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AGRICULTURAL MARKETING IMPROVEMENT STRATEGIES PROJECT

Sponsored by the

U.S. Agency for International Development

Assisting AID Missions and Developing Country Governments
to Improve Agricultural Marketing Systems

Prime Contractor: Abt Associates Inc.

Subcontractors: Postharvest Institute for Perishables, University of Idaho,
Deloitte Haskins & Sells.

AMIS STAFF PAPER

**AGRIBUSINESS TRADE AND
INVESTMENT PROMOTION:
ENGAGING U.S. AGRIBUSINESS
IN THE PROCESS**

MARCH 1992

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AGRIBUSINESS TRADE AND INVESTMENT PROMOTION:
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March 1992

The Agricultural Marketing Improvement Strategies Project

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GLOSSARY

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| AMIS | Agricultural Marketing Improvement Strategies Project |
| ANE | (former) Asia Near East Bureau |
| CTIS | Center for Trade and Investment Services, Private Enterprise Bureau |
| DOC | Department of Commerce |
| FDI | Foreign Direct Investment |
| IFC | International Finance Corporation |
| IQC | Indefinite Quantity Contract |
| LAC | Latin America Caribbean Region |
| MAPS | Manual for Action in the Private Sector |
| MIGA | Multilateral Investment Guarantee Agency, World Bank |
| MDI | (former) Market Development and Investment Office, Africa Bureau |
| OICD | Office of International Cooperation and Development, USDA |
| ONI | Office of New Initiatives, Africa Bureau |
| OPIC | Overseas Private Investment Corporation |
| PAS | Policy and Advisory Services, MIGA |
| PRE | Private Enterprise Bureau |
| PVO | Private Volunteer Organization |
| T&I | Trade and Investment |
| TDP | Trade and Development Program |
| TEA | Targeted Export Assistance (now Market Promotion Program -MPP) |
| USDA | U.S. Department of Agriculture |

EXECUTIVE SUMMARY

This AMIS Staff Paper is one in a series of studies by the Agricultural Marketing Improvement Strategies (AMIS) Project on cross-country issues addressed by the project over the last four years. Its objective is to contribute to the on-going discussion within A.I.D. about the role of the U.S. private sector in agribusiness trade and investment promotion programs. Basically, it argues for strengthening A.I.D. links to the U.S. private sector. The paper first examines past and on-going A.I.D. programs of this type to see what lessons can be drawn from them. Reference is also made to other U.S. Government and international programs. Next the views of some members of the U.S. agribusiness community on A.I.D. programs are summarized. Finally, suggestions are made concerning possible approaches which A.I.D. might use to make agribusiness trade and investment promotion programs more effective by maximizing the direct involvement of U.S. agribusiness companies in these efforts.

Donor Experience with Trade and Investment Promotion

Analysis of A.I.D. experience since 1985 with trade and investment promotion programs (primarily in the LAC Region), showed that where the investment climate and potential is relatively favorable, programs which provided information and referral services to local and foreign investors were generally the most cost effective. This approach assumes that lack of information is the main constraint to new trade and investment activities. On the other hand, in countries where the economic and policy environment is more constrained, and the physical and business infrastructure is less developed, a targeted or enterprise-specific approach was more appropriate since it concentrated resources on those enterprises which could benefit from such services as brokering of links with foreign firms to help form joint ventures, and accompanying technical assistance.

Regardless of the approach selected, A.I.D. experience clearly demonstrates the overriding importance to trade and investment of access by foreign investors to reliable information on the local economy and on the investment and regulatory climate.

Local private sector organizations in developing countries, such as trade, industry, or commodity associations, have an important role to play in promoting public-private sector cooperation in supporting services to agribusiness, in lobbying for an improved policy and regulatory climate, and in facilitating contact between local and foreign businessmen. Experience has also shown the importance of identifying and working with local "catalysts" -- businessmen with the vision and know-how to package the ingredients for successful industrial projects -- to make things happen in an otherwise difficult business climate.

Planning of new initiatives in agribusiness trade and investment should take into account recent and on-going experience of several A.I.D./Washington bureaus. The former MDI group in the Africa Bureau (now ONI) has the most experience in brokering joint ventures between U.S. agribusiness firms and local businessmen in Africa. The PRE Bureau also has highly relevant experience in upgrading local business capacity through the International Executive

Service Corps program, and more recently with joint venture promotion in its "fast track" programs in Indonesia and Mexico. A.I.D. coordination with other U.S. Government programs, such as those in the Departments of Commerce and Agriculture, TDP, OPIC, as well as the World Bank, MIGA, and IFC, is better than it used to be but could still be improved.

Views of U.S. Agribusiness on A.I.D. Trade and Investment Programs

In cooperation with the former ANE Bureau of A.I.D., the AMIS Project recently solicited the views of the U.S. agribusiness community on A.I.D. trade and investment activities through a series of conferences. The companies which participated felt that A.I.D. had insufficient knowledge of how the private sector functions and argued that agribusiness firms are better equipped to supply the expertise required by developing country enterprises. A.I.D. should leverage its limited resources by using "seed money" to stimulate U.S. trade and investment abroad. In this regard, a mail survey of medium-sized agribusiness firms indicated a willingness to participate in A.I.D. programs, provided costs of project investigation and certain start-up costs were at least partially covered by A.I.D. Although these companies cannot engage in philanthropy, defraying the costs of acquiring information on the long-term potential for profitable business ventures may be enough to induce them to pursue investigations of projects in developing countries.

As to the usefulness of services provided by U.S. Government agencies, respondents to the mail survey ranked market information and information on countries and regulations the highest, followed by trade leads, trade fairs and export promotion services. The usefulness of in-country assistance ranked quite low; services provided by the embassy agricultural and commercial attachés scored well ahead of USAID Missions.

A.I.D. Intervention in Agribusiness Trade and Investment Promotion

The basic rationale for trade and investment promotion programs is that they can, by assuming some of the initial costs of project investigation, by providing information and contacts which would otherwise be difficult or costly to obtain, and by reducing perceived risks through supporting or ancillary activities (such as technical assistance), cause foreign investment to occur or trade links to be established where they would otherwise not be. This can only happen, however, where other conditions, such as the policy and regulatory environment and the physical infrastructure are favorable to private business, and where there is a sufficiently strong agricultural production base.

A.I.D. should utilize a "triage" system (mainly based on information already available) to separate out a first group of countries which are most likely to benefit from trade and investment promotion programs. For a second group of countries with less favorable environments, programs which emphasize strengthening of local private agribusinesses serving local markets might be appropriate. No agribusiness programs would be planned for the third group.

For the first group, on-site country assessments would provide a basis for deciding on the

best approach. These assessments would examine the general level of development, the agro-industrial potential, the investment climate, government support and commitment to private sector agribusiness, the amount of information available on the economy, existing Mission programs and priorities, and would make a preliminary selection of target industries and sectors for further study. The next step would be a diagnostic study of marketing systems for the selected crops or sectors. The methodology would most likely be based on existing work such as the AMIS Rapid Appraisal.

A "targeted" or enterprise-specific approach would be used in a country where, for example, there were good prospects for development of export industries in one or two specific crops, even though the general investment climate was not especially favorable. We believe that this applies to the majority of countries where A.I.D. is represented. In such situations, A.I.D. would contract with an experienced consulting firm or university, which would in turn retain the services of experts from U.S. agribusiness firms to do project and local investor search/screening and project investigation work, producing pre-feasibility studies. For the most promising ventures, the contractor would attempt to "broker" joint ventures or trade links between local and U.S. agribusiness firms. Where upgrading of the local firm is required before it could become a candidate for a joint venture, the U.S. firm would provide the services of industry experts (funded by A.I.D.) to give the necessary technical assistance. The expectation is that through this type of assistance, links would be established between the local and the U.S. firms which would lead eventually to a business relationship involving product purchase and/or the establishment of a joint venture.

For the more developed countries with favorable business climates and good investment potential, USAID Missions would plan relatively low cost promotion programs of the "traditional" type, under which an investment promotion agency run by a private non-profit business organization provides information on the local economy and local business referrals to foreign investors, conducts workshops and seminars for local businessmen, prepares profiles of potential investment projects, and sponsors trade missions by U.S. firms. Typically, this type of program works on a broad front across all sectors of the economy and is relatively passive in that it facilitates the formation of new ventures but does not get involved in brokering deals. The cost per venture assisted under this approach is obviously considerably lower than the targeted type of program.

Oversight of trade and investment promotion programs by USAID Missions requires business experience, continuity, and flexibility to accommodate the numerous extraneous factors which can affect trade and investment decisions. The expertise provided by personnel from U.S. agribusiness firms in the project identification, investigation, and post-investment technical assistance phases can mean the difference between success and failure.

It is recommended that A.I.D. adopt an agency-wide policy of working closely with the U.S. agribusiness community in agribusiness development. A committee or council representing large and medium sized firms involved in agro-processing, input supply, equipment manufacture, and commodity marketing could be a vehicle for cooperation, coordinated by a specialized office

within A.I.D. This office would establish administrative procedures for retaining and paying for the services of agribusiness company experts in technical, financial, marketing, and management fields.

A.I.D. should promulgate "rules of engagement" governing the way in which it can work with the private sector. According to A.I.D.'s General Counsel, Agency procedures allow for grants to private companies to reimburse reasonable costs of activities relating to trade and investment as long as such grants are subject to competition. Pre-feasibility studies, technical assistance, and training are specifically mentioned as constituting such activities. One purpose of the procedures is to avoid charges of preferential treatment of a single U.S. firm to the detriment of other firms in the same business. Furthermore, a recent competitive A.I.D. grant award to consortia led by non-profit organizations providing technical assistance and training to agribusiness enterprises in Eastern Europe specifically called for the participation of U.S. agribusiness firms and placed no restrictions on subsequent trade and investment activities stemming from their work. These opinions and precedents appear to provide a basis for the development of the kinds of links with the U.S. agribusiness sector proposed in this paper.

1.0 INTRODUCTION

1.1 Background to the Study

This AMIS Project Staff Paper is one in a series of studies produced by the AMIS Project on issues addressed by the project during the last four years which have broad application within the development community. It draws on A.I.D. documentation relating to trade and investment projects worldwide, including export promotion projects, on contacts with U.S. agribusiness firms, and on experience gained on AMIS buy-ins from the Asia Near East Bureau, the Africa Bureau, and USAID/Bolivia.

