plan and accounting procedures.

In 1988, CATCO was virtually bankrupt, being kept afloat by soft loans and grant funds from A I D and the European Development Fund (EDF). CATCO's troubled financial situation was attributed to inexperienced and frequently changing management, inability to trade in agricultural inputs or to compete successfully in intra-regional market sales, and the complex and costly developmental efforts required to cultivate extra-regional

export markets and link them successfully to sustainable sources of local produce supply

CATCO was relatively successful in developing a reputation in the UK and Holland markets for locally produced, high quality fruits and vegetables at competitive prices. It had more limited success in competing with the Mediterranean and other countries supplying traditional winter vegetables or semi-tropical and tropical fruits. It was believed that CATCO eventually would become financially viable on the condition that it: 1) cultivate and assure an extra-regional demand for perishable fresh fruits and vegetables, 2) foster a collaborative versus competitive relationship with other traders in the region, and 3) raise farmer productivity and reduce the costs of production

Lesson Learned

Developing a sustainable local capacity to produce the products wanted by markets, in reliable quantities, quality and price requires extensive development services and is initially costly. This effort is necessary before a trading company can be expected to be commercially viable. Efforts also should be made to seek a collaborative rather than competitive relationship with other traders in the marketplace

b AID to Artisans (ATA)

AID to Artisans (ATA), a US based non-profit organization, managed this highly targeted export program (1983-87) in Honduras. The basic premise of this artisan marketing program in Honduras was to help the artisans penetrate export markets. The goal of the program was to establish an on-going institution that would provide product development, marketing, fiscal and commercial services to Honduras artisans, to allow them to manufacture crafts for export

The potential impact of this program was tremendous and ATA had "come a long way in proving that a private organization using a 'business' approach to development can significantly help a country like Honduras become a competitor in the export market." ATA was credited with upgrading artisan skills and product quality, assisting in the design of products to meet market demands, and working to set up a Honduras organization to provide on-going technical assistance and an affiliated trading company. The evaluation pointed out, however, that more than two or even four years is required to create a stable, on-going and independent institution fully capable of providing such services to a small group of artisans

Lesson Learned

As demonstrated in other industry specific, full-service programs, providing a complete range of product development, marketing and management services, focusing on building the local capacity, is an effective way of improving an industry sector's capability to export. Further, in all but the most advanced LDC economies, this approach tends to be more successful than that of providing limited services or more general, all encompassing export promotion programs.

c. The Federation of Ecuadorean Exporters (FEDEXPOR)

The purpose of this four year program (1984-88) was to promote the non-traditional agricultural-based exports of Ecuador by strengthening the capacity of existing private sector organizations to provide support services to agribusinesses.

The Federation of Ecuadorean Exporters (FEDEXPOR) was strengthened to expand its role as an intermediary between Ecuadorean and foreign businesses, and to assist its members in resolving exporting and documentation problems. It also conducted limited policy analyses to support lobbying efforts to modify policies affecting exports. An intermediation office was established in Miami by the US consulting company DEVRES, for the purpose of generating market information and initiating sales of products to identified distributors in the US.

The program failed to achieve its goal of increasing non-traditional agricultural exports by \$63 million. The \$10.4 million program is instead credited with generating cumulative incremental exports of US\$6.05 million, a cumulative foreign exchange gain of US\$5.20 million, and 475 new, full-time and full-time equivalent jobs. The less than favorable outcome was due to a number of reasons: a poorly designed program concentrating on promotion and information gathering versus developing a non-traditional agricultural export sub-sector (building capacity), the length of time and cost required to develop and change the attitudes of producers, the omission of utilizing the public sector in the program design, implementation and operation, and the failure to address export infrastructure issues.

One of the major limitations of the program was the lack of assistance in three technical areas: physical preparation and presentation of the products, the physical movement of products, and ensuring the actual availability, volume and continuity of products that were or could be offered to external markets. Sales leads generated by the Miami-based office could not be filled due to a lack of follow-up and availability of the actual product. There was a failure to recognize the harm to the image and reputation of an exporter and a country when a product is not delivered.

Lesson Learned

An export development program must first ensure a country's productive capacity is sufficient to meet new demands in order for export promotion efforts to be effective. A full service program, providing technical assistance in capacity and product development, marketing and management, in addition to promotion, will achieve greater success than those programs only concentrating on promotion. Also, greater success can be achieved when responsibility for export development and promotion is appropriately divided and cooperation encouraged between the public and private sector.

