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BUSINESS SERVICES IN INTERNATIONAL TRADE AND INVESTMENT PROMOTION

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BUSINESS SERVICES IN TRADE AND INVESTMENT PROMOTION

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PART I:

THE CONCEPT OF BUSINESS SERVICES IN INTERNATIONAL TRADE AND INVESTMENT

A. INTRODUCTION

This report focuses on the provision of business services to those enterprises which are either actively engaged in international business actively or potentially interested in pursuing such businesses. Specifically, the report examines those business services which promote international trade and investment. The provision of such services is often a component of official trade and investment promotion programs aimed at increasing the flow of investment into or export out of a particular locality. Although much of the discussion is applicable to any geographic setting, the focus of this report is on less developed countries (LDCs).

More specifically, the report discusses 1) the various ways in which business services which promote international trade and investment can be provided, 2) the circumstances under which governments or international donors have a viable role in their provision, and 3) effective ways and guidelines to structure programs to deliver these services, focusing on the use of private service suppliers.

The report is based largely on research conducted as part of the Market and Technology Access Project (MTAP). This project was launched in 1983 with funding provided by the Bureau for Science and Technology (Office of Rural Development) of the United States Agency for International Development (A.I.D.). The original objectives of the project were to develop more effective approaches for promoting collaborative ventures -- trade relationships, licensing agreements, contract production relationships, joint ventures, etc. -- between US and developing country firms. In particular, the project set out to investigate the role of commercial brokers and intermediaries in promoting such ventures and to determine whether efforts to involve commercial intermediaries in A.I.D.-supported projects would result in promotion efforts that were cost-effective and, hopefully, even commercially viable.

The project included two components: 1) a research and evaluation component designed to generate information about the effectiveness of different approaches for promoting collaborative ventures, and 2) a field trial component designed to provide practical information about ways of involving commercial intermediaries in A.I.D.-supported trade promotion efforts. Three firms were selected to carry out the field trials. Funding was provided a on a cost-sharing basis for a 2-3 year time frame. The research and evaluation contractor monitored the field trial activities to assess the effectiveness of the contractors in promoting new ventures. Additional data was collected on the operations of other types of commercial service

suppliers involved in trade promotion activities. Comparative data derived from other A.I.D. projects, programs supported by other donors, and selected trade promotion efforts supported by other governments, was reviewed to provide a broader perspective on problems of providing effective support services to firms engaged in international venture development.

The report begins with a review of the foundations on which MTAP is based and its rationale. It then discusses a broad range of issues related to trade and investment promotion programs and strategies, including their design and execution. This discussion provides a conceptual framework for international trade and investment promotion programs. In the next part of the report (Part II) the empirical evidence of factors affecting the success or failure of such programs, including information from a broad spectrum of country and A.I.D.-sponsored projects and programs, including MTAP, is provided. Finally, Part III focuses on developing guidelines for the effective design and execution of programs for delivering business services to promote international trade and investment in LDC settings.

B. COLLABORATIVE VENTURES AND THE ROLE OF INTERMEDIARIES IN PROMOTING LDC FIRM ACCESS TO NEW MARKETS AND IMPROVED TECHNOLOGY

This section contains a summary of MTAP research findings concerning emerging trends in international venture development and the role of commercial intermediaries in facilitating such ventures. This material provides useful background and context for an examination of the role of business services in trade and investment promotion.

1. Trends in International Venture Development

In the 1980's, a number of economic developments have had a profound impact on the nature and volume of collaborative ventures between US and developing-country enterprises in general, and smaller enterprises in particular. These were: (1) the debt crisis; (2) the relative economic stagnation of most developed countries; and (3) until recently, the unprecedented strength of the US dollar vis-a-vis other currencies. These events had significant consequences: (1) a dramatic reduction in the ability of developing-country enterprises to pay for foreign technology and imported goods and services; (2) a substantial reduction in the competitiveness of US products and services abroad coupled with increased competition from imports to the United States; and (3) a reluctance to pursue equity investments in developing countries, due to these developments and host-country restrictions.

For US enterprises, the result has been heightened competition and a strong incentive to seek less expensive sources of raw materials, semi-finished components, and labor (usually all overseas). The LDC enterprises, on the other hand, are experiencing a strong need for export growth, while at the same time being unable to pay for the necessary inputs.

A parallel and closely related development is the emergence in recent years of alternative forms of international investment in developing countries, all of which are forms of collaborative ventures. These new forms include (1) joint ventures where the foreign partner holds a minority interest, (2) licensing agreements, (3) franchising, (4) management contracts, and (5) international sub-contracting. The principal characteristic of these alternatives is the reduced importance of majority foreign ownership represented by majority equity investments.

The emergence of these alternatives further complicates the international business environment. At the same time, it offers new opportunities for smaller firms to become involved internationally. The traditional equity-intensive form of foreign direct investment clearly favored larger firms. The emergence of the new and less equity-intensive forms of investment removes this impediment to international involvement by smaller firms. Herein lies an important role and rationale for intermediaries. They can

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provide the help smaller firms need to realize their potential through the new forms of international investment.

MTAP research also found that trade is an important ingredient in these international collaborative ventures entered into by smaller firms. To understand this, one must examine the factors motivating smaller firms to engage in international business. Larger firms look to foreign markets as a way to grow beyond limits already reached in their domestic markets. Smaller firms (except the very specialized) generally still have room to expand within their domestic markets. One of their main motivations in going overseas is to improve their domestic competitiveness by acquiring lower-cost primary and intermediary inputs or by increasing the range of products offered in their markets.

To the extent that smaller businesses are looking for foreign markets, it is usually through exports rather than investment. Unlike the larger firms, they do not have global strategic interests or (with some notable exceptions) state-of-the-art technology that must be protected through ownership of the factors of productivity in foreign markets. Trade (in the form of countertrade and similar arrangements) is therefore more important than investment, and has risen in importance to both small and large firms as a way to conduct business in those countries where payment in hard currency is difficult.

From the point of view of the developing-country enterprise, collaborative ventures that promote exports, technology transfer, and access to new markets would obviously elicit the greatest interest. Overall, the success of each type of venture and the frequency with which it will occur will depend on the congruity of interests between developed- and developing-country partners. On this basis, we can expect that the following kinds of cooperative ventures will be relatively prevalent and fruitful among smaller US enterprises (and those in other developed countries) and developing-country enterprises:

a. Collaborative Ventures Involving Trade

Collaborative ventures of this kind belong to a category where trade forms the nucleus of a lasting and mutually beneficial relationship between the partners, often leading to upgraded skills and product technology for the LDC partner and may ultimately lead to equity investment by the developed-country partner. The most popular type of venture would be where the LDC partner reviews technology and pays for it through export of goods or services.

b. Joint Ventures Structured to Minimize Developed-country Resource Commitment

One example of this approach would be where the developed-country partner contributes technology and know-how in return for a

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corresponding equity stake in the developing country enterprise. In the past, many developing countries have resisted such arrangements. However, with diminishing opportunities for equity investment, coupled with a lessening of national concern over foreign controlled technology and investment, it is becoming a viable strategy for many small enterprises. It also creates the opportunity whereby payment can be made over the long run, as opposed to up-front fees for equipment and technical assistance. Discussions with small firms who had little if any interest in traditional foreign direct investment opportunities revealed that many would favorably consider a technology contribution strategy, thereby providing them an opportunity to participate in the international marketplace without dramatic "up-front" risk.

c. Licensing Agreements, Especially those Involving Smaller Specialized Developed-country Firms

Licensing agreements with specialty chemicals firms, biotech firms, or electronic related firms, are very much sought by firms in developing countries because of the potential for developing exports and/or ancillary industries. Some intermediaries operating in this area act as traders in licenses and instructional packages. This is especially useful in cases where small and medium-sized US firms have the technology but lack the networks to market these programs abroad.

d. International Sub-contracting Ventures

An example of this type of venture is where the developed-country partner sends a semi-finished product to the LDC partner, who performs the labor-intensive operations and ships the product back for finishing or direct distribution. This arrangement exploits the comparative advantages of each partner and thus rationalizes the process.

Among these ventures, those which are also congruent with the host country's principal development policies and objectives will find the more fertile ground. Typically, in developing countries, such policies and objectives involve increased employment and foreign exchange earnings, and making use of indigenous resources.

2. Obstacles to New Venture Development and Intermediation

Enterprises in the United States and in developing countries face a variety of obstacles in the process of organizing a new venture. There is a consensus that many of these obstacles are related to the initiation of a project (from idea generation to the identification of potential partners). Chief among such obstacles are: (1) scarce managerial and capital resources; (2) psychological reluctance to get involved internationally (based on a perception of high risk); (3) the necessarily short-term outlook of small businesses; and (4) inability to access and use information effectively.

Intermediaries can help the smaller enterprise surmount these obstacles arising throughout the project cycle, but they are particularly valuable during the initial stages. This is when the enterprise is the most uncertain and unclear about its needs, options, and opportunities, and is least inclined to proceed unassisted.

Any new project requires an ability to handle information, analyze problems, and develop working options. A large number of enterprises apparently never get past the general idea or concept stage because they are discouraged by the complexities of new program development. An analysis of the files of the International Executive Service Corps (IESC) indicates that over 70 percent of the enterprises receiving assistance lacked the appropriate skills to qualify opportunities and technology needs on their own. Also, because they cannot readily quantify the overall costs and benefits of the new project on their own, smaller firms are reluctant to take risks or to invest in the appropriate assistance in analysis, planning, and negotiating.

These findings have been corroborated by research conducted at the beginning of the MTAP project. For example, during the first MTAP workshop, a working group of forty-four US intermediary executives and eleven developing-country experts (responding to an open-ended question) identified ignorance of opportunities, lack of directly usable information, and cultural differences as the most critical obstacles to collaborative venture development. Other obstacles identified were lack of financing, government regulations, and inexperience on the part of the venture partner.

When asked which factors were important for successfully stimulating collaborative ventures the group concurred that LDC enterprises lacked the ability to identify and qualify foreign collaborative venture partners. Similar inhibiting factors were thought to exist among small US enterprises. The results of the survey of workshop participants are presented in the following chart.

RESULTS OF CONFIRMATION SURVEY ON FACTORS INFLUENCING COLLABORATIVE VENTURE DEVELOPMENT

	5	4	3	2	1
LDC enterprises lack the ability to identify opportunities for collaborative ventures with US firms	27	20	4	2	0
	Agree Strongly				Disagree Strongly
LDC enterprises require intermediaries to: identify collaborative venture partners.	30	21	1	1	0
	Agree Strongly				Disagree Strongly

	5	4	3	2	1
LDC enterprises require intermediaries to: develop plans for collaborative ventures.	25	17	8	3	0
	Agree Strongly			Disagree Strongly	
Many collaborative ventures fail as a result of poor business planning.	13	28	10	2	0
	Agree Strongly			Disagree Strongly	
Most effective intermediaries provide extensive follow-up efforts.	23	23	2	3	1
	Agree Strongly			Disagree Strongly	
Effective intermediaries must have credibility with both LDC and US firms.	31	18	3	0	0
	Agree Strongly			Disagree Strongly	

These findings reinforced the view that scarce managerial resources within LDC and small developed-country enterprises inhibit collaborative venture development. The lack of time and information required to assess opportunities, coupled with managerial resource constraints, also means that the overall planning and development of new projects, and follow-through, is significantly inhibited, and the ability to cope with the perceived risk is substantially reduced.

These characteristics of enterprise management inhibit the use of intermediaries. As a rule, smaller firms do not have specialized staff nor utilize consultants or other specialized external agents. They are especially reluctant to pay up-front fees for planning assistance, since they are uncertain about the value of the overall project. The general lack of management capability to organize, plan, and direct new activities leads to a need for intermediation. Yet this same weakness inhibits the firm from selecting and using intermediaries appropriately, or even from considering their potential role.

3. Factors Inhibiting Trade and Investment Expansion

The major factors inhibiting the individual enterprise from seeking out and consummating collaborative venture activities are the following:

a. Limited company resources (especially managerial resources and experience)

b. Inability to identify venture opportunities

c Inability to access and use information

d. Uncertainty about the outcome and its potential value (leading to weak follow-up and lack of commitment to a venture)

e. Inability to evaluate or qualify the appropriate role of intermediaries or other outside service organizations (leading to infrequent use of such organizations)

The challenge is therefore to bring these intermediaries and firms together. Intermediaries will be successful to the extent that they eliminate some or all of the constraints identified above.

4. Characteristics of Successful Intermediaries

Intermediaries working with small US and LDC enterprises must exhibit certain characteristics to be successful. These are summarized below:

a. Successful Client Development

This is probably the most critical characteristic of successful intermediation. It involves identifying and cultivating potential clients with interest in international business, and stimulating 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 eliminate perceived risk, and that they can create effective and profitable collaborative ventures. Unless the intermediary can convince the participating firms that the risk is manageable, no action will take place.

b. Credibility and Trust

An intermediary, for successful client development, must generate credibility and trust among prospective clients. As stated above, the enterprise is facing a significant risk decision when it considers a collaborative venture. The intermediary must be able to demonstrate that he or she will act in the firm's best interests and with appropriate business ethics throughout the entire planning and development stage. The intermediary will also need to deal with the doubts, confusions, and fears of the different partners involved in the venture. The key role of credibility and trust explains why intermediation has traditionally been carried out by such trusted business associates of an enterprise as lawyers, bankers, and accountants.

c. Information Handling and Analysis

Information handling and analysis is another important characteristic of successful intermediaries. Clients need assistance in selecting relevant data from the large volume available, which in itself often overwhelms many decision-makers. This is especially true for smaller firms with little to no knowledge of international markets.

d. Developing and Using Networks

Probably the most important resource an intermediary should bring to an enterprise is skill in developing and using networks. These networks may simply be information sources. They may be active participants in the intermediation process. Usually they include personal contacts in a variety of industries and places. These networks provide accurate and current information as well as assistance in targeting resources required to make a project work. Many firms and individuals become intermediaries 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 United States and overseas raises the initial cost of setting up the intermediary function such that organizations already a part of a network can enter the intermediation business with greater ease.

e. Access to Financial Resources

The capability of accessing financial backing for a collaborative venture is obviously important. This does not mean that the intermediary itself must have direct linkage to financial channels, rather, that he or she must know how to access alternative sources of funding (from banks, government sources, development funds, for example). Since ventures may often include a mixture of investment and trade financing, a wide variety of funding may be needed. There are a variety of funding sources available to smaller firms, if they know how to access them. Intermediaries can facilitate the process by assisting in the development of sound projects.

f. Ability to Manage Other Services Needed

Obviously, successful project completion requires various skills and resources that must be identified, secured, and coordinated by the intermediary. It is difficult and often uneconomical for an intermediary to possess all these skills and resources by itself; it therefore needs to associate itself with other organizations. In many cases, consortia of different organizations — private voluntary organizations, large international firms, small consulting firms — provide more effective business linkages because they offer a more complete range of services and expertise. However these consortia members also require intermediation services. For example, larger international firms, such as accounting firms and banks, require access to industry specialization. On the other

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hand, smaller intermediaries or brokers increasingly turn to the larger organizations for information and access to international networks.

Even multi-national corporations (MNCs) are increasingly utilizing intermediary services. In order to maintain market presence or enter new industries they are investigating countertrade, offset arrangements, and other complex ventures. Limited capital and management resources often inhibit the MNCs from approaching these markets on their own. They are therefore open to new kinds of consortium and joint venture activity through intermediaries or other specialized organizations.

5. Suppliers of Intermediation Services

Intermediation services have traditionally been provided by banks, law firms, consulting firms, and other types of service firms within the business community. But rarely is intermediation the principal business of these firms. Instead, they are viewed as a group of service firms clustering around any business enterprise, in any country, providing a variety of services, of which intermediation or brokering is secondary. When the enterprise considers a new development, it contacts those entities that supply advice, counsel, and technical assistance. It is not surprising to find these service companies or intermediaries bringing the initial concept to the particular enterprise, or acting to link the enterprise to other appropriate networks.

Most small and medium-sized enterprises in the United States and the developing countries are not served by internationally capable organizations. The small US firm tends to use local accounting firms and local or regional banks, which seldom have sophisticated international linkages of their own. This is also true with developing-country enterprises. Thus, the firms that have the greatest potential for contributing to each other are isolated because their particular service communities are also isolated. Some firms attempted to specialize in intermediation involving developing countries, but not enough clients were willing to pay for the services provided. Most of the companies involved in the initial MTAP cases and later pilot contractors have had poor results in the newer areas of trading and venture assembly. The traditional legal, accounting, and banking functions proved to be the only areas with adequate profitability.

The growing complexities of doing business internationally have spurred the emergence of both large and small US companies offering a wide range of intermediation services as their principal line of business. Unlike the more traditional service organizations, where intermediation is a secondary component, these firms aim at bringing together enterprises, market opportunities, and technical assistance programs to gain access to goods that can be traded internationally. Other firms are developing a capability to manage joint ventures with developing-country enterprises that may not include trade.

From the intermediary's viewpoint, ventures that create opportunities for revenue in their early stages will be the most favored. Given the well-documented resistance of small firms to the payment of "up-front" fees, one of the major impediments to the development of intermediary organizations has been their inability to sustain ventures long enough so that they can receive payment for their services. Moreover, payment must be in hard currency, which tends to favor trade ventures versus those which are mostly investment-oriented, because of the possibilities of the quicker payoff. Another result of the need for early (or at least sustained) payment to the intermediary is a desire to combine a number of ventures into one larger one, with more payoff opportunities over the life of the venture.

The trends in international venture development described earlier have certain implications for intermediaries. It is quite clear that a successful intermediary must be able to facilitate trade and countertrade as well as investment opportunities. A successful intermediary must also be versed in the intricacies of licensing, subcontracting, and other emerging forms of international transactions. It must be able to deal with the sources of financing generally available in developing countries (for example, development financing, blocked funds). Finally, cooperation among intermediaries will be more and more important in successful ventures and successful intermediary business.

Through cooperation, intermediaries can expand their scope of services and the range of industries and countries they can serve. It is important to emphasize that linkage with local intermediaries in the host countries is highly desirable and in some countries (like Thailand) essential, owing to the difficulty in penetrating the local business community. Another point worth making is that linkages with Private Voluntary Organizations (PVOs), some of which are significant intermediaries in their own right, can offer opportunities that might otherwise not be available.

One important conclusion of MTAP research is that the business communities that require intermediation are still not capable of, or willing to pay for, the services. As a result, public monies will often be required to help accelerate the use and availability of the intermediation services, whether provided by private suppliers of by other types of organizations.

6. Intermediation in the Developing Countries

Intermediation 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 grown into branches, subsidiaries, and joint ventures. As the overall business system grows, and local economic sophistication increases, local business services develop. Law firms, consulting firms, and trading activities grow with the international capability of the economy.

With the increasing demand for international trade, local enterprises are finding they 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 toward international intermediation. In the smaller countries, such as Costa Rica, a wide variety of traditional accounting, consulting, banking, and legal services represent one category of intermediaries. There are also smaller consulting firms aggressively trying to develop clients by providing unique marketing and technology planning assistance. In the larger countries, such as Brazil and Korea, these services are more widely available and more extensive. However, even in the larger countries, which appears a corresponding variety of intermediaries in different business service groups, there seems to be a significant inability to link their services with similar services available in the United States.

In an informal survey conducted for this project, over 600 intermediary organizations were identified in the United States. Only a few of these were actively engaged with overseas counterparts pursuing joint intermediation activities. A similar situation was found during visits to Costa Rica, Panama, Pakistan, Morocco, Tunisia and several other developing countries. Local intermediaries seemed inhibited by their inability to identify and collaborate with similar firms in the United States leading to the conclusion that intermediaries are poorly linked with one another around the world. Within the US, one lawyer can easily contact another attorney or bank in a distant city and establish a relationship so that effective services may be offered to a client. It is much more difficult to form these linkages between countries, and when a developing country is involved, it is even more troublesome.

In the developing countries, there is much less demand for and experience in the use of traditional consulting and sophisticated business services. At the same time, local consulting and service firms are anxious to engage in intermediation but lack the rich sources of information and networks available to their US counterparts. This constrains them from developing appropriate collaborative venture activities involving smaller US firms, appropriate technology, or other external resources.

The developing country enterprises, however, are under great pressure to improve their productivity and develop international markets, and therefore need technology, market linkages, and other services. Unfortunately, they have not developed management, planning, or service utilization skills, and thus cannot convert their needs into effective demand for local intermediary services. This is primarily due to the fact that they do not fully understand the value of business services, and they are reluctant to pay for planning, organizing, and other business development functions.

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 international intermediation is to become an effective resource service in developing countries, the local suppliers of these other services must be able to demonstrate more effectively the value of intermediation services.

In order to identify intermediaries operating in developing countries, ads were placed in various newspapers for one week in fourteen developing countries. On average, each ad produced about ten responses per country, usually not from firms clearly involved in the intermediation process. Personal visits to thirteen countries also identified a variety of intermediaries, ranging from established international banks to one-person consulting firms. A third approach to identifying intermediaries centered on meetings with the local American Chambers of Commerce.

In one Asian and three Latin American countries, workshops were organized with the Chambers to discuss the role of intermediaries in the respective countries. In all four cases, the workshops reinforced the view that intermediaries were playing a growing role, but had problems establishing international linkages and achieving adequate remuneration for projects developed.

The membership of the different Chambers showed the emergence of brokering institutions trying to establish links with US businesses. In Ecuador, the membership was more than twice the size of that in Costa Rica and Panama. The Indonesian Chamber was equivalent in size to Ecuador's. About 15 percent of the membership of these Chambers was made up of trading firms, consultants, banks, and financing institutions, all of which could be used as intermediaries.

The membership lists provide a picture of those firms seriously committed to working within the US business system and being capable of some form of international linkage. For example, in the Costa Rica list, there were a number of banks and accounting service firms, but only a few marketing and specialized consulting firms, probably owing to the small size and relative lack of sophistication of the local market. Law firms and individual advisors were also present on the list.

In brief, the following conclusions regarding intermediaries in the smaller developing countries can be made:

a. Within the science and technology infrastructure, consulting and specialized intermediation services are not as widely used as in the developed countries.

b. Business enterprises in the developing countries cannot identify and effectively use external business services, including intermediation.

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c. Developing country enterprises need intermediation, but do not seek out these services and are generally unwilling to pay for them.

d. The institutional community, including banks and technical institutions, is not aggressively trying to develop intermediary skills in the developing countries.

e. Developing-country enterprises and their supporting service companies have difficulty paying for international services in hard currency.

f. Trade, in combination with intermediation services, may be an important vehicle for providing payment alternatives for intermediation services.

In summary, there is a need to demonstrate the value of intermediation services in the developing countries. To some degree, because smaller US firms lack international capability, this same demonstration process must take place in the United States as well.

C. OVERVIEW OF LDC COUNTRY-BASED TRADE AND INVESTMENT PROMOTION STRATEGIES AND PROGRAMS

This section, drawing substantially from the literature on trade and investment in LDC contexts, as well as from the MTAP experience, provides a theoretical framework within which trade and investment program development in general, and the provision of business services in particular, can be analyzed.

1. The Importance of Country Context and Policy Context as Determinants of Trade and Investment Strategy

In recent years, trade and investment promotion efforts have become increasingly important components of economic development strategies formulated for both developing and industrialized countries. This concern for trade and investment issues derives from a number of factors: the growing strength of global economic forces as elements in business and economic decisions by businessmen and policy makers worldwide; current trade and balance of payment crises facing a number of countries, including the U.S.; and, to a certain degree, the nature of current development strategies or doctrines that determine economic development practices and programs.

Changing patterns of international trade and technology flows have provided both challenges and opportunities for business firms in the developing and industrialized countries. The accelerating rate of technological innovation and product commercialization, together with the growing importance of new small and medium sized firms, have introduced new equations into the global economy. Not only is it becoming increasingly difficult for businessmen around the world, even in the more remote Third World countries, to avoid contact with the emerging global economy, it is becoming costly to do so. The prospect of being left far behind in the rapid surge of technological change that is underway is prompting not only changes in business decisions, but wholesale political changes as well.

Within the international business arena, old ways of doing business are rapidly changing. Trade and investment is no longer dominated by a handful of multinational firms. Firms of all sizes and orientations are crowding the landscape. Old patterns of trade and investment are rapidly giving way to new forms of collaborative ventures, including co-production arrangements, compensation trade, licensing agreements, and new joint venture relationships.

New patterns of international competition have prompted business decision-makers to consider new strategies and approaches for achieving business development objectives; similarly, government policy makers have been forced to consider new strategies for achieving economic development objectives that include ways of dealing with trade and investment problems.

Given such pressures, there is a growing need for both information about what has worked or not worked in the past as well as better tools for analyzing strategy, policy, and program options to determine what is likely to work in the future

2. Approaches for Formulating Country-level Trade and Investment Strategies

As background for the discussion of the role of business services in trade and investment promotion that follows, we shall first examine several different approaches for formulating country-level trade development or investment attraction strategies.

A first approach is based on what we shall refer to as country-focused problem solving. This involves assessing opportunities available to a particular country for promoting increased levels of international trade and investment, taking stock of the problems and constraints that inhibit the ability of firms to take advantage of international market opportunities, and then embarking on a program of practical problem solving to remove barriers and exploit opportunities. This approach does not require long term planning; it does require the ability to analyze problems and opportunities and to implement practical solutions in a timely fashion. In practice, it also involves a fair amount of trial and error, since it is not always easy to determine what is the right course of action up front, particularly when new ground is being broken or when there is little information about comparable experiences to draw on.

A second approach is to look to comparative experiences as a guide to selecting strategies or models that have been successfully followed in other countries. This requires a detailed understanding of the factors that resulted in the models being successful in the first place and an ability to assess what changes might be required to implement such strategies or models in countries where conditions are different.

A third approach is to rely upon the distilled wisdom of current development theories or doctrines as guides to formulating policies and programs. This approach requires greater faith than the former two approaches in the applicability of a set of economic principles and analytical approaches, as well as in the policy and program prescriptions that flow from them, to the peculiar environment, setting, and historical circumstances of a particular country. From the perspective of persons attempting to formulate development strategies for a particular country, including making decisions about the role of trade and investment promotion efforts as part of a larger economic development strategy, looking to current development doctrines for guidance requires making choices among a range of competing conventional wisdoms and development doctrines. Nevertheless, there are, as we shall discuss in a moment, certain areas of agreement among current development doctrines

regarding basic policy requirements for promoting international trade and investment flows.

Each of these three approaches offers both advantages and disadvantages. A major concern in this study relates to the second approach -- assessing what can be learned from comparative assessments. However, in order to understand the relevance of comparative studies, we need to look at the strengths and weaknesses of each of the three approaches we have outlined in a bit more detail. We also need to consider how these three approaches relate to each other.

a. Country-focused Problem Solving

Of the three alternatives we are looking at, country-focused problem solving, including heavy amounts of trial and error, is undoubtedly the most basic and unavoidable approach for developing a trade and investment promotion strategy. It is probably safe to say that all cases of successful development have been characterized by heavy reliance on practical problem solving under conditions of trial and error. Even when useful models are available from other countries, tailoring them to the specific environment of a particular country and dealing with complex implementation tasks requires policy planners and implementors to have the will and ability to engage in pragmatic problem solving. Successful development programs that have resulted from pragmatic problem solving provide the basis for model strategies, and later, when they have been dissected and analyzed, the raw materials for development theories and doctrines.

In spite of the fundamental need for practical problem solving and a certain amount of trial and error, no country is ever forced to rely only on its own best guesses in mapping out its development strategy. Persons responsible for formulating development strategies, in both the private and public sectors, always have some information available to guide them, either directly from the experiences of other countries, or indirectly via more abstract theoretical views. The fundamental difficulty in using information garnered from such sources is in interpreting it to see how it applies to the peculiar circumstances and conditions in a particular country setting.

Pursuing a trade and investment promotion strategy in which policy makers and program implementors rely mainly on country-focused problem solving, rather than on external models or development theories for guidance, requires careful and objective analyses of factors within the country that constrain or support business development goals. In particular, as part of basic stock-taking, aspects of the **country context** and **business environment** need to be examined to assess the probable impacts on near-term and long range prospects for competing in international markets.

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The country context, as we are using the term in this study, refers to the characteristics of a country that are more or less fixed or not amenable to change in the short run. The business environment refers to aspects of the overall country setting that affect business decisions and costs of doing business more directly, but which may be more susceptible to change. The country context, as we define it here, includes characteristics of the country such as the following:

- Geographical location (proximity to export markets and sources of supply, accessibility to transportation channels)

- Factor endowments (natural and human resources)

- Cultural characteristics (nature of work ethic, class structure and ethnic divisions, level of entrepreneurship, values affecting occupational choice, savings propensities, etc.)

- Nature of legal systems (basic capacity to protect property rights, enforce contracts, resolve legal conflicts)

- Level of economic development (primitive, early industrial, middle industrial, advanced industrial, post-industrial)

- Nature of the political system (basic political traditions and historical experiences, level of political stability, degree of political integration)

- Basic social and economic organization (extent of financial market development, nature of business organization, nature of educational systems)

- Historical factors that have shaped conditions in the past and that are likely to be important in influencing the direction of change in the future

The business environment is a sub-set of the overall country context and includes forces and conditions in a country that form the environment for business decisions and behavior. Generally, a country's business environment is amenable to change and improvement, providing that key decision makers are motivated to work at identifying and modifying dysfunctional elements.

Key factors that constitute the business environment include: government policies and regulations; aspects of the political and legal climate that affects business decisions; business organization and information channels; basic business infrastructure and financial resources/services; other economic resources such as industrial capacity, technology, entrepreneurship, and workers skills; and basic attitudes among business and government leaders regarding business growth.

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Business environments can be either supportive of or detrimental to the growth of international trade and investment flows. The various elements that constitute a country's business environment, however abstract they may appear, have real and measurable effects on business behavior, shaping business decisions and the costs of doing business by individual firms.

When countries are isolated from international markets and political forces, their business environments can exhibit a wide range of unique characteristics and can support a broad range of peculiar business behavior. Although the business behavior that goes on within such environments will influence internal economic conditions, and perhaps social and political conditions as well, it does not have to conform to externally imposed standards. Once countries begin to participate in international economic and political relationships, however, things change. Businesses are subjected to new types of competitive pressures; they encounter a variety of international standards that limit choices in terms of product pricing, cost margins, and quality and ways of transacting business. Business and political leaders become accountable to a wider array of interests and forces. Individual country business environments become subjected to a myriad of forces arising from the international environment. As a consequence, when countries begin formulating strategies for promoting increased levels of international trade and investments, they not only have to look inward at their peculiar circumstances arising from their country setting and existing business environment but also take into account external conditions and forces.

b. The Role of Comparative Studies in Formulating International Trade and Investment Strategies

The principal value of comparative studies is not as a guide for dealing with the internal problems or unique conditions of a particular country, but rather in sorting out options for dealing with sets of common problems associated with participation in the international market place or emerging global economy.

The international business arena is characterized by a variety of common business practices and standards -- for example, accounting methods, legal procedures, common weights and measures, quality standards, and even cost parameters and language requirements. Doing business internationally requires businessmen to conform to accepted international standards, in contrast to doing business in specific country environments where a great variety of local practices are tolerated.

Technical problems of producing for or selling to international markets are fairly similar for businessmen from different countries. For example, in selling to U.S. or European markets, businessmen have to deal with established distribution channels, purchasing procedures, payment and delivery terms. It is extremely useful for businessmen to understand the

strategies that other firms have followed in gaining access to such markets. From a country perspective, it is useful for both business leaders and trade officials to understand the strategies and methods employed by both their current competitors as well as the methods used by slightly more advanced countries that may have abandoned former market niches in favor of more lucrative areas.

Businessmen in Taiwan and Korea, for example, have benefited greatly from their exposure to strategies and methods employed by Japanese firms in supplying labor-intensive products to western markets. Similarly, businessmen in Southeast Asia are now benefiting from lessons learned from observing how Hong Kong, Taiwanese, Korean, and Singapore businessmen conduct their international business affairs.

Similar benefits have been available to these countries' trade officials and policy planners who have been able to observe how Japan and the Asian NICs have dealt with policy problems, infrastructure requirements, or other problems that affect their ability to compete in international markets. In adapting these lessons to their own circumstances, they have been aided by the fact that their country settings and business environments have not been altogether different from the countries they were attempting to emulate. So even though they can not avoid the tough problems associated with addressing deficiencies in their domestic business environments -- particularly in their policy and regulatory systems -- these countries clearly are in a position to shorten their learning curves by studying the experiences of their successful neighbors.

The usefulness of lessons learned from the experiences of other countries with respect to trade and investment promotion is a function of both the common requirements that business firms face in dealing with international markets as well as the unique factors they face in dealing with the requirements imposed by their local business environments and country settings. In analyzing comparative experiences, great care needs to be taken to ascertain whether successful efforts were the result of peculiar conditions that may be difficult to replicate in a different environment or whether a more generalizable principle was at work that might produce similar results even though environmental conditions may be different.

c. Development Theories as Guides to Formulating Trade and Investment Promotion Strategies

Current development theories and doctrines offer another potential source of guidance regarding how to stimulate various economic development objectives. However, current theories are not at all consistent in the way they deal with trade and investment promotion issues. This, in itself, is not surprising since the overall level of consensus among development theorists is fairly low. As John Lewis has noted in a recent review of general economic development strategies, development thought and efforts

are currently in a "slack" period. Mainstream development analysts are generally of the opinion that development strategies are between conventional wisdoms (Lewis and Kallab, eds., 1986). Dominant theories about how public policies, including certain types of development assistance, can best promote Third World economic development have been called into question. The inability of current economic development theories to account for actual patterns of economic change have forced shifts in the dominant beliefs. No consensus has yet been reached on how current development doctrines or theories need to be altered to deal more effectively with the development concerns of Third World countries in a rapidly changing global environment.

Part of the problem with mainstream economic development doctrines is that they tend to be highly susceptible to "revisionist surges", to borrow Lewis's term, or development fashion. During particular periods, the majority of theorists and policy makers are persuaded to pursue one theme to the partial neglect of others. They then over correct and proceed in the opposite direction, occasionally pausing to develop a synthesis before zigzagging forward in new directions (Lewis, p.4).

Fortunately for some countries, their policy makers have not been rigid followers of development fashions, choosing instead to pursue what may been side currents of a particular development doctrine at one point in time, or other more restricted models. They then adapt them to their own country's peculiar circumstances, dealing pragmatically with the myriad of day-to-day tasks that need to be solved to implement effective development policies. Taiwan and Korea fall into this category. Both these countries development programs were influenced strongly by the prevailing development theories of the 1960's, which were characterized by a reaction against government planning and bureaucratic controls and a swing toward market driven policies, emphasizing economic growth and export-promotion strategies. When development doctrines started to advocate equity concerns over growth during the 1970's, both Taiwan and Korea were already well along in implementing export-led industrial policies, adapted to their own country conditions and environments. By the time the correction in development strategies shifted back to market-led growth in the 1980's, both Taiwan and Korea had achieved levels of economic performance that now are recognized as models of development success.

The current conventional wisdom in development strategies in many ways has picked up the themes of the 1960's, emphasizing market-led growth and policies to promote exports. However, there is no widespread consensus on whether export led growth strategies should be adopted by all developing countries, or only by the more advanced developing countries, leaving the lesser developed countries to focus on agricultural-led growth strategies or some other alternative.

For countries where an export-led growth strategy appears appropriate, current economic doctrines provide useful guides to policy makers

responsible for formulating and implementing macroeconomic policies. Certain basic policies, such as the need for exchange rates that do not discourage exports, the importance of market interest rates, and various types of price stabilization policies are well understood and accepted by a fairly large majority of mainstream development practitioners. However, once we move away from a basic package of macro-economic policies, current development doctrines do not agree on what other policy or regulatory measures are generally applicable to the diverse needs of developing countries with respect to trade and investment issues. Development doctrines have even less to say about the implications for program or project interventions, since these types of applied concerns are seldom of much interest to development theoreticians.

Still, for countries desiring to increase exports, promote collaborative ventures and attract direct foreign investment, the importance of satisfactory macro-economic policies is clear. Recent studies carried out by Keesing and others at the World Bank have made a convincing case of the importance of establishing a satisfactory policy climate as a precondition for successful export promotion efforts. In their reviews of export promotion efforts in a number of countries, they found no cases where countries had succeeded in promoting exports in the absence of fully satisfactory policy environments. On the other hand, they found numerous cases of unsuccessful export promotion campaigns that were launched without satisfactory policies in place.

d. Formulating Country-level Trade and Investment Strategies

Approach to each of the three approaches we have outlined above outline different information requirements necessary to formulate effective trade and investment strategies. Each type is essential. However, it is important to keep in mind the relative importance of these various approaches in the context of individual country trade promotion efforts.

Policy prescriptions based on economic development theories and lessons learned from comparative studies certainly provide useful, even critical insights into how countries might deal with some of the common problems associated with competing in international markets. For some countries, the fit between available policy and strategy guidance and the specifics of their own particular circumstances may be fairly comfortable. Policies and promotional approaches derived from external models may work quite well, in which cases countries will shorten their own learning curves and save themselves the considerable effort associated with trial and error problem solving. In practice, however, there are significant differences in the country contexts and business environments among developing countries. Lessons learned from one country's experiences can seldom be adapted wholesale to another country, without alterations, adjustments, and considerable amounts of fine tuning.

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This is particularly true when plans and policies are being implemented. On paper, countries may appear to be following similar strategies or models (more so when such models are supported by current development fashions and promulgated by major donor organizations or international interest groups.) However, such strategies, if not adapted to local conditions, may simply fail. Moreover, even with efforts to adapt them to particular country settings and environments, they may prove to be inappropriate or simply wrong. Historical experiences with economic development strategies provide us with few assurances that cookie-cutter approaches in any problem area are likely to be terribly useful. On the other hand, practical problem solving is always essential and useful, and more so when it is based on measured assessments of both comparative experiences and theoretical perspectives.

e. Roles for Government Interventions to Promote Trade and Investment

A basic issue for the citizens of a country interested in promoting greater participation by their firms in international markets or attracting foreign investors is what is the appropriate role for government interventions in these processes. Failures of public-sector led development strategies in the past to promote sustainable economic development objectives have given rise to considerable skepticism regarding the roles for public sector entities in many development areas, including trade and investment promotion. Development doctrines during the 1980's placed considerable emphasis on market solutions to development problems. This went beyond simply increasing the involvement of private sector organizations in formulating and implementing development programs. In many quarters, it meant focusing development efforts solely on policy formulation and reform problems, and severely questioning government support for other types of more direct interventions.

In justifying government interventions, other than in the policy-reform arena, it is no longer sufficient to measure inputs and outputs in order to show positive economic or social returns. Increasingly, program planners are being required to identify specific market failures in order to justify government interventions.

With respect to trade and investment promotion, we can identify a number of areas where markets fail to perform as expected by the neoclassical economic theories. One important area is with respect to information and business know-how. Information and knowledge, in many respects, are like public goods (see Joseph Stiglitz, 1989, p.198) Firms have a difficult time appropriating returns to information. Firms that bear the cost in generating or acquiring information typically are only able to realize a small portion of the possible benefits of the information themselves. Often there are spin off effects to other firms, including their competitors. In these cases, firms are often reluctant to invest in acquiring information, resulting in an undersupply in relation to total needs of a country's private

sector. To the extent that firms are successful in appropriating the returns to information, and are able to charge other firms for its use, a certain degree of underutilization results, since many firms are not willing to pay.

Market failures in the area of information affect international trade and investment decisions in a number of important ways. In the first instance, the high costs of acquiring information about LDC trade and investment opportunities, or the inability to fully appropriate the returns to this information, result in foreign firms being reluctant to seek out LDC business opportunities, even though potential returns to these investments might be quite high. The same forces constrain LDC firms in reaching out to overseas companies to source technologies or develop market opportunities. Firms contemplating investments in a particular country, or entering into collaborative ventures or trading relationships, are frequently reluctant to bear the full costs of such investments. In particular these include the and they are reluctant to fill costs training, and the transfer of know-how, since they full benefits of their investments and end up training workers who leave to work for their competitors or inadvertently educating their competitors in other ways.

From the viewpoint of a country's economy as a whole, efforts to acquire information, disseminate it, and use it in promoting various development objectives, often result in a variety of learning externalities. These externalities are quite diffuse -- i.e., a variety of firms might benefit in contrast to a single firm or group of firms receiving the major share of benefits. Consequently, even though it may not be in the interests of a single firm, or even a grouping of firms such as an industry association, to invest heavily in the acquisition of information or know-how, it may very well be a wise investment for a country to make such an investment. Further, it can justify its efforts in terms of the returns that accrue to a wider segment of the economy or society.

In cases where market failures of the sort illustrated above can be identified, a legitimate argument can be made for public investments in measures that address specific market failures. Many trade and investment promotion efforts fall into this category. But even when market failures in areas such as information can be identified, and nonmarket interventions to address such market failures can be shown to produce highly positive returns to the economy or society as a whole, there are still a lot of issues that remain unsolved regarding the type of interventions that make sense and the options for implementing such interventions.

What types of government interventions are likely to produce the desired results and be cost-effective in the area of trade and investment promotion? The majority of mainstream development economists readily concede the need for government involvement in establishing a favorable policy environment. Frequently the scope of actions required to establish favorable policy environments is quite broad. For example, Keesing in his recent study of export promotion activities in East Asia describes the set of "fully

favorable policies" as including; "realistic exchange rates and sound macroeconomic management; consistent efforts to keep the incentives for exports strong, not only absolutely but also relative to the incentives for production for the local market; early creation of first-rate ports, airports, communication links, and internal transport systems, along with power grids, other necessary infrastructure, and industrial estates; and much attention to the development of financial institutions and policies suitable to exports and industrial advancement." (Keesing, 1988, p. 3)

Clearly, a favorable policy regime is the dominant factor in a country's ability to export successfully or attract firms interested in collaborative ventures or direct investments (see Keesing, 1988, p. 6). Less clear is the need for public sector support for trade and investment promotion initiatives other than in the policy area. As we have argued above, theoretical justifications can be made for public sector support for non-market interventions in areas such as information gathering and dissemination. However, there has been considerable debate over what governments can actually accomplish that is both productive and cost-effective.

The World Bank research studies by Keesing and his colleagues have produced interesting evidence regarding the usefulness of government assistance to export marketing and the development of informational links. They found that in the case of Taiwan, Korea, Hong Kong and Singapore, once successful policies were in place, the development of information and marketing links -- with government support -- played an important role in the rapid expansion of manufactured exports from these countries (Keesing, 1988, p. 7).

The research carried out under MTAP supports the World Bank findings, in particular the view that a favorable business environment is the critical requirement for successful trade and investment promotion efforts. The MTAP research also showed that businesses attempting to develop collaborative ventures in LDC environments clearly had a need for various types of business services. In the sections that follow, we shall describe what these needs consist of, alternative ways of meeting these needs, and the implications for public sector support.

3. Identification of Firm Needs

Any international trade and investment program or strategy, to be effective, must be responsive to the needs of the firms it is intended to serve. These needs are in turn dependent on the individual circumstances of the country in which the firms are located, the business environment within which they operate, the markets which they must penetrate, and the products with which they must penetrate them. In most LDCs these needs are usually quite substantial but often unrecognizable. This is a crucial point which accounts for the failure of many trade and investment programs.

Early attempts to increase the flow of exports and investment assumed that most LDC countries would be in a position to export substantial quantities of products they currently produce, albeit with some additional investment to expand capacity, i.e. exporting "surplus local capacity". With very few exceptions such attempts proved to be totally unsuccessful. The main reason for this failure is that what is demanded by the major markets, especially in industrialized countries, is not what is generally produced by LDC firms. Exceptions to this general statement are limited to raw materials, certain agricultural products, and handicrafts unique to a particular country.

A key reason why supply in LDCs does not match demand in industrialized countries is the legacy of the erstwhile popular import substitution strategies followed by most LDCs. Whatever their other merits (which are debatable), import substitution strategies have fostered oligopolistic and inefficient industries producing usually relatively expensive but inferior quality products for limited markets. By contrast, most industrialized country markets are large, highly competitive "buyers' markets", with rapidly changing product requirements and specifications and high quality standards. In addition, penetrating these markets requires a high degree of sophisticated techniques and marketing know-how (Keesing, Lall, 1988). The implication of this is that a great deal of effort is usually required to upgrade the capacity of local firms to supply the target markets, including changes in the policy environment to provide incentives for exports and facilitate the process of capacity building.

Another implication is that the numerous government and donor-supported export promotion programs, which focused solely on export marketing assistance with inadequate attention to capacity and skills building to meet the demands of the target markets, were doomed to failure from the start. Failure was in fact the fate of most of these programs. Because of the profound impact of ignoring the lack of local capacity, even innovative programs relying on private sector providers of export marketing services and rather sophisticated marketing campaigns yielded poor results. By contrast, the newly industrialized countries of the Far East followed a strategy of policy reform to encourage and stimulate the development of a strong local industrial base before they embarked on major export marketing efforts (Keesing, 1988; Saunders).

As a result of such failures, many of the more recently designed programs focused substantial attention to local capacity and skills building prior to or in conjunction with export marketing efforts. However, because capacity building is such a laborious and time consuming task, and because policies have not entirely been modified to provide incentives for exports, the need for building the export base of LDCs continues to be a critical one.