The paper was inspired by consideration of the following points:

- The Administrator has announced a "Partnership for Business and Development" to strengthen ties to the private sector and "maximize the delivery of American ideas, technology, funds and know-how" to developing countries.
- A.I.D. policy makers have recognized the U.S. agribusiness sector as a valuable source of technology, management know-how, capital, and access to export markets - - all of which are vital to the sound and sustained growth of agro-industries in developing countries. At the same time, the establishment and strengthening of individual developing country agribusiness enterprises is an effective way to increase employment and incomes in rural areas.
- Regional bureaus of A.I.D./W, and the Research and Development Bureau, currently have under study a number of new initiatives in the area of agribusiness.

It is within this framework that the present paper is offered with the hope that it can contribute in some way to the planning process.

1.2 Agribusiness and Agricultural Marketing as A.I.D. Development Objectives

The term "agribusiness" as used in this paper refers to those enterprises engaged in agricultural marketing -- defined as operations which add value to an agricultural product through delivery of inputs to producers or processors, collection and transformation of the product, or trading operations -- and/or agricultural production (commercial farming, contract farming).¹

¹In its broadest sense (not used in this paper), agribusiness may also include enterprises or organizations which support agribusiness such as transporters, banks, warehousing companies, consulting firms, accounting firms, futures markets, trade associations, research organizations, and advertising firms.

Many USAID Missions have programs and projects which deal with some aspect of private sector agribusiness development, though that term may not be used. Objectives of some of these activities are:

- fostering competitive domestic markets
- private sector investment promotion
- rural enterprise development
- agricultural marketing improvements
- non-traditional export promotion
- private enterprise employment development
- increased rural income/wages

Other mission programs and projects directly support agribusiness development, such as:

- infrastructure improvement (roads, telecommunications)
- education and training, job skills improvement
- financial market reform
- market liberalization and privatization
- legal and regulatory policy reform
- domestic savings mobilization

Thus an A.I.D. program or project with agricultural marketing, rural enterprise development, or agricultural export promotion objectives could be considered an agribusiness activity. On the other hand, agribusiness might be only one part of a broad A.I.D. private sector development program which was not limited to the agricultural or rural sector.

This paper focuses on one specific type of agribusiness activity, trade and investment promotion, and deals mainly with the interface between A.I.D. and the private sector. It does not deal in any detail with the institutional aspects of promotion, such as the organization and functions of trade and investment promotion agencies.

1.3 Scope and Objective of the Paper

Objective: To provide information on approaches which might be used to more directly involve U.S. agribusiness in development of trade and investment activities in developing countries.

Scope: Section Two of the paper provides as background a summary of lessons learned from past and current trade and investment (T&I) promotion activities of A.I.D. and other USG and international agencies, especially those which are targeted at specific enterprises. In Section Three, based on several A.I.D.-sponsored conferences and a mail survey, we summarize the opinions of U.S. agribusiness firms on A.I.D. programs and their views on ways in which A.I.D. and the private sector could work more effectively together.

Section Four looks at the trade and investment promotion process from the viewpoint of a donor agency, then suggest points at which A.I.D. can effectively intervene in countries at different levels of development. Included are sections dealing with the key role that U.S. agribusiness firms could play in that process, and with some legal issues in connection with this role. Finally, Section Five offers specific recommendations as to how A.I.D. might work more closely with the agribusiness sector.

2. DONOR EXPERIENCE WITH TRADE AND INVESTMENT PROMOTION

2.1 Lessons From A.I.D. Experience

The information base for the analysis in this section consisted of A.I.D. evaluations of eight trade and investment promotion projects, two broad comparative studies on performance of these types of projects, and three buy-ins to the AMIS Project which concerned agribusiness project planning and agribusiness trade and investment promotion. Information on past A.I.D. programs was obtained solely from documents available in Washington and drafted after 1984.

The A.I.D. projects examined include:

- the Costa Rican Coalition for Development Initiatives (CINDE) Investment and Export Promotion Program (PIE), and Private Agribusiness and Agroindustrial Council (PAAC),
- the PROEXAG Non-Traditional Agricultural Export Support Project in the Caribbean and the Pacific,
- the High Impact Agricultural Marketing and Production Project (HIAMP) in the Eastern Caribbean,
- the Private Enterprise Promotion Project (PEPP) in Sri Lanka,
- the Non-traditional Agricultural Export Project (NTAE) in Ecuador,
- the Non-traditional Agricultural Export Promotion Project (NTAEP) in Peru, and
- the Jamaica Agroindustrial Development Project.²

The predominance of Latin American/Caribbean projects in the above list accurately reflects the emphasis given this type of project by LAC Missions, as compared to those in other regions.

The comparative studies included a May 1990 study by Louis Berger International, entitled "Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean", and a November 1990 study by Nathan Associates and Louis Berger, "Export Promotion and Investment Promotion: Sustainability and Effective Service Delivery". The first of these analyzed 15 trade and investment promotion projects in

² Report references will be found in the bibliography. Summaries of these projects can be obtained from the authors of this paper, along with some for projects not included in the analysis because evaluation reports were unavailable.

Latin America and the Caribbean, half of which were in agriculture and agribusiness and half in manufacturing. The second study had more of an institutional focus and looked at ten non-traditional export promotional institutions in four Latin American countries.

Buy-ins to the AMIS Project which provided further background include:

- Trade and investment promotion activities, rapid appraisal of marketing systems, and export market studies for USAID/Bolivia (1990).
- Assistance to the former Asia Near East Bureau in developing an agribusiness promotion strategy, including help in organizing three roundtable discussions with representatives of U.S. agribusiness.
- Assistance to the Africa Bureau in preparing a Strategic Framework to promote agricultural marketing and agribusiness development.

Another source of information was the work done under Abt Associates' APAP Project on collaboration between U.S. commodity and industry associations and A.I.D. on trade development activities.³

2.1.1 General Findings

According to the Berger study, between 1974 and 1989 A.I.D. spent about \$675 million on more than 120 trade and investment projects worldwide. Roughly half the projects and more than 70% of the funds were for the Latin America/Caribbean region. The portfolio of projects was weighted toward grant financing of export promotion activities in the agricultural sector. More than 75% of the projects provided export promotion services, generally accompanied by policy reform, institutional development, training, technical assistance, and credit services. Organizations providing services tended to be pre-existing, non-profit institutions, though governmental organizations were also frequently involved. The study concludes that despite the considerable sums of money spent by A.I.D., "the number of clearly successful projects remains relatively small".

An AMIS study prepared for the Asia Near East Bureau enumerates several reasons for A.I.D. support to agribusiness generally:

- agribusiness lends itself to decentralization, moving jobs and other income generating opportunities toward rural areas,

³ Newman, Mark D. and Christine Erbacher, Trade Associations and Foreign Aid: U.S. Commodity and Industry Interests and A.I.D. Trade Development Activities, APAP Project, Abt Associates, January 1991.

- agribusiness supplies processed products which substitute for imports and can tap export markets based on comparative advantage, and
- linkages with other sectors of the economy can lead to multiplier effects.⁴

The rationale for this assistance in agribusiness trade and investment promotion in particular, according to the Nathan/Berger study, is that a temporary subsidy to the export sector is justified in order to improve access to information and speed up private sector response to market forces. The expectation is that the first foreign investment in an underdeveloped sector will create a "bandwagon effect" which others will follow. The promotion institution implementing the program can also serve as the voice of the export sector and play a role in public policy formation.

The Nathan/Berger and Berger studies cited above agreed that under the right conditions, A.I.D. trade and investment promotion programs were cost effective. A cost-benefit analysis of three successful programs in Latin American countries with favorable policy environments found that generalized promotional programs supplying information to local businessmen on foreign markets, and production cost data to foreign investors, were highly valued by clients. The rate of return to A.I.D. on its promotional expenditures was estimated at 20%, based only on increased employment. On the average, these programs produced a \$5 increment in new exports for each \$1 invested in promotion. (Nathan/Berger, 1990).

2.1.2 The Choice of Approach

Approaches to trade and investment promotion vary according to the degree to which they are passive or pro-active and the degree to which services are standardized or targeted. The Berger study identified three approaches:

- The **transmitter** approach assumes that lack of information is the main constraint and is relatively passive in that information is transmitted only on request. Emphasis is placed on policy development and research, database development, and market research.
- The **facilitator** approach is more pro-active, providing multi-sectoral investment and export promotion services such as product promotion through trade shows, support to visiting investors, general business training, and general investor search services.
- The **promoter** approach is the most pro-active in that it provides enterprise-specific assistance to a limited number of clients. It assumes that there are major constraints

⁴ Newman, Mark D., Promoting Agribusiness in Asia, Eastern Europe, the Near East, North Africa, and the South Pacific: A Strategy for A.I.D.'s ANE Bureau, the AMIS Project, January 1990.

on local producers and investors, and that overcoming them requires substantial assistance in production and marketing.

An SRI study used the terms "publicity programs" and "investor assistance", which correspond roughly to the first and second categories above.⁵

Few projects fall neatly into one or the other category. The most successful projects have clearly defined approaches and objectives, but are flexible enough to adjust to changing conditions and new perceptions. For example, the CINDE-PIE project strategy evolved from information dissemination to aggressive investment promotion utilizing five overseas offices to "cold call" prospective investors.

For the purposes of this paper, we have simplified the above three-way distinction into two basic approaches: a "traditional" one which is a combination of the transmitter and facilitator approach, serving a broad spectrum of clients with services mainly of an informational nature, and a "targeted" one which is enterprise-specific and provides technical assistance, active brokering of investor and trading contacts, and information services to a limited number of clients.⁶

2.1.3 Importance of the Operational Environment

The political/social, economic, and policy environments play a crucial role in the success of agribusiness trade and investment promotion projects. A project's structure and goals must match the constraints placed upon it by its environment. The more unstable the political/social environment, the more constrained the economic and policy environment, and the more deteriorated or undeveloped the physical and business infrastructure, the narrower the scope of activities and the objectives of the trade and investment promotion projects must be. In severely constrained environments, T&I promotion projects should be delayed until the major constraints are eliminated.