2 Investment Attraction Programs

a The Project Development Assistance Program (PDAP) in the Eastern Caribbean

PDAP, carried out from 1984 to 1989, was an expensive and marginally successful trade and investment program. Its goals emphasized the attraction of foreign investment, the improvement of government and private sector capabilities to generate employment, the improvement of the well-being of lower income groups in the region, and the institutionalization of the promotion process. Sixteen million dollars had been spent to establish resident advisors on the different islands, a coordinating office in Barbados and an investment promotion and outreach office in Washington D C, all managed by Coopers & Lybrand. The program generated approximately 50 investments, net annual export earnings of \$12.4 million, and a potential of 4,575 jobs in six countries.

There had been weak central management of the program and investor search efforts had been diffuse and unproductive, though targeting and coordination improved with experience. (Although PDAP primarily sought foreign investment, numerous successes were obtained through sub-contracts and other co-ventures in a few specific industries.) Most importantly, the program was overly ambitious considering the industrial capacity and policy environment of the Eastern Caribbean islands. Further, exaggerated job targets diverted attention away from important institution-building and policy reform tasks as well as questions of long-term sustainability. More tailoring to the needs of individual countries was required and the promotion effort would have been improved by additional short-term, industry-specific, technical assistance, primarily to build capacity. Noteworthy achievements were cited in the improvement of the investment climate, institution building, advisory assistance and initiation of regional coordination.

Lesson Learned

Where the business climate is unattractive, generalized, large-scale investment attraction programs will be both cost-ineffective and likely to fall short of expectations. On the other hand, collaborative venture development can be effectively pursued in small, less attractive environments.

b The Investment and Export Promotion (PIE) Program of CINDE in Costa Rica

Another large scale investment promotion program, though one identified as much more successful than PDAP, is the Costa Rican investment attraction program organized within the private sector non-profit institution, CINDE. This A.I.D.-supported program (1984-89) operated 6 overseas offices staffed by Costa Rican nationals at a cost of slightly under \$1.4 million in 1987 and significantly more in 1988 and 1989. Between 1986 and 1987, the program, which totalled slightly less than \$5 million was able to generate approximately 10,000 jobs associated with \$47 million in new (mostly foreign) investment and \$33 million in exports. Though originally charged with energizing Costa Rica's export sector, by 1986 the program was focusing solely on attracting targeted U.S. and European investors and did not attempt to develop joint ventures or strengthen the industrial capacity of domestic firms.

The excellent business environment of Costa Rica was of primary importance in facilitating investment flow into the country. Other critical factors for the success of the PIE program were a) establishment of reliable and sufficient funding, b) implementation of a step-by-step strategy and specific targets, c) establishment of overseas promotion offices, d) hiring of local but bi-cultural and bilingual staff, e) development of good reporting and high-tech communications system, and f) establishment of a flexible and decentralized private-sector-oriented institutional structure. In 1987, the program was able to organize 706 individual firm presentations leading to 288 investor visits to Costa Rica that resulted in 25 completed investments. While PIE has been criticized for attracting mobile, low-tech industries primarily to the export processing zones, some backward linkages to local firms have been made, and future plans include assistance to local businesses in sub-contracting and exporting to extra-regional markets.

Lesson Learned

When the combination of a relatively attractive investment climate, a clearly focused and highly targeted strategy, and a well-managed, well-

staffed and well-funded organization is achieved, an investment attraction program can be highly successful and cost effective

c. Egypt's Private Sector Feasibility Studies Program (PSFSP)

The \$5 million PSFSP was a simple investment attraction program offering cost-sharing grants to US investors in Egypt for detailed feasibility studies and reconnaissance visits. The primary aim of the program (1979-88) was to provide a risk-reducing incentive to US investors to move a specific program from the conceptual and feasibility stages through to implementation, complementing other AID-funded investment promotion programs in Egypt. After a delayed start, the program was initiated in 1980 with a contract to Chase World Trade Information Service Corporation to prepare ten sectorial studies to be used for marketing the program and to manage the promotion campaigns for the program in the US. In addition, Chase was to develop the administrative procedures for the grants and train the staff of the Egyptian government's General Authority for Investment and Free Zones (GAFI), who were to administer the application and approval process for the grants.

By October, 1984, 78 grant applications had been received, 13 feasibility studies or reconnaissance visits had been completed and 3 projects were moving toward start-up. The companies which had applied for the grants stated that the PSFSP had a significant impact on their decision to consider Egypt. However, poor management and insufficient marketing of the program led to an inadequate number of approved applications. Several problems were involved, including poor timing (promotion campaigns were conducted before the sector studies and administrative procedures were finished), poor coordination between the US side of the program (first Chase and then the Egyptian commercial attache) and GAFI staff, and slow response time once an application was received. The program should have been marketed more aggressively, applications processed more efficiently and better coordinated with other AID programs such as the US Investment Promotion Office (USIPO).