The foregoing suggest that a prudent strategy to follow is one which concentrates on building the capacity of local firms to penetrate targeted

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markets while at the same time capitalizing on those few cases where local capacity and products can be relatively easily marketed.

As explained earlier, certain ready-to-export products exist in almost every country and they are usually classified as "traditional" exports. Typical of such products is that they have little to no requirements for imported inputs and, therefore, can be produced even in cases of restrictive import policies. Products with slow changing designs and specifications can also be candidates for such exports (Keesing, Lall, 1988). Finally, in almost every country, there exist certain industries or firms which enjoy a relatively favorable environment, either formally or informally. Opportunities for ready-to-export products may exist in such niches. Free trade zones is a special class of such niches.

A program of intensive capacity building activities would need to be developed for the rest of the targeted industries to make them ready to export. These activities should address the specific needs of the enterprises. Policy reform would be a necessary adjunct of such activities. For example, policies should be aimed at liberalizing imports of necessary inputs to exportable products, improving the physical infrastructure, removing disincentives to exports, and creating incentives to export and export- oriented investments. Interested enterprises will require business services excluding product design, quality control, cost controls, planning and marketing techniques, as well as buyer attraction, packaging, distribution, etc. Export-targeted credit and training are also needs that must be satisfied for successful export performance. Another issue requiring attention, which would frequently occur in LDCs with import substitution regimes, would be to convince local firms to adopt an export neutrality philosophy and to convey the government's seriousness in changing the orientation from import substitution to export development. From our experience, this is a difficult transition for local firms, comfortable in their oligopolistic markets and relatively easy profits. The chart below lists some of the major obstacles faced by LDC trade and investment promotion programs.

Major Obstacles Inhibiting LDC Firms from Engaging in Export Producing Activities

- Scarce management and financial resources
- Psychological reluctance to get involved internationally
- Short-term outlook of smaller business firms
- Inability to access and utilize information effectively
- Inability to qualify venture opportunities
- Inability to plan

In any given developing country there is a wide variety of firms with differing capabilities and propensity to engage in international business. This implies great variation in the needs that must be met and in the

provision of the required business services. Ready-to-export firms are more likely to require marketing assistance, information and brokering services. Other firms may require the entire range of assistance from concept formulation, through initial planning, search for resources and partners, feasibility studies to production start-up and then marketing. Unless services can be provided at all stages, a firm may be discouraged from embarking on trade and investment transactions.

In conclusion, identifying the needs of local firms and especially those related to capacity deficiencies, appears to be a critical step in fashioning export and investment promotion strategies and programs. Such identification can be deduced from an analysis of the relevant policy contexts and market targeting, but can also be revealed through surveys of local firms and a review of a country's economy as compared with the requirements of target markets.

5. Meeting the Needs of the Firms: Services and Transactions

Trade and investment programs are generally designed to influence the rate at which certain transactions occur. They do this by both policy initiatives and by funding business services to firms designed to meet their needs in connection with achieving their export targets.

As stated above, the goal of Trade and Investment (TI) programs is to cause individual firms to take a certain action, for example, to export, invest, or transfer technology. Different programs are based on the perceived needs of companies and the type of transactions being encouraged which are influenced by the unique characteristics of different countries. Depending on the strategy, programs may offer a variety of services such as providing information, assisting firms in attending trade shows or supporting them with technical assistance in planning and operating new ventures.

Whether focused on encouraging transactions and ventures between developed countries or involving developing countries, strategies and their resulting programs must effectively reach and serve individual enterprises. Developed and developing nation enterprises follow similar patterns in regard to decision-making and organizing plans for international business transactions. Effective promotion activities will affect one or all of the different decision making requirements.

At the most general level, decision-making can be summarized as a process that begins by identifying a gap that exists between the companies present situation and an alternative situation. That gap must be clearly identified in terms of its root causes and how actions taken to meet the challenge of the alternative situation impact on overall company goals. To develop a suitable plan, decision-makers will consider cultural and operating blocks to achieving a certain course of action (Newman, Warren, McGill; 1987).

It is assumed that companies will evaluate different alternatives and select the optimal. In most cases, however, firms will take action on the option considered most reasonable rather than spend resources measuring extensive alternative approaches. Certainly, smaller firms do not have the planning and analysis resources required to carry out the more ideal types of planning that characterize large multinational corporations. Thus, understanding the type and size of firm being promoted and the variations in planning capability will modify the organization of trade and investment programs.

Another consideration is the motivation prompting a firm to embark on a decision-making process. Michael Porter summarizes the major objectives of a company's activities as either reducing cost or expanding markets (Porter, 1988). He goes on to show how various companies can interpret these general goals in a variety of forms. The General Electric company argues that there are eight key results that drive any decision of the company. Profitability and market position are the most important but other factors such as maintaining leadership in technology or developing employee capabilities can be a powerful objective in their own right (Newman, Warren, McGill; 1987).

GENERAL ELECTRIC'S KEY RESULTS/PLANNING CRITERIA	
Profitability	Develop Employee Capabilities
Market Position	Employee Attitudes and Relations
Productivity	Public Relations
Leadership in Technology	Balancing Long and Short Term Goals

Another issue that affects decision-making dramatically is the technology involved in the principal business function. Many companies go abroad to exploit markets but others must go abroad to seek resources (oil exploration and tourism). In some cases, firms move abroad to exploit an unique technological advantage that will evaporate over time. This is the impetus for certain licensing and technical know-how agreements (Behrman, 1974).

From a behavioral standpoint, decision-making depends on a combination of initial attitudes and analytical capabilities that are affected by information. Imperfections in decision-making usually result from incomplete information and limitations in staff ability to forecast the future in which the decisions will be carried out (Tosi, Rizzo, Carroll; 86). Improved decision-making is therefore tied closely to improving decision skills and supplying information, especially for opportunity identification and evaluation.

In the context of traditional strategy development, companies will base their analysis on their existing positions in terms of technology and market. Companies will evaluate optional courses of action in terms of how

changes will affect their competitive position and how competitors and internal parts of the firm will respond. Strategy development must also take into account the changing external environment.

Trade and Investment (TI) promotion strategies can be viewed as encompassing specific programs that affect one aspect or another of the planning/decision-making process. In brief, TI programs must address the needs of clients by considering 1) the type of the firm targeted, 2) the motivation and objectives of the client, 3) the technology involved, and 4) the needs for information in the decision-making process. Some examples follow:

- A TI program may provide services to help identify and clarify the gap between present production costs and improved costs with offshore production.

- A TI program may provide information to improve the analysis of offshore markets for products or technology.

- A TI program may offer unique financing to lower the costs involved in investing abroad or locating foreign distributors.

- A TI program may offer financing and technical assistance to help a firm complete a detailed feasibility study.

- Some TI programs offer financing and technical assistance to lower the costs and difficulties of starting up a new facility.

- A TI program may assist companies identify sources of surprise revenues form licensing or technology transfer agreements.

Service needs of firms are almost as different as the circumstances firms confront when they are faced with the prospect of penetrating international markets. Table I-1 presents a list of different types of services that are needed by LDC firms and which may be offered by TI programs. The key criteria is that the services must be carefully targeted to meet the specific needs of those firms facing similar problems with respect to exporting. In broad terms, the few firms in a LDC which are ready to export are likely to only require marketing support services and business/transaction facilitation services. Firms which are primarily oriented towards import substitution (the more typical case) are likely to need the entire range of services. Which of these services are actually offered by TI programs in principle depends on the economic considerations of supply and demand fo- these services in the LDC and on market imperfections (economies of scale, externalities, spill over effects) as discussed earlier.

TABLE I-1

BUSINESS SERVICES NEEDED BY LDC ENTERPRISES TO EXPORT AND ATTRACT INVESTMENT

- Technical Assistance to Firm/Enterprise Management
  - Organization Development/Start-up Assistance
  - Strategy Formulation
  - Setting up Financial, Accounting and Information Systems
  - Assessing Supply Factors/Constraints
  - Training

- Technical Assistance to Improve Firm Production Capability
  - Production Capability Review/Modification/Feasibility
  - Product Development/Design Assistance
  - Training re Production Techniques, Quality Control

- Technical Assistance to Improve Firm Marketing Capability
  - Market Identification, Research, Feasibility Assessment, Follow-up
  - New Buyer Identification/Negotiation
  - Identification of Opportunities (Joint Venture, Selection of Intermediaries, Licenses, Partnerships, Resources)
  - Promotion
  - Setting up Trade Representation/Trade Fairs/Foreign Office Network/Contacts
  - Distribution Configurations/Modifications
  - Training

- Technical Assistance in Acquiring Technology and Investment
  - Providing Mechanisms to Access Financing, Credit Lines, Loans, Subsidies, Incentives, Equity Stakes
  - Research and Development Assistance

- Business/Transaction Facilitation
  - Bank/Financial Services
  - Facilitating Export Documentation/Custom Procedures and Requirements
  - Transportation
  - Insurance (Shipping, etc.)
  - Assistance in Contract Negotiation

Services offered must also take into account the kinds of transactions a program is designed to foster. In broad terms there are three kinds of transactions that TI programs promote: direct exports, exports by means of joint-ventures and co-ventures (i.e. joint ventures, licensing agreements, co-production agreements, subcontracting and drawback arrangements, etc.), or foreign investment attraction. Each of these types of transactions not only requires different packages of services but also can become a source of assistance to the LDC firm. This is a crucial point because it directly affects the package of services a TI program needs to offer and therefore, its successfulness and even cost-effectiveness.

Direct exporting by LDC firms is usually done through some kind of trade intermediary, typically a buyer, importer, wholesaler or broker (Keesing and Lall, 1988). The LDC firm which directly exports into a developed country market through its own network is a rare exception and in any case such firms are obviously not a target for LDC TI programs. As Keesing and Lall point out, these trade intermediaries offer a range of services: product design, transaction facilitation and market access know-how. The services provided are very focused since they relate to a specific product and a specific market. They are offered by the trade intermediary usually at no charge to the LDC firm but in exchange for some sort of price discount. It is important to note that trade intermediaries rarely offer capacity building services other than market-related assistance. Therefore, firms which have fundamental capacity building needs are not candidates for receiving assistance from trade intermediaries. By the same token, it would be wasteful for a TI program to offer market assistance and transaction since they can get it from these alternatives. On the other hand a proper role of TI programs for ready-to-export firms would be to offer the kind of services which would facilitate contacts with trade intermediaries, such as sponsoring trade fair participation, providing "matchmaking" and information services, etc.

Exporting through joint ventures and co-ventures holds a lot more promise for the less ready-to-export LDC firm, assuming the proper assistance is also provided by a qualified TI program. Unlike many trade-oriented relations, these kinds of venture tend to be longer-term and imply a greater level of involvement on the part of the developed country partner, who stands to gain more than trade margin from the relationship and, therefore, is willing to invest more in it, including taking an equity share. By the same token, these kinds of ventures are more difficult to initiate develop and require much time and effort. However, once engaged, the foreign partner will provide financial resources, know-how, training and even management support to build the LDC firm's capability.

These type of relationships are based on a mutuality of interests between the partners who are willing to contribute to a common endeavor and will share equitably in the profits. For such a relationship to be stable neither partner can gain from it unless the other does too. Because of the significant benefits that this kind of venture confers to the LDC firm, it is

the ideal type of transaction from the viewpoint of building the capacity of the LDC firm (often one most common and pressing need of LDC firms). Therefore, it merits special attention in fashioning TI programs. However, it has only recently been given the recognition it deserves by TI program planners who had heretofore focused on promoting direct exports (on the mistaken belief that most LDC forms can export directly) or on attracting foreign investors with mass-appeal, image-making programs (which require a better business environment than most LDCs have to offer).

To be successful, efforts to promote joint ventures and co-ventures must be carefully targeted to the developed country economies. As pointed out earlier, the larger multinational firm is usually not an appropriate partner for the typical LDC firm, as attractive as such a foreign partner may be. Large multinationals have their own well-defined global and geopolitical objectives and, unless they choose to do so, they will not be easily swayed by an LDC TI program. The smaller and medium sized enterprise (SMSE) is a more easily attainable candidate. Such enterprises do not have highly formalized foreign expansion plans and they tend to operate more on the basis of personal factors (such as friendship, degree of personal comfort with the country and the local partners, a sense of adventure or cultural involvement, etc.) of the entrepreneurs in charge. Therefore, they are less likely to be deterred by the relatively unfavorable business practices as determined by formalized approaches to investment location selection, inherent business factors inherent in the less-than-perfect LDC business environment. Interestingly enough, SMSEs are also some of the better sources of innovative and appropriate technology for LDC firms.

The problem of SMSEs is that, like their LDC counterparts, they lack much of the know-how and facilities to enter into international ventures. This is the principal reason why this type of transaction requires the presence of some kind of intermediary to fill the knowledge and technical gap between the partners. This was the basic premise of MTAP and, as we shall see later (Parts II and III), it is still valid. It is important to note, however, that a broad range of intermediation services may be required by such ventures. Therefore, a TI program should be flexible and sensitive to the needs of the partners to assure that the proper assistance is provided. It might require the services of more than one intermediary.

Foreign direct investment attraction, especially when the investment is to be located within Free Trade Zones, is rarely oriented towards serving the LDC firm. Any benefits which may be conferred to LDC firms are often incidental and indirect and flow as a by-product. They include work force skills upgrading which can be ultimately shared by LDC firms, limited supply opportunities and the development of a network of services in the LDC which will ultimately benefit LDC firms as well. Therefore, whatever the benefits to the LDC economy of such transactions, they only marginally contribute to the export objectives of LDC firms. Two characteristics of foreign direct investment further reduce its utility as a vehicle to help the LDC firm export: (1) the high degree of sensitivity to the quality of the

business environment and (2) the declining rate, and therefore, importance of foreign direct investment in LDCs.

In conclusion, from the viewpoint of meeting the needs of LDC firms, TI programs should be focusing on promoting primarily joint venture and co-venture type transactions as well as direct export transactions for those firms which are ready to export. To the extent foreign direct investment is a part of such programs, incentives should be offered to the foreign investor to increase the extent and depth of linkages to local firms.

Here again, it is important to note that business services offered to LDC firms, to be effective, must be accompanied by policy changes designed to facilitate the transformations required as well as to create a market for business services in the LDC.

6. Structuring a Trade and Investment Program

Virtually every country in the world has at least one (and usually more) organizations whose principal objectives include trade and investment promotion. In the past virtually all these organizations were government run. The basic premise for this seems to be that the promotion of trade and investment entails elements of what economists call a "public good", that is once provided everybody benefits from it and no one would provide enough on their own to maximize the benefit to the country.

More recently, however, there has been a movement away from government provision (as distinct from funding) of many trade and investment (TI) promotion services, especially business services. The primary reason for this seems to be the almost universal failure of government-run TI programs to meet pre-determined indicators of success (see Keesing and Singer), although economic purists have always argued that government funding does not necessarily imply government provision. There is now a sizable and growing literature on what services should be provided by government versus those that should be provided by the private sector.

Keesing and Singer (op cit) have studied government-run TI programs and reached the conclusion that governments are uniquely unsuited to provide most TI functions. Therefore, they advocate a "plurality of providers, predominantly in the private sector." They cite a host of problems inherent in government-run TI programs and organizations, including:

- Lack of competition and accountability for results
- Bureaucratic rigidity and inflexibility.
- Comparison with the "representative role" when government TI organization (as is often the case) also performs the role of representative of exporters in policy formulation.

- Confusion with regulatory and administrative role, when this role is combined with promotion.

- The obsolete notion that information has to be centralized.

- Bad advice from donor institutions.

- The need to be "evenhanded" and non-discriminatory.

- Giving services away.

In addition to these factors, there seems to be an inappropriate focus (for most LDCs) on export marketing activities (e.g. visits to trade fairs and conferences) when the capacity to capitalize on such activities is missing from the local economy. Given this rather blanket condemnation of government-run TI programs it would seem that the principal criterion for deciding whether a particular TI function should be performed by the public or the private sector is whether the market can provide the required service; if the market can it should provide the service. Nevertheless, imperfections in the market, and the fact that government organizations and programs exists and will continue to exist, dictate that more pragmatic criteria should be applied in deciding who will provide the required TI services.

Keesing and Singer (op cit) recognize that the following types of services can be justifiably provided by the government:

- Support for commercial representatives abroad, to help local nationals transacting business overseas while also gathering economic information.

- Publishing and disseminating trade statistics and other relevant information on the country's own economy.

- Gathering and disseminating information useful to exporters and not readily available from alternative sources, about the situation in other countries.

- Helping to arrange the participation of local exporters in specialized trade fairs for which they are qualified, particularly when trade fairs are grouped by country.

All other services, it would seem, can be provided by the private sector in a market competitive fashion. However, this obscures the fact that in many LDC markets, especially the smaller ones, it is difficult to achieve these conditions. A measure of competition in the business services market can be introduced by allowing foreign service companies to establish themselves

in the country. Although this option does have certain risks, it can probably be a viable alternative in many countries.

To the extent the government must remain as a provider of certain services, it would be appropriate to structure the provision of such services in a way which would approximate a private operation. For instance, the government service should be a results- and bottom-line-oriented operation, with personnel hired and compensated on the basis of performance. It should be lean, contracting out the more specialized functions, and it should be market driven.

Private sector providers could be private contractors, commercial intermediaries, private sector associations, and individual specialists (especially industry experts). A rational way of dividing up the diverse tasks among the various types of providers, one that capitalizes on their comparative advantages, is to have the more "passive" functions of information gathering and dissemination be performed by the government; to have the more entrepreneurial and transaction-oriented tasks such as business linkages and brokering be performed by commercial intermediaries; and to have the capacity building tasks be performed by contractors and individual industry experts. A related dimension is that of cost-effectiveness. On that dimension, research by MTAP and others would seem to indicate that governments are the most expensive providers per unit of output (whether jobs, exports generated, etc.) and commercial intermediaries the least costly, with contractors and consultants somewhere in the middle. (Cost here is accounted from the viewpoint of a public funding source, whether it is from the government or from a donor.) This is explained by the fact that commercial intermediaries and contractors are only used as needed and commercial intermediaries also make their money in other ways (e.g. success fees or trade margins). Even if one assumes equal efficiency, the private providers turn out to be more cost-effective.

Whatever the choice of provider, it is essential that it have credibility with its clients. This makes it imperative that the organization is structured and staffed in a way that it will be perceived by businesses as one which understands their needs and is capable of providing them with meaningful assistance.

An issue which surfaces in the literature is the timing and phasing of the various services offered by TI service providers. Keesing (Keesing, 1988) and others make the point that the successful countries of East Asia, the so-called NICs (newly industrialized countries), did not develop TI promotion organizations until <u>after</u> they had developed proper policies and had established a strong manufacturing base capable of entering the demanding industrialized country markets. This is contrary to almost all other LDCs and probably accounts for the latter's much poorer performance. This factor is so important that it transcends the issue of who the provider is. No matter who the providers, whether government or

private, unless the business environment is at least not negative and there is adequate capacity, market-focused promotion efforts are not likely to be effective.

Organizational and operational issues are also important in properly structuring TI programs and organizations. A key issue relates to the skills that are required for the various kinds of tasks. It goes without saying that such skills must be appropriate to the particular transactions being promoted (export marketing, investment promotion, joint venture brokering) or the capacity building need which is being filled (product design, production engineering, strategic planning, training, etc). However, the implication of this truism is that highly specialized skills are required, including industry-specific expertise. Such skills are in short supply in most LDCs. Given the importance of the tasks involved, it is necessary for the providers of the services to avail themselves of the best talent obtainable, whether local or foreign, and to pay the proper level of remuneration.

TI services tend to be labor intensive, especially those targeted to upgrade the capacity of the local firms. In addition, intensive follow-up is necessary for success with clients who may lack the initiative or motivation to make the necessary changes. This often means that the provision of TI services must be subsidized at least in the early stages of a program and possibly longer for new entrants into the foreign business domain. Many TI programs recognize this (including most of the NICs) and offer cost-sharing arrangements with cost coverage by the clients of up to 50% or more, or matching grants so that businesses can hire their own providers in the open market.

Services to firms must be packaged in a way that they offer the right kind of assistance to various clients. For example, services can be packaged differently for firms in different stages of development. Also the transaction focus or foci of a TI program should be the basis for packaging services since the needs for different transactions and especially the skills involved are so different. Certain services such as special assistance to particular industries and industry-specific training, which require highly specialized skills which cannot cost-effectively be retained on a long-term basis by most TI organizations, would be better sub-contracted out to qualified individuals or organizations.

Another important organizational issue is access to overseas networks. This is absolutely essential for the success of any TI promotional effort, because no such efforts can be effective without attracting the right kind of foreign partners, whether buyers, investors or technology holders. The need for such access usually leads to the establishment of overseas offices, especially in government organizations. Such offices are often controversial because they are highly visible and very expensive, especially given the limited resources of many LDCs. Moreover, they have been frequently abused in the past, becoming highly coveted overseas posts for

the powerful but unqualified. The experience of the NICs shows, however, that such offices are essential to the success of a country's promotional efforts.

To be successful, overseas offices must be strategically located within the major business centers of the world, they must be lean and streamlined, with highly-focused functions such as providing market intelligence, promotion services for strictly selected qualified firms and, if warranted, direct marketing. Private providers of business services who cannot afford the luxury of an overseas office, can accomplish essentially similar results by using qualified existing networks with access to the right kind of business prospects (business associations, large business service providers, voluntary organization with broad networks (such as IESC), etc.) and by providing the proper incentives.

A lot of attention has been focused in the economic development literature on the need to institutionalize within a developing country the skills and experience required to perform such TI activities. Initially, these activities are often performed by outsiders because of the lack of local capacity. This need to institutionalize has unfortunately often been interpreted as meaning the creation of new public agencies to carry out the activities after the outside experts leave. Where this has occurred, the TI promotion organizations with have had poor results, as stated earlier. In view of past experience, it would seem appropriate that, to the extent possible, the creation of new TI promotion organizations should be avoided, thereby mitigating all the problems inherent in building new organizations. The transfer of skills and knowledge should instead be drafted onto existing organizations, but more importantly onto private sector companies and organizations, with the idea that ultimately they should be the ones performing the functions. Only those skills and knowledge about functions which the government is deemed to be the most effective provider, should be institutionalized within the government.

PART II

THE EXPERIENCE WITH TRADE AND INVESTMENT PROGRAMS

PART II:

THE EXPERIENCE WITH TRADE AND INVESTMENT PROGRAMS

Part I of this report dealt with the theoretical arguments on how trade and investment programs should be developed, and presented some hypotheses concerning how such programs should be designed. Part II addresses the actual experiences of both developed and developing countries. First, it describes official trade and investment promotion programs. Second, the experiences of A.I.D. are discussed. Finally, the specific experiences of MTAP are addressed.

A. TYPES OF TI PROGRAMS AND ORGANIZATIONS

1. Introduction

A variety of institutions and agencies have been created to promote development and industrialization involving trade and investment. They exist at both the national and intergovernmental level, can be found in the public or private sectors, and can be very specialized or general in their service offerings. Many public institutions try to encourage business activity by offering financial assistance. Other government and quasi-government agencies supply technical and marketing assistance for trade and investment activities. Most do not provide assistance during the early idea formulation and research stages. Rather, they are mandated to offer assistance for project development from the feasibility stage through actual start-up of operations, including marketing. In recent years, private, non-profit organizations, seeking to promote exports and investment at the national level, have proliferated, often sponsored by donor agencies.

At the intergovernmental level, The World Bank Group (IBRD) has provided substantial financial and policy support to programs that stimulate increased international business activity. The IBRD works with developing countries to help design policy reforms that can encourage more development activity, including the promotion of environments that favor entrepreneurial behavior and accelerate direct foreign investment and technology exchange.

At the direct financing level, a number of bilateral institutions offer project development assistance. Many of them also finance large equipment or service purchases as well as assist in the formation of joint ventures that involve their national or regional enterprises. The German Finance Company for Investment in Developing Countries (DEG), the British Commonwealth Development Cooperation (CDC), The Denmark Industrialization Fund for Developing Countries (IFU), the Finnish Fund for Industrial Development (FINNFUND), the Overseas Economic Cooperation

Fund of Japan (OECF), and similar programs in the Netherlands, Norway, Sweden, Canada, and Belgium, all provide grants for technical assistance and help finance plant start-ups or acquisitions.

Within the United Nations system, various agencies provide technical assistance, including direct financial support. The United Nations Development Programme (UNDP) manages a variety of programs as does the United Nations Industrial Development Organization (UNIDO). UNIDO is best known for its program to train investment promotion officers and for its program providing management for investment promotion organizations in developing countries. UNIDO also organizes investment missions to developing countries.

Numerous commercial organizations act as intermediaries to help develop projects and facilitate trade activities. The commercial banking system is well established to provide short term financing and some informal advisory and linkage services. Banks, however, are not capable of providing assistance in the more complex area of project organization and preparation, and are usually unwilling to provide long term financing unless under very attractive terms to the bank.

Venture capital programs or specialty equity financing programs are very scarce and are usually limited to those projects demonstrating a possibility of major financial returns. Also, venture capital companies usually "finance projects where the preparatory work has already been completed as their focus is on investments rather than promotion." (UNDP Regional Project for an Africa Project Development Facility, 1986)

Other commercial organizations, like consulting and engineering firms, act as intermediaries to develop and execute trade and investment projects. Normally, these types of intermediaries are attracted to projects that are large and sophisticated enough to utilize their services in the planning and implementation of development projects. (see Section II.C for further discussion on types and operations of intermediaries.)

Many non-governmental organizations also act as intermediaries in the trade and investment activity. Twelve industrial countries have developed retired executive service programs modeled on the International Executive Service Corps (IESC) of the United States. Most of them provide some type of assistance to foster trade and investment linkage. Other organizations, for example the Volunteers for International Technical Assistance (VITA), or the respective various Chambers of Commerce, provide different forms of assistance for industrial development and trade and investment promotion.

2. Examples of Various TI Programs in Developed and Developing Countries

In this section we will describe a variety of programs, using the analytical framework presented in Part I, identifying the types of services provided,

who the providers are, 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, 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. There is also a growing number of private sector organizations, sponsored by public funds, which pursue trade and investment objectives. Information and inferences as to the rationale for public intervention in trade and investment activities will be offered in this section where possible. It is important to note that public sector TI organizations differ from private sector intermediaries involved in trade and investment activities, as discussed in Section II.C

One of the variables examined is 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 whereby it will deliver these services to the clients. Although there are many different 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 the developed and developing countries. The key goals and focus of the selected programs are outlined in the chart below. (A review of A.I.D. programs follows in Section II.B.)

Key TI Goals and Focus of Client Support

TI Organization	Exports	JV/CV	Investment Attraction (Fgn Invest,Techn'gy)
US&FCS	Yes	Slight	Indirect
ProChile	Yes	Slight	-
Fundación Chile	-	Yes	Yes
CTDED (Conn.)	Yes	Yes	Yes
FUSADES (El Salvador)	Yes	Yes	Yes

These examples illustrate the spectrum of programs within which organizations pursue export and/or investment promotion and attraction initiatives. 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.

a. 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.

(1) 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).

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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.

(2) **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, Fundación Chile, which is described in the next section.

Principal Characteristics of ProChile

FOCUS:
Helping Chilean firms export.

SERVICES OFFERED:
Information, search assistance in a few developed

markets, help in organizing trade show participation and trade missions, and promotion assistance.

RESOURCES:
No financing capability.
Some international office support.

ORGANIZATIONAL STRUCTURE:
Independent government agency with local offices and a limited number of offices abroad.

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. Neither program offers product development or general productivity assistance, which can be contrasted with the less developed export environment of, for example, Honduras, which does help firms build export capacity. This observation is consistent with MTAP research findings that most LDCs require capacity-building services in coordination with efforts to link local exporters with foreign markets. (See IIB)

b. Investment Attraction Programs

Investment programs can be distinguished according to their overall objectives and client focus. 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, for the sake of this discussion, will be termed investment promotion for exports. 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.

Empirical analysis has shown that 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

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government makes a major change in policy or revamps its investment laws according to the particular national development cycle. In most cases, the promotion program shifts over time from those activities which improve a country's image to those programs fostering investment decisions or the provision of services to assist the investment process, i.e. assistance in expediting applications, permits, etc. (Wells, Wint; 1988).

One explanation for the 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. Wells and Wint, in their 1988 study, stated that many institutions shifted their activities as a result of a learning process. "Countries begin their promotion efforts with an easy technique: advertising or conduction of a general mission. When they learn that it does not generate investment, they take the advice of targeting." Wells and Wint further link this shift to the level of development, reasoning that 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. Between 1986 and 1988, the organizations of CINDE in Costa Rica and FUSADES in El Salvador, which are private sector institutions, increasingly used more targeted investment-generating techniques, such as presentations to individual firms, or analyzing business opportunities relevant to each firm's unique attributes.

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.

(1) 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 counter-act 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

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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 you, 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 to this client. 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. In IDA's promotion material, the first page describes the advantages of access to 270 million consumers in the EEC by locating in a country that is a full member of the world's largest trading entity, with tariff free access (i.e. Ireland to the EEC). 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

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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. A Stanford Research Institute (SRI) study points to IDA's close coordination with the government ministries and its ability to form a "national consensus" as a major factor 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.
IDA is a 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 Fundación Chile, must offer more specialized services in order to attract the type of investment desired.

(2) Fundación Chile

In addition to ProChile, described above, Chile has an investment promotion organization called Fundación 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.

Principal Characteristics of Fundación Chile

FOCUS:
Oriented to attracting technology and investment.

SERVICES:
Extensive and highly specific technical assistance, particularly in agribusiness and telecommunications.
Deal negotiations.

RESOURCES:
Venture capital funds for some projects.
Technical expertise.

ORGANIZATIONAL STRUCTURE
No international networks or offices.
Strong technical staff in Chile
Non-profit organization funded by both public and private sector.

The IDA, an organization offering financing, grants, and investor services, is a classic example of an investor attraction program. Fundación 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.

c. Programs Combining Investment Attraction, Export Promotion 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.

In interviewing a number of professionals, the MTAP study found considerable disagreement as to whether export and investment promotion activities can or should be separated. As one experienced consultant pointed out, in order to increase exports new investment is often required, be it a new factory or the expansion of an existing facility. Similarly, since most foreign investment in developing countries is in export-oriented industries, why not promote both at the same time. (Tugendhat, '89) Other

research reports have stated that investment and export promotion are two facets of the same problem--export development--and that when export and investment programs are not well-coordinated, they can actually work at cross-purposes, particularly when investment incentives are structured against exporting. Others experts have argued that each type of promotion activity requires an entirely different approach because the targeted clients and desired transactions differ dramatically. A senior economist at the Stanford Research Institute (SRI) pointed out that you need different staff, different skills, even different promotional literature, to "sell" an investor as opposed to assisting an exporter. (Vickland, '89)

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. If promotion programs are combined, however, for whatever reason, 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.

(1) 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. 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, 1986).

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

Seminars/Conferences
Newsletters
"How to" Handbooks
One-on-One Counseling
Market Study Preparation
Sales lead Dissemination
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 trade with their state or region, as is the case of the Connecticut Department of Economic Development.

(2) The Connecticut Department of Economic Development (CTDED)

The State of Connecticut has programs for both export promotion and investment attraction. Burdened with a dying 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 it's 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 of 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. Connecticut operates only one international office, located in Frankfurt, West Germany.

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.

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(3) 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. 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

Like the CTDED, USIPO does not provide all services required to support projects through the process to the completion of the necessary transactions. In addition, both organizations are somewhat limited in their networking capability.

The following chart compares USIPO to CTDED:

Services Offered	USIPO-EGYPT (Attract Investment and Co-ventures)	CTDED (Export and Attract Investment)
General Information	Yes	Yes
General Education	Limited	Yes
Promotion of sales of products or services	-	Yes
Scouting services: Partners/Contacts	Yes	Yes
Industry Specific Technical Assistance	-	-
General Technical Assistance	Yes	Yes
Financial Resources Referrals	Yes	Yes
Direct Financial Support	-	Limited

From the above, it can be seen that both programs offer similar services, though 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. Both programs 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.

(4) 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.

Principal Characteristics of the Salvadoran Foundation for Economic and Social Development

FOCUS:
Export, investment, and co-venture promotion.

SERVICES:
Search, technical assistance, market research, policy research and dialogue, access to financing and training.

RESOURCES:
Strong local organization with limited overseas staff.
Access to other providers.
Coordinator with government.

ORGANIZATIONAL STRUCTURE:
Non-profit, mostly donor agency-sponsored.

The above examples illustrate the variety of ways organizations and programs offer a multiplicity of services, meeting different business needs. Some programs view themselves primarily as brokers, limiting services to

contact-making and information. Others combine within one institution (i.e. FUSADES) services to exporters and investors, taking advantage of overlapping requirements, while other programs (i.e. 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.

d. Programs Encouraging Joint Ventures and Co-Ventures

The development of joint ventures and co-ventures (licensing, co-production, etc.) represent a third 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. A principal focus of MTAP was the use of intermediaries to develop trade and investment opportunities through these types of cooperative ventures or other non-traditional international business transactions.

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, investment and transaction 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. A more detailed discussion of the types and approaches of these non-traditional cooperative ventures is reviewed in the chapter on intermediaries. (See Section II.C)

(1) The Investment Promotion Council (IPC) of the Dominican Republic

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's 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 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 (particularly the Stanford Research Institute (SRI) which had helped in the design of IPC) 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 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.

(2) The Centre for Industrial Development (CID) of the European Economic Community

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. One example is the EEC's 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 firms and LDCs. The CID claims to "offer assistance at all stages of an industrial project" (ACP-EEC Joint Ventures for Industrial Development, 1987). According to the CID publication on joint ventures (CID, 1987), 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 staff also provide 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 do Cooperation Economique (CCCE) - France
- Societe de Promotion et de Participation pour la Cooperation Economique (PROPARCO) - France
- Deutsche Finanzierungesgesellschaft 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

The above institutions favor the establishment of joint ventures as the major type of transaction. 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.

e. Other European Organizations

The Industrialization Fund for Developing Countries of Denmark (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 Desenvolviemento 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 institution 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. In 1984, IFU supported 12 projects, up from 6 in 1983 and 7 in 1982.

The German Business Cooperation Programme (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

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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 acts 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.

3. Summary Findings of Trade and Investment Programs and Organizations

The MTAP research program surveyed a number of different types of intermediaries which were involved in trade and investment activities. This initial survey was followed by detailed monitoring and evaluations of four contractors working in six countries. In all cases, the intermediaries demonstrated that business networks and careful follow-up actions were necessary in order to develop trade and investment projects in developing countries. Those firms operating in larger markets and economies, such as Turkey, were more successful in developing projects than those firms operating in smaller countries, for example, Thailand, Costa Rica, Yemen and Tunisia. While these cases are reviewed in greater detail later, their basic findings are supported by the examples presented in this chapter.

The examination of European, US and developing country approaches highlights the different strategies of helping firms export versus those oriented toward attracting investment or technology or those stimulating cooperative ventures. All of the strategies require an effective array of services that, as a minimum, inform clients about the services available to them and the particular attributes that are being promoted, i.e., access to the EEC market through Ireland, or lowered labor costs and special trading privileges in El Salvador or Costa Rica.

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 offer large markets. Investment promotion in smaller countries lacking attractive policies, markets or natural resources, is usually 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 unique industry technical assistance when needed.

- Export promotion in developed countries or other economies with active international business sectors can focus on direct linkage services, for example, 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 are using 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 TI private sector (usually non-profit) 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.

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 (DFD)
US Foreign and Commercial Service (USFCS)
Connecticut Department of Economic Development (CT-DED)
ProChile

Private Sector Managed Institutions

Fundación Chile (FCh)
Investment Promotion Center of the Dominican Republic (IPC)
Business Development Centre of Sri Lanka (BDC-SL)
US Investment Promotion Office of Egypt (USIPO)
The Salvadoran Foundation for Economic and Social Development (FUSADES)
Center for Investment and Economic Development (CINDE), Costa Rica
Belize Export and Investment Promotion Unit (BEIPU)

All the private sector examples, with the exception of Fundación Chile, receive some funding from A.I.D. 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 and BEIPU are examples of institutions which have used consultant contractors and private volunteer organizations to establish their 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 same time, organizations like CINDE, which concentrated its resources on developing their own office networks, have limited themselves in regard to the industry or type of transaction they support. CINDE, in 1987, invested over US$4.2 million in the maintenance of its offices in the US and Europe, and in their counterpart staff in Costa Rica. The organization was credited with helping attract over 10,000 new jobs to the country without changing its direct foreign investment focus or attempting new types of transactions. Several organizations, for example IPC, BEIPU, USIPO, and FUSADES, have used intermediaries to complement and

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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	Transaction Focus	Own Offices Overseas	Use Intermediary Network	Promotion Focus/Technique	Type of Managing Organization
IDA	DFI	Limited		EEC Mkt	Governmental
BCP-Ger	JV		Yes	JV-LDC	Governmental
CID-EEC	JV			JV Financing	Intergovernmental
IFD -Den	JV			JV-LDC	Governmental
CT-DED	DFI, Exports	Limited		DFI	State govt agency
ProChile	Exports	Limited		Global Mkts	Governmental
FCh	Techn Attraction	Yes		Local Growth	Private, non-profit
IPC	DFI, JV		Yes	Labor/Free Zones	Private, non-profit
USIPO	DFI, JV			Labor,RegMkts	Private, non-profit
FUSADES	DFI,JV, Exports	Limited	Yes	Labor,Local Res	Private, non-profit
BEIPU	DFI, Exports		Yes	Labor,Local Res	Private, non-profit
CINDE	DFI	Yes		Labor,Local Res	Private,non-profit
US&FCS	Exports	Yes		Extensive inter-national networks	Governmental

B. A.I.D. EXPERIENCE IN TRADE AND INVESTMENT PROMOTION

1. 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 by others to affect program results. We also identify the lessons learned from this experience which we believe have the greatest implications for on-going program design. The overall findings and lessons learned are based on 1) a review of approximately fifty evaluations and final reports of A.I.D. export, investment and trade programs; 2) interviews with promotion officers, contractors and other professionals involved in TI activities; 3) informal discussions with various A.I.D. personnel, and; 4) research and academic materials prepared on the subject.

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 both the A.I.D. experience and World Bank research on institutional export promotion, must be addressed.

a. Justification

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. As discussed in earlier chapters, a government intervention in what is normally the realm of the private sector makes sense when it serves both to achieve

public sector goals and addresses some market deficiency. 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.

b. Terminology

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.

2. Main Findings

The findings, case examples and lessons learned summarized in this chapter 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 other program design issues which were important to results. Next we will present nineteen key cases that were representative of different types of interventions as well as illustrative of our overall conclusions. In addition, four 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.

a. 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 last 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 one to fit the local environment, setting up inappropriate expectations as to what was and was not possible and in what time frame.

In addition, when the characteristics of the local business environment and the target client (foreign or domestic) are taken into account, it becomes clear that certain transactions will be more or less difficult to promote, which in turn determines what types of services (or policy changes, training, etc.) are needed. From the A.I.D. experience, it is apparent that *programs aimed at attracting foreign firms to a host country can offer services that promote foreign direct investment (FDI) only in attractive investment environments.* Programs that tried to promote FDI in difficult contexts usually failed because the foreign firm simply was not interested. *Attracting foreign firms for co-ventures and joint ventures often had more success, particularly when local capacity was adequate and a full range of services was provided.*

Examples:
- Investment promotion was an overly ambitious goal for El Salvador considering its political instability and image abroad.
- Large scale trade and investment promotion in the Eastern Caribbean (PDAP) was not successful partially because the infrastructure, accessibility and business environment were not conducive to this type of transaction.

(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 must 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

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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.

Many evaluations reviewed sought to analyze the effectiveness of various types of interventions in an effort to guide donor agencies in future program designs. Another way to look at this experience is not from A.I.D.'s perspective as to what tactics have been effective in achieving their goals, but rather from the perspective of the enterprise being serviced. As we have argued earlier, all TI interventions are eventually aimed at encouraging clients to take a specific action. A.I.D. programs, however, have rarely been explicit as to which, and whose, business needs are being addressed. Thus, 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.

Examples:

- The investment promotion campaigns sponsored by the Thai Board of Investment might have been more effective if directed toward small companies seeking non-traditional investment opportunities as opposed to the large, publicly-held companies who in the end showed little interest.

- 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.

Examples:

- Evaluators of an export development program run by the World Trade Institute, a U.S. private, non-profit providing training, market research and other market and product development assistance to LDCs, asserted that while WTI was a well-managed program, it showed that export expansion cannot 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.

- The program design of the Non-Traditional Agricultural Exports Project for Ecuador was criticized by its evaluators because it did not utilize the public sector, resulting in some cases in duplication of effort, in addition to bad feelings.

(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.

Examples:

- 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 U.S. network did not materialize.

- Egypt's Private Sector Feasibility Study Program lacked a marketing network in the U.S., and did not have a clear division of duties between U.S. and Egyptian personnel and agencies. This was more a failure of program design than implementation.

- Part of CINDE's success in attracting investors to Costa Rica was attributed to the stable and significant amount of funding provided to the program, which enabled management to attract and motivate competent, professional staff as well as set long-term plans.

(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 credibility with their private sector clients or did not have the capabilities for the aggressive, person-to-person nature of trade and investment promotion or 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.

Examples:

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

- FINADE in the Dominican Republic was not able to convince potential lenders to allocate funds to export-related

projects, primarily because of its lack of credibility as a viable financial guarantee facility.

(6) Institution-Building

With the goal of making TI interventions of more lasting value, institution-building was often a component of A.I.D. 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. World Bank researchers have concluded that public sector provision of business services should be "time-bound", i.e., providing them only until the private sector is able to take over. A.I.D. experience and MTAP research have demonstrated that the effective delivery of business services is by the private sector.

"Target inflation" (setting unrealistic quantitative targets during the program design stage) create additional pressures for the new institutions, many times forcing them to concentrate on meeting short-term targets versus achieving longer term, sustainable development. The A.I.D. experience has also demonstrated the functional disharmony between A.I.D. 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 A.I.D. 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.

Examples:

- 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.

- Exaggerated job targets in PDAP diverted attention from important institution-building and policy reform tasks as well as from questions of long-term sustainability.

- The Sri Lanka Business Development Center, a newly-created private sector promotion organization, floundered initially because it was burdened with too many diverse goals before basic organizational structures could be developed.

b. Other Design Issues

(1) Method of Evaluation

Issues of cost-effectiveness, appropriate measures of success, fee generation, and self-sustainability were concerns of most evaluations and reports. There is considerable disagreement as to how to measure cost-effectiveness, whether various types of programs can or should be self-sustaining, and what role fee generation should play vis-a-vis eventual financial self-sufficiency. Furthermore, how much certain measures of success, i.e., employment, income, tax and foreign exchange earnings, can be attributed to a program's efforts, is hard if not impossible to quantity. Secondary benefits of TI programs, such as technology and management skill transfer, policy and attitude changes, and entrepreneurial development are equally hard to assess yet are very important components of a program. Therefore, TI program design should clearly delineate what realistic results should be expected, taking into consideration time and measurability criteria. In addition, secondary impacts should also be taken into consideration when evaluating a program's overall success.

(2) A.I.D. Administration

Private sector interventions challenge A.I.D.'s program design and management systems which are based on different accountability and policy concerns. The need to closely monitor TI programs, to be flexible in changing circumstances, to adjust traditional contract administration requirements, to employ larger time-frames, and to find appropriate managers were issues that came up repeatedly.

3. Selected Key A.I.D. Program Experiences

Approximately 50 evaluations, final reports and project appraisal reports of A.I.D. programs were reviewed as part of the research component of this project. These programs encompassed the whole range of the trade and investment promotion spectrum, including such diverse activities as structural adjustment programs focusing on liberalizing economic activity, general export promotion programs encompassing institution-building activities, support programs to defray the cost of participation in trade fairs, and targeted investment attraction programs attempting to capture direct foreign investment.

Some of the programs, particularly the earlier ones, were associated with government institutions, while the more recent programs have attempted to build upon or create new private sector institutions in developing countries. A few of the programs focused solely on one activity, whether it was export credit, foreign investment attraction, or setting up export processing zones. Most of the programs combined export and/or investment promotion, trade linkage, and some degree of local capacity building. In some cases, the programs began by contracting with a variety of small intermediaries while others started with large consulting firm support. Many evolved toward the establishment of their own office structures and the use of a variety of smaller intermediaries and volunteer organizations to provide specialized services, including deal structuring, consistent with MTAP findings.

Example cases are presented below, divided into six categories based on the goal of the program and the type of intervention attempted:

a. Policy Improvement/Modification Programs
b. Foreign Investment Attraction Programs
c. Collaborative Venture/Matchmaking Programs
d. Export Development Programs
e. Physical and Human Infrastructure Development Programs
f. Credit Programs

The bulk of the cases presented emphasize (as we have in this entire report) the provision of TI business services to firms and entrepreneurs. (See categories II, III, and IV.) Several other types of interventions which attempt to improve or modify the TI business environment have been included both to show the range of A.I.D. programs and to re-iterate the point that efforts to improve the business environment play a critical role in effective TI strategies. (See categories I, V and VI.) It was decided not to include a separate category on institutional development and/or strengthening, given that its focus is not on the provision of business services. Lessons about institution-building interventions, however, can be drawn, and are included in the cases.