The PROEXAG Central American regional non-traditional agricultural export project took these points into consideration as it refined its scope of work during the first few months of activity. The project, which received favorable evaluations, carefully matched its services and product coverage to the productive capacity and environment within each country in which

⁵ SRI International, An Assessment of Investment Promotion Activities, Final Report, Prepared for A.I.D. Bureau for Private Enterprise, January 1984.

⁶ Some confusion on terminology may still arise. For example, SRI uses the term "targeting" when advocating a concentration of promotional efforts as opposed to a "scatter-shot" approach. As used in this paper, targeting refers to bringing to bear technical assistance and deal brokering efforts on a limited number of enterprises.

it operated, limiting its coverage to four products in countries with the most constrained environments and expanding it in the more conducive environments.

The results of the CINDE-PIE project in Costa Rica also emphasized the influence of the environment. A.I.D.'s interim evaluation in 1987 showed that because the policy and productive environment in Costa Rica was favorable, the response to CINDE-PIE's promotional efforts was nearly as strong outside of the export processing zones (EPZs) where CINDE concentrated its efforts as within the zones.

On the other hand, despite concentrated targeting of assistance to the entrepreneurial small to medium-sized producers and to U.S. investors, the Non-Traditional Agricultural Export (NTAE) Project in Peru found that the outlook for medium- to long-term sector growth was still inhibited by the discouraging macroeconomic and policy environments. Along the same vein, the Jamaica Agroindustrial Development Project operating from 1982 to 1987 found much lower demand for its credit services than anticipated, due to the structural adjustment program and its constrained economic environment. (The low credit demand can also be attributed in part to increased foreign exchange availability resulting from recently implemented weekly foreign exchange auctions.)

2.1.4 Targeted vs. Traditional Approach

Either an enterprise-specific (targeted) approach or the more traditional one which concentrates on standardized assistance of an informational nature may be appropriate, depending on the policy and business environment in a given country and on A.I.D. goals and objectives there. The "traditional" approach reaches more clients for the same amount of money than does the "targeted" approach, and is most suitable for those countries where the major constraint to increased trade and investment is lack of information.

A targeted approach which provides services intensively to selected individual enterprises may be used in environments constrained, for example, by unsuitable government policies toward the business sector, low productivity, and little export momentum. These projects are more "developmental" in nature, since they typically provide technical assistance in post-harvest handling, processing, finance, management, or market development along with brokering of contacts with potential investors or buyers. The Berger study concluded that the more unfavorable the economic environment, the greater the need to target the project scope of services, product groups, and client groups. Projects such as CINDE-PIE and PROEXAG utilized this strategy with good results, achieving a greater return in terms of the cost per dollar of investment generated and jobs created than an information dissemination approach would have done. The study further noted that "the more successful projects are effective at targeting and adjusting project services to the strengths and weaknesses of the economic environment, target group, and host country governments." In other words, a highly focused or targeted program can more easily be adjusted to fit unfavorable and changing conditions in constrained environments.

The targeted approach would also be appropriate in any country where A.I.D. desired a "fast track" approach to trade and investment promotion. As noted below, the PRE Bureau is using this approach on a pilot basis in Indonesia, and plans a similar program in Mexico.

The USAID/Bolivia buy-in to the AMIS Project furnished a case study of this approach. The Mission requested AMIS assistance in the Chapare Region to promote the marketing of alternative crops to coca, the raw material for cocaine. AMIS activities were carried out in three phases. First, a rapid appraisal of the marketing systems in the region identified key constraints to marketing, such as transportation and inappropriate varieties, which needed to be removed. Crops with the most promising potential for export -- in the fresh or processed state - - were identified. In a second phase, regional and international market studies were carried out on the identified crops which involved direct contact with buyers in six representative countries (Europe, North America, and Asia). The third phase involved contacts with U.S. agribusiness firms which process and/or market these products, and the organization of a trade and investment mission to Bolivia. This final phase of the project essentially screened the potential projects and make recommendations for further promotion of the most promising agro-industrial projects.⁷

An advantage of the targeted approach is the demonstration effect of a successful project. The May 1990 Berger study reaffirms the importance of demonstrating early success in export development through intensive efforts as a way of gaining government support and industry interest in T&I programs. Targeting also tends to make the project more manageable since it favors more clearly defined objectives and tightly defined operational guidelines.

The targeted approach does, however, raise issues of equity. Fewer enterprises are assisted and costs per client served are naturally considerably higher than the traditional approach. The size of the firm assisted is another factor, since often a project can achieve results faster by assisting a large firm which needs minimal help to export or attract foreign investment, than it can by working with several small firms which need a lot of help. In some countries it may not be politically feasible to serve a restricted clientele, particularly if they are large firms, rather than all business concerns in a given sector.

2.1.5 The Information Imperative

One of the major constraints in developing countries is access to reliable information, both on the local economy and on world markets. Local and foreign agribusinessmen alike suffer from this lack of information.

Most of the projects reviewed in this paper placed emphasis on information generation and dissemination. For examples, CINDE-PAAC developed a market information database and

⁷ Abbott, Richard D., Report on AMIS Trade and Investment Promotion Activities in Bolivia, The AMIS Project, January 1991.

technology library. CINDE-PIE made data on trade and investment opportunities available abroad, and distributed within Costa Rica information on export markets as part of its promotional efforts. The NTAE-Ecuador project began early on to establish an information database on the non-traditional agriculture sector. Likewise, the Jamaica Agroindustrial Development Project sought to institutionalize the sector information it generated in undertaking subsector profiles, targeted studies, and pre-feasibility studies.

The Nathan/Berger study emphasizes the importance of information dissemination in trade and investment promotion and asserts that technical assistance is not always a necessity for promoting new sectors and products. The study states that standardized, widely-disseminated basic information may have a greater total impact in some country environments than selectively providing intensive and costly technical assistance and investment promotion services. In attracting foreign firms to invest, the more widely investment opportunity information is disseminated, the more likely the country will be placed on firms' short lists for potential investment sites. Wide dissemination of information is equally important in reaching the greatest possible number of developing country firms with the production sophistication to export. The study acknowledges, however, that in the most constrained environments, highly targeted and intensive assistance will probably be necessary for successful promotional efforts.

2.1.6 On-going Technical Assistance

The importance of on-going technical assistance to resolve agro-industrial production problems has been generally acknowledged as a result of evaluations of many trade and investment promotion projects. This need has generated many technical assistance projects, as well as "incubator" projects which provide small entrepreneurs with the management and facilities support required to survive the initial establishment phases. For example, the PROEXAG project strengthened the connection between producers and foreign importers to facilitate the transfer of knowledge and the understanding of quality standards and market requirements. Particularly in constrained environments, post-investment technical assistance to new enterprises assisted by a T&I promotion program may be required to assure that the enterprise survives. A foreign joint venture partner is likely to be the best equipped to provide this assistance.

2.1.7 Local Supporting Institutions

Private sector organizations such as commodity, industry and export associations contribute to the institutionalization of the industry support structure, providing a vehicle for public sector-private sector cooperation in such areas as market and crop research, training, export promotion and implementation, and other efforts which can benefit from economies of scale. They can also provide effective lobbying in the policy/regulatory arena for the private sector generally or for the more narrow interests of their particular sector.

The PROEXAG project utilized such organizations to provide support in solving industry-wide problems such as disease control or variety adaptation, as well as to assist in the sharing

of technical know-how between purchasers and producers/exporters. The Private Enterprise Promotion Project (PEPP) in Sri Lanka established the Sri Lankan Business Development Center (SLBDC) for purposes such as these. The NTAE-Ecuador project utilized a federation of exporters, FEDEXPOR, as an important information disseminator.

However, the Nathan/Berger study issues a caution concerning the use of membership organizations for the implementation of promotion programs. Because they are interested in maintaining an extensive membership base, they will have difficulty focusing on the needs of a small number of its members.⁸

2.1.8 Project Management

Trade and investment promotion projects need to have a single responsible organization with a narrow scope of activities in order to function successfully. Or, if a single organization is to manage a variety of activities, these can be set up in discrete branches of the organization with the conduct of day-to-day operations undertaken independently, as was done in the cases of CINDE-PIE and CINDE-PAAC. These two formats allow a concentration of expertise and help to prevent the duplication of efforts or discord among various responsible institutions.

This lesson was learned by the PEPP-Sri Lanka project which experienced poor working relations among its technical assistance providers and in some cases a mismatch of technical assistance needs and expertise. The NTAE-Ecuador project likewise experienced difficulty with too many actors participating in the information promotion activities and duplicating efforts.

Successful T&I programs requires strong and intensive management by A.I.D. and contractor personnel. Continuity, flexibility, and technical expertise are at a premium. Projects may be less effective when A.I.D. managers do not allow for changes in objectives or strategies or for flexibility and spontaneity in response to immediate needs.

The A.I.D. PROEXAG project managers discovered early on that A.I.D. could not expect to have a complete and final schedule of activities and proposed expenditures a month in advance, due to the necessity of responding to unforeseen situations, particularly those relating to market conditions in importing countries. PROEXAG management made allowances for this flexibility as it learned this lesson and so was able to respond to crises.⁹

⁸ The role of trade associations in sectoral development deserves further study, as for example, the relative effectiveness of narrowly-based vs. broadly-based membership organizations in promoting trade and investment.

⁹Interview with Pamela Diehl Michel and Diana Bejarano of Chemonics regarding Chemonics' experience with the PROEXAG Project, May 2, 1991.

Although this paper does not deal with the role and functions of T&I promotion agencies, we contend that wherever possible such agencies should be in the private sector rather than the public sector.

2.1.9 Cost Recovery by Local Implementing Institution

Many A.I.D. trade and investment promotion projects placed emphasis on achieving self-sufficiency of the implementing institutions within the 3 to 5 year time frame of most A.I.D. projects. This is often an unrealistic objective, due to the high cost of the assistance projects and the low-level of development of the private sector in most of the countries in which A.I.D. operates. The costs of entry into new fields and new markets are too high to be covered by most sectors in developing countries. This is a point made repeatedly by the project evaluations covered in this study.