Lesson Learned

A limited intervention, such as cost-sharing grants, in an environment of interest to investors (e.g. offering a large market), can provide a strong incentive to investors, but it must be aggressively promoted, followed up and coordinated with other programs in order to have a significant impact. Yet, poor management of even the simplest program can nullify its potentially significant impact.

3 Investment, Export, and Co-Venture Promotion Programs

a The Honduras Export Development and Services Program -the FIDE Component

This 1984-89 program, started in 1985, supported a private sector institution in Honduras, FIDE, to develop trade and investment linkages, principally in manufactured products and non-traditional exports. Initially focusing on export development, FIDE developed a U S network of large consulting firms and smaller firms to link local exporters with the U S. FIDE also coordinated a variety of technical assistance programs that used volunteer organizations such as IESC and other consultants to improve the productivity of local firms and enable them to enter international markets. Over a two year period, FIDE was credited with creating 1,800 new jobs at an equivalent cost of approximately \$3000 per job.

Because of the limited installed export capacity in Honduras, maintaining an overseas network using consultants to market exports was expensive relative to returns. Although some success had been achieved with those firms where a full package of services was offered (product technical assistance as well as specialized marketing), investment promotion and setting up contracting relationships, albeit costly, held more promising long-term returns than export promotion.

In 1989, FIDE re-oriented its focus to investment promotion, developed joint outreach offices in Atlanta and New York, terminated its relationships with its U S contractors, and embarked on a program to build export-processing zones. Positive results such as FIDE's impact on entrepreneurs "export mentality" and the demonstration effect of a few firms entering the export market are hard to quantify and include in a cost-benefit analysis. However, the program had significant results in bridging local firms with U S markets.

Lesson Learned

Programs oriented toward servicing domestic firms' export needs may need to develop different measures of success, other than jobs created and foreign exchange earned, that capture results of tasks such as capacity-building, attitudinal changes, establishing institutions capable of providing long-term technical assistance, and environmental improvements.

b The FUSADES - PRIDEX Program in El Salvador

Similar to FIDE, A I D supported a private sector non-profit institution in El Salvador known as FUSADES (1984-89) One of its programs was organized for promotion of investment and the development of exports (PRIDEX) Initially, FUSADES contracted with a major U S firm, Arthur Young International, to manage the contract, develop a U S network and provide technical assistance Arthur Young established offices in New York and San Salvador and used two subcontractors in the U S for outreach support While the program found it extremely difficult to promote El Salvador for investment, more success was achieved in helping local firms improve capacities and access foreign markets, especially in agribusiness and apparel related products, and in helping to effect important policy changes The resulting job creation between 1985 and 1987 was approximately 4,700 at a cost of about \$800 per job

In 1986, FUSADES elected to change its networking approach and established its own office in Miami In addition, it continued its strong emphasis on local capacity-building and also worked with a variety of small consulting firms to help extend its network outreach in the United States The organization has gone through several changes in management during its early stages and has carried out a number of different experiments to develop its own particular networking approach to investment promotion considering the uniquely difficult political environment in El Salvador

Lesson Learned

Even in a country such as El Salvador that has a very entrepreneurial business community, environmental factors such as political instability can render investment promotion efforts useless More long-term benefits are to be gained by servicing local export needs, developing local business capacity, encouraging non-traditional forms for investment, and using TI programs to link the public and private sectors in policy dialogue Collaborative ventures would be the proper intervention in this situation

c The Business Development Center of Sri Lanka (SLBDC)

A similar approach building off of a new private sector institution was developed through the Sri Lanka Private Enterprise Promotion Program between 1985 and 1987 The Sri Lanka Business Development Center (SLBDC) was established to implement four major project components: investor services/investment promotion (both local and foreign, including joint ventures), stimulation of economic and business policy dialogue, entrepreneur development, and management development. The program used a large international consulting firm, Coopers and Lybrand, to develop its U S network activity and assist the Center (SLBDC)

in developing its overall structure and operations and to provide services in the four major components for the local market

The program had met with limited success in its investment promotion (less than ten investments, mostly domestic ones, had been made) and the program had fallen short of expectations. Technical assistance had been largely under-utilized, primarily due to the poor working relationship with the contractor, and little effort was devoted to the policy area due to work-load constraints and unwillingness of the Center to get involved in this area. Too many diverse roles were given to the SLBDC, a new institution, and the Center should have focused on entrepreneurial, management and technical services to Sri Lankan SME's, leaving foreign collaboration and policy dialogue with the government to other institutions. At present, the SLBDC does not have a formal networking program in the US and is increasingly relying on local consultants and some international volunteer groups to provide technical assistance when appropriate.

Lesson Learned

Delivering effective trade and investment promotion services while simultaneously building an institution (from basic organizational structures to developing staff and leadership skills) is hard if not impossible. Either tasks should be greatly reduced, or already existing credible organizations should be chosen as the conduit.