The sample cases below include a brief description of the program and a summary of the findings and conclusions contained in the evaluation or final report. Each case is followed by a key "lesson learned" illustrated by the case. This does not necessarily imply that this is the most important lesson to be drawn from the case, nor is it the only case which proves the point being made.

a. Policy Improvement/Modification Programs

Projects included under this component are ones which were primarily designed to improve or modify the policy environment in which TI activities are undertaken. Most experts agree that the business climate, previously defined as incorporating both the policy environment and country context,

is one if not the most critical factor affecting the eventual outcome of a TI program. However, governments often require supporting research, draft legislation, or demonstrated results prior to effecting change. As outlined in the cases below, programs have approached this problem in diverse ways.

The Export Promotion Program in India

This five year program carried out during the mid-seventies consisted of grants and technical assistance to the Government to conduct commodity and trade surveys and implement subsequent policy recommendations. The overall goal was to increase India's export earnings 7% annually.

According to the evaluators, the program was very successful. It diagnosed impediments to export expansion and provided technical advisory assistance to improve the quality of government information services offered to the export community. It established a semi-autonomous export promotion unit within the Ministry of Trade, replicating A.I.D.'s Export Promotion Division set up for the course of the program. This unit was responsible for undertaking foreign trade studies, compiling and disseminating general trade information, coordinating the efforts of local research groups analyzing policy issues, and assisting other programs serving the interests of the Government and trade organizations. A separate entity, the Trade Development Authority, was also established to assist small and medium size export firms by improving contacts with foreign markets, representing the interest of private exporters in overcoming procedural difficulties, and lobbying in coordination with the private sector for policy changes/modifications. The research conducted under this program was used to support recommendations for policy changes, thereby assisting the Government of India and the private industry in making sound policy and export development decisions.

The evaluators attributed these achievements to the ability of the program to secure the interest and cooperation of the Government of India, especially as the implications of the policy changes became obvious. One of the major difficulties in promoting Indian exports had been the inability of the government to take decisive action regarding policies affecting exports. However, by the end of the program there was a discernable growing awareness and liberalization of policies affecting investments in export-oriented industries and import authorizations for products needed in export trade.

Lesson Learned

In restrictive environments, in order for the provision of business services to be effective, they must be accompanied by suitable policy reforms. It is the role of the government in the export development process to establish this attractive policy environment, in addition to compiling and facilitating the flow of information. Many LDC governments must first be convinced of

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their role, however. An effective way to convince them is to provide research studies and show results through demonstration programs.

The Private Sector Investment Assistance Program in the Caribbean

The primary objective of this program (1981-87) was to strengthen the capacity of the Caribbean Association of Industry and Commerce (CAIC) to promote the revitalization of the Caribbean private sector for increased production and productivity. This program was a key component of A.I.D.'s private sector led strategy for economic growth in the Caribbean, one goal of which was to improve the climate for private investment and for expanded international trade by increasing the capacities, efficiency, and sustainability of institutions serving the private sector. Program assistance focussed on five components: CAIC membership development and institution building, training and technical assistance to its membership, policy advocacy, economic development, and CAIC organizational development.

The final evaluation of this program, conducted in 1987 by Louis Berger International, Inc., concluded that the program had been a distinct but qualified success. It had carried out two major functions effectively: advocacy of the interests of its constituency and membership development activities. It also was successful in building formal and informal public/private networks, changing the attitude of its members, and creating a new image of the private sector in the Caribbean region.

CAIC's performance in providing business services to its memberships was mixed. Its provision of training services, concentrating primarily on improving management skills, introducing modern management techniques, and training trainers within an enterprise to meet on-going training needs of the firm, were rated very highly by most of its recipients. CAIC's technical assistance program, consisting primarily of the identification of needs and provision of consultants to meet these needs, received more criticism, although it did provide the clearest examples of the positive economic development impact of the program. In addition, CAIC did provide support to the development of joint ventures and co-venture investments through its sponsorship of regional trade expositions.

Lesson Learned

Business associations are an alternative vehicle both for effecting policy changes and for providing certain types of business services. However, providing both advocacy and business services within one institution can be difficult; better results may be achieved if conventional development functions are at least kept organizationally separate from advocacy functions.

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b. Foreign Investment Attraction Programs

Programs included under this category are programs concentrating primarily on attracting FDI to their country, with little to no effort on improving domestic entrepreneurial capacity, or providing services other than those related to foreign investment attraction. It is important to note that the impetus for the services are oriented toward the foreign rather than the domestic exporter.

Private Sector in Development Program - The Thai Board of Investment Component

As part of an overall A.I.D. program to support private sector development in new export industries, a series of investment surveys and business promotion missions to the U.S. was implemented between 1986 and 1987 by the Thai Board of Investment (BOI) with a major technical assistance contract with A.D. Little. Ten investment surveys, three investment missions/campaigns, public relations efforts directed at US trade journalists, seminars for Thai clients, on investment promotion and a database on Thai businesses were funded by the program at a cost of $2.55 million.

A 1987 evaluation of the Thai program found that, while implemented competently, it obtained only modest results of low sustainability. The investment missions were not considered cost-effective, having generated only one plant start-up representing 350 jobs and $720,000 in investment, and up to five approved applications directly or indirectly attributable to the program. Also, while the investment program's promotion campaigns were very industry-specific, they focused primarily on large, publicly-held U.S. companies (i.e., Fortune 500's). Records indicated, however, that American investor interest during this period was predominantly being expressed by smaller companies and individuals. (Other studies have indicated that large firms are rarely susceptible to promotion efforts, basing investment decisions more on internal criteria and analysis; this would appear to have been supported in this case.) The evaluators further found that there was a much higher level of interest in sourcing and joint venture arrangements in Thailand than in direct offshore investment, and that the potential of targeting these collaborative types of ventures appears to have been underestimated in the original project design. In addition, the evaluation concluded that upgrading the sector-specific technical expertise in BOI overseas offices would be a more appropriate use of A.I.D. resources as opposed to contracting for short-term promotional campaigns.

Lesson Learned

Even adequately implemented, industry specific investment promotion to an attractive investment climate can be misdirected and cost-ineffective. The development of a promotion strategy should be based upon a thorough analysis of the kinds of investors most likely to be interested in the

particular environment, which is often the smaller firm looking for non-traditional investment opportunities. In addition, strengthening existing host-country service providers in investment promotion, may have more long-term, cost-effective impacts than external, albeit high-profile contractors.

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. At the time of the final evaluation, conducted by Louis Berger International, $16 million had been spent. The program established 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 evaluation credited the program with approximately 50 investments, net annual export earnings of $12.4 million, and a potential of 4,575 jobs in six countries.

The evaluation indicated there had been weak central management of the program and that 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 felt to be 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. Earlier evaluations by SRI International and Charles Blankenstein Associates, Inc. had also argued that more tailoring to the needs of individual countries was required and that the promotion effort would be 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.

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, 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 evaluation by Charles Bell of Louis Berger indicated that 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 bi-lingual 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.

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 A.I.D.-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 sectoral studies to be used for marketing the program and to manage the promotion campaigns for the program in the U.S. 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. An outside evaluation of the program surveyed the companies which had applied for the grants and found that the PSFSP had had a significant impact on the firm's decision to consider Egypt. The evaluators concluded, however, that poor management and insufficient marketing of the program led to an inadequate number of approved applications. They cited several problems, 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 evaluation recommended that the program should be marketed more aggressively, applications processed more efficiently and better coordinated with other A.I.D. programs such as the U.S. 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.

c. Collaborative Venture/Matchmaking Programs

Programs included under this heading are those which combined export development and investment promotion, seeking to foster firm-to-firm linkages, and matching domestic and foreign partners. However, the impetus for the provision of services would come primarily from domestic firms. Some of the programs were explicitly encouraging non-traditional forms of investment such as joint ventures, co-production, licensing agreements, sourcing arrangements and other cooperative ventures. Other programs viewed this as one type of TI activity in addition to FDI and straight exports. These cases most closely parallel the problems and successes of the MTAP intermediaries, which are summarized in Section C of this chapter.

The Private Sector Development Program of Indonesia

A program was established in Indonesia (1982-88) to test methods of strengthening its private sector, one component of which was to facilitate investment, primarily by locating U.S. partners for pre-qualified projects originating in Indonesia. This component, managed by the Indonesian Investment Coordinating Board (BKPM), offered a limited amount (25 hours) of free consulting assistance from international and domestic firms to help local businesses develop and implement trade and investment plans and to facilitate joint activities between US and Indonesian firms. In addition, the firms were to prepare a variety of industry profiles which would identify investment opportunities, help guide domestic firms and encourage foreign firms to invest in Indonesia.

A 1986 mid-term evaluation of the investment component of the program indicated that, in two years, the consulting firms had dealt with about 250 inquiries and 54 businesses had received consulting time. This had resulted in six investment project applications to BKPM of which four seemed certain. These projects were credited with $10 million in potential investment and creating 550 potential jobs. The profiles, on the other hand, did not have any significant contribution for a variety of reasons, including BKPM selection priorities that did not reflect actual investor interest, changing market conditions, lack of contractor expertise and lack of promotion on BKPM's part. When considering only the $240,000 spent in consulting to firms, the return was seen as very successful, with job creation at about $450 per job. For the entire program (consulting and profiles), the cost of job generation was about $870 per job.

The evaluation indicated that BKPM, which was essentially a licensing review board, was not oriented to promotion, and, in effect, hindered the progress of the program. Furthermore, the government-selected profiles were not an effective way to address market conditions for investment. The consultants, on the other hand, provided venture development business services that were dictated by actual investor interest, and so were more successful. However, because there was little demand for these services (at least until Indonesian firms became more familiar with the value of consulting and the policy environment was improved) more aggressive marketing (including support for travel) and an on-going subsidy would be needed.

Lesson Learned

Most services are more effectively provided by the private sector. Furthermore, some types of sponsoring government agencies may actually impede TI programs (e.g. are more regulatory than promotional in nature, support projects for which there is little investor interest, etc.) Lastly, independent intermediaries, even when requiring a subsidy, can be responsive to a broad group of clients needing program development

assistance, and are especially effective in providing services to nurture collaborative ventures.

Minority and Small Enterprise Trade and Investment Promotion Program - West Africa

The goal of this joint OPIC/A.I.D. program (1984-87) was to promote joint venture investment in Africa utilizing the small, minority firm portfolio of the Booker T. Washington Foundation (BTW). It was felt that this network, which had been successfully exploited by BTW for small enterprise generation in the US, was fertile for finding potential joint venture partners for African entrepreneurs/investors. The program established an office in Africa which was to identify investment opportunities in Liberia (later replaced by Senegal), Cameroon, Ivory Coast and Nigeria, prepare venture profiles, and provide follow-up assistance to get the projects to the financing stage. An office was set up in Washington, D.C. to solicit investor interest in the US and match potential partners through mailings, etc. to the BTW network.

A mid-term evaluation found that the program had fallen significantly short on six of seven performance targets, that a maximum of two programs showed any potential for moving forward, and that the program should be discontinued unless significantly restructured. The primary design problems identified by the evaluator included the following:

- The assumption that the small minority firms in BTW's marketing profile represented a prime market for joint venturing in Africa was not valid.

- These small firms typically did not have the management, financial depth or the commitment needed for joint ventures in Africa.

- Identifying feasible programs in Africa can be done, but it is hard to find US investors interested in exploring what is perceived as a high-risk investment climate.

- Deal facilitation (providing information and limited technical assistance, finding partners, and evaluating propositions), without additional financing or capital participation, was insufficient for promoting joint ventures in West Africa.

- Investment promotion is a labor-intensive and long-term task, requiring sufficient resources (travel, communication, etc.), capability for nurturing deals, close coordination between local and overseas offices, and appropriate motivation and incentives for staff.

MTAP experience sheds additional light on this case, suggesting that in fact small enterprises are often interested in investing overseas, particularly in collaborative ventures, but require a full range of planning and technical services to be able to complete a deal. Intermediaries, capable of providing these services who also had established experience and contacts in the region, would have been more successful in implementing this program.

Lesson Learned

Networks for international business development are difficult to utilize—existing business networks are not necessarily appropriate, and developing new networks requires considerable time and effort. Also, small firms require a full range of project development services in order to be able to participate in joint and co-venture opportunities.

The FUSADES - PRIDEX Program in El Salvador

Similar to CINDE and 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. According to Arthur Young's final report, 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 is the proper intervention in this situation.

The Business Development Center of Sri Lanka

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 providing services in the four major components for the local market.

An evaluation of the program in 1987 indicated that the program had met with limited success in its investment promotion (less than ten investments, mostly domestic ones, had been made) and that 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. The evaluators also felt that too many diverse roles were given to the SLBDC, a new institution, and recommended that the Center should focus on entrepreneurial, management and technical services to Sri Lankan SMSE'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 U.S. 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.

The Joint Venture Feasibility Fund for the Caribbean Islands

In 1985, the Latin American Bureau funded a small pilot program to provide small amounts of money to U.S. or Caribbean enterprises. The monies were to be used only to reimburse a portion of travel, local consulting costs or other costs associated with venture exploration. The program was facilitated through the existing overseas office structure of

the International Executive Service Corps (IESC). A report by IESC at the end of the program (1988) indicated that 155 firms had utilized the funds and 15 new ventures had evolved by the time the pilot test ended. An estimate of approximately 1000 jobs were created by the 15 resulting projects, at a cost of about $605 per job.

The JVFF program was passive in nature in that there was no aggressive marketing program; instead a limited amount of advertising was undertaken in the United States through CBI-related networks. IESC offices overseas also made about 25 contacts in each country. Approximately 60% of the requests for funding came from smaller U.S. firms looking for opportunities to develop investments or trade opportunities in the Caribbean. Significant utilization of the monies was for travel and minor amounts for technical assistance in the Caribbean countries. As a result of this program, IESC developed a follow-on program that created more aggressive marketing activities and utilized their extensive U.S. network to provide technical assistance and client/partner searches for developing country enterprises.

Lesson Learned

Small amounts of cost-sharing funds utilized as needed for specific venture opportunities can have a very positive, if modest, impact on moving projects along in the development process. Follow-up technical assistance would bring even more programs to completion, particularly joint and co-venture programs involving small to medium sized firms.

d. Export Development 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.

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.

An evaluation conducted in 1988 found CATCO 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's financial troubles were being turned around due to the efforts of a new management group, FINTRAC Consulting Ltd., hired in 1985. 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. The evaluators 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.

The Artisan Product Marketing Program in Honduras

A.I.D. to Artisans (ATA) a US based non-profit organization, managed this highly targeted export program (1983-87) in Honduras, the basic premise of which was that small artisans lacked the skills to manufacture crafts for export. 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, helping them to penetrate export markets.

An evaluation conducted by John Chater and Associates asserted that the potential impact of this program was tremendous and that 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.

The Non-Traditional Agricultural Exports Program in Ecuador

The purpose of this four year program (1984-88) was to promote non-traditional agricultural-based exports 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 membership 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 U.S. consulting company DEVRES, for the purpose of generating market information and initiate sales of products to identified distributors in the US.

A May 1988 evaluation conducted by Chemonics found that the program had 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: 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. As stated in the evaluation "the (trader's) common response is not to buy from an exporter again, but in the case of fresh products, the common reaction is not to buy from the country again." The program is currently being redesigned, emphasizing the developmental aspect and incorporating a substantial technical assistance component.

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.

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 of 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.

An interim evaluation of FIDE by an ISTI team led by Carlos Torres concluded that 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), the evaluators argued that investment promotion and setting up contracting relationships, albeit costly, held more promising long-term returns than export promotion. In 1989, largely as a result of this evaluation, 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. The final report by the principal U.S. contractor, IPAC, however, cautioned

against abandoning export promotion efforts, pointing to the program's significant results in bridging local firms with U.S. markets and arguing that 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.

Both reports questioned the possibility of full cost-recovery, citing the unwillingness of local firms to pay the 3% fee on exports that FIDE charged, and the inability to charge for investment promotion services. The IPAC report, however, argued that charging fees for export promotion services is effective because it screens out less serious businessmen and forces the promoter to offer services that truly add value.

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.

e. Physical and Human Infrastructure Development Programs

Programs incorporated under this category are those which sought to develop the physical or human infrastructure which would then be used to induce new investments or to improve export capacity and capability.

The Eastern Caribbean Infrastructure for Productive Investment Program

This program (1984-87) was designed to provide the physical infrastructure required to expand private production in the Eastern Caribbean territories, and to attract foreign investment, resulting in increased employment. Based on a series of market surveys and feasibility studies, A.I.D. made available a $12 million loan (later reduced to $6 million due to lack of demand) to the Eastern Caribbean Central Bank (ECCB). This loan, which was channeled though commercial banks, was to finance privately owned and managed industrial estates and individual factory shells to house primarily export-oriented manufacturers. In addition, grant funding was made available from PDAP to ECCB to hire consulting engineering services, a project manager, and technical assistance for investors and participating commercial banks.

The evaluation indicated that during the three year program, 29 business-projects were considered by commercial banks, of which only five were approved for a total of $3.24 million--the others were rejected because of non-viability or because the sponsors shelved the projects. There was a mix of investments between local and foreign investment. The program was credited with generating 240 production jobs, in addition to temporary construction employment. Approximately 62,000 square feet of factory

space was built in Antigua and Grenada to facilitate manufacturing activities such as pre-fab housing, garments, industrial gases and furniture. None of the firms occupying space had started exporting when the program completed. On the whole, however, the credit was not utilized due to lack of demand and/or commercial viability.

Lesson Learned

Solving a physical infrastructure deficiency on a commercial basis and in isolation from complementary TI programs, is difficult. Investors, whether domestic or foreign, are not willing to construct factory space on speculation in a region when there is unproven industrial experience, unreliable demand estimates, limited support services, and undetermined risk. It may be for this reason that free zones, where the business environment is attractive, are seen as a more effective means for addressing infrastructure deficiencies.

The Caribbean Investment Promotion Service Program (CIPS)

Building off of the UNIDO investment promotion training program, A.I.D. joined the Caribbean Development Bank, UNDP and UNIDO in 1983 in funding the CIPS program to train a number of government institution officials in the United States. The one year program brought different trade and investment officers from Caribbean islands to the U.S. In New York, the officers received an orientation program and were trained in how to: participate in trade shows, direct mailing programs, structure country promotion literature and develop planning and control systems. In the first year, individuals from approximately six countries were trained. The promotion officers subsequently organized mailings to about 2,500 firms, established 750 calls which led to 30 interviews and approximately 13 companies that showed interest in follow-up visits. At the time of the evaluation, no investments had resulted from this effort, though this was not the goal of the project.

An evaluation report prepared at the end of the first year asserted that the program "demonstrated its potential value"—the participants had received good promotional training and exposure to the US business world, and cost-efficiency was achieved for the countries by centralizing efforts. Insufficient linkage with and inadequate training of staff in home-country institutions, however, diminished the effectiveness of the trainees. In addition to the need for institution-building, the overall conclusions of the evaluator, Mr. William Fisher, were that 1) more training should be provided on the business orientation and decision-making processes of potential investors in the U.S. and 2) the promotion effort needed to be more carefully targeted on specific programs or sectors that are consistent with the realistic advantages and industrial capabilities of the host country. Mr. Fisher also cautioned investment promotion officers not to count on computerized data bases, placing greater emphasis on direct personal promotion, and argued that the officers (usually came from public sector)

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needed more training in "entrepreneurship" and salesmanship to gain more intuitive understanding of the investment linkage process.

Lesson Learned

Promotion programs, even those concentrating on just one aspect of the process such as training, are more effective when carefully targeted to a specific program or industry need. Also, while a training program can be effective in addressing an identified need of the region, it is difficult to assess its direct impact on trade and investment.

f. Credit Programs

Programs included in this category provided financing assistance (low interest loans and assistance with loan applications) to small and medium-sized export-oriented enterprises. Such programs were designed to provide financing for promising enterprises that had difficulty procuring loans from commercial banks who were reluctant to take on the credit risk. They were also designed to facilitate enterprises obtaining loans in overly-regulated countries. The purposes of the programs were narrowly defined in most cases and did not provide services other than the financing assistance.

The Central American Bank for Economic Integration Program (CABEI)

This early 1970's program (1970-74) consisted of a $30 million loan to the Central American Bank for Economic Integration (CABEI) for the purpose of financing a major private sector effort to promote, develop, expand and effectively operate non-traditional export industries and tourism. The export component focused on diversified agribusiness activities; the tourism component on moderate-sized hotel projects in areas mainly outside the principal cities of each Central American country. The overall program amounted to $100 million: $30 million A.I.D. loan, $30 million contribution from CABEI, and $40 million investment from private entrepreneurs.

A special evaluation was conducted in 1973 by Regional Office for Central American and Panama (ROCAP) to determine the program's progress to date. At that time, 79 sub-loans, totalling $ 17.4 million, had been committed: 50, totalling $7.6 million, to export industries; 16, totalling $5.1 million, to tourism industries; and 13, totalling $4.6 million, to other lending institutions. The major problem with the program was slow disbursements. It took CABEI two years to organize itself to disburse its first loan. Reasons cited for slow start-up, in addition to CABEI capability, were: 1) complexity of export industry and the need of the potential recipient firms for technical assistance in export processes--production, processing, marketing, and management before loan application could be submitted; 2) limitations on local working capital financing; and 3) competition with

A.I.D. bilateral loans, individual government and commercial bank programs.

The recommendations assisted CABEI in streamlining its loan approval and disbursement procedures, as well as raised the ceiling for A.I.D. funds, particularly in the tourism area. The evaluators felt that CABEI funds were having, in general, a positive impact on the region's export industry.

Lesson Learned

Prior to allocating financing/credits to export related firms, in addition to assistance in preparation of financing applications, the firms require technical assistance in exporting production, processing, marketing, and management. Until this support is provided, the demand for the funds will be low, not utilized for specified purposes, and go to larger firms that could receive the funds from existing sources vs the medium/smaller firms that desperately need working capital.

The LDC Private Enterprise Investment Packaging Program

This ten year program (1982-92) of A.I.D.'s Private Enterprise Bureau (PRE) consisted of a fund intended to provide a flexible mechanism for channeling capital in 10-15 LDCs to commercially viable programs with strong developmental payoffs. In addition to lending to private enterprises, either directly or in conjunction with intermediate financial institutions (IFIs) the program also assisted in assembling investors for program financing and in advising on changes needed in host country investment climates. In 1984, the program established a Revolving Loan Fund, capitalized at an average annual level of $12-15 million, which is now virtually the only program activity.

Under the program, loans were disbursed primarily to small and medium-sized enterprises (SMSEs) in Africa, Asia, Latin America and the Caribbean. While the focus was on increasing investment within LDCs, some countries also sought to improve export credit availability. An evaluation found that, while comprised of many programs with varying levels of success overall, this program was successful in achieving its goals. This evaluation identified numerous lessons learned, including:

- The feasibility and impact of private sector business ventures are directly influenced by policy environment and financial market conditions in the host country (such as exchange rates, availability of foreign exchange, liquidity, etc.)

- Success of private sector programs often depends on rapid and flexible responses to changing economic and financial conditions.

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- Program benefits will be sustained after program termination only if interventions initiate changes in financial institutions, local credit markets, and/or government policies.

Another key lesson is demonstrated by one of the least successful programs of the project, FINADE in the Dominican Republic. This program established a US$2 million guarantee facility for Financiera Nacional de Desarrollo (FINADE) to provide short-term credit, in local currency, to SMSEs involved in non-traditional exporting. The credit, used as working capital or to finance fixed assets, applied only to the non-traditional export part of the business. The Dominican Republic's financial market liquidity was seriously limited due to a Central Bank policy of restricting the money supply to reduce inflation, which led to greater demand for this guarantee facility. Nevertheless, FINADE encountered difficulty in locating commercial banks willing to lend pesos, even against stand-by letters of credit issued by Chase Manhattan Bank/Dominican Republic. Due to this and other operational difficulties, it was suggested that FINADE's portfolio be transferred to another acceptable institution. According to the evaluators, the case of FINADE underlines the importance of selecting a strong local intermediary to manage a guarantee facility.

Lesson Learned

The single most important factor influencing the implementation and prospects of success of private sector credit projects is the presence of a strong and competent local intermediary organization which has credibility with other local lending institutions (i.e., they are large, market-oriented institutions or are respected for sound management and profitability). In the absence of strong local intermediary organizations, program activities should focus on institutional strengthening and incorporating specific institutional develop-ment objectives and resources as initial elements of the program.

4. Selected A.I.D. Research Studies

a. The Stanford Research Institute Special Study

In 1984, SRI was contracted to develop an extensive study on investment promotion programs undertaken by, or in conjunction with, government organizations. This program, supported by the Private Enterprise Bureau of A.I.D., developed an overall model to guide the development of trade and investment organizations. In the study, SRI pointed out that a typical trade and investment office in New York City would cost about $253,000 a year. It suggested that these kinds of offices could be effective in attracting investment if in fact the host country business environment provided effective incentives to the foreign investor.

The SRI study argued strongly that the business environment was a critical factor in developing any successful trade and investment program.

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Development of services to attract investment should be based clearly on the competitive position or comparative advantages of the particular country being promoted. The study also argued strongly for the effective targeting of specific industries and companies. Investment decisions by foreign investors would be keyed not only to the business environment but to the specific incentives involved and whether these fit the particular strategy of the company being attracted. The study suggested that government trade and investment offices would have to place a special emphasis on training and preparing their people to understand the needs of the foreign investor and to be able to deal effectively with each industry's idiosyncrasies and technical needs.

Although this study was limited to investment promotion conducted primarily by government institutions, it underscores the need for all TI programs to recognize that each country has an unique business environment which will be the primary incentive or disincentive to the investor.

b. Review of Activities Designed to Encourage International Trade and Direct Foreign Investment in ANE Client Countries, prepared by Ludwig Rudel, et al.

In 1987, Rudel conducted a review of A.I.D./W and ANE Mission Trade and Investment strategies and activities. He concluded that ANE mission TI strategies had been on the whole sound, and did address in a responsive manner those obstacles to TI activities that could be changed. Rudel found that the less than hoped for results from A.I.D.'s TI activities were indicative of the difficulties of designing and implementing cost-effective interventions, and of the inappropriate tactics used to accomplish TI strategies. In addition, he indicated TI programs are very labor intensive, requiring considerable attention by A.I.D. Mission management and staff. Unless a mission is willing to commit the personnel and financial resources required to oversee TI programs, they should restrain from initiating them.

Rudel reviewed eight categories of interventions which he felt were relevant to TI program designs. These categories are summarized below:

1. Information and Networking: Rudel believes this type of intervention can work if: a) the entity in the LDC is rooted in the private sector; b) operating funds are provided until user fees can be charged/increased to make service self sufficient; c) the entity is tied into a low cost network in the US (or other developed country/trading partner) that promises continuity of operations and enjoys good access to US industry and; d) the operation focuses on targeted investments, searching for partners for specific programs among mid-sized US firms.

2. Institutional Development: Although A.I.D. has tended to concentrate activities on providing support to newly-created institutions

(educational institutions to provide training; research institutions to delve into policy issues; financial institutions to provide smooth market operation), Rudel believes that providing support to existing private sector organizations and business associations, and linking these entities with existing/active networks in the US, is more productive. A.I.D.'s success in building new quasi-public institutions, particularly those providing a promotional function, is limited. Supporting local business organizations has added benefit in that it increases the local business community's ability to lobby with its own government for policy reforms.

3. Mobilizing Financial Resources: According to Rudel, the most successful A.I.D. interventions have been through support to targeted credit facilities, particularly when it is linked with business services and information networks.

4. Facilitating Intermediaries: Rudel's conclusion is that this approach holds promise for stimulating international joint ventures, i.e., covering partial funding of travel costs and preliminary search efforts for inter-mediaries and principals.

5. Training: Rudel believes that on a targeted, selective basis, training can be an effective component of a TI activity.

6. Balance of Payment Support/Trade Financing: Rudel recommended that A.I.D. devise mechanisms whereby funds could be set aside for mixed credits purposes. Otherwise, he found that this type of intervention did not appear to promote private sector trade with US.

7. Privatization: Although A.I.D./ANE had not linked this intervention with TI, Rudel felt that privatization could be successful in promoting TI activities by attracting foreign investors to business opportunities generated by the proposed divestiture, and by allowing US firms to contribute to the assessment and valuation process in preparing the production unit for divestiture.

8. Policy Dialogue and Donor Contribution: Rudel identified the policy framework as the major obstacle to TI activities. He indicated that supporting local analytical work to assist LDC policy makers is one means whereby corrective action could be undertaken. To the extent possible , strengthening local business associations and making them more effective advocates for policy reform is another means. Leveraging donor contribution against appropriate policy reforms, according to Rudel, is also effective.

c. SRI Research Study: Non-Traditional Export Expansion in the Central American Region

This 1987 study, prepared by SRI for the A.I.D. Bureau for Latin America and the Caribbean, examined the principal determinants underlying non-

traditional export performance and identified potential future opportunities in Belize, Costa Rica, Guatemala, Honduras, Panama, Dominican Republic and Jamaica. Most of the countries examined were in the process of changing from import substitution policy frameworks to ones supporting export promotion, primarily in reaction to a continual series of economic and political shocks buffeting the region. Many of these shocks were externally imposed on the countries, but other major problems were of a local origin, such as excessive government spending, inappropriate economic policies, and overvalued exchange rates. The region's economic prospects, according to SRI, hinged on the development and growth of non-traditional exports, assuming they could meet the challenges imposed by the policy environment, i.e., stabilization of structural economic imbalances, dismantling of policy-induced impediments to exporting, and removal of US trade barriers and other restrictions.

The SRI team developed a model to examine the determinants of successful non-traditional exports based on conditions affecting export expansion, i.e., Is there a market for the product; Can the target countries produce it, and; Can the target countries compete with alternative sources of supply? The macro-economic determinants were identified as resource endowments, growth factors, stability factors, and exchange rates. Micro-economic determinants were firm specific factors, such as utilities costs, factory lease expenses, transportation costs, quality control, capability of management, and ability to take risks. Other issues included policy and promotional determinants (incentives, longevity of the incentives), and regional and national political stability. The results of the SRI Model (I and II) reconfirmed the assertion that access to foreign markets, the capacity to produce the goods involved, and the ability to produce these goods competitively, are the critical determinants of non-traditional export performance, as they are for all business development activities.

They concluded that although the pursuit of export promotion is primarily the responsibility of the government and business communities of each country, donor assistance could enhance the pace and quality of the formulation, adoption and implementation of country-wide export promotion strategies.

d. Saunders & Company: Survey of East Asian Export Promotion Programs and Recommendations for Improving the Export Promotion Programs of the Government of Indonesia.

This 1988 study examined and compared export promotion programs in Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. It's main conclusion is that export promotion programs alone do not improve a country's export performance, nor are they the leading factor in the development of export industries. The authors contended that the single most important factor in expanding exports was the existence of a strong and highly competitive manufacturing sector. Furthermore, "before you start promoting exports,

you've got to have something to sell that the market wants, in the form the market wants its." These two factors--strong manufacturing and product base, coupled with a favorable national economic climate with policies designed to promote investment in manufacturing, were concluded to be the keys to export success.

The study found that in several countries, especially Thailand, the improved export performance was a follow-on result of foreign direct investment. In others, like Korea, it was the result of government-directed domestic involvement in manufacturing sectors, supplemented by heavy international borrowing plus technology transfer through joint ventures with Japanese and other foreign companies. In others, like Taiwan, export growth was attributable to the existence of an active and highly competitive manufacturing base with a high number of knowledgeable individual exporters. They did find in general that nations with a well-established industrial manufacturing base tended to spend more on export promotion as a necessity in order to cope with the growing variety of competitive export products and the broader marketplace in which they were being offered.

The study did find that export promotion programs and activities can play an important role in fostering the development of a manufacturing and product base, primarily by facilitating the flow of marketing information and buyer opportunities to the manufacturing base and in helping small and medium size new-to-market exporters reach potential markets. These functions can be performed by private sector organizations, i.e, industry trade associations and chambers of commerce, independent of, or in coordination with, an official government entity. However, in most developing countries, the public sector has provided this service, partially to guarantee the widest dispersion of program benefits. Eventually, it is presumed that the private sector will take over some of the functions of a national export promotion program, particularly in those areas where it has a self-interest to promote sectoral or company exports. This will allow the national export promotion agency to concentrate their activities on new-to-market companies.

In regard to A.I.D. programs, the study urges USA.I.D. to concentrate on supporting private sector entities versus public sector, while at the same time expanding the information gathering and dissemination capability of official promotion agencies, and providing training opportunities. The authors argue that these two approaches can have the net effect of "weaning both the private sector and the government away from targeting and other market-distorting practices and over time promote the responsiveness of export product mix to world demand and not government fiat."

5. Lessons Learned From Example A.I.D. Programs

In reviewing the internal A.I.D. experience as well as information provided from other ongoing A.I.D. experiments reported earlier in this

study, a number of lessons can be drawn that should be considered in future TI efforts. These lessons can be loosely divided into those that have to do with strategy and program design, and those that deal with program implementation or operations. Other lessons regarding A.I.D.'s evaluation and measurement of TI programs are included.

a. Lessons Learned about TI Strategies

Attracting foreign investment to countries with unattractive business environments is nearly impossible, at least cost-effectively.

Some of the programs perceived as the greatest failures (i.e. PDAP) as well as those most often described as successful (i.e. CINDE) were programs that were aimed at attracting foreign investment. The most critical determinant of success or failure in investment promotion programs oriented toward foreign firms was the overall investment climate. Positive results were generated in those countries that had a significant local market, supportive policies and adequate infrastructure and capacity, or export processing zones. Without these, investment attraction programs are not likely to succeed unless they a) offer risk-reducing resources (capital, loans, equipment, travel or feasibility grants, etc.); b) offer services to those businesses already linked to local firms through sourcing or sub-contracts or; c) emphasize new forms of investment (joint and co-ventures) along with the technical assistance needed to complete such deals.

Conducting a thorough analysis of the economic and financial framework of a recipient region or country prior to initiating TI activities, and monitoring key economic and financial variables during the implementation of the program, will increase the chance of successful results.

Given that the feasibility, development and impact of private sector business ventures are directly influenced by the policy environment and financial market conditions in a host country or region, the program design stage should include a thorough assessment of the environment and market deficiencies which a program must address and attempt to correct. To ensure a program is market driven, this assessment should involve consultations with the target market and investors, especially since certain industrial sectors have very different needs and requirements than others. Taking into consideration this overall picture will result in a more comprehensive strategy. Furthermore, monitoring the conditions of the marketplace and the policy environment during implementation will ensure a greater probability of meeting the goals and objectives of the program.

Export promotion and other programs oriented to the domestic firm must consider the business capacity of clients in developing an appropriate service mix.

Numerous programs failed because they offered services such as export credit or market linkage to clients who could not utilize them because of inadequate capacity (which includes the physical facilities and equipment as well as the human resources required to produce exports). The extreme difficulty of entering the international market, particularly with a new product, has been repeatedly underestimated. Export programs oriented to local firms must offer product development assistance and other services to assist exporters through every stage of the process in order to be effective. Alternatively, finding joint or co-venture partners for local firms, along with follow-up services, can lead to increased exports and technology transfer. This is necessarily a long-term process, and program benchmarks should be developed accordingly.

Export and investment promotion programs alone do not improve a country's performance in either activity.

As clearly stated in the Saunder's study and supported by many of the cases reviewed, TI programs are only one (some say marginal) factor in creating a viable export industry and increasing investment. Instead, efforts to develop a strong and competitive productive sector (manufacturing or services), and products meeting an identified market need, is more often the key force behind export growth and investment attraction. Furthermore, investors rarely cite promotion as the key factor influencing the investment decision. Instead, timeliness of the incentive approvals, availability of industrial estates, attitudes of government officials, and industry-specific resources are factors more commonly mentioned as reasons for investing in one country versus another. In addition, industry sectors have different investment strategies, i.e. the apparel industry prefers contract manufacturing whereas the electronics industry prefers direct investment. TI programs alone cannot create these conditions, which cautions against inflated expectations for these programs. Once a firm has made a decision to invest or a product is export-ready, however, promotion offices can provide follow-up assistance and support services critical to the completion of the process.

The development of export processing zones (EPZs) is often an effective though not sufficient method of attracting investment and increasing exports, as well as affecting overall policy.

Numerous evaluations point to export processing zones as an excellent way to attract investment, increase exports, and encourage technology transfer. Furthermore, the demonstration effect of EPZs can inspire governments to make critical policy changes and lead to more market-oriented policies. As one consultant put it, EPZs give governments international experience by bringing the global market within their borders. Others have cautioned, however, that investment in EPZs is very mobile, that foreign exchange earnings rarely remain within the country, and furthermore, that EPZs are usually entirely foreign-owned so contribute little to technology transfer. Given these concerns, dependence on EPZs as the sole vehicles for

export and investment promotion is inadvisable, at least as anything more than a first step toward a more market-oriented, globally interactive economy.

b. Lessons Learned about Implementing TI Programs

The service mix of TI programs should be developed from the perspective of the client being assisted.

Most often, the best way to determine which business services are required is to help the private sector to provide them, i.e. applying the "market" test. (If fees can be charged, then the "market" demands the services. On the other hand, governments should be careful not to support services already provided by the private sector.) In many cases, this can be done by subsidizing commercial intermediaries such as the Indonesian program did or through cost-sharing with intermediaries, as was done in the MTAP field trials. (A distinction is being made here between those consultants which are contracted to perform promotion tasks such as investor outreach or trade show assistance and those firms which make profits off the transaction itself by seeking an equity stake or ongoing fees-for-service in a particular program. Contractors do not provide a "market test," because they are performing to program specifications.) Even when non-profit or government institutions are providing services, care should be taken to be responsive to the client. Examples of activities that are not business-oriented include:

- feasibility and sector studies or project profiles that are not investor led, UNLESS followed by aggressive marketing.
- Attendance at trade shows and other promotional events, when not market-specific or promoting industry-specific investment (with relevant samples/promotional materials).

Once the service mix has been determined, select a service provider (or providers) that has the credibility, capability and commitment to deliver them.

With regard to trade and investment promotion, it is clear that there is a need to have an aggressive marketing outreach capability, as well as knowledge and experience in providing technical assistance. To develop client (i.e. private sector) participation, the provider needs to have a degree of credibility and staff must be able to work with a variety of industries. In most cases, this requires access to different kinds of technical expertise that can be provided by a variety of consulting and volunteer networks. Thus, in some instances, services are most appropriately delivered by a number of intermediaries; in others, particularly in smaller countries or relatively undeveloped industries, one coordinating organization may make the most sense. Because of the need to be credible with private enterprise, services are usually better provided by the private versus public sector.

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The public and private sectors each have a clear role to play in TI activities; indeed coordination between sectors enhances the overall impact.

Experience shows that public agencies (and many A.I.D.-supported private institutions which resemble public organizations) have a difficult time gaining credibility and productive linkages with enterprises. Public agencies do have an important role to play in gathering and disseminating information, making policy changes, improving infrastructure and handling general public relations. The private sector, on the other hand, is more effective in the delivery of business services in support of TI and in facilitating the actual completion of a business transaction. These services may have little impact, however, without complementary support from the government. Similarly, the public sector needs input from the private sector to identify priority areas for change. Thus, efforts to encourage private/public sector cooperation and dialogue, such as strengthening business associations, cooperatives and research institutions as a lobbying force for policy change, will improve the likelihood of effectively modifying the business climate.

Implementing programs through already existing, credible institutions is a more effective way to achieve results in the near-term; building or enhancing new institutions is not an efficient way to deliver TI services, but may be a desired goal in and of itself.

A number of programs such as FUSADES, CINDE, PDAP, and the Business Development Center of Sri Lanka suffered serious delays associated with institution building. In many cases, the original design of the organization and its initial staffing had to be changed and modified significantly before the program could focus clearly on its goals and objectives. Often, the initial management team had difficulty in focusing either on attracting investment or promoting exports and in determining to what degree technical assistance was required to improve local capacity as part of the overall program. Also, evaluations from credit programs showed again and again that already-established banking institutions, respected for sound management and profitability, were much more effective in influencing long-term practices. In some countries, however, capable service providers may be non-existent and it is determined that creating a new organization will assist the long-term development of the private sector. The difficulty of building organizations, however, *should not be underestimated*. Furthermore, it must be remembered that the delivery of credible TI services, while simultaneously building basic organizational structures, is very difficult and expectations should be adjusted accordingly.

Networks of business contacts and service providers take considerable time, money and effort to build.

As was hypothesized by the MTAP program, most programs had great difficulty utilizing or building international networks. In some cases, promised networks did not materialize; in others, the cost of international networking proved to be prohibitive. More and more programs are evolving toward a greater reliance on nationals to lead and direct promotional activities and are simultaneously moving away from long-term associations with large consulting firms. Indeed, overseas offices manned by host-country nationals appear to be well-suited to investment attraction programs although many still find the costs to be too great. Increasingly, coordinating organizations are looking for lower-cost options and are becoming more flexible in utilizing consultants, trade specialists, private volunteer organizations and technical expertise for part-time networking support.

Almost all the experience shows that those programs that have highly specific targets are more successful in achieving their goals.

In some cases, this meant tailoring promotion to specific sectors that matched the country's or region's comparative advantage or capacity, as was done by the Investment Promotion Council in the Dominican Republic. In this case, the program began initially with only two sectors and only expanded to additional sectors after the initial institution-building and systems development had been completed. The selection of sectors, however, should be market driven, and not done simply on the basis of government or national goals. Targeting also refers to the need to be clear on the type of transaction being encouraged as well as the specific firm which is likely to be or is already interested in the services provided. Targeting helps both to focus promotion efforts and to build early expertise and credibility in key industry areas.

The need for flexibility and the labor-intensiveness of TI Programs place new demands on A.I.D. Administration.

TI programs are generally long-term interventions (3-5 years at a minimum), while the political and bureaucratic structures at A.I.D. create pressure for short-term results. Also, because TI programs need to remain flexible, they require close monitoring and considerable A.I.D. staff-time, resources that are not always available in USA.I.D. missions. These programs must also be market-responsive and able to change with the conditions in the host country, again not consistent with the current long program development process and normal evaluation method. Also, procurement requirements and contract administration rules often inhibit program ability to be responsive to the private sector. These demands on A.I.D.'s present project development and management system for flexibility and intensive, long-term staff involvement suggest that perhaps alternative systems should be developed.

Self-financing of TI programs is generally not a realistic goal in the short term, although cost recovery should be encouraged in most cases.

Long-term self-financing of programs continues to be a major obstacle for most of the new institutions and trade and investment programs. Some programs are supported by host-country governments and thus not concerned about long-term financing, but many LDC governments are not committed to TI interventions or look to the donor agencies to support them. As initial funds are expended, however, private sector institutions supported by international organizations or foreign A.I.D. activities are increasingly concerned with developing a service mix that can help them build credibility with clients and at the same time generate effective income. Pressure on A.I.D.-supported institutions to become self-sustaining, particularly in cases where the local business community does not yet value the services enough to pay for them, has diverted attention from achieving the goals of the program to finding other (donor-agency) sources of support. Moreover, A.I.D.-funding requirements create administrative burdens that impede "bottom-line" orientations. Until the local business environment is sufficiently well-developed to support a variety of value-added services and the TI organization has had sufficient time to build credible expertise and a track record, self-sustainability is not a realistic expectation unless the activities are supported by a for-profit subsidiary, such as a trading company or real estate firm.

This does not mean, however, that efforts to recover costs should be ignored. Indeed, cost recovery and appropriate fee generation has been increasingly emphasized by A.I.D., and with good reason. Fee generation reflects an interest in long-term sustainability and the belief that an emphasis on fees will force promoters to provide responsive services which will, in turn, improve their credibility. Charging fees helps to build the basis for future self-financing by guiding TI service providers as to what the market considers to be value-added services. For instance, programs providing technical assistance to local firms to improve their ability to exploit international trade opportunities, to seek partners or to provide deal-structuring services, have shown more potential for fee-collection and self-sustainability than those programs focusing solely on attracting foreign investment and utilizing foreign promotion offices. While the maintenance of offices overseas is often times effective in attracting investment, foreign firms are not accustomed to paying investment promotion offices for the information and facilitation services they receive. Similarly, some industries may require considerable hands-on technical assistance and general export education (i.e. requiring government or donor-agency support), while other industries can support a number of more specialized services, provided by TI organizations or small intermediaries.

c. Lessons Learned about Evaluating TI Programs

Goals for TI programs should be flexible enough to change with the overall business environment and should reflect the considerable time needed to show expected results.

One of the most difficult issues for A.I.D. is developing appropriate expectations and measures of success. Almost every one agrees that TI programs take a much longer time to develop results than originally thought. The development of a single program (from idea to start-up) often requires 1 to 3 years. A trade and investment program, then, may require as long as 3-5 years to progress from planning stage to implementation and payoff. This may be particularly true in an export development program, where considerable effort is put in market research, product development, and manufacturing processes. Naturally, the economic and policy environment, not to mention the international marketplace, can change significantly during that time period. TI programs must be able to respond to those changes without being penalized for not pursuing original goals.