However, the Nathan/Berger study points out the efficacy of eventually using fees to assist in the allocation of services. While it is unrealistic to think that full cost-recovery would be feasible, recovery of the majority of direct costs of projects assisting indigenous industry is a possibility in the more advanced industries and countries. While external donors or the public sector can finance overhead, the information base, and a portion of the expensive directed assistance, most direct costs can be recovered from the organizations assisted, once the industry and the project is established. However, fees for investment promotion are less desirable, as it will be difficult to allocate expenses and may damage the project's or the country's image, as well as possibly result in the targeting of the least difficult sectors.

2.1.10 Project Time Frame

A.I.D. agricultural export promotion projects were often established with the expectation of significant quantifiable results in a short time period. The institutionalization of non-traditional agricultural production and export expertise, and the realization of results from these entities, requires a time frame of perhaps five to ten years. Ending project assistance too soon can result in the death of what could have been a strong export industry but for a couple of technical difficulties for which there was no readily available expertise.

2.2 Current A.I.D. T&I Promotion Programs

A number of on-going programs which are relevant to the subject matter of this staff paper are reviewed below. Some of these programs are not concerned with agribusiness as such, but the techniques and approaches used are instructive and some can be adapted to agribusiness T&I promotion.

2.2.1 Africa Bureau's Office of Market Development and Investment (MDI)

Until a recent reorganization, the Africa Bureau's Office of Market Development and Investment (now the Office of New Initiatives - ONI) had a broad mandate to promote private sector growth in Africa. Although controversial, MDI activities broke new ground in T&I promotion; techniques used by MDI may -- with some necessary modifications -- be adapted for future use by the Agency. Among the unit's activities were the following:

- Co-sponsoring trade and investment missions to Africa with OPIC and A.I.D.'s Office of International Trade and Investment Promotion (ITIP);
- Supporting an African Development Bank-sponsored visit of prominent African businessmen and leaders to the United States to make contacts with potential investors;
- Financial support to the Africa Growth Fund (AGF), developed by OPIC, owned by a group of major U.S. corporations, and managed by Equator Investment Services Limited, an affiliate of Equator Bank. AGF provides 20%-45% of a project's total equity capital, ranging from \$500 thousand to \$3 million, investing in African businesses with significant U.S. interests.
- Partially financing the African Management Services Co. (AMSCO), which provides senior management teams to African businesses for a finite period at competitive costs, delivering on-the-job training to top-level executives;
- Implementing the Africa Venture Capital Project (AVCP) with \$7 million, providing technical assistance and underwriting initial operating costs for start-up of venture capital funds in Africa. (Implemented by Harvey & Co.),
- Co-financing the Africa Project Development Facility (APDF) with UNDP, IFC, and the African Development Bank, which assists African entrepreneurs in creating and locating funding for private-sector projects. (\$400 thousand)

Agribusiness trade and investment promotion by MDI utilized funds from the Africa Private Enterprise Fund (APEF) and was carried out in part through an IQC consulting contract. Diagnostic studies and market analyses were first carried out in African countries to identify agribusiness investment opportunities. Investment profiles for potential new industries were then prepared. Next, "industry leaders" -- CEO's of small and medium-sized U.S. agribusiness firms -- with an interest in forming joint ventures or sourcing product in Africa were identified. These persons were then asked to lead missions to investigate the potential projects. Travel costs, and in some cases salary costs as well, were covered partially ("cost sharing") or fully by MDI. Under another provision, start-up costs for a joint venture were to be covered by MDI grants, provided the U.S. investor agreed to invest a stated amount in the joint venture. Grants for technical assistance and training services could also be made to U.S. companies with a stated intention to invest in a local enterprise.

2.2.2 Private Enterprise Bureau/Office of International Business Development

The Office of International Business Development has four on-going and one planned activity related to trade and investment promotion. The TIS, MTAP, and planned CTIS are of particular interest to this paper and are discussed below.

Trade and Investment Services Program (TIS)

The objective of the TIS program is "the development of mutually beneficial joint and co-ventures between U.S. firms and small and medium-sized companies in the developing world". The business linkages aspect of the program make it particularly relevant to the subject of this paper. Begun in 1989, the program is implemented in cooperation with the International Executive Service Corps (IESC) in Stamford, Connecticut, which provides the services of industry experts from its 12,000 member volunteer executive corps. The three services typically carried out by IESC in a country are (1) sectoral surveys to identify target sectors and companies, (2) technical assistance to upgrade product quality, and (3) promoting trade and investment linkages with U.S. firms.

The TIS program utilizes several "program models", depending on the level of development of the country.

The LDC Program for less developed countries sends volunteer executives (VE's) to the country initially to identify four to six industries with the most promising export potential. The VE's then work over a two to three year period to link the LDC firms with U.S. firms interested in establishing joint or co-ventures, licensing, equipment purchases or product purchase agreements. They may also provide technical assistance and advise as necessary in negotiations between the two parties. These activities are coordinated by a TIS Project Officer at IESC headquarters and a TIS Investment Promotion Officer based in the developing country. Local costs of the program are covered by a grant from the USAID Mission in that country. Programs of this type are currently operating in the Dominican Republic, Egypt, Guatemala, Morocco and Ecuador. A program in Tunisia is about to be launched.

The Advanced Developing Country Program relies much more on in-country resources and institutions, such as a chamber of commerce, to identify companies seeking U.S. partners for access to new technology, management, investment, and market outlets. Local funding is provided by the cooperating institutions. Usually, no USAID Mission funding is required. A PRE-funded Project Officer at IESC headquarters, assisted by volunteer executives (VEs) with contacts in particular industries, is responsible for developing linkages with interested U.S. firms, and for developing industry sector surveys, also by VEs. Programs of this type are currently operating in Turkey and Portugal.

A "fast-track" program is now underway in Indonesia (and starting in Mexico). Under this six-month pilot program, four IESC reconnaissance missions in January 1992 will identify industrial sectors and individual companies with immediate export potential which could attract U.S. investment. It is expected that these industries will include mariculture, furniture, electronics and plastics. The intent of the program is to accelerate the investment process by selecting companies which need no long-term technical assistance to reach the point where a joint venture could be promoted. USAID Indonesia is involved only to the extent of assisting with local business contacts. In other respects it is like the ADC Program described above.

IESC has related programs not funded through the PRE Bureau. For the European Bureau it has TIS programs in Albania, the Czech and Slovak Federal Republic, Hungary, Latvia, Lithuania, Poland, Romania, and Yugoslavia. In Sri Lanka, IESC has a five-year program funded by the USAID Mission there to provide access to and installation of upgraded technologies (mainly U.S.) to the Sri Lankan private sector.

Market and Technology Access Project (MTAP)

The MTAP Project was launched by A.I.D. in 1983 and initially examined the effectiveness of commercial intermediaries in promoting trade and investment relationships between U.S. and developing country firms. From 1988 onwards, MTAP focused on promoting the growth of private enterprise in developing countries by improving their access to new markets and technologies in the U.S. and in Asian countries.

Working primarily with small and medium-sized developing country enterprises, MTAP helps establish relationships with U.S. suppliers and sources of technology through training programs, factory visits in the U.S. and Asia, exhibitions and seminars, and cost-sharing for technology demonstration projects. The "U.S.-LDC Business Linkages" program includes pilot programs to support growth of service firms in developing countries and to promote linkages between U.S. and LDC trade and industry associations in selected industries (including food processing/agribusiness).

An MTAP research document¹⁰ concludes that supporting the development of a "plurality of private sector service suppliers" was helpful to the promotion of export industries. It was found that a wide variety of commercial firms are willing to participate in trade promotion efforts on a cost-sharing basis. Providing 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 contracts of institutional support contracts. These firms were better able to supply specialized services that firms pursuing specific business opportunities

¹⁰Barton, Clifford (IMCC), The Role of Commercial Services in Officially-Sponsored Trade Promotion Programs: Lessons from the Market and Technology Access Project, Produced for the LAC/CDIE Trade and Investment Workshop, November 13-14, 1989.

require than were centralized promotional organizations. Their flexibility allows them to be more responsive to the needs of their clients and as privately-owned businesses tended to be more sustainable .

However, results varied widely by country. It was found that the approach was feasible only in "countries with relatively favorable business environments and adequate industrial capabilities". Without this environment, private service suppliers were presumably unable to generate enough business to survive.

The Center for Trade and Investment Services (CTIS)

Detailed plans for CTIS have been drawn up and are expected to be implemented in the near future. Once launched, this activity will implement the "Business Network" aspects of the Administrator's Business and Development Partnership announced in December 1990.

The Center will be A.I.D.'s focal point for the collection and dissemination of T&I information for U.S. and developing country businesses. To avoid duplicating services already offered by others, it will cooperate and collaborate closely with the Department of Commerce's Trade Information Center and U.S. and Foreign Commercial Service, the Foreign Agricultural Service of USDA, the Trade and Development Program, the World Bank, the U.N. International Trade Center, and businesses that specialize in trade and information services. It is expected to develop close relationships with USAID Missions with T&I promotion programs.

Information is to be supplied to business at four levels:

- (1) country orientation, such as profiles and fact sheets,
- (2) clearinghouse service on T&I promotion services offered by A.I.D. and other agencies and donors,
- (3) advisory services to individual business persons by guiding them to the appropriate T&I program through the Center's core and Extended Network, and
- (4) business transaction services to help to identify potential financing sources for a planned venture.

One of the first activities of the Center is expected to be a survey of A.I.D. Missions to obtain information for use in steps 2 and 3. It is estimated that there are approximately 25 country and regional T&I projects.

Business Advisory Council

As one element of the Administrator's Business and Development Partnership, A.I.D. recently announced the formation of the Business Advisory Council, a body which will advise

A.I.D. on how to utilize the private sector in foreign assistance programs. The seventeen-member council includes executives from the following agribusiness organizations: Ralston Purina, Countrymark Cooperative, and the National-American Wholesale Grocers' Association.

