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EXPORT AND INVESTMENT PROMOTION:

FINDINGS AND MANAGEMENT IMPLICATIONS FROM A RECENT ASSESSMENT

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S U M M A R Y

Recent economic literature has demonstrated that outward-oriented economies with strong trade, investment and export systems have achieved better development results than inward-oriented economies. A.I.D. has devoted substantial resources to supporting outward-oriented growth through policy reform and projects focused on promotion. While most observers consider policy reforms to be fundamental in stimulating export-led growth in developing countries, there is less consensus about the value of promotional assistance. Key questions facing donors are: Is export and investment promotion assistance worthwhile? Does it merit continued A.I.D. support?

CDIE has conducted a worldwide assessment of A.I.D.'s experience with export and investment promotion services. The purpose has been to assess the contribution of intermediaries providing services to exporters in developing countries. Issues examined include the rationale for donor intervention; the impact on exports, jobs, and the market for support services; the return on A.I.D.'s investment; the service mix; and effective service providers. The assessment included visits to Guatemala, the Dominican Republic, Costa Rica, Chile, India, Indonesia, Thailand and Korea. **Below are some initial assessment findings and management implications for A.I.D.**

A. Rationale for Intervention If policies towards nontraditional exports are satisfactory and governments are committed to export-led growth, support services can potentially have a substantial additional impact. There may be a rationale for temporary assistance to service providers to help new exporters deal with the marketing and production challenges posed during the early phase of trade liberalization.

Implications: Focus first on the policy environment: has trade been liberalized enough? If not, there is little justification for donor intervention with promotional services. If policy improvements are satisfactory, then focus on the export support services market: are buyers, foreign partners, private associations able and willing to respond to the demand for services? If the private support service market is too underdeveloped to respond, focus on identifying the "gap" and the justification for a subsidy to fill the gap temporarily. Once a well-functioning market for export support services exists, there is no longer a rationale for intervention.

B. Impact of Export and Investment Promotion Services Promotion services, if properly targeted, can accelerate nontraditional export growth in favorable policy environments. Impact will be greater on the investment frontier -- in underexploited sectors with the most export potential.

Implications: Focus on bottom-line impact: achievement of nontraditional export growth and improvement in the private provision of services. Give service providers flexibility and resources to respond to service "gaps." Link impact indicators directly to project activities, and support baseline data collection and tracking systems.

C. The Return on A.I.D.'s Investment Export and investment promotion programs, if properly focused, can offer attractive rates of return on donor's investment. Cost-benefit analysis drawing on employment and export impacts provides one important measure of a project's economic return.

Implications: Use simplified approaches to assess the costs and benefits of promotion projects in most cases. Incorporate into economic analysis the development of the market for support services. Undertake detailed cost benefit analysis based on employment and export impact selectively.

D. Service Mix Successful strategies have paid careful attention to the stages of the investment and exporting process, and have helped establish long term linkages between exporting firms in developing countries, and buyers, investors and other commercial service providers in developed country markets. It is often costly and high risk for A.I.D. to provide technical assistance to exporters directly.

Implications: Emphasize services, such as foreign market information and buyer contacts, that lead to long term linkages between firms new to exporting, and commercial service providers from abroad, e.g. buyers. Avoid providing technical assistance for production directly. Rather, in seeking to help firms to overcome supply constraints, serve as a "broker" linking exporting firms with commercial providers, who will supply customized services such as technical assistance.

E. Effective Service Providers Exporters gave the most credit for making exports or investments happen to business partners, e.g. buyers and foreign partners, and little credit to government service providers. Government institutions typically fail to deliver. The very few exceptions are in countries which had achieved excellent policies and a strong commitment to expand manufactured exports. Firms gave the most credit to a variety of private suppliers; no single service provider appears to be able to meet the diverse needs of exporters and investors. A.I.D. has not had realistic expectations about the financial sustainability of non-profit promotional institutions. Fee income, while an important source of support, has not ensured sustainability.

Implications: Do not limit assistance to a single service provider. Consider either assisting more than one private for-profit or not-for-profit service provider, or supporting cost-sharing mechanisms allowing firms to select their own service provider. Build on the existing service provider market and promote exporter access to commercial service suppliers. Avoid government service providers for either export or investment promotion. Do not make financial sustainability of the institution a criterion for assistance. Instead create time-bound, results-focused projects based on a defensible economic rationale.