"Results-oriented" goals and corresponding indicators of program effectiveness should be used for most export and investment promotion programs, but some interventions aimed at capacity-building or policy changes require alternative benchmarks.

Despite considerable attention and concern, no commonly-accepted measure for success has been developed. Cost per job created is the most commonly used measure of program success, but this is not always relevant for more general private sector development aims. We endorse the call of numerous evaluators for more "results-oriented" goals such as investments made or export transaction concluded rather than "process-oriented" goals such as investment promotion programs. At the same time, such bottom line measures do not capture results of other important but hard to assess tasks such as organizational development, policy changes, business capacity-building, attitudinal changes and entrepreneurial development. Micro-level evaluations such as surveying clients for their opinions regarding services delivered as well as macro-level indicators may be more appropriate, although tracing direct causality of the latter may not be possible.

Accurate measurement of the cost effectiveness of trade and investment promotion is difficult if not impossible.

The direct benefits of TI activities--employment, income, tax and foreign exchange earnings--are measurable, yet it is very difficult to determine the amount, both on the macro- and micro-level, which can be directly attributed to promotion efforts. The secondary benefits of TI activities, such as technology and management skills transferred, policy changes, and institutional development, are important contributions of TI promotion, but again are very difficult to quantify.

6. Summary

At its most fundamental level, the success of a TI program will depend on whether it has a clear, strategic focus and plan, a program design and service mix consistent with the particular circumstances of the particular country or region, and appropriate implementation by capable service providers.

In the following chapter, we will review the MTAP field trial and case study experiences, drawing further conclusions regarding factors that impact program success. Finally, we will try to combine the theory and experience previously presented to offer guidelines for the design of TI strategies and programs.

C. THE EXPERIENCE OF THE MARKET AND TECHNOLOGY ACCESS PROJECT (MTAP)

1. Introduction

In mid-1977, a small group of technicians located in the diverse offices of Rural Development, Urban Development and Agriculture within the S&T Bureau of A.I.D. realized they had coincidentally and simultaneously arrived at the same conclusion: large, public sector development projects were not effective in reaching the masses of rural and urban unemployed in LDCs, did nothing for the economic well-being of the nation, and did not address the problem of social inequities. They further reasoned that the only way that living standards would be improved was by providing jobs which utilized the indigenous small and medium sized private sector enterprise.

Based on field experience, a program was needed by the USAID missions that would provide local small and medium sized enterprises (SMSE) with appropriate technology, that would be labor intensive (i.e. maximize job creation) but still be economically viable, that would also provide a product that met a market demand both domestically and for export, and be able to accomplish all of this on a sustained and cost-effective basis.

The LDCs, meanwhile, were looking to trade programs as a way to help generate foreign exchange. These programs were usually built around the country's comparative advantage in either products or cheap labor. Virtually all LDC governments had some kind of foreign investment and trade promotion program, and while the track record of these government sponsored programs had not been justified, they were being supported by A.I.D. Total funding ranged between $50-100 million. Relatively little had been accomplished on a cost effectiveness basis.

Meanwhile, research was showing that the type of inputs needed and desired by most LDC enterprises, i.e., market information, technology, management and systems expertise, could be provided by small and medium sized US firms. Furthermore, there was definite interest being expressed among both US and LDC firms. From the US firm's point of view, collaborating with LDC firms represented new sources of lower cost labor, access to new markets, opportunities to license technology, and other revenue enhancement and cost reduction opportunities. For the LDC firm, on the other hand, collaboration with US firms would provide relatively low cost access to new technologies and markets, and provide an alternative means of attracting foreign direct investment without the often associated negative political and economic consequences. The obstacle, however, proved to be one of costs for both the US and LDC firms, particularly in view of the lack of experience in putting together these types of relationships.

The solution appeared to be one or more intermediary organizations that could bridge the experience gap. Thus, the idea for MTAP was conceived

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and, in 1983, it was approved as an A.I.D. project. The following section will define MTAP, its structure and approach, and report on the outcome of the field trials. This will be followed by a review of the experience of other intermediaries and conclude with a summary group of conclusions and lessons learned about intermediaries.

2. The Market and Technology Access Project Definition

MTAP is defined as a research and demonstration project of the S&T Bureau of A.I.D., whose purpose is to develop new approaches for promoting collaborative business relationships and ventures between US and LDC business enterprises that result in technology transfer, improved market access, and increased productivity and employment, primarily by focusing on the use of intermediary organizations. The research part of the project was designed to test a number of hypotheses related to the manner by which such collaborative relationships and ventures could be developed, the role of intermediaries, and the role of A.I.D. The demonstration part of the project was designed to develop cost-effective, viable intermediary organizations and operating methods by partially funding a number of such organizations to initiate and maintain operations in selected LDCs according to certain guidelines and targets set by A.I.D. Finally, the project was designed to establish cost and performance guidelines for different methods of promoting firm-level technology transfers and market development.

The initial research led to the following research hypotheses:

a. Small and medium sized US firms possess technologies and market access that can be used by LDC firms to help them grow and increase productivity.

b. Collaborative ventures with US SMSEs are an effective means of improving the access of LDC firms to new technologies and markets.

c. Opportunities exist in some developing countries for mutually profitable collaboration between US SMSEs and local firms.

d. A sizeable number of US SMSEs and LDC firms are interested in developing these opportunities.

e. Effective business intermediary organizations can increase the effectiveness of collaborative ventures for both US SMSEs and LDC firms.

f. Starting from existing techniques, business intermediaries can develop approaches for generating an increased level of business collaboration between US SMSEs and LDC firms on a commercially viable, self sustaining basis. This would include using their own

networks as well as linking up with other organizations, providing additional networks and project opportunities.

g. A.I.D. support (by offering to share costs) would stimulate the development of effective business intermediaries, or allow existing ones to adjust their businesses to serve clients in LDCs pursuing collaborative ventures which are consistent with A.I.D. and country priorities.

h. Activities supported under this project will either benefit or produce no long-term harmful effects for US business and workers.

3. MTAP Structure

MTAP was structured with two components: a research and evaluation component, and a field trial component. The purpose of the research component was to conduct the initial project research leading to the development of the research hypotheses and to placing into operation the field trial component. This included reviewing and analyzing other programs to promote collaborative ventures, seeking answers to the following questions:

a. What are the needs of smaller businesses in developed and developing countries which motivate them to seek the services of intermediaries?

b. What are the characteristics of successful intermediaries?

c. What types of organizations or individuals act as intermediaries in developed and developing countries and what are their characteristics and methods of operation?

d. How do they get paid for their services?

e What types of projects or collaborative ventures are currently being undertaken as a result of successful intermediaries?

f. What are the implications for the design of a program that provides incentives to intermediaries to promote collaborative ventures between small enterprises in developed and developing countries?

Answering these questions led to an extensive research effort culminating in the preparation of ten case studies on different types of intermediaries, representing various operating characteristics and structures. The results of this effort were presented in the 1986 report entitled Intermediaries and Brokers in International Business Venture Developments (Wallender and Plionis). An up-date of the case studies is included later in this chapter. Complementary to this, an assessment of the relative effectiveness of a wide

variety of TI programs was undertaken, which was reported in the first two chapters of Part II.

The purpose of the evaluation component was to evaluate the field trials leading to findings and recommendations about the role of intermediary organizations in collaborative venture development and the role of A.I.D.

The purpose of the field trial component was to field-test the research hypotheses and demonstrate the role of intermediary organizations in collaborative venture development. The following were key features of the field trial component.

(1) Identification and Contracting of Field Trial Intermediaries Through A.I.D.'s Normal Competitive Bidding Process

Three intermediary organizations were selected through A.I.D.'s normal competitive bidding process, one each for field trials in Latin America, the Near East and Asia. The specifications for such intermediaries were:

- They should have substantial experience as business intermediaries (i.e. they should be "in the business"), with established networks and trading experience.
- They should have ample knowledge of the geographic region in which they were to operate.
- They should either have or be prepared to establish a presence in the countries selected for field trials
- They should be prepared to work within the terms and conditions of the project and guidelines set by A.I.D.

In line with initial research findings, contractors were not required to have any particular industry expertise. To the extent that such expertise was required, the contractor was supposed to obtain it through the use of outside consultants. However, the presumption was that the Developed Country (DC) client in a collaborative venture would in most cases provide this expertise.

(2) Cost-Sharing, Profit-Making

Field trial contracts were funded to cover a predetermined level of direct labor costs, travel and communications cost (up to a certain level) as well as costs for local intermediaries in the host countries and certain administrative expenditures. The contractors were to contribute all other costs of the operations.

On the other hand, contractors were allowed to negotiate for and keep whatever fees or other remunerations they could from their clients, whether local or foreign. Fees could be generated through a variety of mechanisms in whatever form the contractor and his clients found suitable through brokering fees, finder's fees, commissions, trading profits, consulting fees, agent fees,etc.

This feature is a rather unique one for an A.I.D. contract. It was based on the assumption that profit-making intermediaries would have a unique credibility and motivation to push deals further and more efficiently to closing than non-profit intermediaries. It was also assumed that profit oriented intermediaries would be attracted to the most immediate and profitable venture opportunities and thus be more sensitive to market conditions.

(3) Contract Funding by A.I.D.

Contract funding by A.I.D. was divided between A.I.D./Washington (S&T Bureau) and selected missions (or the regional bureau in one case). The central funds provided by S&T formed the basis for the contracts with mission funds provided in varying schedules. In Latin America, mission funds were provided by the Costa Rica mission in approximately annual installments based upon presentation by the contractor of a satisfactory operational plan. In the Near East the entire non-central funding was provided upon contract signing for Turkey (by the regional bureau) and Yemen (by the mission); funding by the Tunisian mission was substantially delayed because of approval requirements by the Tunisian Government.

(4) Contract Term

Contracts for field trials were made for 3 to 3 1/2 years based on the assumption that the contractors would become profitable and self-sustaining by the third year of their contract. Original plans were for the contracts to last 4 years but delays in contractor procurement shortened the period of performance. All contracts expired in 1988.

(5) Contractor Functions

The contractors were directed to carry out the following activities:

a. The identification of opportunities for collaborative ventures.

b. Set up search, identification and screening mechanisms to identify SMSEs interested in specific opportunities for collaboration.

c. Brokering or matchmaking services to bring interested SMSEs and entrepreneurs into contract with each other. The specific services to be provided included:

- Business planning for trade and investment
- Partner identification
- Product sourcing (for DC clients)
- Joint venture structuring
- Marketing
- Product promotion
- Trade facilitation
- Investment advice
- Training
- Licensing

and generally any service which would be necessary to identify and consummate a collaborative venture. To the extent that other specialized services were required, i.e., legal advice, engineering expertise, accounting and tax advice, the contractor was supposed to utilize the sources of such advice available through one of the clients or procure such services directly. No particular emphasis was placed on contractor technical assistance services to LDC partners to build their capacity for doing business with DC partners, for developing exportable products or for absorbing foreign investment. It was presumed that there was such capacity in each of the largest countries to make for a successful project.

(6) Conformance to Development Priorities

In providing intermediation services, the contractor was to be mindful of the development priorities of the host country and the A.I.D. mission. Typically this meant that the contractor would give priority to the development of ventures involving high labor intensity (usually manufacturing), technology transfer and market access to the LDC enterprise. In line with initial research findings that long-lasting trade relationships yielded commensurate advantages with investment and had a much quicker payoff, trade-oriented ventures were encouraged.

(7) Requirement to Disclose Information

Contractors were required to pledge that they would willingly disclose adequate information as required by the contractor for an objective evaluation of each field trial. Such information was to include cost and financial performance data, venture-specific data and data about the clients.

(8) Preference for SMSE clients

In line with the research finding that intermediary services would be in highest demand (and have the highest utility) by SMSEs, contractors were initially required to focus their efforts on these clients. This requirement was subsequently relaxed following complaints from certain contractors that it was too restrictive.

(9) Expectations

Field trial contractors were expected to produce the following results during the period of their contracts:

- 20-30 ventures per country
- 500 jobs per country
- A certain level of technology transfer (qualitative)
- A certain level of foreign exchange generation (varying by country)
- A certain level of local value added (varying by country)
- A positive impact on the intermediary's profitability and that of its clients in the US and in the host country.

4. Description of the Contractors and Their Approach

a. Latin America

The contractor conducting the field trial in Latin America was International Commercial Services (ICS), based initially in Newport Beach, California. ICS was not the originally selected contractor, however. The contractor selected through the competitive bidding process was Boles World Trade. Boles initially obtained funding from the mission in Haiti and later in Costa Rica. However, soon after it was awarded the contract, Boles developed several financial difficulties complicated by takeover fights. Boles was awarded the contract in large measure because of the trading capabilities of its affiliate Spicer. However, access to most of the Spicer operations was lost early on due to the complications indicated above. Within months from contract award, Boles became involved in bankruptcy and reorganization proceedings.

Perhaps because of the preoccupation of the principals with the situation outlined above, support of the Haiti operation failed to materialize, leading to mission complaints. Eventually, the Haiti mission discontinued its funding of Boles but continued funding the salary of the resident consultant placed by Boles in Port-au-Prince, directly and outside the MTAP framework. Boles encountered substantial difficulty in launching an operation in Costa Rica, but ultimately (and at the suggestion of the mission) subcontracted with ICS which had already been operating in Costa Rica with some promise. When Boles finally exhausted its initially

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- The type of services usually provided were associated with qualifying markets, designing the basic transactions (license, export, joint venture, etc.) and assembling the partners and resources for the venture. This planning and linkage type of support appears quite different from the major trade and investment institutions currently existing in most countries, which focus more on providing general information, education, and linkage than on specific transaction technical assistance and management.

- As expected the most critical determinants of success other than the characteristics of the local business capacity was the ability of the intermediary to operate networks in both the developed and developing countries. Those firms with more established networks had more activity and better results although they were also working in relatively desirable markets. InterMatrix, for example, had to develop networks in Thailand and India, delaying the process of project identification. Its strong links with large multinational firms in the US and Europe provided critical to eventually getting successful transactions started. In Tunisia and Yemen, the lack of networks meant that few opportunities were identified for new types of trade and investment linkages with the US, at least not any that were practical.

- In terms of project development and marketing, most of the firms started on a broad front trying to develop and manage upwards of forty projects at a time. After the first year, most of the contractors narrowed their focus significantly (between 10 and 15 active projects) and tended to work within the capacity of the local country, rather than pursuing a broad multi-industrial search activity in the US It was clear that many interested clients could be found in the US, but there was limited capacity from which to find partners in most of the developing countries.

- Intermediaries can play a significant role in helping individual firms develop specific ideas, access new markets, locate partner and clients, and actually manage the start-up of the new venture, though in some circumstances cost-sharing subsidies may be required.

Intermediation or a related activity is essential for business promotion and expansion between developing and developed countries. The complexities and difficulties of intermediation are evident in the review of trade and investment programs such as MTAP. Clients are not prepared to pay for the services provided by private intermediaries. As a result, MTAP has not only shown the need for intermediation, but also that effective intermediation services will have to be supported initially to ensure adequate utilization in trade and investment initiatives.

The experience since the initial case examples in 1985 has not been that encouraging. As demonstrated in the field trials, the contractors tried to develop trading-type transactions, but very few of these activities were successful. A few of the firms generated some client income and successful venture activities through traditional consulting approaches and strategies that were aimed at establishing completely new business activities, i.e., a new air transport program for Costa Rica and a public relations firm in Turkey, within which the contractors would play a long term principal role.

The intermediary clearly can play an important role in forming new ventures in developed and developing countries. The MTAP contractors did strive to assemble new types of transactions (joint and co-venture) between smaller and medium sized firms. Their moderate success speaks more to the lack of attractive characteristics of the markets and the reluctance of entrepreneurs to embark on unknown arrangements than to the need for or capability of the intermediaries involved. In fact, the intermediary activity of MTAP, as stated before, appears as effective as almost all other trade and investment strategies, except those helping to attract foreign firms individually into well organized trade zones that are geographically accessible and operating within politically stable countries like Costa Rica and the Dominican Republic.

A review of A.I.D. experience in trade and investment demonstrates how other programs have encountered the difficulty of stimulating new ventures with poorly organized firms in developing countries, that lack effective supporting structures or policies. In fact the intermediary can often be the main vehicle for helping the firm overcome the confusion and restrictions characteristic of the developing country business environment. The MTAP contractors, unlike some of the other moderately successful A.I.D. efforts in this area, focused on working with local firms instead of dealing only with foreign developed country investors. This makes the MTAP approach somewhat more politically attractive due to its involvement with local firms.

Regarding the development of trade and investment programs, the MTAP contractors experience and case studies reflect the conclusions surfacing in other evaluations and studies.

- There is a need for intermediary services. The intermediaries found many markets and potential partners for developing country firms, but usually such firms lacked the operating capacity or resources to exploit the opportunity. Only the larger markets were found to profitably support specialized venture promotion and follow-up services.

- The intermediaries found that they could develop unique and complimentary roles with government or private institutions trying to foment trade and investment linkages.

obligated funds and ceased operations, ICS persuaded the Costa Rica mission to continue funding their efforts. ICS thus inherited the Costa Rica field trial with funding solely by the mission but within the MTAP requirements and evaluation framework.

With its president's substantial personal business relationships in Costa Rica as its major strength and an injection of fresh capital, ICS entered MTAP with a high degree of confidence and with a respectable portfolio of ventures. Several of these ventures involved sourcing of labor intensive manufactured products from Costa Rica on behalf of US clients. Major elements of ICS's initial approach to venture development in Costa Rica included:

- Intensive recruitment efforts in the US of prospective clients who could benefit from manufacturing or production-sharing in Costa Rica.
- Frequent business missions organized on a break-even or slight loss basis to familiarize prospective US clients with Costa Rica's business environment and enterprises.
- A relatively large and active headquarters office in Newport Beach.
- The establishment of an office in San Jose, Costa Rica.
- Establishment of satellite offices in Washington and Miami.
- A belief that success would come from funnelling as many US clients as possible through the process in the hope that this would maximize the number of ventures ultimately consummated.
- A philosophy of small up-front fees to avoid discouraging prospective clients, but enough to develop commitments.
- A philosophy of active involvement in various stages of the ventures as brokers, traders or, on occasion, even equity partners in hopes of maximizing the opportunities for generating income (a precept emphasized by the early MTAP research).
- No salaries for equity partners.

ICS clearly expected to quickly consummate a number of sizeable deals to allow it to finance other deals and achieve a respectable growth. A year later progress on the major deals had slowed substantially due to a number of diverse factors including:

- Lack of capacity by the local partners to meet the requirements of the US market.

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- Lack of commitment by US partners to follow through with a lengthy venture development process.

- Inability of certain US prospective partners who lacked substantial infrastructure or market access to develop credibility with local partners and quickly develop ventures.

- Lack of understanding on the part of the clients of how to structure a program to fit differing objectives, organizational structures, operating characteristics, pay back expectations, and related issues having effect on a program's success.

- Various mishaps, such as death, illness or financial problems of several clients.

Despite these problems, ICS continued its efforts, gradually making changes in its approach:

- It discontinued the business missions to Costa Rica as not cost-effective.

- It started being more selective in the prospects it undertook to pursue, eliminating start-up US clients without market access.

- It moved more of its operations to Costa Rica (including the president and one of the vice presidents). It moved its headquarters to a more modest building and essentially phased out the satellite offices in an effort to reduce costs.

- It branched into a broad range of ventures to infuse short-term income into the operation, including making a promotional movie for Costa Rica, offering financial services and negotiating TV advertising slots.

- It diversified its operations away from the West Coast and into the Northeast where the president has long-standing business contacts.

- It expanded its operations beyond Costa Rica to cover other Central American countries, thus increasing the base of local enterprises and business opportunities with which it could work.

The current situation is that income from MTAP ventures has still been slow to materialize and the ventures are not yet profitable. The Company is stable, and its programs have resulted in three completed ventures. (See Appendix C for a full report on ICS's activities under this project).

b. Near East

The Near East field trials were conducted in Turkey, Tunisia and Yemen. Initially anticipated mission funding for field trials in Jordan and Morocco never materialized. Business Development and International Marketing (BDIM) was competitively selected to conduct the program in Turkey, with Georgetown Venture Trading (GVT) serving as subcontractor to conduct the program in Tunisia and Yemen.

BDIM is a joint venture between the US engineering firm Parsons Brinckerhoff and a Turkish businessman with substantial business interests in Turkey, mostly in the construction and engineering sector. As a result of these connections, BDIM started its field trials with established networks in Turkey and to a lesser extent in the US BDIM established an office in Washington with 3-4 staff people and access to a large number of predominantly engineering staff in Turkey. BDIM's operating philosophy is to take on ventures strictly on a success fee basis and does not accept up-front fee generating activities, preferring instead to take fees at the end or when their clients are also earning income. Because of the strong financial backing of the firm's major Turkish shareholder this strategy was possible for BDIM.

Following an extensive market analysis, BDIM launched a campaign to identify US companies which could exploit business opportunities in Turkey. It quickly developed a large portfolio of potential business ventures capitalizing on opportunities identified, to a large extent, by its business partners in Turkey. Many such venture opportunities were little more than a concept or idea, and some had little developmental value for the host country, deviating substantially from the MTAP guidelines. Many of the opportunities were long-term investment projects with very little hope of being completed within the period of MTAP funding. As time passed without any deals being completed, BDIM reduced its wide-ranging portfolio to a few large, long-term ventures concentrating in a few sectors, with one multi-million dollar housing construction deal dominating the firm's activities. Funding for BDIM ran out before any of these deals were completed, although the firm in 1989 reported that it had concluded 8 MTAP initiated ventures with major profitability success. BDIM continues to operate as an intermediary. (See Appendix A for a full accounting of BDIM's activities under this project.)

GVT's operation in Tunisia was based on its principal's prior experience there on other A.I.D. funded private sector projects. However, he lacked any substantial business contacts in the country and had difficulty establishing a permanent business presence there. Another major problem for the contractor was the fact that mission funding for this field trial was subject to Tunisian government approval. Initially, funding was controlled by the investment promotion agency which was naturally interested in a contractor promoting larger, investment-oriented ventures. Later, control of the funding passed to the Ministry of Planning which

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favored exports and had philosophical misgivings about supporting a project like MTAP. Though an initial tranche of funds was released after long delays, further funding was subsequently terminated. The contractor attempted to convince the Ministry to restore the remaining funds to no avail. Central funds were depleted and the relatively few ventures which were pursued did not yield any revenues.

The Tunisia field trial was characterized from the beginning by limited opportunities. In part, this was due to the initial investment-orientation of the ventures, coupled with relatively few advantages that the country could offer the US investor (further complicated by the French orientation and socialist philosophy of the country). The contractor was unable to develop ventures with European firms largely due to lack of familiarity with and distance from such firms.

The GVT operation in Yemen started out with certain relative advantages. Mission funding was in place from the beginning, and the principal operator had prior familiarity with the country and was able to spend long periods of time there. However, business opportunities of the kind MTAP was designed to promote were extremely rare, especially for US firms. The country has minimal infrastructure and a very underdeveloped private sector. A limited number of opportunities existed for importation of foreign technology and for investments related to health, infrastructure and agricultural projects. There was virtually no local manufacturing capability. For this reason, US business partners were extremely hard to come by. The GVT principal in the country developed a number of business contacts and links with a local intermediary, and managed to make several business referrals and to earn a modicum of consulting fees. He also organized the first ever business mission from Yemen to the US. However, the funds for this field trial were eventually depleted before any significant ventures could be realized. GVT has since ceased to operate as an independent intermediary.

c. Asia

The competitively selected field trial contractor for Asia was InterMatrix, a small, Connecticut-based, private sector consulting firm wishing to branch out into trading and business development activities. InterMatrix is affiliated with an international network of interlocking firms consulting primarily with large multinational companies on international business strategy. The firms have substantial experience in East Asia and Indonesia. The originally targeted MTAP countries in Asia were Thailand, Indonesia and the Philippines. However, mission funding in the Philippines never materialized and the contract with InterMatrix was signed for Thailand, with Indonesia possibly joining at a later stage. Indonesia was of particular interest to InterMatrix because of the firm's existing presence in the country. The firm did not have any prior experience in Thailand. Funding from the Indonesian mission never materialized to the consternation of InterMatrix.

InterMatrix had a number of start-up problems. It encountered great difficulties in establishing an effective organization in Thailand and had repeated problems with employee turnover and subcontractor relationships. These problems, coupled with the firm's inability to organize a trading operation (InterTrade) which was to be the centerpiece of the MTAP effort, contributed to the contractor's ineffectual and lackluster performance in the early stages of the project. InterMatrix was also unable to parlay its successful business development activities in East Asia to successes in Thailand. In addition, the contractor never quite felt comfortable dealing with smaller businesses in the US. Thus, it subsequently reverted to giving preference to larger investment-oriented ventures with multinational firms.

By 1988, InterMatrix had finally stabilized its personnel situation and had built a credible presence in Thailand with two full-time local consultants, under the part-time direction of a prominent Thai businessman. InterMatrix was able to generate some revenues, and continued its operation in Thailand after the expiration of A.I.D. funding. (For complete information on activities carried out, see Appendix B.)

InterMatrix recently received mission funding in India to promote technology transfer between US and Indian firms. It again had some start-up problems resulting in part from a dispute with a local subcontractor. The outlook for this operation cannot yet be determined.

5. Results of the MTAP Field Trials

a. Overall Results and Contractor Outputs

The MTAP program provided cost recovery support for intermediaries to develop new activities or expand existing services in 6 countries (Turkey, Thailand, India, Costa Rica, Yemen and Tunisia). The results of these pilot programs were mixed; only 13 completed ventures evolved with an indeterminate impact on labor generation and export earnings. Yet in 4 countries, the intermediaries had received adequate income to maintain their operations and continued to provide services after the cessation of the partial cost recovery support provided by MTAP.

The overall results of the field trials can be summarized as follows:

- Performance targets in terms of completed ventures were not realized.

- Establishing effective intermediaries who can continue supplying needed services without on-going support was realized in 4 of 6 test countries.

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- Partial cost recovery support for intermediaries can provide a developing country with an appropriate trade and investment service mechanism and can help strengthen other institutional initiatives.

In summary, the primary output results of the different contractor activities were as follows:

- BDIM in Turkey was very successful, with 8 completed ventures and major profitability success.

- InterMatrix in Thailand and India can point to only 2 new ventures, but has built a client base that is now generating enough income to justify their continuation in these new service markets for their company.

- ICS was already established in Costa Rica, but with the MTAP support was able to expand its program dramatically, unfortunately resulting in many difficulties for the firm. As of 1989 it was not profitable, but stable. ICS's programs are associated with 3 completed ventures.

- In Yemen and Tunisia the MTAP contractor was unable to produce any significant ventures and is not continuing as an independent intermediary.

b. Testing the Research Hypotheses

- Collaborative ventures between US SMSEs and LDC firms can be an effective tool for technology transfer and market access to the mutual benefit of both categories of firms (Research hypotheses a and b).

As mentioned in the previous section, at least two of the field trial contractors (BDIM and InterMatrix) were not able to work very effectively with US SMSEs. However, the evidence from the overall MTAP field trial component is that where US SMSEs were actually involved in collaborative ventures with an LDC firm, there was a higher likelihood that these would bear mutually beneficial results. US SMSEs seemed to be less concerned with the "riskiness" of an LDC than larger firms, and certainly were not encumbered by the global strategic concerns of the latter.

More important however, is the undoubted conclusion that whether or not US SMSEs were involved, business-to-business relations were an extremely powerful means of achieving technology transfer and market access. The vast majority of ventures developed by all intermediaries actually involved collaborative relationships of one kind or another. Those relationships seemed to be the most enduring, most likely to succeed, and most likely to have long-term developmental impacts as well as profit-generation potential for the intermediary. Intermediaries, to the extent that they

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pursued one-sided ventures, did so only as a means of opportunistic short-term profit generation.

- Some countries offer opportunities for mutual collaboration for US and LDC firms which many such firms would find attractive (research hypotheses c and d).

There are indeed a good number of business opportunities in some LDCs which could form the basis for collaboration between US and LDC firms to their mutual benefit. However, the key is the business environment and general economic conditions of the country. Even the best of intermediaries would be hard pressed to elicit much interest from US clients in a country with unfavorable business conditions or to find many qualified local partners in a country where the local private sector is depressed or underdeveloped.

The set of countries where MTAP field trials were conducted bears this out. There seemed to be no shortage of interest on the part of US firms for Turkey. On the other hand, there was little or no interest for Yemen and Tunisia. Thailand and Costa Rican were somewhere in the middle. From the viewpoint of local partners, Yemen and Tunisia had little to offer and the ability of Costa Rica venture partners to take advantage of opportunities for collaboration proved to be severely restricted. For similar reasons, the small size of some of the host countries and the requirement that intermediaries be restricted to those countries (by virtue of mission funding) proved to be an impediment in developing viable intermediary operations.

- Intermediaries are an effective means of developing collaborative business ventures between US and LDC firms and can be a viable and self-sustainable alternative to other trade and investment promotion mechanisms (research hypotheses f and g).

On the basis of the evidence at hand, one would have to say that intermediaries are at least as effective as any other mechanism in bringing US and LDC business partners together and exporting them to a range of business opportunities for mutually beneficial collaboration. All intermediaries passed this performance test. They certainly reached out and initiated a large number of potential collaborative ventures. The ultimate success of such initiatives is difficult to assess at this point and may never be accurately known. This is so for a number of reasons, two in particular:

(1) The Time Dimension: The time allowed for field trials proved to be very limited. When the MTAP project was designed, experience with trade and investment promotion programs was very limited, and no clear determination regarding appropriate program duration had been made. It was thought that 3 to 4 years would be a sufficient time to bring ventures to fruition as well as for the intermediary to become

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profitable and self sustaining. Experience with other TI programs now has shown that it takes much longer to launch a successful TI program in most LDCs. MTAP certainly corroborates that experience. Even the simplest of ventures has often taken longer than a year to bring off. If one adds initial set up and search time, it is not surprising that so few ventures came to fruition. However, several of the ventures initiated by the intermediaries have come to successful conclusion since MTAP funding ceased.

(2) The Exposure Factor: Even in those cases where a venture seemingly failed to materialize, one could expect that a certain level of benefit was achieved. Through direct contacts or through a variety of seminars, business missions, etc. many US and LDC firms have been brought together. A large number of firms have in this way been exposed to an idea, a country or another firm which they might otherwise never have been. This kind of exposure is like a seed that, given the right conditions, will sprout and bear fruit, perhaps in another place at another time. It is obviously very difficult to ascertain the extent to which this will happen but it undoubtedly will. This is why one should not only count the seemingly successful ventures but also the number of opportunities that were generated.

In light of these two and other factors, one must conclude that MTAP did achieve a good measure of success in terms of the role of intermediaries. Keeping in mind that success is a relative term and taking into consideration what success had been achieved by other, more expensive programs, the conclusion reached is that the type of intermediary that MTAP sought to develop definitely has a role to play in TI promotion in LDC environments. Moreover, the fact that MTAP cost much less than other programs seems to indicate that profit-making intermediaries would also tend to be more cost-effective.

The question of viability and self-sustainability can also be answered in the affirmative. The evidence is that most of the intermediaries funded through MTAP did continue their operations in the target countries in some form after A.I.D. funding expired (the exception being GVT). In view of the fact that none of them were operating prior to MTAP in these countries at the level of activity they do today (and some were not operating at all), this must be counted as a successful outcome of the program.

- A.I.D. support can stimulate the development of business intermediaries promoting collaborative ventures consistent with host country developmental objectives without adverse effects on the US economy (Research hypotheses g and h).

Simply stated, the result of A.I.D.'s support to MTAP intermediaries has been to substantially, and very likely permanently, increase the business development capacity for collaboration between US and local business enterprises in most of the countries in which MTAP operates. This has

been achieved despite the many obstacles described earlier. One must also answer the question of whether this has been "additional" capacity; that is, would this have been developed without A.I.D. support. The overwhelming evidence is that this capacity development is in fact additional. In the case of Thailand and Yemen this is unquestionable. It is likely that BDIM and ICS would have operated in Turkey and Costa Rica respectively even without A.I.D. support. However, as both firms have repeatedly stated, both the level of activity and the pace of development would have been substantially lower and slower respectively.

As far as host country developmental objectives were concerned, with a few exceptions, the intermediaries generally fell into line. This was reinforced by the fact that incentives in host countries tended to follow such objectives. Although it is possible that after MTAP funding expires the intermediaries may feel less constrained, the existence of the incentives as well as the motivation of US partners (who generally look for lower cost production or inputs) would prevent the intermediaries from significantly straying from the desired objectives.

As far as impact on the US economy is concerned, it is safe to say that such impact was either positive or neutral. In the vast majority of the ventures initiated, the objective of the US partner was either to maintain its operation by staying competitive in its marketplace or to shift procurement from other foreign sources which were becoming more expensive. In several cases, the US partner actually sought to expand its foreign markets by means of offshore production or sourcing and in some cases by simply exporting technologically superior products (as in the case of Turkey for example).

c. Other Program Outputs

(1) Quantitative Targets

The following exhibit provides a tabulation of the performance of the field trial contractors against the quantitative targets set by the program, followed by assessment of the field contractor's financial performance.

Methods of Generating Revenue

- BDIM

BDIM operates almost completely on a success fee basis with projects that include substantial equity investments. The large-scale training project mentioned above represents a large portion of BDIM's revenue, as does its construction activity. In terms of export-generating trade activity, BDIM has not become involved in these in a substantial way.

Estimated Outputs Reported by Intermediaries

	InterMatrix India	InterMatrix Thailand	ICS Costa Rica	BDIM Turkey	GVT Tunisia	GVT Yemen
Number of Ventures (6/83)	8	17	34	10	1	2
Number of Completed Ventures (9/89)	0	2	3	8	0	0
Average Number of Clients Served	10-15	15-30	15-30	25-40	5-10	
Hours Total	464	2,921	(not reported)	52,815	4,144	5,464
Hours Shared	260	1,000	(not reported)	36,903	688	912
% of Total	56%	34%		70%	16%	17%
Revenues (K)	15	486	35	(local intermediary revenue generated, amount unknown)	15	
Total Costs (K)	354	1,717	600	1,488	223	284
Shared Costs (K)	200	1,200	550	1,121	53	56
% of Total	56%	70%	92%	75%	24%	20%
Jobs Generated	0	3	600	10	0	0
Foreign Exchange			1,000,000			

- InterMatrix

InterMatrix evidently intends to earn revenue from a wide variety of sources, including trade, technology transfer and financing, product sourcing, joint ventures, and its traditional line of business consulting. In practice, it has earned some revenues through non-consulting activities, but the bulk of their revenue continues to be consulting fees, along with workshops which it conducts for a fee.

- Georgetown Venture Trading

GVT earned a small amount of income from MTAP activities, approximately $15,000, aside from the contract payments through USAID/MTAP itself.

- ICS

ICS derived income from a variety of sources, including tourism video production, sporadic shipments of refrigerator components with a local Costa Rican manufacturer, etc. The results through 1987, however, show only modest levels of revenue from these sources. Of its $60,000 revenue in 1987, half came directly from the MTAP contract, with the remainder from several small trade-related projects.

Cash Flow Management

Given the relatively low revenue base of three of the four intermediaries (BDIM being the exception), continued operations generally have been dependent on MTAP funding. Additionally, some of the intermediaries have required infusions of cash from their principals to continue in-country operations.

- BDIM

BDIM has become relatively self-sustaining, according to the firm's principal. Revenues through June 1988 were over $1.5 million. Training programs in Turkey, along with the firm's joining with Hill and Knowlton, have provided the revenue.

- InterMatrix

Although data is somewhat insufficient to accurately assess the firm's cash flow position, it would appear that in Thailand, 1988 revenues covered about 1/3 of total costs, and the remainder came from cash infusions. India operates at a lower cost structure than the Thailand operation, but revenues were apparently substantially lower than in Thailand.

- Georgetown Venture Trading

GVT has earned no significant income to date, and the firm's principals have had to provide cash infusions to augment A.I.D. funds.

- ICS

As of mid-1988, ICS operated on a monthly budget of $20-30,000. 1989 projections called for an increase in this figure to about $40,000. For 1988, revenues had been reportedly covering about 25-35% of costs, an increase from 1987 in which figures indicated coverage in the 15% range. Senior staff had been operating on minimal salary draws up through the time of MTAP contract conclusion.

Summary of Financial Performance

The following Chart illustrates the performance of each of the intermediaries as of 1988:

	InterMatrix India	InterMatrix Thailand	ICS Costa Rica	BDIM Turkey	GVT Tunisia/Yemen
Clients being Managed on Average	10-15	15-30	15-30	25-40	5-10
Clients Providing Revenue in May 88	4 of 8	8 of 17	6 of 20	7 of 30	0 of 10
% of Total Costs Covered by Client Revenues	15%	25-35%	25-35%	90-100%	0%

As can be seen from the above Chart, most of the intermediaries did not manage to cover the majority of their costs through client revenues. Only BDIM is substantially self-sustaining as of this time. The others were receiving some revenue from 1/3 to 1/2 of their current clients, which in turn covered between 15 to 35% of costs. GVT has no measurable revenue-earning projects.

Given the fact that these types of trade development projects often take three or four years before deals become consummated, it would not be fair to prejudge the performance of the four MTAP firms. What is clear, however, is that the three intermediaries which did not already have established trading ties to their host countries aside from MTAP have not performed well to date. BDIM, with numerous contacts throughout Turkey and a track record of working experience there, has shown superior performance early on in the MTAP program. A large-scale housing development project is expected to net BDIM several million dollars of profit next year as well. It

will take a few more years to fairly assess the results of the other firms. In particular, their ability to convert contacts to business revenues will be more fully tested.

(2) Qualitative Benefits

The following paragraphs outline the contractors' assessment of benefits conferred on the host country and its enterprises through the contractors' efforts under MTAP (e.g., technology transferred, training, etc.).

InterMatrix

InterMatrix was active in India in the following areas:

- Training of Indian consultants and consulting firms in sector analysis research, market research techniques, and strategic planning techniques.

- Exposure of major Indian industrial firms to global strategic planning and thinking.

In Thailand, benefits included:

- Introduced US companies to Thai companies. Industries involved included the food, packaging, furniture and jewelry industries.

- Trained Thai venture capital and consulting firms in sector analysis research, market research techniques and strategic planning techniques.

- Supported Thai venture capital companies

- Supported Thai government agencies on

  - organization of research and development
  - counter-trade
  - promotion of tourism and promotion of investment

- Exposed senior executives of Thai companies to global strategic planning and thinking

- Supported the Thai Board of Investment.

International Commercial Services, Ltd. (ICS)

ICS organized a number of cooperative efforts with CINDE, the investment promotion agency in Costa Rica, and introduced a large number of US businessmen to Costa Rica and its business enterprises.

Business Development and International Marketing, Inc. (BDIM)

Benefits of BDIM's involvement in Turkey have been technology transfer activities in the copper tubing, housing and urban development, and public relations industries. In addition, training efforts were undertaken for housing and urban development, public relations and federal government officials.

Georgetown Venture Trading Company, Inc. (GVT)

GVT was active in Tunisia providing several firms with introduction to US markets for their products (textiles, perfumes, dates, oil filters). In addition, GVT provided these firms and other corporations with examples of US-style market studies (olive oil, seafood, skins and hides, shoes, leather goods and leather clothing). GVT also provided several firms with feedback on US market responses to their products.

In Yemen, GVT increased local firm exposure to US technology in areas of food processing, nursery and orchard development, medical goods manufacture, irrigation techniques, and recycling technology.

(3) Complementary Activities

Complementary activities undertaken by the contractors in connection with their MTAP project included conferences, trade missions, business visits, business missions, conventions, etc. These are described below.

InterMatrix

InterMatrix carried out the following complementary activities:

- Setting up six workshops on India or Asian opportunities focusing on India
- Eleven visits to support local network and to develop business
- Established linkages with over 15 organizations including, Indian American Chamber of Commerce, Confederation of Engineering Industries, Indian Investment Center.

In addition, InterMatrix personnel attended over 20 meetings on India and were speakers at six of these events. Ten individual company or group briefings were given.

InterMatrix efforts in Thailand were along the same vein.

- Conducted 10 workshops on Thailand and/or Asian opportunities featuring Thailand

- Organized and coordinated 3 trade missions for the Board of Investment

- Conducted 36 visits to Thailand to support local operations, work on projects and develop business opportunities

- Established linkages with over 50 organizations including: STDB, BOI, US Chamber of Commerce in Thailand, and the Ministry of Tourism.

InterMatrix personnel attended over 70 meetings or conventions in Thailand and were speakers at 40 of these events. In addition, InterMatrix carried out 20 individual company/group briefings on Thailand.

International Commercial Services, Ltd. (ICS)

ICS organized and carried out a large number of workshops and trade missions complementing MTAP activities in both Costa Rica and the United States. The latest workshop was carried out on June 2, 1988, in Connecticut, covering "Investment and Trade in the Caribbean Basin Region."

Business Development and International Marketing, Inc. (BDIM)

Complementary activities undertaken by BDIM included business visits, conferences, extensive research and information gathering, government service, obtaining additional government funding, and business collaboration.

Georgetown Venture Trading Company, Inc. (GVT)

GVT participated in two Tunisian international trade fairs, representing US manufacturers of electronic goods in one of those fairs. The firm prepared five studies of US markets for Tunisian goods and published articles on Tunisian Foreign Investment Law.

Activities in Yemen included organizing one reverse trade mission of Yemen businesses to the US and one Trade Mission of US businesses to Yemen in agribusiness. The firm also completed market surveys for US micro-irrigation and computer technologies in Yemen.

6. Conclusions of the MTAP Field Trial Experience

a. Evaluation of the MTAP Project Framework

- Competitive Contracting of Intermediaries

There is evidence that the standard A.I.D. competitive procurement process did not serve the objectives of the MTAP project well, as far as the

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field trials were concerned. The ideal contractor, based on the evaluation criteria, is an entrepreneurial firm operating largely in the private sector. Such a firm would be unfamiliar with the government's and A.I.D.'s procurement process, does not read the Commerce Business Daily, and are generally outside of the normal A.I.D. procurement loop. In the private sector, the process of procuring services is much simpler and direct, even in competitive situations, and does not involve writing lengthy documents or compliance with a multitude of government regulations. The mere volume and complexity of a typical government RFP is forbidding to most private sector-oriented firms.

In addition, one must be actively looking for government business to become aware of procurement opportunities. The research and evaluation contractor mounted a special effort to overcome this last impediment by advertising in the Wall Street Journal and by launching a special outreach effort to firms who would likely qualify based on information collected earlier. Several potential new-to-A.I.D. bidders expressed interest in participating in the competition. Few such bidders submitted proposals and even fewer were responsive to the RFP.

Although the process failed to attract large numbers of non-traditional bidders, it did result in the selection of a set of contractors which, on the basis of their proposals, generally met the requirements of the project and, on the average, were new to A.I.D. It is fair to say that, perhaps because of the failure to attract large numbers of non-traditional bidders, none of the selected contractors scored extremely high vis-a-vis the evaluation criteria. For example, none of the selected contractors were really "in the business". (Some proposers who might have been "in the business" fell far short of other requirements, such as financial strength, or wrote very poor proposals). The conclusion is that, despite efforts to the contrary, the procurement process may have acted as a barrier to the participation of better qualified intermediaries.

Another problem incidental to the competitive procurement process was that because of this requirement, only a small number of contractors could be selected for award. As discussed earlier in this report, one of the key findings has been that a plurality of private sector service suppliers are needed in order to provide the full array of specialized services required by firms engaged in export expansion or the development of collaborative ventures. The current A.I.D. process is totally impractical and inflexible to accommodate a situation (in retrospect preferable) of a larger number of smaller awards to firms in the business, needing funds for specific deals. (The implications of this for future project design are discussed later.) A corollary problem is that the allocation of large competitively awarded contracts to a small number of contractors limits the flexibility of A.I.D. in that its only recourse for poor performance is cancellation of the contract and re-competition (both of them very daunting prospects), leaving A.I.D. with only bad options.

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

MTAP, in this regard, was a clear attempt to try something different. The cost-sharing procedures, new to A.I.D. project format, were developed and approved by the A.I.D. contracts officer. These flexible funding arrangements appear to have taken hold, in view that some missions and other centrally funded projects have begun to experiment with similar arrangements designed to support different types of commercial service providers and intermediaries.

- Cost-Sharing, Profit-Making

This unique feature of MTAP was one of its most successful. Some potential bidders (the more traditional consulting firms) were put off by the cost-sharing feature and the uncertainty of profits. This is considered to have been a successful screening mechanism which actually eliminated those bidders who could not have effectively fulfilled MTAP's objectives. The selected contractors by and large acted in the spirit of the project, sharing costs to varying degrees (from 20% to over 60%) and aggressively pursuing profit opportunities by initiating numerous ventures in the process.

- Contract Funding by A.I.D.