2.2.3 PRE/TR's Technology Transfer and Investment Activities

The Private Enterprise Bureau's Private Investment and Trade Opportunities Project (PITO), a regional project run by the ASEAN-U.S. Business Council, seeks to expand private sector trade and investment relations between the U.S. and Thailand, Indonesia, the Philippines, Singapore, Malaysia, and Brunei. Activities designed to stimulate the interest of U.S. firms in trade and investment in particular industries include: identifying U.S. firms with the needed technology and interest in international joint ventures, identifying ASEAN firms seeking the technology and having the capacity to engage in a joint venture, arranging seminars in the U.S. to present investment opportunities to U.S. firms, arranging T&I missions to ASEAN countries, including one-on-one meetings between U.S. and local firms, and providing follow-up assistance to companies seriously interested in forming joint ventures. Equity capital for joint ventures may be available through the ASEAN Growth Fund, which receives technical assistance through the PITO Project. An ASEAN-based organization, Technonet-Asia, administers a referral service for local firms seeking technology partners, conducts national and regional workshops on new technologies, and promotes standards and quality assurance programs.

PRE/TR also supports the Program for the Advancement of Commercial Technology (PACT) in India, a program which assists in establishing joint ventures between U.S. and Indian private firms. An A.I.D. grant is administered by an investment bank, the Industrial Credit and Investment Corporation of India (ICICI), and in the U.S. the Batelle Memorial Institute serves as program advisor, assisting in promotion, technical review, and project monitoring. Batelle identifies appropriate technologies and develops joint venture proposals to commercialize the technology. The proposals are examined and selected for investment assistance by a joint ICICI-Batelle council. PACT grants half the investment capital, up to \$500,000, which must be repaid up to twice the amount of the original grant if the project is successful. As of March 1990, five projects are entering the commercialization stage, another seven have encountered various technical and commercial problems, and twelve are still in preparation.

2.3 Other U.S. Government and Private Non-Profit T&I Support Programs

A broad range of services are available from agencies of the U.S. government to help U.S. businesses strengthen their international competitive position. A publication of Abt

Associates¹¹, funded by A.I.D., serves as a guide to these services. Under separate chapter headings, the guide lists services provided by various agencies. The topics are:

- identifying target markets
- market research
- regulations, requirements and licensing
- identifying and screening local contacts
- financing
- insuring
- financial compensation.

Programs of particular interest to this study are reviewed below.

U.S. Trade and Development Program: TDP is an independent U.S. government agency whose primary purpose is to promote U.S. exports for major development projects and cultivate free market principles in middle-income and developing countries. It funds feasibility studies and planning services related to projects in these countries. All contracts funded by TDP grants must be awarded to U.S. firms. The host government must formally request TDP support and the U.S. Embassy in that country must endorse the proposed project, which must also present an opportunity for substantial sales of U.S. goods and services. Support for feasibility studies may be in the form of (1) grants which provide for full payment for a study that is done for a host country government, or (2) partial investor financing (up to 50%) for a study done directly for the local investor. Once funding is approved, TDP and the government sign a grant agreement and TDP publishes an announcement in the Commerce Business Daily. Only U. S. firms may bid on the study.

Department of Commerce/International Trade Administration: One of the activities under this program is the Latin America/Caribbean Business Development Center, operated in cooperation with A.I.D. This office was opened in October 1990 to promote and implement the Enterprise for the Americas and Andean Trade Initiatives and to continue support to the Caribbean Basin Initiative. Its mission is to promote and facilitate private sector business development in the LAC region through trade and investment promotion projects and events. Services include the publication of the monthly "LA/C Business Bulletin" which reports on

¹¹ Chambers, Maiko and Mark D. Newman, Global Agribusiness Resource Guide: Government Assistance for International Investment, Joint Ventures, and Trade, Abt Associates Inc., September 1990

specific trade and business opportunities in the region, counseling and seminars for U.S. firms seeking contacts, business development missions in conjunction with U.S. Embassies, "matchmaker events" which match specific procurement or joint venture interest with local investors and suppliers, and publications on doing business in countries of the region.

Department of Agriculture/Office of International Cooperation and Development:

In addition to its developing country activities in the areas of scientific exchanges, collaborative research, training, and technical assistance (the latter financed primarily by A.I.D.), OICD organizes trade missions which link U.S. and foreign entrepreneurs, as well as marketing workshops and technical team visits. An Agribusiness Information Center provides information to U.S. and LDC investors, importers, and exporters on export and import regulations, commodity grades and standards, and financing.

Overseas Private Investment Corporation: OPIC is a self-sustaining U.S. government agency which works to foster economic growth in developing countries through the promotion of U.S. private investment. It offers assistance to U.S. investors through three channels:

- political risk insurance
- financial assistance: equity investment, direct loans and/or loan guarantees, and
- information and pre-investment services.

OPIC no longer provides partial financing of pre-feasibility studies by U.S. investors, but does conduct investment missions to developing countries, provides a "one-stop shopping" information service on developing countries (kits with materials on the economy, trade laws, business regulations, political conditions, and investment incentives), and operates an "Opportunity Bank". Under the latter program, the U.S. firm submits a description of its business, the type of investment sought, and the countries of interest. This information is then matched with similar information submitted by foreign businesses seeking American investment.

Industry Council for Development/AMSCO: The ICD is a non-profit corporation established in New York in 1978 to replace an FAO activity known as the Industry Cooperative Program. Its objective is to "build partnerships between business and government" by creating public policy and legal systems which encourage investment and commercial risk taking. ICD has 30 corporate members, while a related for-profit service company (ICD Services Corp. or ICDS) has 52 members. The latter company has three U.S. members (IBM, Corn Products, and Archer-Daniels-Midland), and the rest are European, mainly Portuguese and French. The only European members in the food area are Nestle, Danish Dairies, and Booker.

Under UNDP, IBRD, and A.I.D. auspices, ICD conducts missions to advise LDC governments on private sector development policies, particularly in the area of privatizing and restructuring national seed systems. ICDS provides management consulting services on a fee basis to African enterprises through the African Management Services Company (AMSCO),

based in the Netherlands. AMSCO shareholders, in addition to ICDS, include the IFC, and various European public development aid agencies. Management-level staff from member corporations are seconded to ICDS to provide technical assistance. AMSCO clients thus far have mainly been state-owned companies in the process of privatization referred to them by the World Bank, regional development banks, and development finance companies. AMSCO is regarded as a "politically neutral" vehicle for transforming public enterprises into profitable private operations.

2.4 World Bank/Multilateral Investment Guarantee Agency (MIGA)

MIGA was established by the World Bank in 1988 to promote the flow of private foreign investment to developing country members. In addition to its investment guarantee facility, MIGA offers advice and technical expertise on attracting foreign investment through its Policy and Advisory Services (PAS) group.

A major activity of PAS is the organization of international investment promotion conferences. In the past three years, such conferences have been held in Ghana, Jamaica, Pakistan, and Hungary and typically attracted the participation of 75 to 100 potential foreign investors who met with local investors and host government officials. A related activity of PAS is the matching of investment opportunities with potential foreign investors. PAS selects and targets non-traditional growth sectors in developing countries, prepares project profiles with detailed technical and financial information, then distributes them to selected firms in developed and newly industrialized countries. The aforementioned international conferences serve as the meeting point for interested foreign and local investors.

PAS is currently organizing Executive Programs designed to equip developing country entrepreneurs with skills in preparing business plans, finding foreign investment partners, and negotiating joint ventures. The first such program will be held in Lisbon in 1992.

PAS advisory services to developing country governments are carried out through the Foreign Investment Advisory Services (FIAS) facility, a joint MIGA-IFC operation. In fiscal 1991, FIAS completed 21 advisory projects in 18 countries. About half were diagnostic studies; others provided advice on investment promotion policies.¹²

¹² MIGA, 1990 and 1991 Annual Reports.

2.5 Developed Country Policies/Programs Affecting Foreign Direct Investment

A recent study by PAS reviews policies of industrialized countries which affect investment in developing countries.¹³ The study makes the following introductory comment:

"Given the limited possibilities for foreign public borrowing due to the already high debt burden and to the tendency of most banks in industrialized countries to reduce their exposure in developing countries, it is now clearly recognized that a major contribution must come from the private sector, both domestic and foreign."

Based on country studies in the U.S., the U.K., Japan, Germany, Netherlands, and Sweden, the study assesses the impact that domestic economic policies and investment promotion activities have on the magnitude and direction of foreign direct investment (FDI), with particular reference to developing countries.

2.5.1 Findings of the PAS Study

- There is little statistical evidence to suggest that policies of industrialized countries hampered or enhanced the flow of FDI towards developing countries. Over the last 20 years, the flows of FDI to developing countries expanded at the same rate or slightly faster than the world-wide rate. The sharp increase in FDI which occurred in the 1985-1989 period, from which developing countries were largely excluded, was a narrowly-based phenomenon concentrated in only five industrialized countries.
- The largest share of FDI in developing countries went to Southeast Asia. Flows to Latin America actually declined, while those to Africa stagnated at low levels. It would appear that there are no insurmountable obstacles to investment in developing countries per se, provided investment conditions are sufficiently attractive.
- Macroeconomic policies -- fiscal, monetary, import, and foreign exchange policies - - of industrialized countries have a substantial impact on FDI flows out of these countries. Such policies are pursued independently of foreign investment considerations and cannot be used to stimulate investment. Generally speaking, the more attractive the domestic investment climate, the less likely that business will seek investments abroad. Conditions which make it easier to import or more difficult to export encourage firms to move operations overseas.
- Import policies of industrialized countries have the strongest impact on FDI flows to developing countries, since those countries with export-oriented development goals are dependent on assured access to markets in the industrialized countries. For

¹³ Bachman, Heinz. Industrialized Countries' Policies Affecting Foreign Direct Investment in Developing Countries, Policy and Advisory Services, MIGA, 1991.

example, preferential treatment of a developing country under the Generalized System of Preferences can stimulate a developed country investor to establish operations in that country and export his products to the home country. On the other hand, protectionist measures enacted in recent years in EC countries and in the U.S. have been very damaging to export prospects in some developing countries.

- The six industrialized countries studied all have introduced microeconomic measures to stimulate FDI in developing countries, such as bilateral investment agreements, investment guarantees, loans and loan guarantees, equity investment, technical assistance, and business facilitation activities. However, these measures have had only a limited impact on FDI in these countries.