Field trial contractor funding by A.I.D. as implemented in the case of MTAP, actually introduced a number of problems, some of them serious and inhibiting the success of the project. The problems relate primarily to the requirement for mission funding. For one thing, securing mission funding at the level required to fund an intermediary operation in a country took much longer than originally anticipated, leading to contraction of the time available for field trials. The second and perhaps most important problem (compounded by the lack of explicit criteria for country selection in the project design) was that country selection followed mission willingness to fund the field trials which in itself was inversely proportional to the numbers of competing private sector project opportunities available to the mission, thus leading to the selection of some very inappropriate countries. The selection of Yemen, Tunisia and to a lesser extent Costa Rica, severely limited the potential of the field trials from the very start. Selection of countries should be based on criteria other than the willingness of a mission to fund the project (as utopic as that may sound).

Another problem which surfaced in the case of Tunisia is that mission funding was subject to the vagaries of host government control. Finally, mission funding served to limit intermediaries efforts to specific countries to the exclusion of others in the vicinity which might have offered profitable opportunities. This also proved to be counter-productive for the intermediaries who would have been much better off working on a regional basis.

- Contract Term

The 3-3 1/2 year term of the field trial contracts turned out to be extrer limiting. New collaborative ventures are difficult to develop. They take tin frequently 3 - 5 years -- which makes it hard to measure results in the noı course of A.I.D. projects. Suppliers of business services generate exte benefits that are difficult to measure or take credit for. Nor do they proı "monumental" results, at least not initially, as more visible institution-buil or credit programs.

In addition, initial demand for services tend to be weak. Unfavorable busi: environments, found in most A.I.D. targeted countries, constrain the growt services suppliers just as they do the growth of other types of enterpri Consequently, front-end subsidies are necessary in order to use special commercial support devices to achieve a multiplier effect in trade promo efforts, and even then a sustained effort may be required over several year order to produce visible results.

- Contractor Functions

By-and-large the definition of contractor functions has been satisfactory, except for the lack of requirement for industry expertise. Experience to date indicates that industry expertise of the intermediary, though not indispensable, does contribute to venture success and intermediary effectiveness by increasing the credibility of the intermediary with its clients and reducing or eliminating the learning curve associated with each venture in a new industry (thus possibly reducing the gestation period of new ventures). There was a tendency among the field trial contractors, who generally had no industry expertise, to gradually reduce the range of industries in which they operate.

As stated earlier, intermediaries were not supposed to devote a lot of effort to capacity development for LDC businesses, nor could they, since this is a highly labor intensive and lengthy process. The assumption was that there were enough local firms in each country capable of doing business with a US partner. This turned out to be a false assumption causing substantial problems and delays for the intermediaries.

- Requirement to Disclose Information

This requirement had two noticeable effects. First it seems to have inhibited a number of potential bidders (primarily those operating in the private sector and suspicious of government) from participating in MTAP. Second, despite their pledges to the contrary, some of the field trial contractors have only grudgingly and incompletely disclosed required information, substantially inhibiting the evaluation task.

- Preference for SMSE Clients

The requirement for preference for SMSE clients caused consternation among certain field trial contractors and was actually relaxed. It seems that such requirement was rather ineffectual in the sense that intermediaries either felt comfortable with SMSEs and actually worked with them or uncomfortable and avoided them.

- Ideological Objections

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

- The Institutional Development Bias

A.I.D. projects frequently favor support for a single organization as the focus for a particular program -- the development of institutional monuments that A.I.D. can take credit for. Traditional technical assistance formulas favor institutional development efforts. Providing support to help develop a "plurality of private sector suppliers" requires new, non-standard approaches requiring more creativity and higher degrees of risk. Furthermore, since institutions have been the major recipients of A.I.D. project funds, they resist efforts to involve or support other service suppliers. Such suppliers are perceived as threats or competitors, rather than being viewed as possible partners and collaborators.

b. MTAP in Perspective

MTAP represented a unique and distinctive type of trade and investment promotion project. Compared with other A.I.D. projects with similar objectives, it had a number of advantages:

- It operated largely in the private domain, thus avoiding the problems of projects focusing on developing or strengthening host country (public or quasi-private) institutions.

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- It required less A.I.D. funding by relying on the profit motive of intermediary organizations.

- It seemed to be at least as effective in terms of promoting business-to-business contacts.

- Where successful, it created a long-lasting capacity for continuing collaborative venture development.

In summary, MTAP expectations as promulgated in the project paper were rather unrealistic, especially when one considers the time frame of the field trials and the overall funding available (A.I.D. plus contractor contributions). All things considered, it is felt that MTAP has been at least as effective as other projects with similar objectives and very likely more cost-effective. For these reasons, MTAP-type projects have a definite role in A.I.D.'s relatively limited options for interventions to promote trade and investment in LDCs.

7. The Experience of Other Intermediaries (Update of the Initial Ten Case Studies)

a. Introduction

One objective of the initial MTAP research was to characterize a range of intermediaries operating internationally. This characterization led to the selection of ten intermediaries in the United States as examples for case studies. The common research design for analysis included:

(1) Background and Overview of the Intermediary's History

(2) Operating Profile (including development strategy, types of clients, marketing approach, pricing structure, typical operating problems, growth constraints)

(3) Description of Current or Recent Intermediation Projects

(4) Management's View of the Future (with new intermediation opportunities)

The following intermediary organizations were profiled in the case studies detailed in the April 1986 report entitled Intermediaries and Brokers in International Business Venture Development, (Harvey W. Wallender, III and Dimitri A. Plionis, PhD.):

- Sears World Trade
- Kaplan, Russin & Vecchi
- Technology Catalysts
- Palmer National Bank
- Boles World Trade Corporation

- The InterMatrix Group
- Trade and Development International (TDI)
- Boice Dunham Group
- TransTech Services USA
- Arthur Young

The rest of this chapter is based on a summary comparative analysis of these case studies, followed by conclusions and lessons learned on the role of intermediaries in TI programs.

b. Background and General Orientation

One general conclusion of the case studies was that the level of intermediation activity was much more extensive in developed countries than in developing countries. The more sophisticated science and technology infrastructure in developed countries, coupled with improved company management skills, leads to greater ability to use information, identify needs, and select the appropriate role for intermediation. The studies of Sears World Trade, InterMatrix, Technology Catalysts, and Boles World Trade are good examples of this. In the developing country environment, intermediation is taking place, but at a slower pace. Overall, the case studies showed that those intermediaries pursuing activities in the developing countries fall into the following general categories:

(1) Firms specializing in handling rapidly changing technology (technology that is easily identifiable as playing a critical role in the development of new products and services, sometimes referred to as high-tech);

(2) Firms principally involved in providing professional services such as accounting, legal services, and general consulting;

(3) Firms principally concerned in providing trading and market development services, and;

(4) Firms principally involved in providing financial services.

In almost all cases, one of the most difficult problems was establishing contact with the clients and helping them achieve a clear-cut understanding of the opportunities inherent in new project development. TransTech, Boice Dunham, and InterMatrix all stressed the critical step of project identification and definition. In addition, these same firms commented extensively on the problem of helping the client follow through on all stages of the project cycle development.

Rapidly changing technologies provide dramatic opportunities for intermediation; chemicals, electronics, automated equipment, and other advanced technologies are most likely to elicit client interest. The more complex the technology, in fact, the more readily identifiable and direct is

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the impact on client firms. The client enterprise can better understand how it can use the intermediary's services to acquire and take advantage of such technology, and the impact of the new technology in capturing new markets and improving the firm's competitive position. Technology Catalysts specialized in this area, and was therefore more interested in establishing linkages between Japanese, US, and European users and suppliers of technology.

A combination of trade and sourcing strategies characterized a new breed of intermediaries, represented by Boles, InterMatrix, Sears World Trade, and (to some degree) Boice Dunham. These firms combined trading company activities with consulting and technology access support, hoping to serve an increasing need for counter-trade, bartering, and other novel trading mechanisms. At the same time, these firms had determined that many product suppliers required extensive assistance for upgrading products, developing packaging, and handling on-going business development.

The professional service companies—consulting, accounting, and engineering firms—did show a gradual movement toward increasing intermediary activities. The larger consulting and accounting firms, like Arthur Young, have established networks and contacts on which they could build improved intermediation services, and these firms are increasingly aware that their overseas clients require intermediation services. However, their principal business is still auditing, tax services, and general consulting. Kaplan, Russin & Vecchi, on the other hand, an international law firm, is regularly involved in intermediation, but it has not yet determined how to meld its legal service orientation with product promotion and intermediation activities. Similar problems of practice, ethics, and professional standards inhibit most of the larger accounting and consulting firms.

Financial service institutions are, of course, heavily involved in intermediation. The larger international banks tend to avoid extensive intermediation, owing to the difficulty of servicing these needs cost-effectively. But regional banks like Palmer showed a willingness to experiment with new combinations of financial services, intermediation, and follow-up consulting and information sourcing. Palmer hoped to develop innovative financing services for trade and investment projects but ultimately returned to traditional banking services as part of management changes in 1987.

Each of the organizations studied had experimented with their outreach capabilities, built on different internal strengths. The professional firms such as Arthur Young and Kaplan, Russin & Vecchi moved into intermediation as a result of their strong existing networks and local credibility. The smaller consulting firms capitalized on their abilities to develop new markets or provide unique expertise associated with product knowledge, area expertise, or abilities to overcome cultural or business-

development obstacles. Sears World Trade and Boles wanted to use their basic trading activities to lead into follow-up consulting, technology sourcing, or other services, with attention to industry-specific capabilities. This did not work, however.

TransTech and TDI (Trade and Development International) oriented their activities toward consulting, providing marketing, planning, and legal services to firms trying to develop collaborative ventures. Neither firm was industry-specific or limited to a particular region. Rather, they used information networks to scout for emerging opportunities, and then offered consulting assistance for opportunity development and commercialization. This approach is characteristic of many small specialized firms, exemplified by their commitment to assist a project through to completion--this is a major requirement for ultimate project success. The need for more aggressive links between US and developing country enterprises caused these smaller firms to invest time and resources in trade and promotion of new ventures. However, they also became discouraged due to the lack of market response and the length of time necessary to develop active clients.

Boice Dunham was similar to TransTech, but had more experience in handling licensable technology and industry-specific activities. This type of company characterized intermediation as a principal business and viewed its role as one of converting opportunities into viable activities. The firm had a strong marketing orientation, screening major US and international markets for emerging consumer product opportunities (such as in-home electronics and personal computers). Opportunities were found through networking with service businesses around the world. Boice Dunham is still hopeful, but in four years they have been unable to develop any real breakthrough or business expansion.

InterMatrix was a smaller firm that tried to move from consulting and information gathering services toward trading and technology linkage. The firm initially had been servicing larger international clients, primarily in risk analysis, market trend data, and strategic planning services. Because of its international networks and experience in developing countries, the firm tried to organize a trading and technology search firm, called InterTrade. This effort failed. The A.I.D. pilot program in Thailand and India was moderately successful, and the firm is continuing to do business in both countries. However, it has returned to being primarily a consulting firm, with some new activities attempting to bring larger US and European investors into developing countries. Trading and technology linkage activities have been dropped.

In 1985, InterMatrix, Sears World Trade and Boles were all committed to growth strategies linked to trading. By the end of the MTAP project in 1989, however, Sears World Trade had been broken up, Boles was in bankruptcy, and InterMatrix had abandoned trading as a growth area. These intermediaries had suffered the same disappointment with trading that banks and other financial institutions had encountered earlier.

Intermediation, with or without trading, did not result in much success, and the market did not appear ready to pay for linkage and development services.

c. Summary of Operating Characteristics and Constraints

All the case studies emphasized the importance of client development and the use of networks. Also, all the firms faced problems in accessing technology, financing, and information. However, the basic business characteristics of the different firms dictated the degree to which these problems significantly inhibited intermediation.

Network Building

For all aspects of brokering, networks are essential, whether they are linked to technology, finance, markets, or other resource requirements. The larger firms, such as Arthur Young and Sears World Trade, were constantly building and expanding networks as part of their regular activity. Small firms needed to relate immediate consulting and other services to efforts spent on network expansion. International law firms tended to have established networks and their activities were oriented toward utilizing these networks effectively.

Client Development

All of the cases demonstrated how hard it was to develop clients for intermediary services. Whether using mass marketing or building discreet consulting opportunities, the intermediaries were all concerned with identifying clients, gaining their commitment, and moving them into active project development. The larger and more established firms had less difficulty accessing clients because they had established procedures for client development and servicing. However, their existing service orientations (legal, banking or consulting, for example), and the fear of diluting or confusing their basic business identity and strategies, often restricted them from pushing aggressively toward new project development. In contrast, the smaller consulting firms were aggressive but lacked access to clients, networks, technology and markets.

Accessing Technology

Many of the cases showed accessing technology to be costly and difficult. Moreover, firms found it hard to convince technology users and suppliers of the benefits of technology cooperation.

Accessing Markets and Partners

Important to the foreign client is the ability to find markets, qualify distribution channels, or locate other partners for marketing and sales. This is costly and requires significant expertise.

Cultural Barriers

Some of the firms identified cultural barriers as a major constraint and target of their activities.

Government Competition

For smaller specialized intermediaries, government assistance programs, information services, and consultant activities distract clients and inhibit long-term client relationships.

Accessing Financing

One obstacle for new projects was financing. For some of the firms, the availability of financing was a major influence toward success; for others it was a major factor of failure.

Professional Constraints

For accounting, law, and some private voluntary organizations, brokering created ethical and professional dilemmas associated with conflicts between their role as a professional and as an intermediary.

Payment Strategies and Cost Recovery

Virtually all the firms were concerned with how to develop appropriate methods of remuneration. Some worried about mixing contingent fees and professional fees, while others were concerned about getting clients to invest in project development activities. Payment strategies were less difficult for the larger firms with clear identities such as legal, consulting, or trading firms. The smaller consulting firms had difficulty building credibility with the client and creating a clear-cut value for their services. Even organizations like Palmer National Bank had problems developing legitimate payment arrangements for information or consulting services.

In most cases, firms received direct fees. The law firms, consulting firms, and accounting firms charged for time or value of services rendered. Boles, Sears, and InterMatrix sought payment both through direct fees for assistance and through income from trading. Except for Arthur Young, all the firms indicated a willingness to consider equity participation under the right circumstances, but it was difficult to envision a situation where significant equity could be earned through the provision of brokering and on-going technical assistance activities. Earning commissions through trade arrangements or by taking control of inventory was considered feasible, but very risky.

More and more, developing-country firms can be expected to seek assistance on a longer-term-payment basis. In many cases, the client will

expect the intermediary organization to assume some portion of the risk a a partner in the venture. Remuneration patterns for licensing services an some banking services are tied to royalties or long-term contingency fee that are, in turn, tied to profitability and growth. The convergence c trading and consulting services may offer an opportunity for a mix of direc fees and longer-term royalties or contingency fees, but this is not commo today.

As can be seen from the above, the issue of pricing, fees and valuin intermediary services is complex. Except for legal and accounting work many firms are unable to value and unwilling to pay for the work c intermediaries. The intermediaries must first sell the need for thei services before they sell the services. But many clients are hard to convinc because they are unfamiliar with the difficulties involved in formin collaborative ventures, especially collaborative ventures overseas. (This i true both in the United States and the developing countries.) The attempt to promote trading and develop new sources of income from these area seem to have failed, almost uniformly. As reflected in the MTAP fiel trials, however, ICS and BDIM had demonstrable success in tradin programs in Costa Rica and Turkey. The effort in Turkey was mor successful, partially because of the much greater size of the Turkisl market and business infrastructure.

It is clear however that the enthusiasm of the intermediaries studied i 1985 was not borne out in their business experiences through 1989. Th more established consulting, banking and legal practices are stil interested in specialized intermediation activities in the developin countries, but they require some kind of financial incentive other tha client fees. The market is not yet able to support internationa intermediation since local and foreign firms are not convinced that th possible projects will justify the initial intermediation cost. However MTAP research has shown that trade and investment linkages can still b successfully promoted and intermediaries can be used in many tasks sinc they have a superior ability to manage the critical aspects of intermediatior such as network building, client development, and cost recovery.

8. Summary and View of the Future

It is not surprising that those intermediaries supplying information and participating in these case studies and field trials were generally optimistic about the future prospects for intermediary services. Some were particularly enthusiastic about what they saw as the evolution o intermediation from its current ad-hoc and opportunistic state to a more systematized and rational industry. Some highlighted the need for education and communication programs aimed at small and medium-sized firms in the United States and developing countries, as well as at the intermediaries themselves.

It would appear that valuing and pricing intermediary services (at least in the short-to-medium term) will be heavily influenced by market forces and individual firms' marketing skills. At this stage of its evolution, intermediation cannot be considered an "industry" in the sense that common standards, established practices, standard pricing, and the other more formalized policies and practices are widely shared among a group of similar firms.

Instead, one sees a new breed of intermediary entrepreneurs attempting to forge new alliances and introduce new forms of collaborative ventures. It is mostly small firms and individuals paving the way. They are generally the least able, from a cash-flow point of view, to absorb the overhead and travel expenses and to forego fees during the often-extensive development process from concept to commercialization. Also, they 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 (market research, planning, technology transfer) and are somewhat naive when it comes to structuring and negotiating equity and performance payment packages.

9. Lessons Learned

The following lessons learned can be drawn from the MTAP experience.

- Business Organizations and USAID Mission private sector programs often fail to use intermediaries because they lack knowledge of the utility of their services.

- Firms are unable to judge or evaluate the costs and benefits of new opportunities, are reluctant to pay fees for professional assistance during early planning and evaluation stages of a project.

- It is anticipated that intermediary firms will play an increasingly crucial role in the future as the more traditional approach to foreign direct investment in LDC economies becomes less common. The justification for this lesson is that smaller firms in both DC and LDC countries have fewer managerial and financial resources to invest, and lack the international exposure and experience required to pursue collaborative ventures on their own to any significant degree.

- Intermediaries can provide the type of detailed, specialized services that firms require in order to compete in international markets. Industry specialization of intermediaries may be useful and should be incorporated into project design as appropriate.

- The business intermediary mechanism offers distinct benefits as an option for trade and investment promotion programs in LDCs. A.I.D.'s role in promoting such intermediaries is desirable and effective.

- A more flexible contracting mechanism should be employed to obtain intermediary services whereby a broader range of intermediaries can be funded in smaller amounts and for specific purposes.

- The A.I.D. procurement regulations and mechanisms tend to be counter-productive to private sector enterprises that attempt to act as intermediaries. Many firms that could serve in this capacity, thus enhancing the MTAP program, are reluctant to do so.

- The cost-sharing profit-making concept for business intermediaries offers clear advantages and should be preserved where appropriate. It provides important incentives for private sector participation, and increases the likelihood that promotional activities can become self-sustaining and commercially viable. Furthermore, MTAP research has shown that such arrangements can reduce the cost of government funded promotion efforts.

- Mission funding of trade and investment programs must be carefully integrated into overall program funding to avoid the pitfalls observed in MTAP, specifically funding activities in country's with unattractive or non-conducive environments.

- Trade and investment promotion programs for LDCs must be designed with a much longer time horizon than they have been. Time horizons of five to ten years are more realistic.

- Trade and investment programs utilizing business intermediaries should be carried out in conjunction with local business capacity building programs for maximum effectiveness.

10. Conclusion

The MTAP field trials provide some support for the view that trade development programs can be improved by measures to support the use and development of a "plurality of private sector service suppliers" as a means to provide the full array of specialized services that are needed by firms engaged in export expansion or the development of collaborative ventures. The MTAP experiences also point out a number of difficulties that A.I.D. faces in supporting the development of private service suppliers.

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

MTAP findings indicate that A.I.D.-funded trade promotion projects can be improved through efforts to incorporate in, and foster the development of, private service suppliers in the project design. The advantages include the following:

a. Cost Savings

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

b. Cost-effectiveness

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

c. Commercial Viability/Sustainability

The MTAP findings with respect to the commercial viability or sustainability of the types of brokerage or promotional efforts that were carried out under the field trials strongly indicate that the approaches tested under MTAP are feasible only in countries with relatively favorable business environments and adequate industrial capabilities. The firms operating in Turkey, Thailand, and India have established operations that are clearly commercially viable and likely to continue into the future. In Costa Rica, the prospects are less sanguines, although the firm concerned, ICS, is still vigorously pursuing trade promotion activities two years after project funding has ended. The operations in Yemen and Tunisia clearly were not commercially viable, although they did generate a small amount of revenue for the firm concerned.

d. Complementarity with Official Promotional Efforts

The MTAP field trials suggest that commercial service suppliers, particularly firms that have developed specialized capabilities, are a useful complement to official promotional efforts. They are better able to supply those services that firms require in pursuing specific areas of business

development than a single, centralized promotional organization. Since they have a variety of fee-generating options available to them, they are often more motivated to pursue deals over a longer time frame than most types of officially supported organizations. On the other hand, they are generally not motivated to provide services that produce significant external benefits unless they are rewarded in some way by official agencies who are directly interested in the external benefits that are produced.

e. Flexibility/Adaptability

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

Problems Associated with Involving Commercial Service Providers in A.I.D.-Sponsored Trade Promotion Efforts

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

a. A.I.D. Procurement Procedures and Project Management Requirements

The MTAP field trial experience suggest that standard A.I.D. procurement and project management procedures are somewhat problematical when involving commercial intermediaries in A.I.D.-supported trade promotion efforts. The types of commercial service suppliers needed to provide specialized trade promotion support are generally not familiar with standard government procurement regulations and requirements. They do not read the Commerce Business Daily, and are generally outside of the normal A.I.D. procurement loop. In many cases, they are discouraged from participating in government-funded efforts by what they view as onerous reporting requirements. Learning to work within A.I.D. requirements imposes transaction costs that firms are frequently unwilling to bear. Learning A.I.D. requirements and positioning themselves to receive government funding often conflicts with their regular business operations.

On the other hand, the costs of working with new types of firms unfamiliar with A.I.D. procedures is high for A.I.D. project officers as well. Funding new types of agents involves risk. It also requires extra effort to identify and get approval for new project designs, funding arrangements, and oversight

procedures. Since few such mechanisms are currently available, experimentation is needed in order to develop appropriate approaches. A.I.D. project development and management procedures generally provide few rewards for such experimentation and risk taking; consequently efforts to develop new approaches for trade promotion -- such as involving private service providers -- are not likely to be popular.

The experience with MTAP in this regard are not entirely negative, however. In developing the original MTAP field trials, cost-sharing procedures were developed and approved by the A.I.D. contracts officer. In the current phase of MTAP, these cost sharing procedures were refined and new arrangements developed that provide greater flexibility as well as greater outreach to involve new types of service organizations. In several instances, missions or other centrally-funded projects have begun to experiment with flexible funding arrangements designed to support different types of commercial service providers and intermediaries.

b. Accountability/Attribution

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

c. Time Factor

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

d. Ideological Objections

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

e. The Institutional Development Bias

A.I.D. projects frequently favor support for a single organization as the focus for a particular program -- the development of institutional monuments that A.I.D. is famous for. Traditional technical assistance formulas favor institutional development efforts. Providing support to help develop a "plurality of private service suppliers" involves new, non-standard approaches requiring more creativity and higher degrees of risk.

f. Competition for Project Resources

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

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

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

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

In many ways, this is the time to be innovative and imaginative in the way A.I.D approaches trade development and investment attraction, given its less than satisfactory results to date. However, one must also take into consideration the parameters that are already in place in regard to the way A.I.D. conducts its business. Some creative solutions to working around the issue of flexibility awarding one large contract versus several small ones, and general follow through and monitoring, will have to be sought. In some instances, utilizing successful examples from other countries or institutions, yet adapting them to A.I.D. parameters, might be a viable option. However, the country context and business environment must be closely examined before any comparative approach is sought or TI program developed. In other cases, it would require seeking a flexible mechanism whereby program assistance could be modified within a shorter lead time, or adapted as results began to occur. Many of the interventions utilized in trade development programs take a long time to produce viable results. Seeking means to lengthen the project cycle should therefore be sought. The

challenge has definitely been made to A.I.D. How it reacts to such a challenge will ultimately determine its level of success in providing assistance to LDCs in the promotion of trade and investment opportunities.

PART III:

GUIDELINES FOR DESIGNING TRADE AND INVESTMENT BUSINESS SUPPORT SERVICES

Parts I and II discussed in detail the role of collaborative ventures and intermediaries in the trade and investment promotion activity, and compared the results of A.I.D. and other country supported TI programs with MTAP expectations and results. It also reviewed current literature on the topic, in particular research and evaluation studies recently concluded by the World Bank. This assessment led to the formulation of a number of key lessons, which affect the design, implementation and outcome of TI programs.

This chapter of the report will attempt to synthesize the conclusions reached in previous chapters and prepare design criteria and action recommendations which will assist TI project designers, in particular A.I.D. project designers, in their future efforts. Although much of the research undertaken for the MTAP project was more general in focus, the design criteria and recommendations will focus specifically on the provision of commercial services, primarily through the mechanism of officially-sponsored trade promotion programs.

It is clear that firms engaging in developing international business relationships -- whether trading ventures, collaborative relationships, or direct investments -- face a variety of complex problems and requirements when launching new ventures in strange environments. These problems and requirements include assessing opportunities in new markets, understanding and dealing with difficult legal and regulatory problems, finding appropriate business partners, and acquiring the information, know-how, contacts, and resources necessary to bring the venture to fruition. These problems, particularly for the small and medium sized firm, must be resolved with resources internal to the firm or by relying on services provided by other firms, organizations, or individuals.

As discussed in previous sections, efforts to meet the service needs of enterprises have centered in the official or quasi-official trade or investment promotion organizations and programs. The success of such programs and organizations in different countries at different points in time has varied considerably -- understandably so since successful promotional efforts are highly dependent upon factors such as the overall business environment within a particular country as well as global economic forces such as changes in patterns of international competition. However, even in countries where official trade and investment promotion programs have been notably successful, the majority of firms have not received assistance from these programs, but instead have relied on either their own resources or upon support services available from private suppliers. This is the major challenge confronting A.I.D. in the development of TI programs -- how best

to provide the services needed by the commercial sector in order that it can then help itself.

Many A.I.D.-funded projects in recent years have been formulated specifically to test new approaches for trade and investment promotion, including mechanisms for stimulating greater private sector involvement in project design and particularly in implementation. These projects are just beginning to produce some interesting data as to what works or does not work in different environments, as well as providing information about A.I.D.'s abilities to support more effective promotional efforts. Although the verdict is still out in most cases, the results of MTAP do speak well of A.I.D.'s attempt to experiment with new approaches and mechanisms, primarily in recognition of less than successful outcomes to date.

The following framework has been developed to provide step by step guidance to A.I.D. program designers in the formulation of TI programs. Appropriate action recommendations within each step are included, as well as key findings and lessons learned related to each step. The framework is based on the assumption that prior to the initiation of TI program design, a decision has been made, whether by a government, a group of governments, or a donor institution, that one aspect of the economic development of the country/region rests in the expansion of the trade and investment arena. This would include initiatives to develop exports, improve export performance, reduce imports, generate foreign exchange, attract investment, create jobs, etc. Further, a determination has been made that the development of the country can be accelerated by strengthening the indigenous small and medium sized private enterprises.

DESIGN FRAMEWORK

Step 1: Analyze the Particular Country (Region) Situation

This analysis is critical in the sense that it will both guide the TI strategy being developed and be used continuously as a reference guide in the design, implementation and evaluation of the program developed to carry out the strategy. The analysis should consist of a thorough examination of the business environment, including both the country context (resources available, general infrastructure, local business practices, culture, political, and other unique characteristics of the country) and the policy context. As particularly highlighted by the MTAP, PDAP, and CINDE cases, the business environment in a country has a profound effect on TI activities, and if it is unsatisfactory, large-scale TI efforts will be ineffective and cost-inefficient. The MTAP research has shown that small and medium sized firms however, as long as they have the capability and resources to produce a product demanded by the marketplace, can be successful in developing export and collaborative ventures, even in unfavorable environments. This presupposes they receive the requisite services to get the transaction operational. Furthermore, given that transactions among smaller firms

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tend to be very personal in nature, and are based more on trust and compatibility versus other factors, they are less affected by overall policy constraints. Therefore, part of the review must assess the capacity and motivations of the small and medium sized enterprise sector.

This review will also identify market deficiencies and/or obstacles which can be translated into unmet business needs or factors constraining a firm from pursuing TI activities. Examples of market deficiencies and/or obstacles which have been identified in the past include:

- Lack of availability and timely access to credit/capital to support firm and transaction activity.
- Under/over-valued currency, availability of foreign exchange, and limits on ownership/repatriation of profits.
- Bureaucracy, red-tape and other procedures that inhibit an enterprise from pursuing a TI opportunity.
- Tax structures and incentives/disincentives.
- Scarcity of managerial, entrepreneurial, and technical talent.
- Infrastructure constraints (utilities, labor, communications, domestic transportation, ports, etc.).
- Lack of marketing capability (access to information, foreign markets, product design criteria, networks, appropriate business attitudes, etc.).
- Cost and availability of transport.
- Inefficient and small manufacturing/productive sector.
- Weak supply capacity.

MTAP research confirmed that the availability of basic infrastructure and supporting industrial capacity is a critical factor when pursuing business development efforts. The field trials in particular strongly indicate that the approaches tested under MTAP are feasible only in countries with relatively favorable business environments and adequate industrial capabilities. The firms operating in Turkey, Thailand, and India established operations that were clearly commercially viable and will likely continue into the future. In Costa Rica, the prospects are less sanguine, although the firm concerned, ICS, is still vigorously pursuing trade promotion activities two years after project funding has ended. The operations in Yemen and Tunisia clearly were not commercially viable, although they did generate a small amount of revenue for the firm concerned.

Saunders study also supports this premise. He concluded in his review that before any type of promotion effort is undertaken, one must ensure that there is a strong and competitive productive sector (manufacturing or services) and a group of products capable of meeting an identified market need. These two factors, local capacity and availability of products, are often cited as the key forces behind export growth and investment attraction.

Although emphasis has been placed on surveying the country factors, it is also important to place the country in context with the international

business environment. What are the factors influencing the international marketplace? What international standards of quality, prices, trade barriers, etc. must be taken into consideration? What is the country's comparative advantage vis-a-vis its competitors? What are the needs of the particular segments being targeted? These factors play an important role in the design of the TI program, and should not be underestimated.

Key Recommendations:

a. Policy designers must carefully consider the national policy environment and the limitations of the industrial capacity prior to determining the most viable approach to trade and investment development. In most cases, the results of this analysis will dictate the approach which should be pursued.

b. A thorough examination of the competition and international market conditions is a necessary component of the TI analysis.

Step 2: Formulate the Trade and Investment Strategy

Based on the in-depth assessment of the business environment and identification of market deficiencies, the TI strategy will then be formulated, designing interventions to affect changes and determining the focus of the transactions necessary to meet unmet business needs, i.e., direct foreign investment (DFI), collaborative ventures, or export development.

It is important to note that although lessons can be drawn from other experiences, TI strategies are not usually replicable and therefore must be designed specifically for the country or region in question. MTAP research provided examples of many successful international programs developed under specific environmental conditions that may be dramatically different from the country factor endowments of other developing or developed countries.

In general, interventions are designed to:

- Provide Business Services (Export Development, Investor Services, Collaborative Venture Development)
- Strengthen/Develop Institutions (Government, Quasi-Public, Private)
- Develop Infrastructure
- Provide Balance of Payment Support/Trade Financing
- Privatize State-owned Enterprises
- Encourage Policy Dialogue/Changes

Most programs will incorporate several types of interventions, given that various facets of the trade and investment effort need to be addressed. The MTAP field trials suggest that commercial service suppliers, particularly firms that have developed specialized capabilities, are a useful complement

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to official promotional efforts. They are better able to supply specialized services that firms require in pursuing specific areas of business development than a single, centralized promotional organizations. Therefore, means to incorporate such suppliers into the process, and to strengthen them as one of the facets of the strategy, should be implemented.

The transaction focus will depend both on the goals of the sponsoring agency as well as the analysis of the particular business environment. The strategy may emphasize investment promotion to assist export growth, DFI attraction to spur economic growth and job creation, export development to increase foreign exchange earnings and improve international competitiveness, or collaborative venture development to assist local firms and transfer technology. (Any or all of these may be included within one strategy.) Whatever the goals, however, selection of the transaction focus must also consider the country context/business environment.

Specifically, *programs aimed at attracting firms to a host country can offer services that promote FDI only in attractive investment environments.* If the local environment does not offer foreign investors a large market, unique resources, strong industrial capacity or supportive policies, FDI attraction is not likely to be successful. In export development programs aimed at assisting local firms, *linkage services will not be successful in difficult environments unless complemented by services to build local capacity.* Computerized data bases, foreign distribution networks and export credit are of little use if products are not "export-ready." *Collaborative venture development is often an effective means of attracting foreign capital and technology while simultaneously improving local firm capability in less attractive environments, but must be coordinated with a full range of services that can assist the firm(s) at every stage of the project development cycle.*

Whatever the transaction focus, business services must be provided throughout the TI project. As both A.I.D. and MTAP research concluded, TI programs need to provide a complete system of assistance to a client--taking them from idea to start-up. A variety of technical assistance is often needed to "nurture or incubate" new deals and carry them through to partner searching and actual deal structuring. Trade missions, training, and financial services should be considered part of an integrated and flexible service base rather than discreet activities with little preliminary or follow-up support.

The following matrix puts these transaction/service issues into a simple framework that considers country context. The types of services likely to achieve success are indicated in the boxes by a (+), whereas those services unlikely to achieve success are designated with a (-).

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	Attractive Business Environment	Difficult Business Environment
Foreign Firm Orientation	FDI Promotion + JV/CV linkage + (with technical assistance)	FDI Promotion - JV/CV linkage - (with technical assistance)
Domestic Firm Orientation	Linkage to export markets + Export capacity building + JV/CV linkage + (with technical assistance)	Linkage to export markets - Export capacity building + JV/CV linkage + (with technical assistance)

The development of export processing zones (EPZs) may also make sense in cases when the business environment is not attractive. EPZs can be an excellent way to attract investment, increase exports, encourage technology transfer, and demonstrate the impact of policy reform. However, it is MTAP's conclusion that they should not be utilized as the sole vehicle for export and investment promotion, given the EPZ's often transient state of investment. Instead, EPZs should be seen more as a first step toward a more market-oriented, globally interactive economy.

Trade and investment efforts should be structured so that they can contribute to policy dialogue and policy reforms efforts. Often the effects of government policies only become clear when firms attempt to take advantage of new international opportunities. MTAP provides strong evidence that business development and policy reform efforts go hand in hand.

MTAP research has found that fostering private sector services by whatever means is an effective approach for accelerating both trade development and technology acquisition. Therefore, TI program design should incorporate as much as possible the provision of support to the private sector to enhance their capability to deliver business services. Support to the public sector should focus more on funding research efforts to encourage policy changes, information systems to compile and disseminate market and general country information, and other passive services.

Other important factors in the design of a TI strategy are the level of resources of the sponsoring institution and other activities on related subjects that are currently being undertaken in the country or region. Many times A.I.D. projects can tie into other donor institution programs to achieve a multiplier effect. Given that A.I.D. has limited resources for these kinds of programs, only selected interventions should be undertaken so as not to diffuse the effort. On the other hand, a limited intervention may serve little purpose unless it is part of a comprehensive approach. As

shown in the "Eastern Caribbean Infrastructure for Productive Investment Program", addressing just one deficiency of the region -- the lack of infrastructure -- did not prove to be effective. Greater success might have been achieved if other types of interventions were also pursued, possibly policy dialogue or a combination of business services and policy modification. The selection of which intervention(s) to be undertaken is therefore dependent on the status of the business environment.

Finally, in most cases, effective TI program implementation will take longer to show viable results than the normal A.I.D. project cycle of three to five years. MTAP research indicates that the time horizon for projects incorporating intermediaries is more on the line of five to ten years. Even targeted export development or investment projects will only begin to see viable results at the end of three to four years. Duration of the project is directly related to the productive capacity of the country or region. A project that incorporates the development of networks will require additional time, effort and patience, particularly if none exist prior to project start-up. Because of these factors, TI programs require considerable time and effort. This may pose a challenge to the management resources of the institution implementing the project as well as to that of the donor.

Key Recommendations:

a. Although some form of export and investment promotion is warranted in almost all LDCs, some transactions will be more difficult than others to conclude given certain circumstances--DFI attraction is not likely to succeed in any but the largest markets; linkage programs (market access for exporters, collaborative venture development, etc.) must be complemented by technical assistance to build capacity.

b. Collaborative venture development is an effective way to improve both local firm capability and to attract foreign capital and technology, but must be coordinated with a full range of services.

c. Trade and Investment transactions require long periods of time to develop, often exceeding the normal three to five years donor agency project life-spans. Time horizons of five to ten years are more realistic. If project incorporates network building, this will be costly and time consuming.

d. Successful TI experiences in developed and newly industrialized countries should not be viewed as appropriate models for developing country TI strategies, nor is any particular strategy necessarily transferable to another context.

e. Fostering private sector services is an effective approach for accelerating both trade development and technology acquisition.

Step 3: Select the Type of Services to be Provided

Based on the TI strategy developed, a set of services needed by the business sector will be defined. In this effort, it is critical to select services that local businesses can accommodate, i.e., they have the capacity to utilize the services offered. For example, several export development programs failed because they did not ensure a country's productive capacity was at a level whereby it could take advantage of an export credit or foreign market access program. Other examples indicate that technical assistance, from improving productive capacity to preparing financial documentation requisite for loan applications, is almost always necessary before a TI intervention can be fully utilized.

Furthermore, if the program designer is seeking cost recovery and/or financial self sufficiency as part of the overall strategy, the value that the client places on these services must also be taken into consideration. If they currently do not place value on the service offering, education regarding potential pay off will have to be provided.

MTAP research in particular, which is also supported by World Bank research, indicates that a plurality of services and service providers are usually needed in a comprehensive TI strategy. A breakdown of the type of services required by firms consist of the following:

- Technical Assistance to Firm Management (Enterprise Building)
  - Organization Development/Start-up Assistance
  - Strategy Formulation
  - Setting up Financial, Accounting and Information Systems
  - Assessing Supply Factors/Constraints
  - Management Training

- Technical Assistance to Improve Firm Production Capability
  - Production Capability Review/Modification/Feasibility
  - Product Development, Adaptation, Design Assistance
  - Training re Production Techniques, Quality Control

- Technical Assistance to Improve Firm Marketing Capability
  - Market Identification, Research, Feasibility Assessment, Follow-up
  - New Buyer Identification/Negotiation
  - Identification of Opportunities (Joint Venture, Intermediaries, Licenses, Partnerships)
  - Promotion (Product Advertising, Trade Event/Exhibition Support, Travel Facilitation)
  - Setting up Trade Representation/Foreign Office Network/Contacts
  - Distribution Configurations/Modifications
  - Packaging
  - Pricing
  - Marketing Related Training

- Assistance in Acquiring Technology and Facilitating Investment
  - Joint/Co-Venture, Licensing, Technology Transfer Facilitation
  - Partner and/or Site Searches
  - Research and Development Assistance
  - Travel Assistance
  - Contract Negotiation/Deal structuring
  - Application Assistance
  - Country Promotion
  - Financing

- Assistance re Procedural Aspects of Exporting
  - Providing Mechanisms to Access Financing, Credit Lines, Loans, Subsidies, Incentives, Equity Stakes-Bank/Financial Services
  - Facilitating Export Documentation/Custom Procedures and Requirements (Cutting through Red Tape)
  - Transportation Arrangements
  - Insurance (Shipping, etc)
  - Counseling Services
  - Bidding Services/Support

Depending on the type of transaction being pursued, i.e. DFI vs collaborative ventures vs export development, various clients will have different needs. US firms interested in pursuing international activities, depending on their industrial sector, will have specific service requirements and be interested in certain types of transactions, i.e., direct investment vs contract manufacturing vs joint-venture. Therefore, the service mix must be designed to reflect these needs, in addition to balancing promotion efforts with the necessary technical assistance to deal with the limited and often ineffective productive capacity.

In most cases, one service provider will not be able to provide the requisite services needed by the TI program; rather a multitude of service providers would have to be utilized, in varying levels and time commitments, not to mention cost. This has major implications for the project designer. It increases the level of effort in regard to project management -- managing one large contract versus twenty small contractors clearly raises the administrative cost in addition to risk and accountability. This is an important factor to consider in determining the services to be provided.

Research on intermediaries has also found that both LDC and US clients will require assistance at different stages of the project development cycle--beginning with concept formulation and moving through initial planning, search for resources, feasibility studies and even start up assistance. This also implies different specialization requirements, furthering the need for a plurality of service providers.

MTAP has also clearly shown that the intermediation process is an effective mechanism for LDC firms to gain access to new technologies and

international market opportunities, once the initial difficulties of convincing LDC firms of the merit of such activities can be overcome. However, like other programs, these efforts are affected by the business environment and general economic conditions of the country. Intermediation efforts must be carried out in conjunction with local business capacity building programs, or be able to provide this service in specific industrial segments (ex. BDIM in the construction industry) to achieve maximum effectiveness.

Key Recommendations:

a. Depending on the strategy being pursued, a specific mix of services will be needed. This mix of services should take into consideration the capacity of the firm to receive the assistance, as well as the complementary services, i.e., technical assistance to improve productive capacity, that are required to ensure success of the TI intervention.

b. If collaborative ventures are a component of the TI strategy, LDC and US clients require assistance at each stage of project development--beginning with concept formulation and moving through initial planning, search for resources, feasibility studies and even start-up assistance.

c. The service mix of TI programs must be developed from the perspective of the client being served. In addition to determining their capacity to utilize the services offered, questions such as the value they will place on it, will they pay for it, etc. must also be ascertained.

Step 4: Select the Appropriate Service Provider

Equally as important as the selection of the type of services to be provided is the selection of the service provider. This is a critical step, and can directly impact the successful outcome of the project. As both World Bank and MTAP research have found, fostering a plurality of predominantly private sector service suppliers, including branches of foreign or transnational firms, is one of the principal means of providing a full array of services in support of export expansion. The pros and cons of each of the main categories of service providers (Intermediaries, official trade organizations, and consultant groups), and the role of the public and private sector, are outlined below.

The Use of Intermediaries/Commercial Service Providers

MTAP research shed much light on the particular issue of utilizing intermediaries as the mechanism whereby SMSE firms in LDCs would acquire technology and access new markets through collaborative ventures with SMSE firms in the U.S. Intermediaries, if not confined to limited types of transactions, were found to provide credible assistance to clients who needed initial strategy assistance and help in the follow-up stages of

searching for resources and developing the market. It was also found that intermediaries could offer highly industry-specific services, assuming they were credible and had gained the trust of their client.

The ability to gain the client's trust and credibility, in addition to demonstrating need and value for services offered, was directly related to the intermediaries' capability to become self sustaining through fee generation. It was found that in countries that had a sufficiently large internal market, making it attractive for foreign investment and technology transfer, intermediaries were more effective in receiving fees than in countries with smaller markets. In the latter instances, it would appear that the project designer and donor institution should be prepared to subsidize the costs, at least initially.

Related to the above is the issue of self-financing or cost recovery. MTAP research indicates that achieving self-financing of programs is a very long-term effort, and is in direct conflict with the developmental goals of a program. This is not to say that charging fees for services rendered should not be a component of the program design--we argue that it should be (depending on the intervention, of course), but that it will rarely provide sufficient revenues initially to ensure an institution or entity is commercially viable, and that only after an entity has achieved a viable track record, will such a goal become appropriate. This is particularly the case when the program is part of a learning curve experience, where the service provider must first convince the user of the value of the service. Charging fees for services however, whether by an intermediary or by a TI entity, will force the provider to be more market and client responsive, and provide the necessary services in a skilled and timely manner. This was particularly true in the case of the MTAP contractors, although other AID experience, e.g., CATCO, Indonesia Private Sector Development Program, and FIDE support this conclusion.

However, MTAP research confirmed that providing limited front-end support to commercial firms engaged in international deal making resulted in costs to A.I.D. that were generally one-third to one-half the costs of standards consulting contracts or institutional support contracts for similar levels of efforts. In addition, the research confirmed that a wide variety of commercial firms are willing to participate in trade promotion efforts on a cost-sharing basis.

Furthermore, since intermediaries have a variety of fee-generating options available to them, they are often more motivated to pursue deals over a longer time fame than most types of officially supported organizations. On the other hand, they are generally not motivated to provide services that produce significant external benefits but few benefits to the firm itself, unless the are rewarded in some way by official agencies who are directly interested int he external benefits that are produced.

The MTAP field trials, in addition, demonstrated that commercial intermediaries are able, in the short-term, to consummate deals and launch new ventures as effectively as other kinds of organizations that A.I.D. has engaged in its trade promotion efforts, with significantly lower levels of project funding. It is anticipated that as the field trial contractors continue their operations, even without A.I.D. project funding, MTAP results will demonstrate even higher levels of cost effectiveness.

The MTAP field trials also showed that commercial intermediaries have a much greater ability than standard types of official trade promotion organizations to change their strategies, methods, and even staffing to achieve successful results. This flexibility allows them to be responsive to the needs of their clients and to be able to respond to new areas of opportunity or changes in the environment. Moreover, it is an essential element in achieving sustainable, profitable business operations.

However, in spite of the positive evidence that the MTAP field trials produced regarding the utility of involving commercial services providers and intermediaries in A.I.D. funded trade promotion efforts, the MTAP research also identified a number of major problems associated with a widespread adoption of this strategy, particularly as it pertain to A.I.D. procedures and requirements. As discussed in Part II.c., these problems include A.I.D. procurement and project management requirements, accountability and attribution, the time factor, ideological objections, the general institutional development bias, and competition for project resources.

Utilizing Existing Trade and Investment Promotion Organizations

The review of A.I.D. experience and other research reflects the opinion that implementing programs through existing, credible institutions is a more effective way to achieve results in the near-term, unless the country does not have already existing institutions to work with. This is true whether credit and financing is the main focus of the intervention or technical assistance. However, long term goals may require that an institution be created. Should this be the case, A.I.D. experience clearly demonstrates the difficulty of delivering TI services while simultaneously building basic organizational structures. In addition, institution building is a long and labor intensive activity, and should not be under-estimated.

Utilizing Consultant Services

There is also indication that consultants should not be used to manage a program contract, since they have short-term goals, and do not normally transfer skills to local enterprises. The A.I.D. experience suggests that using contractors to manage a TI program is not cost effective nor sustainable in the long term. Consultants are good at providing technical assistance, however, particularly in improving a firms capability to overcome supply weaknesses, product design factors, etc.

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Establishing Networks

In regard to establishing networks, A.I.D. experience has shown that networks are needed in most TI programs. Who provides them, however, will depend on the particular goals of the program. For general outreach capabilities, TI organizations are viable providers of networks and outreach offices, assuming the organization has industry credibility and the necessary technical skills. Building networks, as stated in the previous section, is costly and time-consuming, and, as demonstrated in the Booker T. Washington Case, existing networks are not necessary the most appropriate. Some organizations have found opening their own offices overseas to provide network services is cost effective. Further, as demonstrated by PDAP, local staffing of these offices is preferable to staffing by contractors, because they are more sustainable. However, for other cases where the country cannot afford to open their own offices, regional networks or accessing small firms for specialized services can be viable. MTAP research supports the use of intermediaries when they can bring to bear well established networks and experiences. Smaller intermediaries without well established networks are not effective.

Role of Public and Private Sector Groups

The research also indicated that the public and private sector each have a clear role to play in TI activities. The government can provide a credible role in the collection and dissemination of market information, making policy changes, improving infrastructure and handling general public relations--services we consider passive in nature. The private sector is more effective in the delivery of business services in support of TI, in facilitating the actual completion of a business transaction, in establishing business networks and linkages, and in working to build capacity--services we consider active. Intermediaries, or at least the mechanism, offers distinct benefits as an option for trade and investment programs, particularly in the provision of specialized, industry specific, deal-making services required to bring a venture opportunity to fruition.

Cooperation between the two sectors, with each playing their own role most appropriate to their structure, will generally ensure greater success in achieving long-term TI goals. Business cooperatives, associations and related groups are considered viable entities to conduct lobbying for policy modification, in addition to general demonstration projects.

World Bank research, supported by that of MTAP, has found that many situations require a plurality of services, forcing TI programs to develop cooperative programs with technical assistance groups, intermediaries, associations and other groups that offer networking and technical follow-up capability. What ever the case, however, early success is an important component to building support and credibility for TI providers.

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Key Recommendations:

a. Intermediaries can provide assistance to clients who need a variety of services, from strategy assistance through searching for resources and developing the marketing effort.

b. Intermediaries can self-sustain their activities through fee generation in countries that have a sufficiently large internal market, assuming they gain the credibility and trust of the client and demonstrate the need and value for their services. In smaller markets, the intermediation process will have to be subsidized, at least initially.

c. TI providers, whether intermediaries, TI promotion organizations or development entities, should charge fees for services rendered. This will, in addition to bringing in additional revenues, force entity/provider to be more market- and client-responsive, and ensure technical inputs are provided in a skilled and timely manner.

d. Institution-building is a long and labor intensive activity and should not be underestimated. The effective delivery of TI services is made more difficult when institutions are newly-created.

e. Implementing programs through existing, credible institutions is more effective in delivering TI services vs building or enhancing new institutions. Utilizing or strengthening local institutions is generally more effective than bringing in outside contractors to provide general services, since it will ensure greater probability that the program will be cost effective and remain in effect after the project is completed.

f. Depending on the type of transaction being pursued, different providers will be more effective. Intermediaries are cost effective in providing industry-specific services, developing networks and linkages, and developing collaborative ventures, particularly when they already have established networks and experiences. Local institutions, when well managed and staffed, can be cost effective promoters of direct foreign investment. Consultants, private voluntary organizations and other skilled groups are good providers of technical assistance.

g. Private sector providers are preferred over public sector providers in the delivery of business services and facilitating the completion of transactions, i.e. active services.

h. Public sector can be developed to be effective provider of passive services, i.e., market information collection and dissemination, public relations, training, and improving policy framework.

i. Business associations, cooperatives and groups are considered viable lobbying arms for policy change, as well as providers of specific services targeting specific industrial sector.

j. Building networks can be costly and time consuming, albeit necessary particularly in developing collaborative ventures and accessing foreign markets and technology. Local staffing is sometimes preferable versus contractors because it is more sustainable, is often less costly, and for investment promotion, can be effective in "selling" the country. For some, having their own offices overseas is more cost effective whereas for others who cannot afford it, accessing small firm's for specialized services, with accompanying networks, is the only viable option.

Step 5: Implementation and Evaluation of the Intervention

One of the final steps that a project designer must take is determining the results which should be achieved and against which the project will be evaluated. MTAP research has found that in the past, A.I.D. projects have often set inappropriate targets and project designs which could not be adapted to changing environments occurring during project implementation.

In regard to the latter point, project designers should bear in mind that working with the private sector requires some flexibility, given the private sectors ability to quickly change and adapt to opportunities and obstacles in the environment. Furthermore, during project implementation, results might occur which indicate other factors at fault versus those initially contemplated. Further success will be negated until these factors are dealt with. As is often the case when fostering business services and policy dialogue, only after activities are initiated do the real obstacles and opportunities become apparent, in spite of intensive analysis prior to project start-up. This is not to say that projects be designed without set parameters, rather that some flexibility and possibility for adaptation be designed into the project from its conception.

It should also be pointed out however, that A.I.D. does need to work within set parameters, which will not change anytime in the near future. Many of these regulations and guidelines are valid. As such, A.I.D. should consider investigating alternatives to direct funding of private sector activities, given the inherent need for greater flexibility in the programming of activities and allocation of funds. One possible solution would be to utilize "buffer" institutions, which would be responsible for the overall accomplishment of certain private sector motivated, trade development goals, yet have greater discretion and flexibility in the allocation of funds and targeting of activities. This idea merits further study.

In regard to setting evaluation benchmarks, or measurable results, MTAP research has confirmed that there is no commonly-accepted measure for

success developed. Cost per job, for example, although often used, is not always relevant for general private sector development aims. Organizational development measures, changes in attitudes, policy changes, and other important results of TI programs, cannot be easily quantified. Even changes in business capacity, technology and management skill transfers, and related factors, cannot always be measured in a quantifiable manner. Whenever possible, however, goals should be measured by concrete results.

Key recommendations:

a. Bench marks for project goals and evaluation criteria should be set within broad parameters which take into consideration the limitations of economic forecasting of LDCs, given their greater sensitivity to external events.

b. Programs designed for the private sector should be flexible given the fluidity of the environment within which the private sector operates.

c. Programs should be designed to produce results, although many will not be able to be measured quantifiable, nor take place within the normal A.I.D. project time period. Other than quantifiable measures should therefore be sought, as well as different measures for success.

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APPENDICES

Appendix A:	MTAP Program in Turkey: Business Development and International Marketing (BDIM)
Appendix B:	MTAP Program in Thailand and India: The InterMatrix Group (IG)
Appendix C:	MTAP Program in Costa Rica: International Commercial Services, Ltd. (ICS)
Appendix D:	MTAP Program in Tunisia and Yemen: Georgetown Venture Trading Company, Inc. (GVT)

APPENDIX A:

MTAP Program in Turkey: Business Development and International Marketing (BDIM)

APPENDIX A

MTAP PROGRAM IN TURKEY
BUSINESS DEVELOPMENT AND INTERNATIONAL MARKETING (BDIM)

The MTAP program in Turkey, managed by Business Development & International Marketing, Inc. (BDIM), is substantially different in a number of regards from MTAP programs in operation in other countries. BDIM operates within a country that has a large and robust economy in which the government and private sector are pursuing a multitude of business development activities. Also, BDIM, though itself a relatively small export trading company, is part of a network of affiliated companies in Turkey and was associated with several large and well-established firms in Turkey and the United States. Thus, unlike some of the other contractors, BDIM already had strong links to and backing from the local community at the start of the MTAP program, in addition to a US base of contacts. Lastly, BDIM's project development strategy is less one of offering finite consulting services, instead focusing on projects of a significant scale which involve long-term development assistance and related trading services. Because of its strong networks, financial backing and overall strategy, BDIM quickly engaged over 50 projects by early 1985. By September of 1988, BDIM had narrowed its focus to only 15 of the most active projects.

BDIM offers project development services that include packaging and organizing projects (from collaborative ventures to technology-licensing), establishing new businesses that filled a market "niche" in the Turkish economy, and introducing unique products to Turkey through trading activities. Unlike the other contractors, BDIM does not act as a consulting firm and has been extremely reluctant to involve itself in any up-front fee generating activities. Rather, BDIM is structured (and had the financial wherewithal) to invest time and effort in a project and take fees or equity at the completion of the deal or when its clients are also earning income. Although other MTAP programs have proposed similar strategies, they were under much greater pressure to take fees earlier, and most of them approached development work with a combination of consulting and trading strategies.

BDIM's overall approach recognized that successful project development requires a lot of time and so was keyed to a three-step (and three-year) process. First, they analyzed the market and identified opportunities, then searched for clients and appropriate partners, and finally developed the projects. BDIM avoided smaller projects and consulting-type situations, instead concentrating on projects that showed long-term potential for significant royalties or equity returns for their services. In many cases, BDIM and its partners aimed at forming joint ventures with US groups (see tourism, public relations, and insurance cases in the Selected Project

Summaries section at the end of this appendix). In 1988, BDIM earned a positive income from its overall project mix for the first time.

The BDIM approach had the potential for considerable impact. The strength of BDIM's relations in Turkey and their emphasis on careful market analysis would lead to a wide array of project ideas that grew out of unique opportunities in Turkey. Furthermore, BDIM was well organized to link Turkish and US enterprises. Indeed, much of its activities have been geared to exploiting Turkish import or project development opportunities, linking them to US partners or suppliers which in turn leads to exports of technology and products from the United States. Also, the MTAP support has given BDIM an ability to access a larger number of medium to smaller projects and has also created credibility for BDIM in promoting its services both in Turkey and the United States. In fact, the program is beginning to show significant results.

From 1985 to 1987, the total cost of the BDIM program was about US$1.5 million, $800,000 of which were supported by A.I.D. funds. As a result, by mid-1989, BDIM had established several new businesses (a public relations firm in partnership with Hill and Knowlton, US training programs for Turkish government officials, language training schools, and yacht tour services), and had begun construction of a major housing development project which would result in considerable US exports, a number of new supply businesses in Turkey, and a labor pool skilled in pre-fab housing construction. In addition, several of the larger scale projects still being pursued, such as the development of the Bosporus tube tunnel, might be associated with several thousand jobs. Others (besides the urban housing program) will also bring major new technologies to Turkey and help improve social and manufacturing conditions. Overall, eight projects were successfully concluded or initiated by August of 1989, representing a direct and indirect labor impact of approximately 1,200 to 1,500 jobs. (See Exhibit B for case listings and Selected Project Summaries section for case descriptions.) Seven more are either on hold or currently being developed.

BDIM is also contractually responsible for the organization and general direction of the subcontracts operated by Georgetown Venture Trading (GVT) in Yemen and Tunisia, though these programs were managed independently.

More detailed comments on the organization and implementation of BDIM's activities in Turkey are presented as follows:

- Background
- Organization and Network Development
- Project Development Strategies
- Program Results
- Conclusions

EXHIBIT A: MTAP Contractors - Project Revenues and Staff Comparison

EXHIBIT B: Status Report on MTAP Turkey Projects, Sept. 1985-Aug. 1989

Selected Project Summaries

Background

MTAP activities in Turkey took place within a country that was expanding rapidly and was increasingly open to foreign investment and trade linkages. The government of Turkey had recently liberalized its import laws in order to establish competitive market prices and strengthen local industry. Availability of foreign currency and devaluations were problems and the government-placed ceilings on interest rates limited the monies readily available for smaller projects. Overall, this environment was and continues to be conducive to projects involving national infrastructure development.

Turkey has a large middle class and an extensive commercial class involved in all the sectors of the economy. Well-trained technical and worker communities are available to support new business activity. Many sectors, such as agri-business and health care, are well established and offer major opportunities for integrated-type projects and innovative technology. Construction of housing and commercial structures is on the rise, as is the development of new highway and road systems. The development of new free-zone activities also points to a more aggressive trade orientation of the Turkish government.

BDIM is a specialized trade firm that grew out of a number of construction and manufacturing interests in Turkey. The company is closely linked with Parsons-Brinckerhoff, an international construction engineering firm that has long-term ties with the groups that helped form BDIM in Turkey. As a result, BDIM is well situated to exploit the new openness and trade orientation in Turkey and has good access and credibility in the US. This strong connection with both sides of the project transaction proved to be key in developing projects with realistic potential.

Organization and Network Development

BDIM was formed as an export trading company to exploit the increasing trade and investment opportunities between Turkey and the US. BDIM has offices in Washington, D.C., New York, and several locations in Turkey. A liaison office was also established in Geneva. In Turkey, a major cooperating partner is Technical Service Bureau Corporation. Parsons Brinckerhoff Group, the international engineering firm, was also a partner in the overall BDIM activity.

The immediate staff of BDIM was originally composed of seven people (now there are even less), of which two are junior staff industry specialists and one a legal advisor. Ugurhan Tuncata and Omer Tuncata are the principal executive personnel of the trading company, which by 1989 was principally under the control of Omer Tuncata.

Through its relationship with the Technical Service Bureau in Turkey and its supporting companies, BDIM has an extensive outreach capability in Turkey. A formal advisory board helps oversee the activities of BDIM and also acts to identify project opportunities in Turkey, the US, and Europe. Regular BDIM staff is not significantly larger than other MTAP contractors but their supporting groups add effectively 2 to 3 times more available human resources.

Extensive efforts were placed on initial investigation and project opportunity analysis. The offices of BDIM in Turkey are located adjacent to several key ministries and staff spends time with government officials to evaluate new development opportunities and major infrastructure goals. The goal of this investigative process is to accurately define and qualify major opportunities in Turkey that can be funnelled back into the US and possibly Europe. BDIM places a much greater emphasis on this type of planning. In fact, during the first year of the MTAP program, BDIM spent the majority of its time only on investigation. This differs significantly from the smaller firms in other MTAP programs that were unable to carryout such formal investigation and analysis prior to targeting areas of opportunity.

As a result of this planning, BDIM originally focused in 1987 on 11 major sectors, involving 47 separate projects. These sectors, with example projects, were as follows:

1. Banking and Insurance (e.g. Automatic Tellers)
2. Technologies (e.g. Polywater Lubricants, Electronic Locks, Video Cassettes, Alenax bicycles, Toll Highways)
3. Agroindustry (e.g. Seed production, Frozen citrus, Irrigation)
4. Textiles (e.g. Textile manufacturing, Leather Industry)
5. Publications (e.g. Publication distribution)
6. Health Equipment (e.g. Mobile Hospitals, Syringes, X-ray Systems)
7. Housing and Manufacture/Import of Material (e.g. Housing and Urban Development, Insulation Materials)
8. Heavy-duty Equipment (e.g. Equipment Leasing)
9. Communication Equipment
10. Storage Systems (e.g. Steel silos)
11. Tourism (e.g. ETI Travel, Sultaneli)

These sector orientations and example projects resulted from BDIM's research, using its close contacts to Turkish business and government to identify niches that could be linked to US technology and investment interests. This up-front planning was also a powerful tool for preparing the

search and promotion in the US. While most projects originated with a market opportunity in Turkey, some came from US companies wanting to explore ventures in Turkey. Regardless of the place of project origination, BDIM had the capability to analyze both sides of the equation, so to speak, which enabled BDIM to discard, early on, projects that were not realistic.

For instance, the project emphasis within the banking and new technologies sectors was not randomly selected; it was keyed to the major commitment of the Turkish government to projects like the Bosporus tube tunnel and other major development projects which will have spin-off service needs. In agri-business, similar targeting was linked to the focus of the Southern Anatolia Development project and the immediate construction of the Ataturk Dam. In all of these targeted areas, BDIM's background in construction helped it plan and develop credible proposals and promotion activities.

By September 1988, BDIM had reduced its active project list from 50+ to 18. All but one developed from in-depth market analysis in Turkey. Of the 18 remaining, the majority (13) involved sourcing technology from the US, including two in the area of services. The narrowing in focus was a result of their belief that more time was required to nurture and bring along projects. (See Chart A for active project list.)

PROJECT DEVELOPMENT STRATEGIES

BDIM was organized around a full-service principle. The strategy for overall growth was keyed to the idea that an intermediary must be able to carry any project through three stages:

1) Investigation
2) Implementation
3) Development

Investigation and targeting is critical to the BDIM strategy and involves careful sectoral analysis described earlier. Implementation for BDIM is associated with searching for clients and matching them to counterparts. Development includes all the activities necessary to plan, organize, and start up the actual program. BDIM was capable of promoting unique relationships because it had credibility through its partners to plan and package the project and guide it through all steps, from feasibility and market testing through technical assistance, financing and start-up. This is significantly different from the other MTAP contractors, as they were not perceived to have this capacity.

To promote successful opportunities, BDIM concluded that it must demonstrate to clients that it has a constant source of income, a proven track record in the project area, an established marketing network, and the ability to offer a full line of services. BDIM also learned quickly that it should concentrate on projects with long enough scope so that BDIM could

CHART A
BDIM/MTAP TURKEY PROJECTS
SEPTEMBER 1988

Description	Idea Source	Type	Fee Generating
Drill Bits	T	T/I	--
Saray Power Plant	T	E	--
Sports Shoes	T/US	I	--
Toll Highways	T	E	--
Tube Tunnel/Metro	T	E	--
Mobile Hospitals	T	E/F	--
Electronic Locks	T/US	T/I	--
Polywater Lubricants	T	SR/T	--
Copper Tubing	T	SR/T	--
Yachting	T	SR/SV	x
Tourism	T	SR/X	--
Home Appliances	T	SR/I	x
Insulation Materials	T	SR/I	x
Electronic Copyboards	US	SR/I	x
Housing/Urban Develop.	T	T/I	x
Training	T	C	x
Public Relations	T	SR/JV	x
Insurance	T	SR/JV	--

Key to Type of BDIM Involvement:

I = Import
C = Consulting
SR = Sourcing
E = Engineering
X = Export
SV = Service
T = Technology
JV = Joint Venture

earn an adequate return on its efforts. This was possible in Turkey but much more difficult in other MTAP countries (except India, where InterMatrix was pursuing a similar strategy).

BDIM's primary approach to project development is as a packager and organizer of projects. Its unique attitude in this approach can be best shown in a simple example involving mobile hospital vans. The government and certain health care delivery systems were prepared to purchase a new type of mobile health care system that involved several inputs. To assemble the entire vehicle, one group would supply medical equipment, another would manufacture the basic van, a third would supply the specialized plumbing and electrical services, and a fourth would act as the overall design group.

Of the four involved participants, none were prepared to organize the overall program and work directly with the principal buyer. As a result, the individual groups had specific budgets that assumed certain contingencies and delays in integrating the project. BDIM stepped in and agreed to act as coordinator of the overall program. It began with an overall commitment and letter of credit which it used to work with participants. BDIM could then offer direct guarantees to the individual participants and pressure them to reduce their costs since there were clearly stated planning commitments. In the end, BDIM would squeeze out the contingencies which became their profit margin.

Although the mobile hospital project is no longer being pursued by BDIM, the same approach is generating success in the housing project. Note that this type of activity requires close linkages with the government and the local bank, and high credibility with the participating engineers and suppliers. This approach is pursued in a multitude of BDIM activities and demonstrates the difference between interventionist project packaging and externally-provided consulting to assist project initiation.

The second major approach for BDIM is associated with establishing new businesses that fill voids in the Turkish market. The ability of BDIM to spot "niches" and then source technology and financing has led them into such projects as establishing a yachting marketing program, a new public relations firm, and an insurance program.

The final approach favored by BDIM is to seek out unique products that can be brought into Turkey and Europe through trade activities. These initial trade deals establish a basis for beginning to shift production to Turkey, as in the case of electronic copy boards, insulation materials and home appliances. Initial imports establish a market, and BDIM would then move to shift aspects of the production to Turkey. This follows traditional investment development theories more closely than the "offshore" production strategies pursued by other MTAP contractors, who are promoting cost reduction rather than direct market expansion.

Program Results

BDIM pursued a variety of trade and large-scale project development activities and achieved positive income flow by 1988. Of the 42 projects reported for September 1985 through September 1987, BDIM focused most of its attention on eight projects, which had a mix of technology-driven projects, export opportunities, and import opportunities. One very large project (the Bosporus tube tunnel project) also received major attention (See Chart C).

The source of project ideas came mainly from Turkey, as would be expected. In 1987, of 37 projects that qualified as a type of sourcing, only 7 had some type of link to a US firm initiating an idea or technology transfer. In other words, over 81% of the sourcing project concepts came through the well-established Turkish network of BDIM and its affiliates. In 1988, within a reduced group of projects, 15 out of 18 projects came from Turkey. This was in contrast to other MTAP contractors who drew more heavily on their US networks, since most of them had weaker overseas contacts.

In 1987 and 1988, most project types were directed toward import opportunities for Turkey and projects with technology-driven components. The next largest category was projects which had significant engineering and project packaging characteristics (6 of 42 identified projects in 1987). In 1987, about 8 projects were related to exports, and 4 involved some form of financing and consulting activities (see Chart B).

CHART B
TYPES OF PROJECTS
(42 in 1987, 18 in 1988)

	'87 (42)		'88 (18)	
Imports to Turkey	17	41%	11	73%
Technology Driven	13	31%	12	80%
Exports from Turkey	8	19%	3	20%
Engineering/Prj Mgmt	6	14%	2	13%
Finance/Consulting	4	9%	1	7%
		**		**

** Will not add to 100% as some projects dual-qualified

In 1987, the two projects receiving the most effort were the video cassette distribution project and the equipment leasing project, though in terms of time, developing the Bosporus tube project was comparable to the equipment leasing. The next group of projects involving a majority of time was related to technology transfer activities (bicycles and mobile hospitals). As of September 1988, BDIM had shifted its focus and was much more involved in services and large projects involving extensive sourcing in

industries with which they were familiar. Two projects involved manufacturing (mobile hospitals and copper tubing). (See Chart C.)

CHART C
PROJECTS RECEIVING GREATEST LABOR EFFORT
(Over 100 Hours)

1987	1988
Video Cassettes	Tube Tunnel
Equipment Leasing	Housing/Urban Devel.
Tube Tunnel	Training
Frozen Citrus	Public Relations
Photovolatic Panels	Toll Highways
Alenax Bicycles	Copper Tubing
Mobile Hospitals	Mobile Hospitals
Surtas Food Equipment	Insurance

An update in August 1989 revealed BDIM to have narrowed even further as they have become heavily involved in the implementation of the projects. They are currently concentrating on six projects, five of which are generating revenues. (The sixth, the housing and urban development project, is underway but not yet finished. When the houses go on the market, BDIM expects the project to earn $40 million in pre-tax income per annum.) Six more projects are on hold (i.e. anticipated to move forward but presently requiring minimum effort). (See Exhibit B.)

Although a majority of total projects have been involved in imports from the US, a significant amount of time has gone into projects that will lead to investment and technology transfer. Projects like housing and urban development, photovolatic panels, food equipment manufacturing, mobile hospitals, tube tunnel, and electronic copy boards have (or had) the potential for major job generation and/or infrastructure improvement. The training and new service activities in tourism, public relations, and insurance, which were easier to start up, are providing significant income to BDIM.

Overall, BDIM has demonstrated involvement in a diversity of projects and a strong ability to build from market needs in Turkey. There were a large number of import programs but these seem to have been balanced with an array of technology and investment type activities. BDIM's ability to carry these programs through to completion shows that its approach is appropriate, especially when it involves a large market and active industrial base, such as Turkey.

Conclusions

The BDIM experience is the strongest reinforcement of the original MTAP approach to trade and investment promotion, that argued the importance of

intermediation and the use of local networks. The project development to date demonstrates an effective access to the Turkish market and government development programs. Credibility and associated business groups gives BDIM the capability to develop both long- and short-term projects. The role of BDIM as an intermediary is leading to its involvement of new US firms and the transfer of technology that would not have happened as effectively through established trade and investment organizations, who generally do not have such developed business networks and project development expertise.

Unlike the other MTAP contractors, BDIM was successful relatively quickly in its program. The apparent key to its success was that it was attempting to bring projects, especially US technology, into Turkey to take advantage of that local market. It was not attempting to change manufacturing or improve productivity in Turkey in order to exploit foreign markets, except as a follow-on to domestic marketing. This varies dramatically from the principal thrust of most of the projects in Costa Rica, Thailand, Tunisia and Yemen.

In reviewing the overall activities of BDIM, there are a number of other factors that seem to have contributed to its success. First, BDIM was not involved in an export program, but rather sought to import technologies into a market it knew well and where BDIM knew how to identify market niches. In addition, BDIM was capable of working well with US firms who were interested in international expansion and could readily supply the necessary capacity or technology. Early on, BDIM dealt with both small and large-scale projects. Success in a few of the large efforts financed the overall operation. In fact, the development of a training program for the Turkish government was able to generate enough income to cover the other costs of project development during 1987 and 1988.

Similar to the other MTAP contracts, BDIM at first began trying to develop a large project mix. However, it learned that it could not manage 40 to 50 projects simultaneously. In the first quarter of 1987, it reduced its number of projects dramatically and was able to gain more rapid success from this focus of attention. The relatively small staff operation in the US did not burden the program with excessive overhead. In Turkey, BDIM was able to work with well-established organizations that had sources of revenue and income. Thus the cost of the program was not excessive, considering the type of projects that were being promoted.

By the first quarter of 1988, BDIM was earning money from several projects, while simultaneously continuing to develop several large-scale programs that promised extraordinary gain if they were brought to fruition. BDIM proceeded to post positive overall income for 1988, and continues to increase earnings as 1989 progresses. It is important to notice that a number of BDIM projects are closely related to its traditional background in engineering and construction.

At the same time, BDIM's effective market analysis in Turkey was able to identify important niches that it could fill through its credible access to US companies. Probably the most impressive was the ability of BDIM to establish a new public relations firm and a new type of insurance activity in Turkey. The insurance activity evolved from the work that BDIM was pursuing in the health care area, while the public relations program emerged from its knowledge that the government had been unsuccessful in its own attempt at establishing a public relations capability. The credibility of BDIM and its US partner, Parson-Brinckerhoff, was complemented by its work with A.I.D. All these factors played a role in helping BDIM to bring in one of the best known US public relations firms as a partner (Hill and Knowlton).

In the manufacturing and more advanced technology areas, BDIM has taken a more measured approach. BDIM first creates a market for US companies by importing and selling products and services. After developing some kind of market, BDIM then moves to the second stage - encouraging the firm to shift production and begin a more extensive transfer of technology. Again, this is significantly different from many of the other MTAP contractors who tried to build up manufacturing in order to compete internationally. In order to be successful, a US firm in those countries had to begin by upgrading local production capacity, and had no opportunity to generate cash flow through interim sale of equipment or services.

BDIM also proved that it could work with established TIOs and complement their activities with a comprehensive intermediation effort, for BDIM services went well beyond the general promotion and trade assistance offered elsewhere in the US or Turkey.

A summary of the overall lessons learned by BDIM is as follows:

MAJOR KEYS TO SUCCESS

1. The strategy was not to upgrade existing local production.

2. BDIM sought to attract new technology and services into Turkey, which represented a large and active market.

3. BDIM was affiliated with well-known international firms, and had strong access to US business networks.

4. BDIM maintained a relatively low overhead and could piggyback on other networking of established partners.

5. BDIM did not act as a consultant but rather focused on assembling projects in which it could contribute financing.

6. BDIM had excellent contacts with both the government and private sector in Turkey.

7. BDIM reduced its project load and ultimately focused on less than 15 projects.

8. BDIM was able to develop projects large enough in scale that only one or two were necessary to cover costs.

9. BDIM received payment principally as part of the overall licensing arrangement, as a percentage of total sales or investment, or in equity.

Transferability of BDIM capabilities remains a question. The collaboration with Georgetown Venture Trading (GVT) did not result in improved negotiating and project development in Yemen or Tunisia. Possibly, BDIM would face similar problems as The InterMatrix Group and GVT if it were operating in a country where it did not have strong initial networks.

The trading and project development attitude of BDIM seems effective and BDIM has eschewed most consulting fees in the short run to focus its attention on longer term projects. However, these types of strategies may not be any more effective than other trade and investment initiatives in small countries with less development activity than Turkey. On the other hand, the more established development experience of BDIM could add project promotion skills to A.I.D. programs in various developing countries, if coordinated properly.

Without a clear understanding of the ultimate success of a variety of BDIM's projects, it is hard to estimate the cost-effectiveness of this approach. Certainly project-types span a wide variety of beneficiary communities and it is not easy to envision a stronger alternative. Possibly, BDIM could be more closely related to national development strategies and thus use its skills to not only develop projects, but also to train and develop awareness of appropriate complex project management.

Due to support from MTAP, BDIM is increasingly known as an effective intermediary that can service both US and Turkish interests. Some effort might be given to widening the BDIM outreach in the US and formalizing its presence for the long run in Turkey. These efforts should be coordinated carefully in Turkey and with other A.I.D. countries. Keeping a balance between the market orientation of BDIM and other development goals is a critical issue for further MTAP evolution.

EXHIBIT A

PROJECT REVENUE AND STAFF COMPARISON 1988
MTAP CONTRACTORS

	TURKEY	INDIA	THAILAND	COSTA RICA	TUNISIA	YEMEN
Active Projects	20-40	4-8	8-15	8-15	3-5	3-10
Revenue Source	7 of 40	2 of 8	8 of 15	9 of 13	–	—
Costs Covered by Fees and Revenues	80-100%*	30%	60%	20%	0%	0%
Staff Level	US-4 Fgn-6-15	US-4 Fgn-2	US-0 Fgn-2	US-2 Fgn-2	US-2 Fgn-0	US-1 Fgn-0

* Over the Long term

EXHIBIT E

STATUS REPORT ON MTAP TURKEY PROJECTS
SEPTEMBER 1985 - AUGUST 1989

Description	Status (8/89)
Drill Bit	Closed
Saray Power Plant	Closed
Sports Shoes	Closed
Toll Highways	Closed
Photovolatic Panels	On Hold
Irrigation Pumps	Closed
Equipment Leasing	Closed
Seed Production	Closed
Tube Tunnel/Metro	On Hold
Frozen Citrus	Closed
Textile Mftg	Closed
Sultaneli (Tourism)	Closed
Eti Travel	Closed
TKI Reorganization	Closed
Fiberboard	Closed
Irrigation	Closed
Mobile Hospitals	Closed
Alenax Bicycles	Closed
Alattinogou (Tourism)	Closed
Geothermal Energy	Closed
Rice Paddies	Closed
Leather Industry	Closed
Steel Silos	Closed
Airport Management	Closed
Surtas	Closed
Altinoz Ag. Products	Closed
Hewlett Packard	Closed
Lab Equipment	Closed
Publication Distr.	Closed
Electronic Locks	On Hold
Wooden Poles	Closed
Coal	Closed
Automatic Tellers(with results)	Closed
Agro Products	Closed
X-ray Systems	Closed
Polywater Lubrican...	On Hold
Copper Tubing	On Hold
Emery	Closed
Kites	Closed
Yachting*	Current
Soros Harbor	Closed
Telecommunication	Closed
Catalog Sales and Promotional Products	On Hold

Home Appliances*	Current (combined
Insulation Materials*	Current with HUD proj)
Educational Toys	Closed (warehouse fire)
Export/Hi Tech Products	Closed
Credit Card System	Closed
Electronic Copyboards*	Current
Housing/Urban Develop.*	Current
Water Purification	Closed
Video Cassettes	Closed
Syringes	Closed
Security Systems	Closed
Airport Equipment	Closed
Catering Equipment	Closed
Insurance	On Hold
Public Relations*	Current
Training Programs*	Current
Language Training Schools*	Current

* denotes projects successfully concluded or with operations underway

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SELECTED PROJECT SUMMARIES
TURKEY

Construction Projects

Housing and Urban Development Project

The Turkish government has declared the construction of new housing units to be a top national priority, and through a special fund made housing subsidies available. The Turkish Ministry of Public Works and Settlement and the State Planning Office had estimated a demand of between 300,000 and 500,000 housing units per annum. Because conventional Turkish construction methods were time-consuming and costly, BDIM spent much time and effort to determine the best method by which US experience and materials could be used to remedy Turkey's acute housing shortage.

BDIM's solution was to transfer the American panelized-home construction technology (similar to pre-fab) to Turkey. This project created a market for sheetrock in Turkey, and through BDIM's efforts, the first Turkish sheetrock factory opened on April 1, 1989. (BDIM is also in the process of buying the technology to manufacture roofing insulation in Turkey, and is talking to other investors about manufacturing sheetrock insulation.) This technology transfer will provide Turkey with a faster and cheaper method of constructing quality housing, utilizing 250+ different trades (e.g. firewalling, drainage, landscaping, etc.). This in turn creates a tremendous market for American material inputs (including home appliances, lumber and insulation) -- an estimated $50 million worth of goods will be purchased in 1989. BDIM estimates 1,000 direct jobs will be created within the first year of the project, with numerous more jobs indirectly impacted: a construction crew of 16 workers is already trained and another 250 will be soon; a new management company is being formed which will employ accountants, a general manager, a sales force, etc.; and craftsmen, etc. will be required on an on-going basis.

This combination of American know-how, American and Turkish materials, and Turkish manpower, has established a new service company, introduced a new construction technology, created a market for new Turkish businesses, will have a major labor impact, and should provide at least a partial remedy to the housing problem in Turkey. BDIM decided to develop its own standard model home and in 1988 completed initial test housing. It is presently offering unique middle class housing (3,000 homes per year) and marketing activities in its role as marketing and construction agent for the program. Though not yet generating revenues, BDIM expects this project to clear a pre-tax income for BDIM and its Turkish partners of US$45 million for every three thousand homes built. Another spin-off project will probably result from the Housing project: a

bank with unique mortgage services is expected to be established by BDIM within the next year.

Saray Power Plant

Part of Turkey's Five -Year Development Plan is devoted to plans for hydro-electric power. There is a high energy demand in Turkey, and BDIM would like to form a US/Turkey consortium for the Saray Power Plant, a long term project, for a turn-key offer under the Turkish model for infrastructure projects which they have dubbed "build/operate/ transfer." Nothing has resulted as of yet, but BDIM has opportunities to supply technology and project management services at some stage.

Toll Highways

A joint venture between a Turkish and US firm could lead to joint construction of toll highways as turn-key proposals under the Turkish model of build/operate/transfer. Such a venture would mean long-term collaboration between a US and Turkish firm . For Turkey, it would result in a transfer of new construction techniques and management know-how in toll highways. In addition to technology and know-how, the project offered Turkey higher employment, while it offered a US firm sales and technical assistance plus access to a new market. BDIM, who hoped to provide the linkage services if the government project moved forward, is no longer tracking this project.

Service Sector Projects

Airport Management

Turkey's Five Year Development Plan includes the expansion of its airport facilities across the country. In addition, the government is looking hard at privatization of airports through service contracts. This project was identified by the State Planning Office of the Turkish Government and brought to the attention of BDIM's local intermediary, Technical Service Bureau Corporation. This is another project that was tracked by BDIM for several months then dropped due to delays in project start-up.

Equipment Leasing

Turkey has no construction equipment leasing companies at the moment due to old leasing laws. However, there is need of construction equipment to complete many infrastructure projects and a new law has been passed. Because Turkey had some hard currency difficulties, leasing equipment looked attractive since it lessens the amount of investment capital required in a project. This project also would have lessened the cost of carrying out infrastructure development projects to Turkish companies. BDIM approached several US firms to interest them in establishing an equipment leasing company in Turkey, but to date, no US company was willing to

commit itself to this project. Because BDIM has made no revenues its interest in developing this project has diminished.

Insurance

In this project, BDIM is seeking to join with a US insurance company to introduce life insurance to the Turkish market. Policy-holders would be required to pay premiums in hard currency but then would also receive benefits in hard currency. This project would start a new service business in Turkey and represent transfer of US service technology. Currently in the negotiation stage, this project is expected to start-up in 1990.

Leather Industry

The leather industry of Kazlicesme (Istanbul), covering 80% of the sheep and goat leather industry in Turkey, plans to relocate 200 companies to Tuzla (Istanbul)— and in the process plans to completely reorganize and modernize its infrastructure to increase efficiency.

To modernize, Turkish companies sought US joint venture partners, particularly in the areas of leather manufacturing, ready-to-wear goods and sports shoes. In addition, an effective, tight management group was needed to ensure that new leather complex was planned and managed efficiently, rather than leaving all parties at the same or lower level of efficiency. Due to a lack of local interest in pursuing American partnerships, BDIM has dropped this project.

Mobile Hospitals

The proposed mobile hospitals project would establish a local manufacturing capability to supply mobile hospital units for rural and emergency health care in Turkey. There are three primary uses for mobile hospitals in Turkey: earthquake and disaster areas, tourist areas and agricultural hinterland. Further, mobile hospital facilities could be exported to neighboring countries during times of national emergencies and disasters.

For Turkey the project offers new technology, new high-tech medical equipment and two kinds of education. First, Turkish doctors and medical staff will be working with a team of Americans and thus receiving training in state-of the art medical facilities. Secondly, mobile hospitals can help to educate the people of Turkey in general health while spreading the benefits of immunization and more available medical services. For US firms, the project offers a new market for sales of equipment for production, exports of high-tech medical equipment and technical assistance. This project has been delayed due to inability to complete the financing and packaging.

Publication Distribution

This publication distribution project offered Turkey access to technical and educational know-how, a direct transfer of written knowledge and research results. Materials would include scientific, engineering and medical journals, educational textbooks, etc.

BDIM wanted to link a publications distributor from the US with a distributor in Turkey for the sale and distribution of printed materials in Turkey. For Turkey, the project offered increased small business involvement and employment. For the US firm, the project offered sales and access to a new market. BDIM dropped this project when it was determined to have limited market potential.

Public Relations

Consistent with its philosophy of bringing new business to Turkey's growing economy, BDIM established the first public relations firm in Turkey in partnership with Hill and Knowlton, the largest public relations firm in the world. Hill and Knowlton, which does not have affiliates in any other country, has a minority ownership in the Turkish firm. Through the Hill & Knowlton network, this new PR firm has already obtained 130 client companies seeking assistance in establishing themselves in Turkey's growing market. Many are also looking toward Turkey's application to the EEC as a way to expand markets in the future. This project, which currently employs 6 people, generated $270,000 in sales last year, $165,000 of which was retained earnings that were re-invested in the business. BDIM expects this firm to generate $2-3 million/yr. in the upcoming years.

Government Training Programs

This project transfers American know-how to Turkey and expands the potential for new business development and represents a significant public/private collaboration. With the idea of servicing the Turkish government in the US in order to generate hard currency, BDIM approached the Ministry of the Interior to see what their training needs were. These discussions resulted in a plan for BDIM to arrange short-term training assignments and a goal that in 10 years, 80% of the governors and sub-governors would have US college degrees. One example of the types of short-term training BDIM is currently arranging was bringing a group of 40 governors to America for 9 hours of seminars provided by the National Governor's Association. At present, approximately 215 Turkish government employees are being trained/educated in the US. While this project is an exception to BDIM's profile (they work on a contract basis with lump sum fee), BDIM views it as a long-term business generator because it extends their network. Not only do they get the opinions of American-trained government officials on what will and will not work in Turkey, many of the returned trainees also refer business development projects to

BDIM. Also, BDIM helps to link regional officials in Turkey with their counterparts in US State governments which in turn leads to coordination on project development. This project thus results in transfer of American methods, which improves the efficiency of Turkish bureaucracies, and establishes Turkish-American business relations for project development.

Language Training Schools

In coordination with BDIM, Berlitz will be opening a number of language training schools in Turkey in this project, which is a direct outcome of the training programs project. BDIM uses Berlitz to provide language training for Turkish public servants studying in the US, which encouraged Berlitz to explore opening schools in Turkey. BDIM, which has an exclusive agent relationship with Berlitz for all Turkish business, formed a Turkish company for the schools, three of which opened in August, 1988. The new company has a contract with the Turkish government which begins in January 1990. This project, which generates a commission and annual retainer for BDIM, brings new investment and transfer of administrative know-how to Turkey.

Trade Projects

Alenax

Alenax, a US company, offered a new technology for bicycles and wheelchairs. The company had developed and patented a "transbar mechanism", which replaced the rotary pedalling motion of bicycles with a more efficient, up-and -down pedalling motion. The transbar mechanism increased power by as much as 60%. The technology was also new in the United States.

For Turkey, this project offered new technology, a new market, higher employment and a small business involvement (especially through distributorships), and in the long-run, potential exports. For the US, the project offered sales. Unfortunately, the US company went bankrupt.

Automatic Tellers Machines (ATMs)

BDIM approached Turkish banks to explore the possible creation of a pool of banks that would purchase automatic teller machines (ATMs) in the same way as a similar teller in the US may serve a number of money-channelling networks (e.g. Most, Cirrus, Network Exchange, etc.).

Once the automatic teller was introduced into Turkey, a distribution network could have been established. The project offered Turkey a new service technology and enhanced its financial services capabilities. In addition, this project would have required management and technical training to operate the business and to service the ATMs. BDIM ended up

selling this project idea to the Turkish banks. Today, almost all Turkish banks have ATMs.

Electronic Locks

BDIM and its local intermediary, Technical Services Bureau, negotiated with a US manufacturer of electronic locks to represent the company in Turkey for the sale of electronic locks. To import the product at a reasonable cost, it would be necessary to establish some local assembly and manufacture. Furthermore, if the market proves to be promising, more full-scaled co-production in Turkey between the US and Turkish firms might result and the inventor of the product could carry out some research activities in Turkey to improve the capability and application of the lock. The project is on hold, however, until legal action which the inventor is pursuing against the company which installs the locks in the US is settled.

Irrigation Pumps

A joint venture between a US manufacturer and a local Turkish firm could have lead to production of the pumps in Turkey for sales there, in the Middle East and beyond. Local production offered a US firm, in addition to producing sales in Turkey, plant and equipment sales, licensing agreements and distributorships. Local production also offered Turkey new production technology, increased employment and local value- added.

The US partner firm has dropped its interest in the project due to internal matters within the organization.

Polywater Lubricants

Polywater lubricants are new cable lubricants for conduit lines. As a result of initial project development efforts, BDIM and its local intermediary, Technical Services Bureau are currently the sales representative for these products in the Turkish market. BDIM anticipates greater involvement when numerous infrastructure projects such as power plants start up in Turkey. These projects require tremendous amounts of electrical work and these lubricants, which make wire easier to move, etc. can cut labor costs significantly. If market demand warrants it, the parties may explore the possibility of establishing a manufacturing facility in Turkey for sales in Turkey and exporting to Near and Middle Eastern countries.

Security Systems

A US firm was found to supply electronic security systems for Turkey. This project would have offered Turkey technology transfer and training for installation and maintenance of the security systems for Turkey. For the US firm, it could have meant sales in a new market and new income from licensing technology. For both countries, the project could have promised long-term trade plus the potential for expansion into other lock and

security systems markets. However, the project was dropped due to lack of commercial viability.

Syringes

The Turkish Ministry of Health (MOH) was offering a tender for 26 million disposable syringes and hypodermic needles to be used for the national immunization campaign which began in 1985. (MOH is promoting the use of such disposable syringes and needles.) MOH received syringes and needles from UNICEF in 1986, but prices have since doubled. Local Turkish production was both expensive and of poor quality.

In addition to finding a good bid for this year's needs, MOH wanted to match its Health Foundation with a foreign manufacturer to produce syringes and hypodermic needles in Turkey for the Turkish market and potentially for export to other Middle Eastern markets, especially Iran, Iraq and Syria. Health Foundation board members felt that regulations allowed for the formation of a private company, making a joint venture possible.

BDIM and its local subsidiary, Technical Services Bureau, prepared a proposal for a project with a foreign manufacturing firm. However, the tender was withdrawn.

Video Cassettes

In 1986, the Turkish government passed a new law to protect its film industry and to provide a framework for the registration and introduction of foreign video cassettes in Turkey. However, US film companies were reluctant to enter into this video market where ninety percent or more of that market is pirated video cassettes.

The project would have offered Turkey a legitimate access to this entertainment medium. The concept was to establish a reproduction and distribution facility in Turkey, providing employment and technical training. For US firms, the project could have provided protection from black marketing and assured returns on sales and royalties as well as sales in reproduction facilities, licensing, and technical assistance. This project received major attention from BDIM, who negotiated with numerous US firms, until 1987 when BDIM decided it could no longer invest time and money pursuing it. BDIM points to this project as a good example of what can happen to an intermediary who tries to enter an industry about which it knows virtually nothing.