2.5.2 Recommendations of the PAS Study

- Promotional programs should be modified to make them more attractive to small and medium companies, since they are most likely to benefit from encouragement. Increased funding of feasibility and pre-feasibility studies would also be beneficial to these smaller firms.
- Risk coverage should be expanded to include changes in local legislation concerning foreign ownership, labor, and taxes. This would also serve to encourage the smaller, risk-averse companies.
- Debt for equity swaps could be more widely used to stimulate FDI flows into developing countries.
- Investment promotion institutions in developed countries need to be strengthened by making them more receptive to private sector needs and less directed by government development policies. They should also be made better known to the private sector, especially the small and medium enterprises.

2.6 The Role of Catalysts in Trade and Investment Promotion

An interesting 1989 World Bank study¹⁴ which reviewed export success stories in eleven countries called attention to the importance of the "catalyst". This is defined as:

"an individual or company (domestic or foreign) or a public agency, or a combination of these, that (a) pioneered the process of development in an outward-oriented direction before anybody else in a sector, (b) packaged the needed know-how with domestic

¹⁴The Role of Catalytic Agents in Entering International Markets, The World Bank Industry and Energy Department, PPR, March 1989.

endowments and external financing, and (c) diffused the experience and know-how it learned in that initial development process."

The success stories included those in Colombia (flowers), Zambia (clothing), Honduras (condiments), India (small diamonds), Côte d'Ivoire (cocoa), Jamaica (garments), Guatemala (shoes), Hungary (software), Indonesia (plywood), Bangladesh (garments), and Brazil (aircraft).

In some cases, a local catalyst had the capacity to package the necessary technical, marketing, and managerial know-how, in addition to capital, to initiate the project. Where this was not the case, the role of the local catalyst was to attract a foreign catalyst with the capacity to do so. The transfer of know-how by transnational corporations is seen as even more important than the transfer of financial resources by these firms. The study goes on to note the importance of the "diffusion and learning effect" on other companies and entrepreneurs of the successful investment, even though this effect may not have been deliberate. Also, it seems that on-the-job-training carried out by foreign partners was a critical element in this success.

Given the critical role of the local catalyst, any development strategy should give great importance to identifying these persons and assuring their participation in the growth of the private sector. Otherwise, the lack of information about opportunities for collaboration between local businessmen and small and medium-sized transnational corporations could be a major constraint on development. The study goes on to note that "given initial conditions of large policy distortions and underdeveloped institutions, the developing countries studied here could rarely afford to wait until perfectly rational policy environments were achieved to promote development in an outward-oriented direction." Some policies were nevertheless important, such as unrestricted access to imported inputs at world market prices, financing at appropriate costs, investment licensing, and realistic exchange rates. In some cases, exports were initiated even in the absence of these policies. In other cases, the catalyst had sufficient influence in government circles to get rational private sector policies implemented.

2.7 Summary of Findings

- (1) A.I.D.'s experience since 1985 with trade and investment promotion has been mostly in the LAC region. Studies of these projects reveal a range of approaches, varying from pro-active programs targeted at specific enterprises to more passive ones relying mainly on information dissemination. Although few projects fit neatly into one or the other category, the distinction is useful for purposes of this discussion.
- (2) In countries with relatively favorable policy environments and productive agribusiness sectors, generalized trade and investment promotion services emphasizing information dissemination to a broad spectrum of local and foreign enterprises (considered here to be the "traditional" approach to T&I promotion) were generally effective and produced a good return on A.I.D. funds. This approach assumes that lack of information is the main constraint to increased trade and investment.

- (3) In countries with more constrained environments, a "targeted" or enterprise-specific approach proved to be more appropriate since it could concentrate resources, including both intensive technical assistance and brokering of contacts with foreign partners, on relatively few enterprises. This approach is particularly appropriate where a few agriculture-based products have good export potential despite an otherwise unfavorable business climate.
- (4) Regardless of the approach selected, experience has shown the importance to trade and investment promotion programs of reliable information on the local economy and on international markets. Referrals to local and foreign businessmen are an important part of this service. LDC trade and professional associations can be a valuable channel for business contacts, studies, and training activities.
- (5) A.I.D. is acquiring valuable experience in trade and investment promotion from a number of on-going or recently completed programs and projects. Information on these activities, especially the more innovative ones which focus on developing direct contacts between local and U.S. agribusiness enterprises, should be more widely shared. One example is the former AFR/MDI group (now ONI). The PRE Bureau's Office of International Business Development, though not exclusively agribusiness oriented, has some interesting programs underway. One is a "fast track" approach being tried in Indonesia and Mexico which targets specific companies in selected industrial sectors and provides TA to help them reach the point of serving as joint venture partners for U.S. firms. PRE's Trade and Investment Services Program, especially the business linkages activities of the International Executive Service Corps, is of particular interest.
- (6) Trade and investment promotion programs require intensive management by individuals with private sector experience and contacts. A strong host government commitment to private enterprise development and a well organized non-profit investment promotion agency in the private sector have proved to be essential to their success. A.I.D. oversight should provide for flexibility in planning and budgeting to allow for rapidly changing economic and political conditions.
- (7) Expectations of project results should take into account the long time frame required to develop successful business relationships and the numerous factors which influence investment decisions by private companies. A recent World Bank study of foreign direct investment flows to developing countries found that economic policies in industrialized countries, such as fiscal, monetary, exchange rates, and trade policies -- especially the latter -- had a far greater effect on FDI in developing countries than did any measures designed specifically to stimulate T&I. This finding does not negate the value of T&I promotion but does serve to remind us of the importance to the success of such programs of low trade barriers to entry of products from the developing countries.
- (8) Other USG agencies also have T&I promotion programs, such as those of the U.S. Trade and Development Program, the Department of Commerce/International Trade

Administration, the Department of Agriculture/OICD, and OPIC. These programs offer pre-investment financing, brokering services and information on trade and investment opportunities. Closer coordination by A.I.D. with these programs would be beneficial.

3. U.S. AGRIBUSINESS VIEWS ON A.I.D. TRADE AND INVESTMENT PROGRAMS

3.1 Opinions on A.I.D. Programs Generally

With the assistance of the AMIS Project, the Asia Near East Bureau of A.I.D. held a series of conferences around the country in 1989 and 1990 attended by representatives of U.S. agribusiness.¹⁵ The purpose was to promote an exchange of views on how A.I.D. could work more effectively with the U.S. private sector to further development objectives in the region. Some of the key points which emerged were:

- In general, U.S. agribusiness is interested in working with A.I.D. provided there is some advantage to the companies in doing so. These firms are in business to make a profit for their shareholders and cannot engage in philanthropy. This position does, nonetheless, leave considerable scope for joint efforts which could lead to long term gain for the companies.
- Many of the larger agribusiness firms engaged in international business are aware of A.I.D. activities overseas, and a few have direct experience with A.I.D. programs. The general impression of A.I.D. was negative, though this was not the case for some other USG agencies, such as USDA, which was seen as better serving their interests. There is a feeling that A.I.D. is "process oriented" while business is "results oriented".
- There remains a lack of understanding by the U.S. private sector about the economic and political objectives of A.I.D. programs, and the limitations under which A.I.D. operates. Some views of A.I.D. are dated; many are not aware of A.I.D.'s current commitment to "open markets" based on comparative advantage, which is expected to provide U.S. business with new export markets and sources of products, as well as investment opportunities.
- Likewise, many A.I.D. staffers in Washington and overseas have little or no direct experience with private for-profit business firms and so do not have a feel for how a business firm operates.
- A.I.D. should leverage its limited resources in developing countries by using "seed money" to stimulate U.S. trade and investment abroad.
- Company managers feel that A.I.D. agribusiness activities would be more successful if they made use of the talents of people actively involved in the industry, rather than on A.I.D. or A.I.D. contractor personnel. There is a strong sentiment in favor of

¹⁵ Conferences were held in Washington D.C., Chicago, and Pomona, California.

private sector solutions to agribusiness development problems rather than those that rely on government-to-government aid.

3.2 Views on Working with A.I.D. in Developing Countries

Participants at the above-mentioned A.I.D. conferences also offered their views on how A.I.D. might work more effectively with U.S. agribusiness. Among the suggestions were the following:

- Provide more support to U.S. businessmen visiting developing countries. USAID Missions should act as the principal point of contact, supplying information on the local economy, on regulations affecting foreign investment, and contacts with the local business community. Closer coordination with Embassy agricultural and commercial officers would be desirable.
- A.I.D. could make more use of trade and industry associations representing agribusiness interests, as well as certain Private Volunteer Organizations (PVO's), in planning and carrying out private sector development programs.
- More use could be made of local business associations or chambers of commerce in developing countries as an initial point of contact for visiting U.S. businessmen.
- There is a need to clarify the groundrules under which A.I.D. works directly with the private sector, e.g. those concerning conflict of interest and favoritism.
- A.I.D. should hire more people with private sector experience.
- Linkages between A.I.D. and U.S. agribusiness could be strengthened by creating an "advisory council" comprising CEO-level representatives of major U.S. companies.

3.3 Results of International Agribusiness Survey

Abt Associates Inc. recently conducted an "International Agribusiness Survey"¹⁶ for A.I.D. which covered 300 small, medium and large-sized U.S. agribusiness firms working primarily in food processing. As part of an effort to determine potential areas for U.S. government-business cooperation, the survey sought to determine the extent of U.S. agribusiness interest and its experience in working with U.S. government agencies.

¹⁶Maiko Chambers and Mark Newman of Abt Associates Inc., International Agribusiness Survey, 1991.

With a total survey response rate of 30%, the results are particularly indicative of the interests of small to medium-sized firms (firms with annual sales under \$250 million). Of the 48 respondents willing to classify their firm by the size of their annual sales, 85 percent fit within this category. Nearly half of all the responding firms are involved in overseas sales activities and approximately 10% have other overseas operations. Although the survey was conducted during the recent Persian Gulf Crisis and at a time of international tension, a strong 65 percent were interested in pursuing overseas operations.¹⁷

Overall, when questioned regarding the factors affecting their company's ability to operate internationally, 37 percent of the companies cited domestic overload problems, 42 percent to domestic economic conditions, and 49 percent access to reliable market information. For general foreign country issues affecting their international operation, ranked among the top were:

- trade barriers - 54%;
- quality control problems - 57%
- policies in general - 49%;
- political risk - 49%;
- environment regulations - 49%;
- health, safety, labeling licensing - 49%; and
- intellectual property protection - 40%.