Wooden Poles

Postal-Telegraph-Telephone (PTT) had put up a tender for 300,000 wooden poles of American yellow pine. BDIM wanted to introduce small to medium US wood producers into the international market by bringing

them into this tender. In this way US companies could have explored a new market.

An important consideration was the creation of new free trade zones in Turkey. These could have presented US companies with a potential storage place for wooden products intended for Middle Eastern countries. The project was dropped when the tender was withdrawn.

X-Ray Systems

The X-ray systems project began with a tender from the Turkish Ministry of Health. When the project came to the attention of BDIM, it found that the type of system tendered had been outlawed in the US for a decade because of its high radiation content. Because of this fact, the Turkish government subsequently withdrew the original tender. This project is currently in the Turkish courts. If the government comes out with a new tender, BDIM will work with a US company to prepare for this tender.

Tourism Projects

Sultaneli

Tourism is a wide open industry in Turkey, almost virgin territory, and yet a part of the exciting Mediterranean tourist market. In this project, a Turkish firm was willing to give up its land to a US investor for 50% ownership. It would have relinquished all control to its US partner, allowing the US firm to supply its own facilities, technology, management, administration, marketing and finance. BDIM dropped this project in 1988.

Alattinogou

Another Turkish firm was willing to give up its land for 50% ownership in a tourist facility to a US investor. It would have relinquished all control to its US partner, allowing the US firm to supply its own facilities, technology, management, administration, marketing and finance. The project offered Turkey increased employment, small business involvement and foreign earnings (without exporting). For the US firm this project could have offered complete control in a newly opening market. This project did not go forward.

Eti Travel

A large, wide-ranging tourism agency in Turkey with a full network of hotels, yachts, and flights, sought management and marketing assistance from a US partner. The Turkish firm wanted a US travel agency to help market Turkish tourism packages in the United States.

Such a project would have offered Turkey development in a field that generates foreign exchange without exports, brought new management and marketing know-how, helped small businesses and increased employment. For the US, the project would have offered a new market for US tourism. However, this project also did not go forward.

Yachting

BDIM has developed a yacht-chartering project in an effort to move away from capital-intensive projects normally associated with a developing tourism sector. The yachting project takes advantage of equipment that is already in place and manpower that is experienced in the yacht chartering business. BDIM has located a reputable travel agency in Turkey familiar with this business. This agency is eager to book US parties on top-of-the-line boats, and to coordinate their entire vacation in Turkey. BDIM markets the trips directly through their US business network and clients, encouraging them to visit Turkey if they are considering doing business in Turkey. BDIM earns a service fee by securing the bookings and coordinating communication between the US client and the Turkish agent. This is a very low-key and simple project that continues to generate hard currency for BDIM off its existing business network.

Agricultural Projects

Frozen Citrus

A US firm approached BDIM to locate a Turkish joint venture partner for the local production of citrus concentrate for export. BDIM, through its local intermediary, located a Turkish partner. However, the US firm, because of other financial commitments, elected not to proceed with the project for the time being.

Central Anatolia Integrated Broiler Production

The project required a transfer of technology and 70% foreign credits to produce 14,000 million tons of dressed and packaged broiler meat. Seventy-five percent of broiler production would have gone for consumption around the vicinity of Ankara, and twenty-five percent for export in the Middle East - primarily Iran and Iraq. The project was unsuccessful in matching two partners.

Cukurova Fresh Fruit And Vegetable Export

This project would have included contract farming, grading, packaging, marketing, and exports. The project, initiated in Turkey, required technology and 50% capital investment to realize export of 30 million tons of packaged products to the following Middle Eastern countries: Iraq, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, and UAE. Nothing resulted from BDIM's efforts.

Marmara Frozen Fruit And Vegetable Export

This project, originating with a Turkish firm, Agrotek, required technology and 50% financial investment for exports to Europe and the Middle East. The project would have integrated the agricultural sector up- and down-stream: contract farming, processing and marketing. Agrotek found that five major European countries (W.Germany, France, The Netherlands, Italy, and Denmark) imported 665 billion tons out of an annual trade of about 900 million tons in the European fruit and vegetable market. The Marmara project planned to export 10 billion tons mainly to three European countries: W. Germany, the Netherlands, and the United Kingdom. No appropriate investor was found.

Seed Production

A Turkish firm sought a US firm for technology in seed production. More specifically, the firm wanted a trade relationship for importation and financing if necessary, in addition to technology.

BDIM examined laws protecting seed production in Turkey. In fact, BDIM brought the matter before the Turkish-US Business council. BDIM found that the laws protecting seed production in Turkey do not protect local producers sufficiently from foreign parties. Therefore, until the laws change in favor of the interests of local seed producers, BDIM will not enter into this industry.

Surtas - Food Processing

A Turkish firm, Surtas, wished to enter into a joint venture with a US firm. The Turkish firm was willing to put up capital, land and supplies (i.e. seed). A US firm was willing to supply technology and further capital.

The facilities would have been located in Southeastern Anatolia, where the Turkish government has encouraged large scale agricultural development. In fact, the government itself had taken the lead in this development with its Guney Anadolu Progresi (GAP), a major development program which included water and electrical investments. In the first phase, the proposed venture would have produced macaroni, semolina, bulgur, biscuits, wafers, dry soup mixes and rice flour. In the second phase, it would have produced vegetable oil extract and animal feed.

The facilities would have increased demand for agricultural output in the Southeastern region, thus increasing employment for farmers and the need for related services. Production would have given Turkey a new technology, generated local value and higher employment. For the US firm it would have produced sales in production facilities, licensing and technical assistance. Unfortunately, the project was not able to emerge successfully.

Manufacturing Projects

Drill Bits

A Turkish firm approached BDIM in need of a US partner to improve the firm's technology in order to upgrade the quality of its drill bit products. To date, low quality and poor regard for the local products had hampered this firm's sales in Turkey. BDIM was unable to develop appropriate partners and dropped the project in 1988.

Photovolatic Panels

BDIM sought to create a joint venture between a US and Turkish company to co-produce photovolatic panels in Turkish facilities. Manufacturing there would offer Turkey technology in production, higher employment and local value-added in a new market, while offering the US firm sales of plant equipment, licensing and technical assistance. Distribution would then follow, giving Turkey higher employment and more small business involvement, while furthering the sales market in Turkey. Once photovolatic panels proved solar energy viable, Turkey could export the panels which would generate foreign exchange and further market access. The US firm could increase sales. To date, BDIM has been unsuccessful in getting a California firm to complete the deal, but the project remains on hold for further negotiations.

Textile Manufacturing

Developing textile manufacturing for export was a project which originated when a US firm approached BDIM in search of cotton-based textile supplies from Turkey. The US firm initially offered to set up a manufacturing joint venture with a Turkish company but subsequently backed out of the project.

Mining Projects

Coal

The coal project was a Turkish tender for 1.2 million tons, which was to become regular on an annual basis. BDIM was interested in this project largely as a source of cash to cover expenses for its MTAP operations. To meet this tender, BDIM tried to match a US coal producer with the Turkish buyer. For the US firm, this project could have offered a new market for coal in the painfully soft US and world coal markets. However, this tender was unsuccessful.

Miscellaneous Business Projects

Catalogue Sales and Promotional Products

BDIM explored the idea of introducing the catalogue sales approach to Turkey. The reasoning behind this was as follows: in the past BDIM had found that Turkish firms were extremely reluctant to manufacture foreign products under a licensing arrangement. They are reluctant because the product is generally unknown in the country and, thus, its market potential is an equally unknown factor. At the same time, BDIM had done research that showed considerable growth in the professional employment of women. For these reasons, BDIM decided it was a good time to adopt the catalogue sales approach as a means to introduce American consumer products to the market. The hope was that once such products began to sell and to develop a market share of their own, the idea of manufacturing in Turkey under American license would become much more attractive. Thus, the catalogue sales approach was a method of exploring a market without risking a great deal of capital.

BDIM solicited catalogues from a variety of US companies and selected a small number of catalogues offering top products with which to work. Ultimately, BDIM intended to establish catalogue showrooms in several urban locations. This project had unintended results, generating an overwhelming response from Turkish manufacturers who hoped that BDIM could market their products to US catalogue companies, which might be interested if the product was cheaper and of equal quality to ones already included. BDIM staff found themselves overwhelmed by this response, so decided to tailor this project to promote their work in other, more lucrative areas. Their first test catalog, then, will be for housing materials, which they expect to produce by 1991.

Catering Equipment

This project was a tender from a Turkish firm to purchase equipment for an airport facility. The firm sought foreign sources because the equipment needed was not manufactured in Turkey. BDIM was not successful in developing a viable tender.

Airport Equipment for Izmir Cumavaosi

This project involved a demand for airport equipment for the Izmir Cumavaosi Airport. A Turkish firm was looking for a firm to enter into a joint venture for the production or assembly of equipment in Turkey. (Some specialty parts would have to be imported.) Such a project offered Turkey new technology, local value-added, and other employment. For the US firm, it offered sales of plant equipment, licensing, technical assistance, and increased sales. No venture resulted from the project's efforts.

A related project was a tender for conveyor belts and passenger loading bridges at the airport. In order to supply the tender, a US firm would have to either co-produce conveyer belts in a joint venture with a Turkish company or subcontract the production with a Turkish firm. Such actions could have provided Turkey with the technology and know-how for the production of this product, as well as technical assistance and training in the operation of the production facility. For the US, it offered sales in plant equipment, licensing for technology and know-how, provision of technical assistance, and subcontracting agreements. The project was not believed to offer enough commercial viability and was dropped.

Copper Tubing

The copper tubing project involved the use of a special new manufacturing process, called the "Stewart Process" by its originator. The "Stewart Process" reduces steps in manufacturing and thus labor inputs. It can be used for several metals (copper, brass, steel). The reduction in processing and labor translates into large savings for the investor.

A joint venture with a Turkish company would give Turkey access to a special new technology, which might result in Turkey's success in the copper market. A copper tubing plant using the Stewart process would mean greater employment, local value added, exports and foreign exchange earnings.

For the US firm a joint venture would mean sales of licenses, plant equipment, and technical know-how. Moreover, a joint venture, manufacturing metals in Turkey, could open up more than the Turkish market. Once established, new markets could be opened for exports. Further, Gulf States, which are scarce in labor and thus capital-intensive, might find the "Stewart Process" enticing for their own manufacturing. This project is presently on hold from the US side, though BDIM's out-of-pocket costs have been covered by arranging the licensing of the technology. BDIM expects this project to move forward by 1992, and if so, it may generate between US$500,000 and 1 million of combined joint venture fees and licensing revenues for BDIM.

Educational Toys

BDIM was approached by a Turkish party on behalf of a group that was establishing a new school. They wanted to furnish the school with a variety of American-made educational tools, ranging from toys to blackboards to computers. BDIM started exporting the American materials they needed, but $13,000 worth of toys were burned up in a warehouse fire, so the project was dropped.

Electronic Copyboards

BDIM located a US manufacturer of premium electronic copyboards and secured product representation for Turkey. The electronic copyboard is a versatile piece of equipment capable of producing instant copies of anything written or drawn on either of its two blackboard-like surfaces. It can be used in the classroom, boardroom, and in a military planning environment. BDIM located a marketing group in Turkey eager to sell the copyboards, and some sales were made. Unfortunately, this project was put on hold when the Turkish government put quotas and performance requirements on high-tech products.

Hewlett Packard

This high-tech US firm approached BDIM and its affiliate TSB for representation in the Turkish market for its high-tech product line. BDIM proposed that the firm consider a joint venture with a Turkish firm for co-production in Turkey. This project is no longer viewed by BDIM as a major opportunity and so has been dropped.

Hi-Tech/Export Items

BDIM has located a marketing group in Turkey that is desirous of selling high-tech, state-of the art products such as hand held copying machines and other electronic gadgets. BDIM is in the process of selecting a limited number of such products to work with in Turkey.

Home Appliances

BDIM has approached major US manufacturers of home appliances and has received their wholesale export prices with a view to exporting American home appliances to Turkey. These appliances will be sold both by 1) making them available to the Turkish public in catalogue showrooms (see above) and 2) including them as standard equipment in the houses to be constructed in BDIM's housing project. Along with the insulation materials project, this project has in fact been melded into the housing project.

Irrigation

Irrigation was a project connected to the construction of the Ataturk Dam on the Haran Plateau. The project is in its early stages. There can be no action for three years until the dam is scheduled for completion. A US firm, however, had approached BDIM to search for a Turkish firm interested in irrigation. BDIM will be ready to match firms so that the US firm can send its technology and know-how.

Water Purification

BDIM is in the process of researching the US market for the manufacturers of water purification/desalination devices. The growth in Turkish population and in the number of tourists who use the Turkish coastline has began to pose serious problems in the availability of potable water. Although the technology appears to be too costly for any wide-scale application, it was thought that in selected uses (e.g. a luxury resort hotel complex) the recent breakthroughs in desalination may prove cost-effective. This project was dropped for lack of commercial viability.

APPENDIX B:

MTAP Program in Thailand and India: The InterMatrix Group (IG)

APPENDIX B

MTAP PROGRAM IN THAILAND AND INDIA
THE INTERMATRIX GROUP

The InterMatrix Group (IG) was selected to participate in the MTAP program because of its ASEAN regional presence, although it lacked functioning offices in either Thailand or India. Early strategies to develop a mix of trade and investment programs failed and initial networks in India and Thailand proved inadequate. Later project development efforts involved reorganization of initial country networks and the shifting of project development strategies from the early MTAP objectives of servicing small to medium-size firms to development of projects for larger companies initiated from the United States or Europe. IG has stabilized its organization and is presently achieving promising results in both countries. IG appears to be established for the "long run."

The design of the MTAP program hypothesized that small or medium-sized consulting firms could be encouraged to establish joint venture or co-venture development programs in LDCs. The InterMatrix Group was committed to carrying out this type of activity in Thailand and India, but soon found that they had to focus their attention on projects for larger companies originating from Europe or the United States. This is consistent with its traditional consulting strength and large-scale corporate client base in developed countries. Initial attempts to broaden the scope of project opportunities to include small trade and technology projects did not succeed largely because of the great amount of time it takes to develop these projects; the lack of awareness and interest among small and medium-size American firms; the existence of cultural and local business practices which can inhibit innovative and successful project activity; and the inability of these projects to offer opportunities for securing ongoing fees.

By late 1988, IG had been in operation in Thailand for nearly three years and more than a year in India. In the beginning, there were problems with creating networks to support project development in both countries. Consequently, realizing income from projects to support MTAP program activities was delayed. However, IG developed appropriate relationships in Thailand and India between government institutions and other intermediaries. After two changes of network structure in Thailand and one in India, InterMatrix finished 1988 with an optimistic attitude about both countries. Thailand had seen few completed ventures but consulting income was at a break-even point. India seemed to benefit from the experience of IG in Thailand and, after the initial networking problem, IG developed an adequate consulting income to stimulate increased project development for 1989.

The InterMatrix Group's experience in developing trade and investment activities in Thailand and India will be discussed as follows:

- Network Development and Organizational Structure
- Output and Performance
- Future Plans and Development
- Selected Project Summaries

Network Development and Organizational Structure

Early MTAP research determined that an intermediary's success in developing trade and investment activities in LDCs would depend on having well-established networks in the United States and local countries. The InterMatrix Group, however, did not have a network in place in Thailand or India. IG therefore, encountered substantial difficulty in identifying potential partners and organizing effective networks in both countries. The cost and effort to develop these networks was significant. Unlike the MTAP program efforts of ICS in Costa Rica or BDIM in Turkey, InterMatrix stressed the need for some, albeit modest, up-front payment and sought major consulting fees to finance its long-term presence and continuity. The purpose of the up-front fees, in addition to cash-flow, was to establish the prospective client's level of commitment. Smaller trade-oriented projects were turned over, after the first year, to informal associates to pursue. The InterMatrix Group did not avoid this type of project per se, but found it had to target larger strategic planning activities in order to build cash flow.

The InterMatrix Group underwent several major network reorganizations in Thailand and a significant restructuring of its organization in India. Its initial US personnel structure included a mix of senior consultants and other individuals who possessed general trade and economic development backgrounds, including staff from cooperating nonprofit groups. This mix contributed to IG's ability in carrying out project development planning as part of its regular activities, but seemed to lack the commercial focus that was later developed in 1987.

Consequently, IG determined that a staff of this type could not be effectively used to carry out the MTAP objectives. In the first year, significant work was assigned to the Volunteers for Technical Assistance (VITA) and the United States/Association of Southeast Asian Nations (US/ASEAN) technology program, but IG could not rely on these groups for client development or project planning assistance. In 1987, it elected to continue without these subcontractors and to concentrate solely on program activities developed by its own US staff and network associates in Thailand and India.

The InterMatrix Group was aware that it would experience difficulties in locating the right staff blend in Thailand. During the first six months, a variety of individuals and groups were interviewed, but usually their access to different communities within Thailand was too limited. For instance, one group would be strong within the Chinese community, and another would have greater access to the emerging Thai commercial class. These types of strong cultural divisions and business loyalties created major obstacles for foreign firms within the Thai environment.

Initially, IG selected a country director who was involved in other business activities, a fact which later resulted in his inability to support IG's program effectively because of conflicting priorities. A part-time relationship was then developed with several other consultants. A small support office was set up, headed by a qualified younger Thai. During 1987 and 1988, problems developed with senior advisors in Thailand who tried to dominate their own projects and those of other staff members to an excessive degree. It became increasingly difficult to control and manage these entrepreneurially-oriented individuals. Since they were not providing a sufficient number of new projects, while IG's US contacts were providing better project opportunities for Thailand, their active participation was reduced. Although still considered friendly advisors to the program, they currently do not directly manage projects. In 1987, the new organizational structure brought together a staff with more senior consulting experience, including a former senior associate of Arthur D. Little who had extensive experience in Asia, a former executive from United Technologies who brought additional planning and strategic skills, and other consultants who had been previously involved in production sourcing activities.

By the end of 1987, IG had significantly restructured its organization and begun to focus more on larger-scale strategic projects which they could assist with strategic planning support. Its mix of involved US staff reflected a greater emphasis on senior consulting skills and a decreased reliance on subcontractors and cooperating organizations. The reorganization of the IG's overseas networks reflected this same shift in strategy. Its initial expectations in Thailand, and later in India, for local project identity were unrealized. Experience proved that the development of new clients depended heavily on IG's ability to provide ongoing senior consulting support. Plans to create a trading company were abandoned because of IG's judgment that such a company would require heavy capitalization to carry the risk and that it would be difficult for a new IG trading company to differentiate itself from the other already well-established trading companies. IG refocused its attention upon traditional strategic planning and project development strength in Europe, the United States and East Asia. The InterMatrix Group has invested heavily in the development of appropriate networks in Thailand and India and is now better organized to pursue long-term project activities. IG will probably continue in both countries with or without MTAP support.

Output and Performance

Although the number of active projects being developed by IG has decreased and no major investments or programs have been consummated to date, IG has been successful in generating fees from a number of large clients. In spite of the extensive amount of time required to develop large-scale projects, IG is continuing to invest substantial resources in their promotion. During the third year of the MTAP contract, IG realized approximately US$150,000 in consulting revenues, which did not cover all out-of pocket costs, but does justify an on-going commitment to Thailand and its new programming in India.

The following are separate descriptions of IG's experiences in Thailand and India.

1. Thailand

The InterMatrix Group began to see positive results in Thailand by the end of the field trial period. It began to generate significant income as a result of the shift back to a consulting and project development strategy rather than developing trade-related fees. The MTAP project in Thailand was successful because it introduced a new intermediary organization that focused its activities on US and Thai business transactions. Existing trade and investment organizations have been collaborating with IG in both countries and IG's major strategic planning and project development skills appear to be uniquely complementary.

InterMatrix found that local companies in Thailand often resist discussing any kind of program idea out of a fear of losing concepts to competitors. A number of situations occurred in which IG was promoting project activities only to find the concept had been developed independently by the client. This type of redundancy was similar to Georgetown Venture Trading Company's activities in Yemen and Tunisia where the local market was dominated by European corporations and intermediaries who had access to strong financing that could attract projects from companies with lesser resources.

In terms of actual project development in Thailand, IG's larger-scale projects will not be completed for several more years. Two projects, the cleaning appliance project and a US telephone parts assembly project, were initiated in the United States. In addition, a client developed an interest in offshore production in Thailand at a US workshop organized by IG. Although IG has not provided extensive support, it did play a modest role in getting these ventures moving toward Thailand.

The shift in InterMatrix's strategy from small and medium-sized venture projects to larger-scale US and European ventures becomes evident when we review the projects that were pursued in August of 1988 as opposed to those under consideration in June of 1987 (See Table 1). Earlier projects

Table 1

SUMMARY OF PROJECTS
ESTIMATED THAILAND IMPACTS AND PROBABILITY OF COMPLETION
JUNE 1987

Project	Type	Direction	Potential Impact
Transformers	I	US	100 jobs
Writing Instruments	D	US	50 jobs
Industrial Gloves	D	US	25 jobs
Cash Registers	D	US	1000 jobs
Color Scanners	D	US	100 jobs
Jewelry	E	US	200 jobs
Travel Barter	T	US	300 jobs
US Food Processing	I	US	500 jobs
Otis	I	US	100 jobs
Garment	E	Thailand	50 jobs
Furniture	D	Thailand	50 jobs
TeleCom Equipment	D	US	100 jobs
Watches	D	US	200 jobs
Kites	E	US	50 jobs
Construction	I	US	100 jobs
Electronic Components	D	US	200 jobs
Bravo	JV, Exports, Financing Investment		200 jobs
Casting	I	US	100 jobs
Golf bags	D	US	50 jobs
Hinges	D	US	50 jobs
Tourist Film	S	Thailand	?
Industry Film	S	Thailand	?
Valves, fittings	D	US	100 jobs

SUMMARY OF PROJECTS
MTAP THAILAND
AUGUST 1988

Project	Type	Origin	Potential Impact
Construction	I	US	100 jobs
Food Processing	JV	US	500 jobs
York Air Freight	JV	Europe	100 job
Food Processing	JV	Europe	200 jobs
Financial Services	JV	US	50 jobs
Latex Products	S	US	50 jobs
Auto Parts	S	US	50 jobs
Bravo Electronics	S/JV	US	50 jobs
BVP Venture Capital	JV	Thailand	30 jobs
Telephone Products	S	US	50 jobs
Dana Mechanical	S	US	100 jobs
Cleaning Appliances	JV	US	100 jobs
Belgian Food Products	JV	Europe	100 jobs
Xerox	S	US	50 jobs

included a wide array of drawback activities - including industrial gloves, cash registers, garments, and jewelry. The 1988 projects were larger and demonstrated an increased involvement with European firms.

As of the end of the project, there were two projects that were actually producing results in Thailand and six others generating enough revenue to cover basic out-of-pocket costs.

2. India

IG applied the lessons learned in Thailand when setting up its structural organization were applied to its organization of activities in India. IG found an Indian consulting firm with similar trade and investment goals. The plan was to develop Indian projects by offering technology searches in the United States to local firms. This approach allowed IG to provide unique services while becoming familiar with Indian firms to which it could then offer more extensive consulting services.

The relationship in India began to deteriorate almost immediately. The Indian consulting firm was receiving a fixed fee in local currency for small technology search reports. However, it was necessary for IG to carry out these searches in the United States, where it could not receive hard currency for its services. The US staff was executing a wide variety of searches for Indian companies. IG believed these companies lacked the capability of developing the searches into large-scale projects. IG found itself in a conflict regarding the types of clients being developed and the ability of the Indian consulting firm to be more selective in terms of the clients to which it offered technology search assistance.

This conflict led to the establishment of new relationships with consultants in New Delhi and Bombay. These were selected because they had strong planning and organizational development skills and could be used to support some of the short-term consulting and project development strategies that InterMatrix was using in India. The technology search technique was abandoned in favor of a program focused more on strategic planning and long-term market access for Indian firms.

Active program promotion by a US IG senior executive developed several major consulting contracts. Two programs supported by the Bank of India and the US Department of Commerce are also being developed. Currently, four major projects from India, the United States, and Europe are being actively pursued, from which IG is receiving significant fees - a positive indication of their credibility and service to both Indian and US firms.

SUMMARY OF PROJECTS
INDIA
AUGUST 1988

Project Type	Direction	Origin	Potential Impact
Automotive Components	I	US	?
Multi-products	E	India	100-700 jobs
Information Services	E/D	Europe	100 jobs
Sports Equipment	I	US	100 jobs

To locate a larger number of serious clients, IG improved its database and developed direct contacts with companies operating or considering major operations in India by conducting a major market survey of US manufacturers with operations in India. This survey also served to build IG's credibility and enabled it to offer highly specific services related to India. During the first year of IG's program for India, client development initially resulted from IG's contacts in the United States and Europe. Of the four major projects, two were developed from the United States, one from Europe, and one from India. None has yet yielded positive results, but InterMatrix is drawing down significant fees, which is a positive indication of their credibility and service utility to both Indian and US firms. In addition to the client promotion by local associates, IG senior staff sold a major strategic planning contract to a large multi-product Indian group and established an opportunity to provide training and strategic planning for a second.

At the end of the field trial period, InterMatrix was pursuing several large Indian groups with plans to provide different types of consulting services. From these initial management consulting services, it is expected that the clients will become more comfortable with InterMatrix and use them for long-term project development. No new ventures per se have resulted to date in India as a result of MTAP, but several negotiations are in progress.

Future Plans and Development

IG has changed their strategy and approach to Thailand and India. The earlier broad approach to client promotion has been narrowed and efforts are made to earn fees through consulting and not trading. Different networks are being used and IG is looking increasingly toward attracting investment from Europe and Asia.

A significant shift in the shares of foreign investment evolved in Thailand during the MTAP program. In 1985, the US share of new foreign investment was around 50 percent; by 1986, that share had dropped to around 4 percent. The majority of new investments were represented by Japan, Taiwan, and Korea, demonstrating that US industry was much less interested in Thailand than were the newly industrialized ASEAN countries or Europe. Subsequently, there was US interest increased

slightly in 1988, but Japan, Taiwan and Korea continue to dominate in terms of new projects.

Because of this shift, IG can be expected to continue focusing on its links with Japan, Korea, Taiwan and Europe as well as intensifying its efforts in the US. IG will also continue its focus on providing consulting and project development services for large-scale projects as its principal income generator. In addition, it will continue to develop clients through direct contact and through its specialized training and information seminars in both the United States and the region. In India, IG will concentrate on building a reputation through strategic planning and consulting services which it expects will lead to increased new venture development opportunities. With or without A.I.D. support, InterMatrix seems to be committed to providing intermediary services for Thailand and India.

Selected Case Studies

Venture development in Thailand faced a number of obstacles, not the least of which was a partly faulty initial concept of what InterMatrix could best provide in the Thai context. The following case examples have been organized and structured to reflect the particular problems of Thai venture development as well as venture development problems, in general. InterMatrix has concentrated more on consultation than profits from trading fees and on large-scale rather than small-scale projects.

The American Can Food Processing Project

This project was developed in 1987 when IG brought American Can representatives to Thailand to investigate establishing a processing plant to produce specialty items, such as Mandarin oranges, for the US market. This major large-scale project required significant support from American Can, local growers and food transporters. It presented major difficulties associated with sourcing raw materials and assuring US market quality. American Can has invested significantly in the testing and strengthening of its distribution networks for these products.

The Bed Linen Project

A direct drawback-type program for which IG was developing export markets for Thai silk bed covers through a US trading company.

The Belgian Food Product Project

Following IG's recommendations, a Belgian food manufacturer selected Thailand as one of their three priority countries for geographical diversification into Asia. InterMatrix Thailand is involved in identifying product and joint venture opportunities. Discussions have begun with several targeted Thai companies. It is expected that the Belgian firm will

invest in two or three food-related ventures over the next two or three years. IG will be involved in any intermediation requirements.

The Cleaning Appliance Project

This project was developed in 1987 when Electrolux announced its intention to set up a joint venture in Thailand. An IG partner, who had been an advisor to Electrolux top management on Asia for several years, helped the firm understand the changing local environment and identify new opportunities. Although IG was not directly involved in the Thai project decision-making, it did help create an awareness of opportunities in Thailand. Following a major Asia briefing for top management, InterMatrix Thailand was contacted by Electrolux to assist in the implementation of the project.

The Golf Bag Project

This project was to investigate a drawback program that could exploit Thailand's unique leather tanning industry. Although there is a limited market for specialty leather bags of this type, IG and US golf equipment suppliers investigated the possibility of the product's entry into the US market and providing a major contribution to Thailand's tanning and leather industry.

The Mechanical Assembly Project

This project involved intermediation by IG with Dana Corporation in Ohio. The InterMatrix Group promoted Thailand as a natural global sourcing location for Dana Corporation's main product, vehicle components. This promotion led to a one-day senior management briefing on Thailand, followed by IG Thailand's extensive evaluation of Thai manufacturing capabilities of a wide range of products.

In 1988, a team of Dana executives visited Thailand and developed a three-part strategy: 1) to source certain components to establish relationships 2) to transfer technological know-how to preferred suppliers to enhance their capabilities for handling more sophisticated components and 3) to select one or two local manufacturers with whom to form a joint venture.

The Otis Elevator Project

This project was developed in the United States through routine client contact with Otis Elevator regarding its reorganization and the possibility of subcontracting new project activities through IG in the United States and its offices in Thailand.

The Printed Circuitboard Project

This project was to have been developed for a number of industries. IG helped to explore venture capital resources and the establishment of printed circuitboard operations in Thailand for a firm interested in producing a color-scanning device.

The Poultry Production Project

This export development program for a large agribusiness firm in Thailand was to have determined whether new specialized poultry products could be processed in Thailand for the US market, particularly frozen chicken products.

The Telephone Products Project

This project came about as a result of TIE Communications of Connecticut's attendance at an IG workshop. TIE Communications evaluated Thailand as a location for offshore assembly of its telephone products. Using IG's data and its own evaluation, TIE negotiated a substantial contract with Chineteik. Current export volume is about US$100,000 per month; TIE expects this to increase to US$1,000,000 per month within 12 to 18 months. This project represented a new type of business for Chineteik and required upgraded infrastructure and skills. The US firm has two resident Thai staff members in Bangkok and expects to increase this number in the future.

The Venture Capital Project

IG's advisor in Thailand was instrumental in helping to put together two venture capital deals. While IG's US offices were not directly involved in these activities, IG was directly involved in assisting the Thai advisor on several potential international deals.

The Writing Instruments Project

The objectives of this project were the development of traditional drawback products from Thailand and the creation of new exports from the United States to Thailand. The InterMatrix Group identified several Thai plastics manufacturers who were interested in forming joint ventures with US firms. One manufacturer, licensed by BIC and other European manufacturers, agreed to explore a cooperative US venture. Balba Writing, a US firm which produces pencils, agreed to exchange product information. Balba Writing was satisfied that plastic components and writing instruments could could be produced in Thailand and distributed in Thailand by the Thai firm. This project was delayed because the US firm was placed on the market as a potential acquisition. IG has continued its involvement by attempting to locate US firms and by providing corporate

finance services in order to keep their opportunities in Thailand active and to find other methods of obtaining fees from the program.

The Xerox Project

As a result of organizing travel to Thailand for Xerox executives, IG determined that the level of technological sophistication in Thailand did not currently provide Xerox with an alternate sourcing location. The InterMatrix Group continued its contact with Xerox and provided updated information on local developments and recommendations for Thailand as part of a new global electronics strategy initiative. Xerox representatives subsequently visited the country to evaluate capabilities early in 1989.

APPENDIX C:

MTAP Program in Costa Rica:
International Commercial Services, Ltd. (ICS)

APPENDIX C

MTAP PROGRAM IN COSTA RICA
INTERNATIONAL COMMERCIAL SERVICES, LTD. (ICS)

International Commercial Services, Ltd. (ICS) provided a unique and credible service mix to international business development through its endeavors under the MTAP contract in Costa Rica. Unfortunately, ICS's experience ultimately demonstrated that: (1) most intermediaries encounter great difficulty in generating sufficient fees for their services when developing projects in LDCs; (2) such services are barely commercially viable without support from government or private sector grants; and (3) the success of such service programs is partially dependent upon the ability of an intermediary to develop a cooperative role with private sector investment promotion organizations and local missions.

The MTAP program was designed to encourage intermediaries to focus their trade and investment activities on unique beneficiaries, such as small and medium-sized firms. ICS accepted that challenge and began to expand its offices and operations after initial promising results during 1986. Over the following months, however, the necessary cash flow and viable project opportunities to sustain this growth were not generated, and ICS had to reduce staff, tighten its new project promotion scope and delay payment of certain debt obligations in 1988. Over the life of the program, ICS successfully completed three ventures with nine awaiting possible closure by the end of 1989.

The following key problems, inherent to trade and investment development work, are illustrated by ICS's experience with the MTAP program objectives. These problems are discussed in more detail in the following report.

- It takes an extremely long time to develop a successful project, even in simple trade-related transactions.

- Non-profit trade and investment organizations often have difficulties developing cooperative programs with traditional for-profit intermediaries, even though such intermediaries may provide complementary services for the nonprofit.

- Manufacturing capacity in LDCs is limited.

- When fees are tied to performance, an intermediary, or other type of trade and investment organization, may be forced to wait long periods of time before revenues can be collected.

- If transactions and negotiations are not realized quickly, the objectives of a project can change again and again, forcing

intermediaries to restructure projects--usually without reasonable compensation.

- US and LDC clients are not only unclear about the value of intermediary services and assistance, but are also reluctant to pay fees for such business development activities.

The original MTAP program identified the need for ICS and other firms to take on investment banking and deal-packaging functions since there is a void in the local community in terms of providing such "turnkey" services - especially suitable to the limited management resources of SMSEs.

To understand the lessons learned from ICS's experience in trade and investment development activities during the MTAP contract, we will review the following elements that contribute to an intermediary's success or failure.

- Program Organization and Marketing Strategies
- Network Development and Organizational Structure
- Types of Projects Promoted
- Timing of Project Development
- Output and Performance
- Future Plans and Development

Program Organization and Marketing Strategies

Strong local and US business networks are key elements in the success of international business development and therefore contribute to the success or failure of an intermediary's trade and investment activities. Initially, ICS's marketing strategy was to identify US small to medium-sized company needs and match them to local capacity in Costa Rica by offering a unique project planning package that would develop a joint venture or co-venture and nurture it to its completion. This cooperative venture concept was partially set aside in 1987 because of ICS's frustration with locating the necessary effective capacity in Costa Rica to carry out its projects.

Instead, marketing emphasis was increasingly geared toward the development of business transactions which focused on a US client's ability to establish its own facilities and production capabilities in Costa Rica or on exporting products to the United States.

Early in the MTAP program, ICS, which was known for its quarterly Trade Missions, brought US company representatives to Costa Rica to meet with local officials and visit plant sites. A large list of projects and contacts was

developed through these Missions over the following three years. (See Chart B, page C-6.) ICS developed and qualified potential venture partner relationships and their interests in investment or joint ventures in Costa Rica were promoted.

To locate other prospective US clients, ICS staff members, supported by student interns, contacted numerous companies to review their offshore production needs. From these contacts, ICS developed specific project ideas to introduce to Costa Rican businesses, and by the end of 1987, ICS had created a portfolio of over 25 projects - ten of which had reached some stage of initial contract agreement or testing.

These early trade mission and capacity-matching activities created too broad a scope of activity for ICS. With US contracts in hand for the furniture program, ICS could not find an effective local supplier after working with over 11 firms. In 1987, ICS began to limit its project development focus to specific industry sectors, such as furniture and tourism. This strategy was also unsuccessful because ICS was pushed to develop revenues and began searching for project opportunities with clients who were prepared to pay upfront fees rather than those with long-term development needs who might not be able to pay until the completion of a project.

ICS changed its entire fee structure after a year of operations with the MTAP program. It found that the original idea of having the client pay only at completion time was inappropriate due to the long period of project gestation. Ultimately, ICS began to charge more for interim consulting. While still not charging for the initial consultation, ICS began charging for executing research and assembling the overall project. For example, in their cut flower project, the client paid US$2,500 for the initial research activities and then paid a monthly retainer for three months while ICS was coordinating the test shipment of roses to the United States. Through this mechanism, the US or foreign client was paying for different stages of assistance associated with initial research, partner contacts, and negotiation of financing of the project.

In the long run, ICS still believes that significant profit will be generated from performance and success fees. Although their interim operations are funded by consultant fees and retainers, the long-term contracts still include costs plus profit fees. For example, in working with the largest free zone in Costa Rica, ICS will receive compensation for the initial design and implementation of plans to build four new supermarkets in Costa Rica. ICS will also help purchase supermarket equipment in the US on behalf of the Costa Rican group and will ultimately also help export certain products through the group in the United States. ICS will be paid on a straight consulting contract of US$4500 per month to develop all of these different activities.

Network Development and Organizational Structure

ICS commenced its MTAP activities in 1985 with strong credibility and presence in the US and Costa Rica. Its staff of four in California had strong Costa Rican and US networks and a list of projects which promised sufficient revenues from fees for service associated with the export of goods and services. The initial enthusiasm and significant number of projects developed because MTAP's objectives encouraged ICS to invest in new offices and expansion activities to other Caribbean Basin countries. In 1986, ICS opened new offices in Washington and Miami, and expanded its facilities in Costa Rica. ICS headquarters in California were shifted from Newport Beach to Long Beach in order to gain greater access to the trade community in that area.

The expansion of network activity in 1987, including offices in Washington and Miami, was geared toward broadening its client base and toward developing linkages to US government and intergovernmental funding agencies to gain grants that could provide further financial support for ongoing trade and investment activities. By 1988, the staff level had been reduced to 4 and its active project list diminished to 8 from 15. Considering the size of the Costa Rican economy, this level of activity is similar to other MTAP contractors operating in Thailand, Tunisia, and Yemen.

CHART A
PROJECT/REVENUE AND STAFF COMPARISON - 1988
MTAP CONTRACTORS
ICS

	TURKEY	INDIA	THAILAND	COSTA RICA	TUNISIA	YEMEN
Active Projects	20-40	4-8	8-15	8-15	3-5	3-10
Revenue Source	7 of 40	2 of 8	8 of 15	9 of 15	0	0
Costs Covered by Fees and Revenues	80-100%	30%	60%	20%	0%	0%
Staff Level	US-4 Fgn-6-15	US-4 Fgn-2	US-0 Fgn-2	US-2 Fgn-2	US-2 Fgn-0	US 1 Fgn-0

Types of Projects Promoted

Upon acceptance of the MTAP objectives, ICS focused its activities on developing joint ventures and co-ventures between small to medium-sized Costa Rican and US firms. ICS felt that its project development efforts

could complement the activities of major investment programs in Costa Rica, which apparently held ICS's capabilities in high regard, and would allow ICS to exercise its skills in designing and packaging unique types of business transactions. This focus was consistent with MTAP's early assumptions that ventures of this type would occur more frequently, especially if local firms were target beneficiaries. ICS was initially regarded as a distraction by local trade organizations, such as CINDE, (the Costa Rican private sector investment promotion organization), and it was not until 1988 that it was able to link its services with CINDE. Earlier collaboration that had developed with the Costa Rican government export and trade programs did not provide the funding support required by ICS to carry out its project development services.

Chart B illustrates the types of projects developed by ICS, its early probability ratings, and the anticipated jobs and foreign exchange earnings. Those projects involving some type of prototype development or client investment were given at least a 50 percent chance of successful development; an 80 percent chance was assigned to projects if orders were in place or if test production had actually begun. At that time, 10 of the projects were given a probability of greater than 50 percent of reaching completion. As of the end of the project, three of these projects had reached the expected goals.

Nine projects could be classified as joint ventures, 10 included some type of local export or trade component, and 18 were generally focused on drawing back production to the United States. With over 50 percent of these projects geared toward local drawback capability and most of the other projects tied to some type of local capacity, ICS had focused its efforts toward building Costa Rican capacity.

Timing of Project Development

A key problem inherent to trade and investment development work is the extremely long time it takes to develop a project. Over the life of the ICS/MTAP program in Costa Rica, ICS became increasingly aware of this. ICS's approach to a project was to take it through six stages of development. Typically, a client inquiry was followed by some type of research used to formulate a project strategy. This strategy could then evolve to a critical presentation and commitment by the client, and once this was achieved, more detailed feasibility and prototype testing activities could take place. These steps would then hopefully lead to a contract and project start-up.

STAGES OF PROJECT DEVELOPMENT AS DEFINED BY ICS

1. Inquiry
2. Research
3. Presentation
4. Feasibility/Prototype
5. Contract
6. Start-Up

CHART B
MTAP - COSTA RICA
MOST ACTIVE PROJECTS
AS OF NOVEMBER, 1986

NAME	PROJECT TYPE	PROB	JOBS	ANNUAL FRGN EXCH	DIR
WATER BEDS	TX	.8	40	1.4	D
HAWAIIAN SHORTS	D	.5	100	.5	D
SAFETY GLASSES	TD	.4	15	1.2	D
BANK DESKS	TD	.8	100	9	D
HILL REFRIGERATION	D	1.0	50	1.3	D
COFFEE PLANTS	JX	.2	100	1.5	U
SAMSONITE	ID	.1	1,000	5.0	D
PARKING MARKERS	D	.4	20	.8	D
CHILI PEPPERS	TX	.5	90	1.0	D
ORNAMENTAL FERNS	JX	.7	30	1.5	D
COFFEE BARTER	X	.5	10	1.0	D
ADVERTISING/BARTER	X	.8	200	2.0	D
HOT SAUCE	X	.2	20	.2	U
MOVIE PRODUCTION	D	.1	20	.1	D
GOURMET FROZ. YOGURT	J	.3	30	0	D
WINE COOLERS	J	.2	50	2.0	D
TENNIS RAQUETS	JD	.1	30	.5	D
HIGH CHAIRS	D	.3	20	.1	D
ELECTRONICS	D	.2	10	1.4	D
US SAUCE	D	.1	30	.3	D
CARDOMON	X	.1	100	.6	U
ANIMATION	JX	.1	30	.5	U
TOYS	D	0	10	.2	D
CARISTRAP	JX	.1	30	5.0	U
EYELASH CLEANER	JD	.2	5	.5	D
TV TRAYS	JD	.1	40	1.0	D
BABY CRIB	D	.1	30	.5	D
PRINTING	D	.2	0	0	D

TYPE
D = Drawback J = Joint Venture JD = Joint Venture Development
JX = Joint Venture Export TD = Trade & Development TX = Trade & Export
X = Export ID = Investment Development

PROBABILITY .1 < .5 = Prototype & Travel; >.5 = Significant dollars spent & Contract signed; >.8 = License, Orders, Start-up, Investments
DIRECTION D = Down; U = Up (Did project come Up from Costa Rica or Down from US?)

From 1984 through 1988, ICS worked on developing a wide range of projects. There are many obstacles and issues that can halt a project and some of these are illustrated and discussed in more detail in Chart C. Despite ICS's experience and efforts, the development of almost all projects was blocked for one reason or another.

Because ICS felt its traditional company was more suitable to generating and following consulting contracts, it created a trading company which brought a major Costa Rican partner into the firm to bolster ICS's ability to develop equity business programs in Costa Rica.

It should be noted that ICS focused increasingly on projects which required a large stake in ongoing project management and development. The green chilis, coffee seedlings, and some of the furniture projects involved ICS in a potential equity role. This trend reflected ICS's growing concern with existing manufacturing capacity in Costa Rica and its disappointment with Costa Rican managerial capabilities experienced in earlier projects.

Through examination of other trade and investment experiences, it can be demonstrated that the types of project delays and capacity problems that plagued ICS are also common in other developing countries, especially those which have small national markets and have been shielded from international competition. ICS's experience in Costa Rica is not unique; rather it is probably the rule for most trade and investment transactions which are attempting to link LDC companies with US firms. The situation is not the same, however, when investment promotion is focused on larger US firms that can invest in LDCs and are not expected to collaborate with local firms or private sector and/or government organizations. (See evaluations of the Business Development Center in Sri Lanka or the Project Development Assistance Project (PDAP) program for the Eastern Caribbean.)

Output and Performance

ICS believed it would produce 12 completed projects by the end of 1989, although as of January 1989 only three ventures had been successfully completed. In terms of other objectives, ICS continues to be self-sufficient, but it should be noted that ICS had already begun operations in Costa Rica one year before its involvement in the MTAP program. MTAP funding led to major changes in office structure and service mix which may have actually imperiled the ability of ICS to survive while accelerating its marketing and client development. ICS services fill a unique need in the Costa Rican environment and appear to have finally become appropriately linked to the major trade and investment organization, CINDE.

ICS organized its MTAP strategies around the emergence of the Caribbean Basin Initiative (CBI), which encouraged a variety of cooperative ventures between the United States and the Caribbean Basin countries. It is difficult

to identify the exact number of jobs that were directly generated by the ICS MTAP program, however a number of commitments have been made.

Boston Electric has made a commitment to start a facility during 1989, which could generate approximately 40 jobs and bring significant new technology to Costa Rica. A flower export program began shipping a container per month to the US beginning in 1988 and supports 30 to 60 jobs. ICS is also negotiating with an airport in Hartford, Connecticut to improve its facilities in order to handle larger and more frequent shipments from Costa Rica.