Product-specific market research and information on local firms were cited as factors by 42 percent of the respondents.

Survey answers revealed that there is interest by agribusiness firms in working with developing countries and with Eastern Europe. The following is a summary of survey results.

- When asked about their level of interest in working with the U.S. government, either directly or through trade associations, to promote agribusiness in developing countries and Eastern Europe, 85 percent of the respondents were either very interested, interested, or as yet undecided; only 15% were not interested.

¹⁷Maiko Chambers and Mark Newman, Abt Associates, Agribusiness-Government Partnership for Development: Results of a Survey, Bethesda, MD, 1991.

- Breaking this positive response down into specific activities, over half were interested in providing price and specification information for purchases of raw materials or in providing internships for developing-country and/or Eastern European business representatives and U.S. government employees. The greatest level of interest (54%) was expressed toward hosting U.S. government employees.
- Companies also indicate that they would at least consider providing their staff to work in development on a consulting basis. Over two-thirds are interested if the U.S. government pays expenses plus \$300/day, with nearly 60 percent if only out-of-pocket expenses were paid. A full two-thirds would provide their own staff at their own expense if their company saw potential commercial opportunities.
- The profiles of the companies interested in working with the U.S. government reveals that 49 percent are involved in international sales activities and 6 percent have current international operations other than sales. Small- or medium-sized firms make up 76 percent of those interested, with large firms contributing 15 percent.

Survey questions regarding the usefulness of firms' previous interactions with U.S. government programs revealed that of those with experience, 49 percent found it at least somewhat useful. Of these, 30 percent are involved in international sales activities, with 5 percent involved in other international operations. A full 46 percent have strong international interests. Of those that had favorable experiences in working with U.S. government services or programs, 50 percent classified themselves as small- or medium-sized companies, with only 9 percent self-classified as large companies.

Perceptions of the usefulness of services offered by the U.S. government varied. Following is a list of services or programs and their usefulness to the respondents.

- | | |
|--|------|
| • information on countries and regulations | 40 % |
| • market information | 44 % |
| • trade leads services | 26 % |
| • trade fairs | 28 % |
| • export promotion (TEA, etc) | 28 % |
| • export finance | 14 % |
| • political risk insurance | 16 % |

- in-country foreign assistance: 19 %
 - A.I.D. 11 %
 - Commercial attaché (DOC) 16 %
 - Agricultural attaché (USDA) 23 %

The survey has important implications for A.I.D. in its evolving strategy to promote agribusiness trade and investment. As the participation of private sector agribusiness is an important aspect of this strategy, the first question which must be answered is whether the U.S. private sector is inclined toward international activities. The survey showed that 65 percent of respondents reported at least some interest in international activities. From the size self-ranking by the firms, it appears that many of these are small- to medium-sized firms which are less likely to have extensive international information networks or in-house capacity to do research and analysis. These firms will require intensive assistance on an on-going basis from A.I.D. and A.I.D. contractors to assure that successful ventures are negotiated and implemented.

Perhaps more important is the revelation of the significant difference seen in terms of the perspective on usefulness of government programs between those with international interests and those without. An impressive 95 percent of those with at least some international interest also reported that they had experience with government programs which were at least somewhat helpful. With this level of international interest by firms with at least some favorable experience with government programs, the outlook is positive for A.I.D.'s efforts to get U.S. agribusiness cooperation in its efforts to develop the private sector in the third world.

4. A.I.D. INTERVENTION IN TRADE AND INVESTMENT PROMOTION

4.1 The Rationale for Intervention

The basic rationale for trade and investment promotion programs is that they can, by assuming some of the initial costs of project investigation, by providing information and contacts which would otherwise be difficult or costly to obtain, and by reducing perceived risks through supporting or ancillary activities (such as technical assistance), cause foreign investment to occur or trade links to be established where they would otherwise not be. This can only happen, however, where other conditions, such as the policy and regulatory environment and the physical infrastructure are favorable to private business, and where there is a sufficiently strong agricultural production base.

It is helpful to bear in mind that developing countries are competing for investment capital with other developing countries -- and with developed countries -- and that to be serious players in the game they may have to offer incentives above and beyond those which A.I.D. can offer through trade and investment promotion programs. For example, host governments may need to go beyond simply providing an attractive climate for private business and offer investment incentives for a limited time, such as duty free entry of supplies and machinery, investment tax credits, an income tax moratorium, or subsidized training of workers.

The focus of this paper is on foreign investment in developing country agro-industries which primarily serve export markets (though they may also serve domestic markets). It does not deal with export-led investment, as for example investment by a U.S. company which first develops a market in a foreign country for its U.S.-manufactured goods, then later erects a manufacturing plant in that country to serve the local market. Such import substitution types of investment do occur in countries where the domestic market is sufficiently large. A.I.D. has typically not been involved in promoting projects of this type since they would not normally need outside assistance.

The reader will note that the term "agro-industries" is used occasionally in reference to prospective investments in developing countries by U.S. agribusiness firms. This is a convenient description because most investments undertaken by such firms would involve processing of agricultural products to preserve and prepare them for export markets. This would not exclude the export of products in the fresh state, since even in this case industrial processes of cleaning, sorting, and packing steps are involved.

4.2 Country Selection

It follows from the above that A.I.D. should reserve agribusiness T&I promotion programs for those countries which are most likely to benefit from them. We envisage a three-way separation. There would be an initial "triage" based on available data, supplemented by

field work where necessary, to select a first level of countries which are the most likely candidates for T&I programs. Missions in the second level countries might plan programs which emphasize strengthening of local private enterprise serving domestic and regional markets. No agribusiness T&I activities would be planned for third level countries.

4.3 Initial Country Assessment

Having selected the "level one" countries which are suitable for T&I promotion, based on a desk-top study, the next step is to carry out an on-site country assessment to select the most appropriate approach or combination of approaches. The assessment would be carried out by a team of agribusiness consultants working with USAID Mission personnel. Among the issues to be examined are: the general level of development of the country, the investment climate, indications of the potential for agroindustrial development, existing Mission programs and priorities, government support for these programs, and the amount and depth of information available on the economy and on new business opportunities. A preliminary selection of priority commodities or commodity sectors would be made at this time.

4.4 Planning T&I Promotion Activities

In the following paragraphs, the steps involved in planning and implementing two basic approaches to T&I promotion are discussed -- the "traditional" approach emphasizing information dissemination and referral services, typical of many present and past A.I.D. programs, and a targeted or "fast track" approach.

4.4.1 The Information Dissemination or Traditional Approach

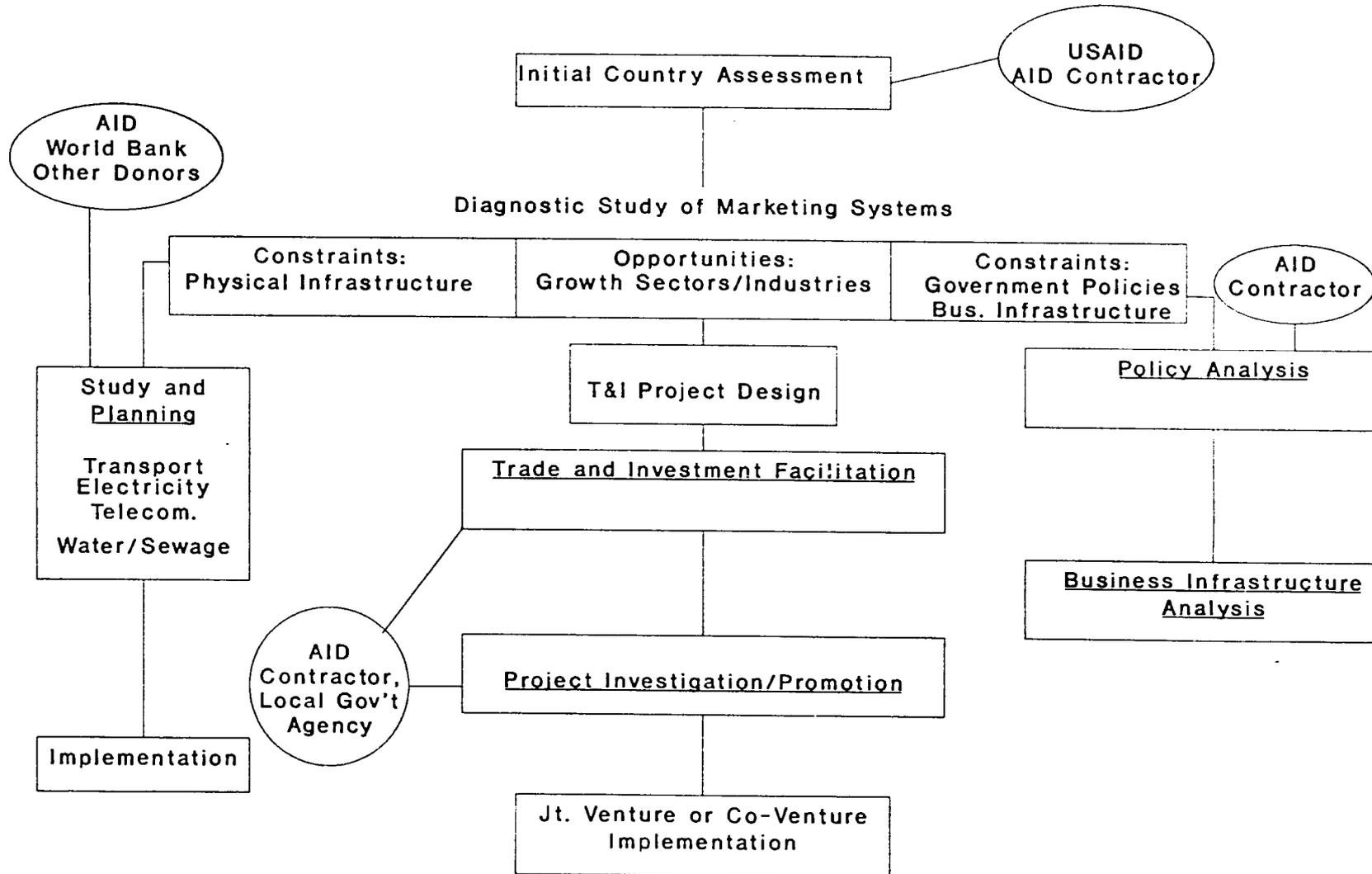
Exhibit A depicts a T&I promotion scheme of the "traditional type" as it might be seen by an A.I.D. planner. Rectangles identify steps in the process; circles and ellipses indicate points of intervention by A.I.D., A.I.D. contractors, and other donors.