Although there is no direct means to measure the employment created, the ICS tourist film countertrade program produced a broadcast quality film which went on US Cable T.V. for six months, and approximately 1,000 videos were distributed.

A number of jobs in the tourism and furniture sectors have been protected or enhanced by ICS's efforts, but it is difficult to demonstrate that any ICS project has resulted in the stimulation, or protection, of more than 60 or 70 jobs. However, ICS's new cooperation with CINDE for developing investment from Brazil has lead to a new set of potential clients which ICS is pursuing.

The major result of ICS's MTAP activities in Costa Rica has been its assistance to firms in developing strategies and techniques for enhancing business capabilities in international ventures. ICS was responsive to the MTAP grant in its expansion and attempts to develop a wide variety of project areas. However, there is no indication that this expansion has significantly contributed to the economic development process in Costa Rica or ICS's ability to continue with independent commercial success, although by the latter part of 1988 ICS had been covering out-of-pocket costs.

Of the 31 projects ICS was developing at the beginning of 1987, only part of the Hill Refrigeration project was brought to completion, and only a few samples for several other projects were exchanged. The furniture strategy was mostly abandoned, though one Costa Rican firm did ultimately form a joint venture with a Swedish firm.

Of the 13 projects active in the fourth quarter of 1988, ICS was receiving some type of fees from six to eight of them, but there is also a promise of major fees if project completion is accomplished. Two recent projects with promise of fees involve US companies seeking to set up offshore facilities for the assembly of electronics and bicycles. These projects were developed through the northeastern US conference sponsored by ICS to develop new project activities for which it invested over eight man months and 20,000 dollars.

CHART C
EXAMPLES OF OBSTACLES AND ISSUES
THAT CONTRIBUTE TO THE FAILURE OF
OF INTERNATIONAL BUSINESS VENTURE PROJECTS

Change in Project Needs/ Quality/Delivery	**Inadequate Direction**	**Market Research**
Waterbed	Safety Glasses	Coffee Seedlings
Hawaiian Shirts	Bank Desks	Hammocks
High Chairs	Refrigeration	Cardomon
Electronics	Strain Gauges	
Aloe Vera		

Lack of Local Gov't Legislation/ Controls	**Inadequate Capacity/ Cost Justification**	**Commitment/ Follow Through**
Samsonite	Parking Markers	Green Chilis
Coffee/Coffee Liquor	Wine Coolers	Ornamental Ferns
Advertising/Tourism	Croquet Sets	Advertising/Tourism
High Chairs	Electronics	Hot Sauce
China	TV Trays	Barbeque Sauce
Oxtail Soup	Thermoseal	Eyelash Cleanser
Coconut	Aloe Vera	Baby Cribs
Tennis Racquets		

Lack of Partnership Initiative	**Lack of US Interest/Commitment**	**Lack of Int'l Business Knowledge**
Tennis Racquets	Feature Films	Barbeque Sauce
Barbeque Sauce		
Toys		
Eyelash Cleanser		
Fishing Resort		
Thermoseal		

Lack of Resources	**Lack of Investor Support**
Aloe Vera	Printing
Animation	TV Trays
Shrimp	

One project currently underway involving shipping is a consulting assignment. The Plastic Bag operation is an export assistance program for which ICS is using new networks in the US Northeast to locate markets for a US-financed bag-making operation in Costa Rica. It is important to note that ICS has increasingly moved away from attempting to develop projects which depend on improving local capacity and is primarily seeking firms which can provide immediate production requirements.

One other project began in response to a need expressed by a Costa Rican firm, but all others have been initiated by US firms. Of the projects actively pursued in 1987, five were solely dependent upon the availability of local capacity; 26 ideas originated in the United States, though a large portion required some type of local partner participation. Two projects involving travel promotion and flower exporting were moderately successful during 1987, as were several other projects which helped US companies to develop offshore sourcing.

Toward the end of 1987 there were serious cash flow problems, and by the second quarter of 1988, ICS had terminated its activities in Washington and Miami, cut back staff in Costa Rica and California, and returned to the small staff size it had started with in 1985.

In the third quarter of 1988, however, ICS began to improve its cashflow situation when several new projects came on-stream and some old projects began to generate fees. CINDE also began working with ICS to develop trade and investment linkages with Brazil. Major revenue exchanges developed from a successful contract in Belize that brought in US$52,000 of income. In addition, the cut flower program began which, in addition to providing an additional US$5,500, also began bringing in substantial fees in February 1989 when shipments commenced.

Considering the reductions in the reorganization that had already taken place, these revenue changes had a very salutary affect on the company. The success with the flower exports into New England led to the association of a full-time senior management officer who will follow up on the flower project and look for other opportunities to match Costa Rican production with Northeastern US markets. By the end of 1988, the headquarters of ICS had been transferred to San Jose, and new activities were encouraging office expansion in Springfield, Massachusetts.

With the reorganization in place, ICS launched the Cut Flower project. ICS acted on the opportunity to export cut flowers to the Northeast US. In Costa Rica, growers had become dissatisfied with their methods for selling flowers to the US. More than 90% of cut flowers exported to the US arrive in Miami and are trucked to US destinations including the Northeast. ICS identified problems with freshness by the time flowers arrive in the Northeast, additional handling/storage delays in Miami Customs, and the lack of communication between producers and the final market.

On the overall assumption that Massachusetts, for example, pays more and receives the poorest quality of flowers than any east coast city, ICS proposed that local Costa Rican production fill one DC-8 stretch airplane per week (52 weeks per year) to fly non-stop to Massachusetts - thus eliminating all of the problems with shipping through Miami.

With local flower production committed, production pre-sold in Massachusetts, Westover Metropolitan Development Corp. agreeing to provide land and airport hangers at nominal cost, and COFISA, the largest private bank in Costa Rica, agreeing to structure financing arrangements, shipping was approximately US$120,000-125,000 per month for the first three months of operation. Shipments later increased to US$240,000-250,000 per month. Approximately 50-100 new direct and part-time employees were hired because of this.

The Cut Flower Project combines several MTAP objectives for ICS. Furthermore, it is an equity partner in the project through its trading company.

There are a series of Brazilian company proposals resulting from the November 1988 ICS Mission to Brazil in conjunction with CINDE. These project ideas include metal fabrication, towels, plastics, wood, semi-precious jewels, and paper production. Approximately sixty Brazilian businessmen visited Costa Rica in March 1989 as a direct result of the Mission to Brazil.

At the end of the project, ICS was following approximately 13 active projects, of which nine had signed agreements and were paying some type of fee and several new projects were emerging. ICS did not expect immediate USAID or intergovernmental grants to help support its trade and investment activities under the MTAP program.

Future Plans and Development

Several lessons regarding international trade and investment dealings in LDCs may be derived from the ICS/MTAP program activities and can be summarized as follows:

1. Intermediaries must develop a client fee strategy that allows them to maintain project support for possibly three or more years.

2. Local firms must receive significant financial and technical assistance, if they are to effectively exploit international markets and link up with international venture partners.

3. Local trade and investment programs are often reluctant to use networks or intermediaries over which they do not have direct control.

4. In terms of commercial viability, project intermediation without significant consulting fees is only marginally viable because of the local market's small size and the manufacturing sector's weak capacity.

5. Intermediaries pursuing a broad variety of small projects face a dangerous situation of supporting activities that cannot generate significant results.

ICS, after reorganization, is continuing to pursue intermediation as a business mission. It may be developing a cooperative role with CINDE, but it is not clear whether CINDE's efforts for local firms will include ICS for the long term. If any of the larger projects become successful, ICS could earn adequate income.

Presently, ICS is searching for clients with inherent capacity and financial capability. ICS's reputation is good and it will pick up new clients, but it will not play a major role in economic development in Costa Rica unless private sector or public sector trade and investment organizations provide ICS with financial support.

ICS appears to be making a unique contribution in terms of the overall Trade and Investment infrastructure. Where CINDE has focused on attracting US investors into Costa Rica, ICS has dealt with Trade and Investment activities that built off of existing capacity through joint venture arrangements or the development of non-traditional exports. It seems that ICS does provide a complementary mechanism with a higher degree of project support including data collection, pre-qualification skills, co-venture investment packaging, satisfactory freight-shipping rate structures, credible and professional linkages and networks, and cost performance comparisons, product liability and customs pre-acceptance.

Two important objectives that ICS/MTAP have met are (1) the establishment of ICS as a self-sustaining organization in Costa Rica and (2) MTAP's promotion of major service changes and beneficiary targeting.

ICS has also contributed indirectly to the overall Trade and Investment environment because of its specialized skills in providing:

- product liability insurance models
- an outline of the Federal Procurement Outreach Program
- guidelines for standardizing in-country US customs and Caribbean Basin Initiative (CBI) inspections
- guidance on negotiating for preliminary customs rulings.

APPENDIX D:

MTAP Program in Tunisia and Yemen:
Georgetown Venture Trading Company, Inc. (GVT)

APPENDIX D

MTAP PROGRAMS IN YEMEN AND TUNISIA
GEORGETOWN VENTURE TRADING COMPANY, INC. (GVT)

The MTAP Program in Yemen and Turkey, managed by the Georgetown Venture Trading Company (GVT), clearly demonstrates the extent to which country and policy contexts can impact upon business development programs, such as MTAP. The experience in Tunisia clearly reflects the constraints and obstacles caused by a non-supportive government, coupled with limited advantages that the country could offer potential investors. In the case of Yemen, a combination of management, finance and regulatory obstacles were cited as the major reasons for the lack of any successful business development ventures. By the end of the MTAP field trials, GVT had no measurable revenue-earning projects, nor was it able to produce any significant venture. It is credited in organizing the first ever business mission from Yemen to the United States. However, it has since ceased operation as an independent intermediary.

GVT offered business and professional services to US and foreign firms seeking opportunities in international trade and investment. The services provided included representation, business development and marketing, project development and procurement, integrated into a single firm focusing operationally on a particular geographical region -- the Middle East, and North and West Africa. At the beginning of the project, the principals of the three-person firm believed that there were some significant opportunities for generating revenue and developing a trade and investment linkage program. In view of their personal knowledge of the area, although they had not operated any formal offices or had on-going relationships in the target countries, they still felt they could respond to the needs and requirements of venture development in the area. However, this was not to be the case. While GVT was able to earn some income through the carrying out of some market surveys in Tunisia, it was unable to fully implement MTAP because of the Tunisian government's restrictions and the unsophisticated business climate in Yemen, in which smuggling was rampant.

The analysis of the experience of, and lessons learned from, GVT's activities in Tunisia and Yemen under the MTAP contract, is organized as follows:

- Background
- Program Organization and General Strategies
- Network Development
- Types of Projects Promoted
- MTAP Program Results in Tunisia and Yemen
- Conclusions
- Summary

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Background

MTAP activities in Tunisia and Yemen took place in countries with depressed economies, in particular suffering from a critical shortage of foreign exchange for the purchase of goods and services abroad. In the case of Tunisia, however, it was pursuing strategies to develop effective capabilities in exporting agriculture commodities and light manufactured goods. During the course of the MTAP program activities, the Government did devalue the Tunisian Dinar, which was a major step in helping to improve the competitiveness of Tunisian goods. It also took steps to liberalize import regulations and to relax guidelines for the participation of foreign investment in the country. The government had also placed emphasis in trying to develop an export assistance program, which ultimately acted to the detriment of GVT, since it encouraged the Government to take a much more aggressive role in export activities. In the end, the Government of Tunisia took a proprietary role of GVT's activities, leading to its eventual demise.

In the case of Yemen, there were few business opportunities of the kind that MTAP was designed to promote. The country has minimal infrastructure and a very underdeveloped private sector. A few opportunities existed for the importation of foreign technology and for investments related to health, infrastructure and agricultural projects. There was virtually no local manufacturing capability. Some hope was placed in the development of large gas reserves which would subsequently lead to hard currency savings. Furthermore, because the Yemen market was so remote and unknown to American suppliers, it was believed that identifying market opportunities and locating suppliers to fill perceived needs would be relatively easy tasks. However, although over 40 project profiles were prepared, they could not be submitted to potential investors because the responsible Ministry stopped issuing project licenses. In addition, because there was no export promotion agency or similar organization in place, little attention had been given to the problems faced by local producers in developing export markets.

Program Organization and General Strategies

1. Program Organization

GVT was affiliated with BDIM, who was carrying out the MTAP program in Turkey. GVT is located in Washington, D.C., but maintains branch offices in Nigeria, Turkey, Egypt and Jordan. For purposes of the MTAP project, GVT established offices in Tunisia and Yemen. In other words, it had not been established in these countries prior to MTAP, although one of the principals of GVT did have extensive experience in international trade development in Egypt. The objectives of the branch offices were to promote trade and investment opportunities in Tunisia and Yemen for US firms, while offering local firms access to US technology, markets and sources of investment. In general, GVT considered its services particularly well

suited to small to medium sized firms lacking the resources and experience necessary to pursue international business.

The range of business development services which GVT provided to its host country private sector clients included: market research, analysis, and strategy; direct marketing (buyer identification); product sampling; and partner search (investments). The range of business development services which GVT provided to host country public sector clients included: investor fair participation; US correspondent office; promotional articles; legal drafting; and market studies.

The staff of GVT consisted of three individuals -- William Irelan, President; Daniel R. Ferry, Vice President; and Dickinson J. Miller, Vice President. Messrs. Irelan and Ferry are lawyers with substantial experience in international business transactions. Mr. Miller is a professional trader. Both Mr. Ireland and Mr. Miller had lived in the Middle East for many years and spoke Arabic and French which, along with English, are the principal languages of the region.

Unlike BDIM, GVT was forced to continue providing consulting services outside the MTAP program in order to maintain their income levels. GVT did not have the financial wherewithal to invest time and effort in a project and take fees or equity at the completion of the deal or when the client was also earning income. Instead, it needed to be compensated as the work was done. Representational work was handled on a retainer and sales were compensated by commissions. Project identification was billed based on finders fees while project and market development work was charged as consulting time on a daily basis. Although GVT indicated it would consider the possibility of taking an equity position in an investment project or a profit share in a contract project proposal, it never found the opportunity to do so.

GVT was limited by its lack of personnel. The Tunisia program was implemented almost entirely by Mr. Irelan, with only limited support from his two colleagues. This in particular limited GVT's capability to provide follow up and support services as needed by the smaller US industry.

2. Strategy

The MTAP program in Tunisia and Yemen was pursuing a dual strategy. On the one hand, GVT would identify those local companies with export capabilities and try to match their product characteristics with US market opportunities. Areas such as automotive parts, olive oil, garment manufacturing, and other manufactured products promised opportunities for export development. The second part of the strategy focused on joint venture and co-venture development. It was anticipated that there would be a number of opportunities to develop licensing relationships or other joint venture activities to exploit their manufacturing capability in support of US company strategies. At the same time there might be opportunities for US companies that wanted to develop an export platform for Europe. Tunisia

also had a strong interest in developing its tourism business which had been suffering.

In the case of Yemen, given that restrictions were placed on factory licensing, GVT adjusted its strategy to locate existing factory enterprises as potential sources for US investors. It also set out to convince Yemen businesses that technical assistance expenditures could lead to greater efficiencies and thus cost savings. GVT focused on small, export-oriented projects which it could control with minimal effort. The individual projects that held most promise included the management of a mineral water factory, the development of a tour package in association with MTAP's Latin American contractor, ICS, and the development of a frankincense/myrrh aromatic export market. GVT also focused attention on those opportunities identified by on-going A.I.D. projects in Yemen and Tunisia, where MTAP could coordinate with consultants in structuring successful marketing strategies for those opportunities.

Network Development

GVT worked extensively to establish a series of local network relationships and capability in both Tunisia and Yemen. In the case of Tunisia, GVT decided to select two intermediaries, with one focusing on developing joint ventures and basic business transaction while the second would specialize in trade activities. No single firm was felt capable of handling both sides.

After extensive meetings and planning, GVT elected to bring on board a small Tunisian consulting firm that was directed by a former deputy director of the Tunisian Investment Authority. It was felt that this individual and his support staff could work effectively with local and American firms in the development of joint ventures, co-ventures, and other investment type activities. At the same time they had some experience in export management. GVT agreed to pay them for three days of work monthly and to share in project development fees earned.

On the trade side, GVT developed a relationship with an experienced trader. This individual would not be paid as a consultant but would be offered a certain percentage of all deals. Certain expenses and travel would be covered by the GVT contract and would act as the principal motivator for involving the trade individual.

Several different project ideas were identified and the local consultant was brought in to begin organizing and negotiating certain joint ventures and turn-key type activities. Several market surveys were initiated for the exportation of Tunisian products to the US. Unfortunately, the Ministry of Planning and the government's Trade and Investment Offices took a strong position against paying any locals under the A.I.D. agreement. GVT had to break its initial agreements with both parties, which created a significant amount of confusion, and ultimately negated the effort to develop any type of network. To some degree, the personal relationships

GVT established for the trading activity were so severely affected by the government's intervention that they ultimately were destroyed.

In the case of Yemen, an intermediary with the necessary follow-up capability was brought on board the project. This proved to be a cost-effective means of identifying market opportunities. Consideration was given to developing an expanded presence by associating with one major firm, but it was decided that such an allegiance would have drastically reduced project opportunities by eliminating the ability to work on project development with other competing firms. Relationships with the USAID office and the US Economic Officer in Sanaa, as well as with the headquarter office of GVT, provided some networking information and capability. In the US, GVT Inc. established a working relationship with three consulting firms with relevant backgrounds to GVT's Yemen activities -- health, nutrition, the food industry and agriculture development. GVT assisted these firms in locating project opportunities, with introductions to decision-makers and in the formulation of projects.

Types of Projects Promoted

Unlike several of the other MTAP contractors, GVT was unable to investigate and select those sectors for optimal opportunity. Instead, it was expected to work across the board in regard to investment and export marketing. GVT felt possibly it might have had greater success if it could have zeroed in on one or two high probability cases, such as olive oil in Tunisia or health in Yemen, and worked exclusively in those areas. Instead, a lot of effort was squandered as a result of trying to do too many things and not doing any of them well enough to succeed.

In the particular case of Tunisia, GVT used its network to develop a wide variety of project activities built off of existing interests and needs of local clients. In fact, a large majority of their programming had developed from this network even though there has been difficulties in formalizing and managing it on an on-going basis. GVT, in the projects it developed, provided firms with detailed market information on US markets, sought buyers for other products, and elicited US business interests in such products.

A classic example of projects developed from Tunisia was the automotive filter program. This venture began with a contact by GVT during their attendance at the Tunisian International Exhibition on automobile components in December of 1985. GVT followed up by finding clients in the US who were prepared to negotiate subcontracting and sourcing agreements. The project died because of the intervention of a European company that had ownership control of the US purchaser identified by GVT. The example shows a basic approach of GVT in terms of identifying projects built on the local capabilities in the Tunisian environment. Similar project developments were in agricultural, electronic assembly, and light manufacturing.

In the US, GVT used an informal search process to identify companies that might be interested in areas where GVT knew Tunisian industries had some strength. In the area of printed circuit boards, GVT gained a basic understanding of Tunisian capabilities by participating in the telecommunications fair held in Monastir, Tunisia. They then followed up in the US and sought a specific partner. At the same time, they were looking for companies that might have other interests in establishing turn-key or off-shore production activities. Overall, a project idea might develop from Tunisia and search work is carried out in the US. That same search work may identify other companies that have needs that are different from the specific request in hand but could lead to opportunities that could be pushed towards Tunisia in a separate project.

In the case of Yemen, GVT concentrated on identifying market opportunities and locating suppliers to fill the perceived needs. This was considered fairly easy tasks, primarily because the Yemen market was so remote and unknown to American suppliers. For this reason, most of the project at least showed some results, if just to say that the market opportunity was considered premature. US firms were willing to pay GVT commissions on equipment or services sold on a contingent basis. They were not willing to pay up-front costs for market development.

In relation to projects developing ventures or co-ventures, GVT had less success. It attempted 30 different ventures in many sectors, from air cargo transport to establishing a tour operation, from light-bulb to stained-glass window manufacturing, and from frankincense or myrrh incense to deciduous tree seedlings. All ventures, except for three, were eventually assessed to have no probability for success in the foreseeable future.

MTAP Program Results in Tunisia and Yemen

Exhibits 1 and 2, presented at the end of this appendix, summarize the results and reasons for success or failure of the ventures and projects pursued by GVT in Tunisia and Yemen respectively.

In brief, GVT's was unable to complete any new venture development during the contract period, at least not to the stage where results could be determined in terms of jobs or sales. It was successful only in the area of providing services, such as market studies and liaison work, from which it earned a modicum of income. For example, in the case of Tunisia, GVT provided Tunisian firms with detailed market information on US markets for seafood, shoe and leather products, skins and hides, and olive oil markets. In the particular case of the olive oil market study, it was subsequently given to another A.I.D. contractor as background material for a more comprehensive and fully funded study of the world market for Tunisian olive oil exports. GVT, in Tunisia, was also able to locate buyers for dates, automobile filters, olive oil and garments, and elicit US business interests in the areas of telecommunications, toys, small motors, garments, olive oil, dates, and automobile filters.

GVT did receive several referrals from the Tunisian Embassy in Washington and the US Embassy in Tunis, primarily for partner search. One US investor contacted GVT to inquire into the possibility of marketing Tunisian handicrafts in the US. Nothing ever came to past, however. Furthermore, although GVT participated in two trade/investment fairs in Tunisia, they had no concrete results.

In Yemen successfully conducted a study of the local micro-irrigation equipment market for a client, but the conclusions of the study were that the Yemen market was too small and too competitive for a major marketing investment by the American company. The area that GVT registered the most success in Yemen was in the field of trade promotion. GVT organized the first official trade mission from Yemen to the United States. The theme of the mission was agri-business, with six of the largest Yemen firms taking part. Although one firm subsequently signed an agreement with a US firm, with GVT hired to serve as a liaison office in the US, GVT was later forced to end this relationship after the Yemen firm refused to pay its agreed upon retainer.

As a response to the interest expressed by Yemen businessmen in the American market, GVT advertised a trade mission to Yemen for US firms. The US Department of Commerce (DOC) assisted in raising the status of the mission by making it an official DOC event. Although over 200 firms in the agri-business industry were contacted by GVT, it was able to secure the participation of only two individuals, interested in trucking operations, feed mills and cattle ranching. The mission went ahead, with the individuals paying their own way plus the registration fees. No sales have been recorded to date, however.

Conclusion

The GVT experience in Tunisia and Yemen clearly reinforces the MTAP findings that country context and business environment are critical determinants of the success or failure of a TI activity. The MTAP approach was premature for both countries. The environments were restrictive, with many regulatory and financial barriers in place, coupled with inadequate industrial and export marketing capability. GVT might have had greater success if it could have zeroed in on one or two high probability cases, such as olive oil in Tunisia. But, for reasons over which it had no control, it was expected to work across the board, attempting too many things, and not able to do any of them well. In those instances where it could work one-on-one with a firm, the outcome was potentially brighter, although the outcome was subsequently negated due to factors such as financial payments, government intervention, or culture.

To understand more clearly why GVT ultimately failed in both Tunisia and Yemen, it is important to look at the particular factors and forces at work in each country. The following summarizes these issues, by country.

1. Tunisia

The principal reasons for GVT's lack of success in Tunisia are the following:

- GVT's inability to provide extensive financial support.
- The Tunisian business community was averse to the risk it felt would result in doing business with US companies.
- The general lack of interest in Tunisia on the part of potential US firms, who view it within the Francophone sphere of influence, coupled with limited real investment opportunities.
- The Government's policy against foreign direct investment, which constrained the technology transfer aspect of MTAP. In addition, the Government's focus on export manufacturing was not particularly attractive to the US investor because of better alternatives elsewhere and the general lack of foreign exchange.
- High prices of exportable products and commodities, and the lack of export marketing capacity
- Lack of investor financial resources and too much Government of Tunisia influence over private resource allocations.
- European market orientation of Tunisian producers.
- Proximity of Ghaddaffi's Libya.
- Small and saturated market, with a limited and narrow range of exportable products.

In brief, it is not so much business constraints that inhibited MTAP activities in Tunisia, but rather some fundamental economic, political, and cultural constraints that stand in the way of general US-Tunisian economic expansion. However, unique to this MTAP contract was the role of the Tunisian Government. The Tunisian offices involved with export development and investment felt very strongly that they should have some control over the project, that they were paid and authorized to carry out the overall investment and export activities. Furthermore, the government was unclear as to what the role of a private intermediary would be and, though they had confidence in Mr. Irelan personally, they felt they were in a better position to control the overall program. They made strong representation against payments to any locals and argued that only their offices could follow up and support Mr. Irelan's activities.

Unfortunately, one of the major conclusions of the MTAP research has been that the intermediary must first sell the need for their services before they can sell the services. Furthermore, that many clients, including the

government, are unfamiliar with the difficulties involved in forming collaborative ventures, especially ones overseas, and resist supporting such actions, especially financially.

Another problem, unique to Tunisia was the fact that the local USAID mission was only marginally interested in MTAP, probably because it felt it had been bypassed in the initial design and development of the project back in Washington. Furthermore, the project got off on the wrong foot in Tunisia when the mission failed to clear the project through the Ministry of Planning before negotiating with the government investment authority (API). The officer in charge of the project at the Ministry of Planning was clearly miffed at being bypassed at the project conception and approval stage, and seemed to bear a grudge against A.I.D., MTAP and GVT for the duration of the project. He personally gutted one of the most important parts of the MTAP design, the hiring of local intermediaries, and put the project on a leash so short that he knew that MTAP could not possibly demonstrate its potential value.

The Tunisian Embassy in Washington, D.C. also developed a negative image of A.I.D.'s organizational capability. The embassy was upset that USAID-Tunis was financing two olive oil studies. This indicated to the officer in charge of the project at the Ministry of Planning that there was total confusion at the mission and a lack of clarity on the part of the US government of what their objectives in Tunisia were. This resistance, coupled with the poor country and policy context of Tunisia, and GVT's inability to finance long-term project development, were probably the main reasons the MTAP field trial in Tunisia failed.

2. Yemen

In Yemen, the primary reasons for failure were 1) problems with and difficulty in obtaining factory or import licenses, 2) difficulty in finding financing, and 3) differing views of management techniques between the US and Yemen partners.

Developing an export marketing strategy in Yemen's business climate was especially difficult given the country's increasingly complex bureaucracy, which had led to overt and uncontrollable smuggling. The regulatory barriers to project development were particularly significant. Import license and factory license procedures were onerous at the beginning of the MTAP program, and grew more complex and then very restrictive as MTAP progressed. Even with the commencement of oil exports, the restrictions on imports were not significantly changed. This is a soluble problem from a policy point of view, although it depends upon the willingness of the political system to change. Given that Yemen is still in the early days of independent nationhood, the likelihood of regulatory change is limited by the excitement of participatory democracy in new institutions. Policy makers are still fascinated by the process as an end in itself.

Because of the restrictions on import and factory licensing, pressures to meet demand resulted in a widespread smuggling network. While before restrictions went into place, smuggling occurred as a competitor to legitimate business and helped to keep prices down, smugglers now enjoyed monopolies. The most obvious example of this is Marlboro cigarettes. Although the Marlboro cigarette agent could not get import licenses to bring in supplies, Marlboro cigarettes are widely available. The same is true of Toyota Landcruisers. By its inability to control smuggling, the government is tacitly accepting the failure of restrictive import policies; however, publicly this does not help the legitimate business concern which faces unfair competition on one hand and government restrictions on the other.

A second barrier to successful business development in Yemen was financial, although this problem could have been overcome in most cases. Although not all of the Yemen firms through which projects were identified had enough ready cash to pay for the goods and services required, many did. Had the economic environment been more conducive to investment, expenditure on projects mights have been more forthcoming.

Probably the most serious barrier to change, and one which will take much longer to alter, is managerial. The organization of businesses in Yemen is patriarchal. Only a handful of firms have managed to incorporate modern management methods into the traditional family structure. Decisions are generally made collectively with senior male members of the family participating and deferring to their elders at all points. More significantly for MTAP was the situation where business groups involving more than one family or even only one family, disputed the authority of other members. In two important cases, projects could not proceed because of such disputes. In both cases, the companies actually split into smaller groups.

The lack of trust which appeared as endemic was another cultural factor which inhibited GVT's ability to communicate ideas. Brother suspected brothers, sons suspected fathers, etc. Behind each idea was an ulterior motive. GVT often assumed influence in relationships when that influence did not exist. Given the importance of credibility and trust in the development of an intermediary relationship, it is not hard to understand why GVT was not successful in generating intermediary business.

With hindsight, if GVT had not depended so much on any one firm for a project, and instead given clear time limits for decision-making to occur, it might have been able to expand the number of firms with which it was conducting business, possibly allowing for greater chances of success. Further, if it had used trade missions earlier in the project period, which helps sharpen the focus of project ideas and also to generate other ideas, a different outcome might also have occurred. However, given the managerial structure, and GVT's pessimism as to the government's ability to simplify or tolerate procedures designed to promote trade in Yemen, GVT eventually ceased operations in Yemen.

In summary, the major constraints within the Yemen business system for US suppliers which also imposed upon GVT's ability to formulate a viable, efficient marketing strategy, were the following:

- Import and Currency Restrictions. Access to capital and repatriation of profits, despite legislative assertions to the contrary, were difficult.

- Lack of Adequate Legal Safeguards. Every American businessman who has seriously studied the Yemen market knew that CitiBank closed its offices there for lack of regulatory support in the collection of bad debts.

- Visa clearances were difficult to obtain, costly and time-consuming.

- Natural Resource Limitations. Lack of water and raw materials were particularly critical factors.

- Illiteracy. As much as 80% illiteracy makes the communication of ideas difficult, even in Arabic.

- Bureaucratic Delay and Arbitrariness. Government procedures of all types were fraught with delay.

- Market Size was too Small.

- Managerial Structure

Any one of these factors alone would have made it difficult for GVT to have been successful as an intermediary, as demonstrated by the MTAP research. That it had any success whatsoever, is clearly a tribute to the principals of the company, coupled with the initiative and long-term vision of several A.I.D. officers and US SMSE's.

Summary

Overall, the GVT field trial raises several critical questions for long term trade and investment planning. The first is simply whether a small firm, such as GVT, can be successful in the intermediary activity if they are not supported with more extensive funds, at least at the beginning. Being forced to depend on consulting revenues in order to keep the business afloat while carrying out the MTAP program could actually have discouraged the development of appropriate trade and investment transactions. Larger firms, with more staff, are better positioned to structure deals that take payment at the end of the program as opposed to requiring on-going consulting activities, such as experienced not only by GVT but also InterMatrix and ICS.

A second question is the extent that macro-economic variables impact upon intermediary development. The lack of hard currency, import and factory licenses restrictions, etc., all greatly restricted GVT's activities. GVT did adjust its focus to target projects not directly affected by these constraints -- a plus for this type of TI activities versus other, less flexible forms. However, the declining nature of the economies forced potential clients to become preoccupied with their own diminishing revenues, and they began to retrench their operations rather than become partners in productive enterprise investments.

The case of Tunisia, where government intervention was seen as a major obstacle, raises questions about the effectiveness of intermediaries when working for the Government. In several of the other MTAP cases, however, intermediaries were able to develop collaborative relationships with government organizations that were mutually supportive.

In the end, GVT learned that there were few opportunities available that could be exploited with the limited resources available through MTAP. Having some of its professional time paid for, some communications and travel financed, was simply not adequate to the challenge Tunisia and Yemen represented. Given all the problems it faced as intermediaries, including government intervention and hostility, lack of on-the-ground local support, cultural and regulatory barriers, resulting in a severe drain of its own financial resources, there was ultimately little commercial incentive to pursue the MTAP program after funding stopped. GVT did the best it could to fulfill the obligations of the contract, but their hearts were not in the effort the way they would have been had if their had been greater financial incentives.

The particular lessons learned from the GVT experience may be the following:

1. A MTAP-type project should only be carried out after determining there is a realistic possibility that adequate financial and commercial incentives exists for the intermediary. To some extent, GVT was meant to discover this for itself during the first three months of the project. The problem was twofold. First, GVT got very seriously sidetracked with the problem of trying to obtain government approval for the project in Tunisia, and setting up it offices in both countries. Second, few firms will give up an interesting USAID contract without at least giving it the "old college try."

2. The development of intermediary-type activities takes a long time. A.I.D. expected too much in too short a time from the intermediary. Intermediaries do perform important economic functions in every society. With a proper, supportive environment and more time, GVT could have produced some positive results. GVT needed the help of local intermediaries and, in the case of Tunisia, was prohibited from getting it. This was a serious handicap, as was the control of its operation.

3. The intermediary must be given full freedom to pursue its own gameplan. Having its travel to and from Tunisia controlled by the Tunisian Embassy, in conjunction with all the other problems, probably sealed the doom of the project in that country.

4. In those countries where the regulatory environment is still restrictive to intermediary-type activities, A.I.D. should concentrate on the provision of technical assistance aimed at the conduct of market surveys to determine the feasibility of certain types of projects and trading opportunities. This targeted approach, emphasizing the trading aspects, versus the project development aspects, might have resulted in more beneficial outcomes, particularly in the case of the agricultural sector in Yemen.

5. Intermediary activities can only be successful in those countries where the market is large enough to offer true opportunities, and the business community is at least in the position to pay for such services, once they are convinced of its merits. Furthermore, a semi-developed private sector, coupled with at least some infrastructure, is requisite prior to the initiation of intermediary-type TI activities.

6. GVT maintains that until US firms develop longer term structures for supporting trade promotion similar to the type being used by the Asian trading houses, opportunities to regain and expand markets will continue to diminish. It is projects such as MTAP which will have to show what is possible or not.

EXHIBIT 1

MTAP PROGRAM RESULTS IN TUNISIA

I. VENTURE SPECIFIC RESULTS

	VENTURE NAME	STATUS	REASONS FOR FAILURE	PROBABILITY FOR SUCCESS
1.1.	Diesel Engine Assembly Plant	Abandoned	Political tug-of-war between Maghrebian countries over which one should build	NA
1.2.	Inside Mover Assembly Plan	Abandoned	No local interest in Tunisia	NA
1.3.	Compressor Factory	Abandoned	Tunisian Development Banks found project uneconomic	
1.4.	Automotive Stamping Plant	Abandoned	Lack of U.S. partner	NA
1.5.	Factory for Spinning, Weaving and Finishing Textiles	Abandoned	U.S. partner lost out to a better offer from a Korean firm	NA
1.6.	Business Development Partner (Export trade)	Abandoned	Withdrawal of MTAP funding by Government of Tunisia	NA
1.7.	Project Development Partner (Investments)	Abandoned	Withdrawal of MTAP funding by Government of Tunisia	NA
1.8.	Small Motor Assembly Plant	Abandoned	Lack of interest of Tunisian partner	NA
1.9.	Telecommunications Device Assembly Plant (telephone control)	Abandoned	Lack of interest on part of U.S. partner	NA
1.10.	Printed Circuit Board Assembly Plant	Abandoned	Turnkey offer by U.S. supplier not price competitive	NA

VENTURE NAME	STATUS	REASONS FOR FAILURE	PROBABILITY FOR SUCCESS
1.11. Automobile Filters Exports to U.S.	Abandoned	Deal nixed by European parent of U.S. buyer	NA
1.12. Garment Supply Contract	Abandoned	Tunisian supplier not price competitive	NA
1.13. Export of Dates to U.S.	Abandoned	High Tunisian prices coupled with abundant U.S. harvest, later by TENNECO monopoly	NA
1.14. Export of Perfumes and Cosmetics to U.S.	Abandoned	Lack of Tunisian company follow-up	NA
1.15. Truck hauling business	Abandoned	Was tied to GM project which failed	NA
1.16. Export of almonds to U.S.	Abandoned	Lack of response of local Tunisia supplier	NA
1.17. Hypodermic needle plant	Abandoned	U.S. partner failed to complete TDP market study	NA
1.18. Solar refridgerator Assembly Plant	Abandoned	Lack of Tunisian partner	NA
1.19. Shoe Factory	Abandoned	Lack of U.S. partner	NA
1.20. Aquaculture Project	Abandoned	Lack of Tunisian follow-up	NA
1.21. Olive oil exports to U.S.	Abandoned	Failure to reach agreement with GOT olive oil marketing agency on business relationship	NA
1.22. Photovoltaic Panel Assembly Plant	Abandoned	U.S. manufacturer no longer needed GVT services	NA
1.23. Wind Energy Project	Abandoned	GVT took idea to TDP who worked thereafter directly with GOT.	NA

VENTURE NAME	STATUS	REASONS FOR FAILURE	PROBABILITY FOR SUCCESS
1.24. MOOJAN Garment Imports to U.S.	Abandoned	Could not work out an acceptable business relationship	NA
1.25. Intermatrix perfume imports	Abandoned	see 1.14	NA
1.26. Toy Assembly Plant	Abandoned	Lack of response from API	NA
1.27. Film Production Project	Abandoned	Lack of meeting of minds of U.S. and Tunisian partners on finances	NA
1.28. Integrated Circuits Assembly Plant	Abandoned	U.S. partner only interested in turnkey sale--Tunisian partner sought markets	NA
1.29. Export of Essential Oils	Abandoned	Lack of response from Tunisian supplier	NA
1.30. Wines/Carpets Exports to U.S.	Abandoned	Only preliminarily explored	NA
1.31. Three new textile/ garment projects	Under review		
1.32. Olive Oil Market Study	Completed		
1.33. Shoe and Leather Goods Market Survey	Completed		
1.34. Skins and Hides Market Study	Completed		
1.35. Seafood Market	Completed		

EXHIBIT 2
PROGRAM RESULTS IN YEMEN

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I.VENTURE SPECIFIC RESULTS
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VENTURE NAME	STATUS	REASON FOR FAILURE	PROBABILITY FOR SUCCESS
1.1. Oral Rehydration Salts	Abandoned	Reluctance to reform management techniques led to U.S. partner unwillingness to proceed. Public sector competition for same project impeded licensing. Three months prior to end of MTAP mineral water plant, in which project was to have been located, shut down. This closure was due to owner disputes over management issues. IESC involvement helpful, but not enough, during early stages. Also with low expert costs, IESC pricing undermined our more expensive proposal for technical assistance.	None in forseeable future.
1.2. Hypodermic Syringe Factory	Abandoned	Reluctance and inability of Yemen partner to effect management reform discouraged U.S. supplier. Import and factory licensing too restrictive.	None in forseeable future.
1.3. Scrap Metal	Abandoned	Partner of potential buyer of scrap shredding machinery convinced by competitor to barter scrap for retread tires, after management became interested in one-time sale. Barter arrangement itself eventually fell through as delivery of scrap to port became logistically risky and too costly.	None in forseeable future.
1.4. Saw Mill	Abandoned	Yemen partner lost interest in project as he watched his trading operation come to a virtual standstill. This was due to increasing import license restrictions. Simultaneously, competition from smugglers and other buyers of import licenses on a secondary black market forced the Yemen side to dramatically reduce his wholesale wood import business. Because the main concern of the Yemen partner was a reliable source of wood supply, he declined to continue discussing the idea.	None in forseeable future.
1.5. GM Opel Agency	Abandoned	Yemen partner decided that owing to market constraints securing an agency representation for Opel was not a good investment.	None in forseeable future

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I.VENTURE SPECIFIC RESULTS
Page 2 (continued)
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VENTURE NAME	STATUS	REASON FOR FAILURE	PROBABILITY FOR SUCCESS
1.6. Potato Chip Manufacture	Abandoned	Yemen partner has not been granted a factory license and has had difficulty securing the support of the Yemen Central Bank for required guarantees for financing. Dutch competition and the Yemen partner's preference of a geographically more proximate (Europe) supplier were also barriers. Development of potato supply also still a basic preliminary issue still unresolved.	None in forseeable future.
1.7. Aircraft Spares Inventory	Abandoned	Yemeniya Airlines, after stating its interest in and including the project in its five year planning process, has not moved forward. Following several meetings between U.S. partner and Yemeniya , the U.S. partner has lost interest in pursuing the project further.	Less than 20 percent
1.8. Baby food manufacture	Abandoned	Import and factory license restrictions forced Yemen partner to abandon project. GVT intermediary consultant was let go from position as chief advisor to this company. Competition from USAID Project Sustain attracted food processors to other ideas.	Less than 30 percent with another company.
1.9. Solar Equipment Trade	Abandoned	Technical skills on Yemen side absent. European competition too strong. Import license restrictions too severe.	None in forseeable future.
1.10. Dairy	Abandoned	Pre-feasibility studies showed economically did not make sense. One Yemen company is proceeding with a similar project with a Dutch firm, having made the government fully aware that the cost of fresh milk will be higher for the consumer than the UHT milk currently produced. The lack of local high quality animal fodder is a serious barrier to production without expensive foreign inputs.	None in forseeable future.
1.11. Tissue Culture	Abandoned	Considerable effort went into this project on both sides, including the hiring of a U.S. specialist in Yemen to draw up specifications. The Yemen partner abandoned the project, as import and factory licensing became an issue.	None in forseeable future.

I.VENTURE SPECIFIC RESULTS
Page 3 (continued)

VENTURE NAME	STATUS	REASON FOR FAILURE	PROBABILITY FOR SUCCESS
1.12 Battery Recycling	Abandoned	Yemen partner just getting battery assembly plant off the ground decided to slow investment activities as factory licensing and competition from smugglers became an issue. Yemen customer also balked at cost of pre-feasibility study.	None in forseeable future.
1.13. Location of U.S. buyers of skins	Abandoned	Inability of Yemen supplier to provide samples of tanned skins from production run, the main problem. Quality of skins not high enough for U.S. manufacturers, who had tried in past Yemen supply.	None in forseeable future.
1.14. Air Cargo Transport	Abandoned	Yemen partner not responsive to offers, despite his own request for U.S. partner. Communications simply went unanswered.	None in forseeable future.
1.15. Marble quarry	Abandoned	Yemen party committed to Italian suppliers for European market.	None in forseeable future.
1.16. Car and truck fleet repair	Abandoned	Largely due to personnel changes in Yemen partner group which led to that project's abandonment. Financing also a major barrier. Yemen party had no money.	None in forseeable future.
1.17. Light-bulb manufacture	Abandoned	No factory license or response from Yemeni business group heading this project.	None in forseeable future.
1.18. Yemen Tour Project	Abandoned	GVT studied the idea of setting up a tour operation aimed at the Yemen market. It conducted a market survey of U.S. adventure travel companies offering Yemen tours. These firms had very low participation rates for their tours, despite extnesive and expensive advertising. GVT could not justify continuing this line of inquiry in the face of these market conditions.	None in forseeable future.

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I.VENTURE SPECIFIC RESULTS
Page 4 (continued)
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VENTURE NAME	STATUS	REASON FOR FAILURE	PROBABILITY FOR SUCCESS
1.19. Hospital clinic - liason office	Abandoned	The idea revolved around the current exodus of Yemen citizens to U.S. and Europe for high cost medical treatment. The Yemen partner needed financing and was concerned about Yemen government approval of a referral service. The project eventually seemed better suited for a philanthropic drive than a private diagnostic clinic.	None in forseeable future.
1.20. Coffee sales	Abandoned	The quality, quantity and reliability of delivery were a major problem.	None in forseeable future.
1.21. Frankinsense/myrrh incense	Abandoned	Yemen supply problems discovered. Yemen now imports from Somalia. Another interested U.S. party travelled to Somalia to seek supply but found most production was handled by poorly organized and small rural traders who could not guarantee regular supplies.	None in forseeable future.
1.22. Feed Mill	Abandoned	Italian manufacturer Okrim had too strong a hold on buyer from previous construction and management activities for serious U.S. competition.	None in forseeable future.
1.23. Stained Glass window	Abandoned	Unsure U.S. market and fragility of transport main economic problems.	None in forseeable future.
1.24. Qishr Drink manufacture/export	Abandoned	No Yemen partner found interested in idea. Yemen discovered to be net importer of this coffee husk, rather than significant producer.	None in forseeable future.
1.25. Commercial fruit/vegetable farm	Abandoned	Yemen partner not willing to proceed. Reasons unknown.	None in forseeable future.
1.26. Pre-paid health insurance	Abandoned	Were unable to secure pre-feasibility study money for expert interested in studying the possibility. Employee base of major industries in Yemen was found, in a cursory review, to be weak from the actuarial standpoint.	None in forseeable future.

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I.VENTURE SPECIFIC RESULTS
Page 5 (continued)

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VENTURE NAME	STATUS	REASON FOR FAILURE	PROBABILITY FOR SUCCESS
1.27. Sales of deciduous tree seedlings	Abandoned	Buyer demand too small for reasonable profit given amount of work involved.	None in forseeable future.
1.28. Establishment of Liason Office	Completed	GVT has been paid for half of the work it did on behalf of the Yemen client. The business relationship has ended.	Less than 10 percent.
1.29. Market survey for Computer Agency	Completed	GVT was paid for this short study.	100 percent
1.30. EOSAT	Underway	GVT is currently developing a business opportunity for the Earth Satellite Observation Company at the Ministry of Oil and Mineral Resources. (MOMR)	Greater than 50 percent.