Diagnostic Study of Marketing Systems: Using the initial country assessments as starting points, diagnostic studies would next be carried out in the selected countries to identify marketing constraints affecting the selected commodities as well as export market prospects. The methodology could be based on the AMIS Rapid Appraisal¹⁸ and would provide the information base for planning of T&I promotion activities. The Rapid Appraisal would identify policy constraints as well as those having to do with the physical or business infrastructure, and would also highlight potential export and domestic markets for key crops. In cases where

¹⁸See Holtzman, John, Jerry Martin, and Richard Abbott, Operational Guidelines: Rapid Appraisal of Agricultural Marketing Systems, The AMIS Project, Abt Associates, December 1988.

EXHIBIT A

AGRIBUSINESS TRADE AND INVESTMENT PROMOTION TRADITIONAL APPROACH



Missions have already assembled most of the necessary data, and it would only be necessary to put it in a format consistent with the other assessments.

For example, constraints in the business climate stemming from unsuitable government policies or regulations could impede or block trade and investment activities. USAID - host government dialogue, possibly supported by studies and technical assistance, would be called for to remove or ameliorate these constraints. Business infrastructure deficiencies in such areas as trade finance, public markets, education/training of prospective local employees, transport services, or supplier industries such as providers of packaging materials, would be noted and recommendations made to alleviate them. Infrastructure constraints would require A.I.D., World Bank, or other donor intervention.

Project Design: Assuming that a trade and investment promotion project appears feasible, project design then takes place at the Mission and A.I.D./W levels, possibly with the help of an outside contractor. The initial country assessment would serve as the basis for the design. The "MAPS" process (Manual for Action in the Private Sector) could be a useful source in project design.

Trade and Investment Facilitation Activities: A.I.D. has carried out projects of this kind for many years and a considerable reservoir of experience exists. The experience of other donors, such as the IFC, can also be drawn upon by project planners. Typically, investment and/or export promotion activities are the responsibility of a USAID-funded local government agency. Or USAID may contract with a U.S. firm to carry out this work. Activities could include any or all of the following:

- compilation of data on the agricultural economy,
- development of promotional materials on the economy of the country generally and on the investment climate,
- identification of potential trade and investment opportunities,
- sponsorship of trade missions from the U.S.,
- seminars and workshops for local businessmen on tapping into export markets,
- advisory services to local businessmen, including provision of experts in particular industries, and
- making recommendations to the host government on changes in policies regarding foreign trade and investment.

Project Investigation/Promotion: At this point in the process, potential investment and trade projects will have been identified. On-site investigations, pre-feasibility studies, and

market studies are now called for. The cost of such studies may be borne by an interested U.S. agribusiness firm, or may be partially supported by A.I.D. This approach would not include full-scale feasibility studies by consultants, which are then shopped around to potential investors. This so-called "UNIDO approach" has not proven effective.

This work completes the planning and study phase of promotion activities. From this point onward, we are dealing with actions leading to establishing specific investment or trade relationships between foreign and local agribusiness firms, a process sometimes referred to as "marriage brokering" or "deal brokering". Most A.I.D. programs of the type described in this paper did not go this far, and those that did had limited success because they were not equipped to handle this type of activity.

4.4.2 The Targeted or Fast-Track Approach

The more direct enterprise-specific or targeted approach dispenses with facilitation activities and goes directly to the project identification and investigation stage, then attempts to broker deals by matching up local and foreign investors and defraying some of the costs of project investigation and technical assistance. In less developed countries which offer fewer potentially viable business opportunities, the targeted approach would be more cost effective since it would concentrate resources where they would presumably do the most good. The presumption is that a well-conceived venture with the participation of a foreign agribusiness firm supplying know-how and possibly also capital, and with costs defrayed partially by A.I.D., could overcome the local constraints and succeed over the long term. As will be noted below, the targeted approach is more costly since it calls for A.I.D. to directly support the cost of project investigation and implementation. (A.I.D. could, of course, elect to use the targeted approach in the more developed countries as well.)

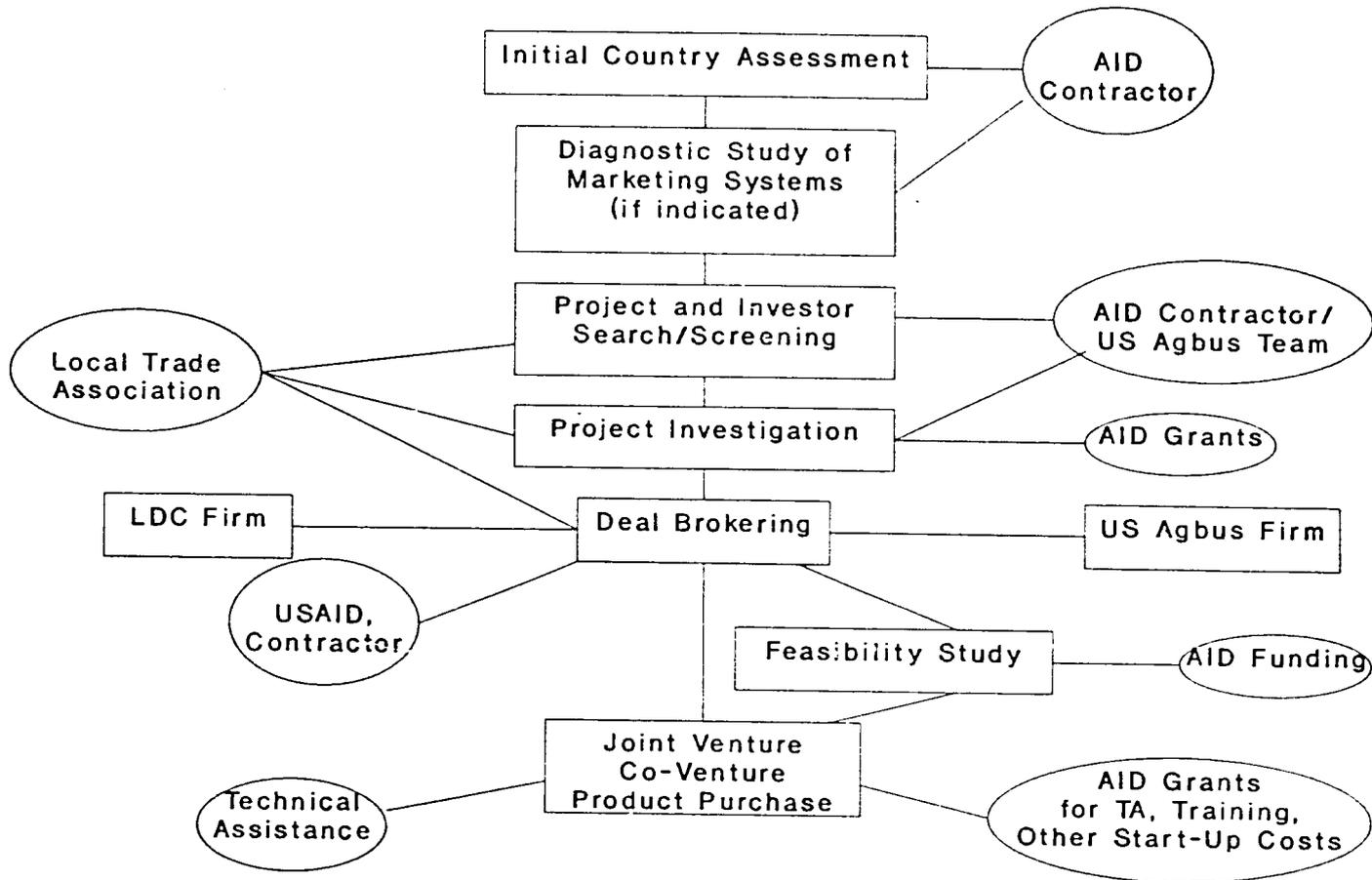
Exhibit B depicts a "targeted enterprise" approach to T&I promotion. It has been used sparingly to date but is becoming increasingly popular within A.I.D. One reason for its limited use is that it can involve direct assistance by A.I.D. to individual U.S. companies, which has in the past raised troublesome conflict of interest or ethical issues. As discussed below, A.I.D. policies are recently showing more flexibility in this regard.

This targeted approach may be recommended if the initial country assessment shows that the scope for new or expanded agribusiness ventures is limited, and that "traditional" T&I promotion programs are not likely to produce results. The World Bank study discussed above points out that with the help of local and foreign "catalysts", joint venture investments have succeeded in a number of countries in the absence of a favorable investment climate. The fast-track approach puts a premium on identifying these catalysts and getting them together to make something happen.

Diagnostic Study of Marketing Systems: It may be possible to reduce the scope of the diagnostic study if it is clear that only selected sectors or crops lend themselves to development.

EXHIBIT B

AGRIBUSINESS TRADE AND INVESTMENT PROMOTION TARGETED OR FAST-TRACK APPROACH



Likewise, it may be possible to promote an investment or trade relationship without full knowledge of these constraints, leaving the project itself to help clear away the obstacles.

Project and Investor Search/Screening: This search and screening process would be organized by an A.I.D. contractor with an intimate knowledge of U.S. and international business practices, and with experience and contacts in the U.S. agribusiness community. It would be carried out in cooperation with the USAID Mission by a team which should include specialists from U.S. agribusiness firms with interest in areas identified in the initial assessment. A local investment or export promotion agency and/or local trade association would assist the team with contacts in the local business community. The output of this phase would be profiles of potential investment projects. Representatives of equipment suppliers (such as food machinery companies) could also be members of the team.

Project Investigation: The investigation of the project or projects identified in the previous step would next be carried out, either during the same mission, or a succeeding one. Here also, reliance would be placed on the expertise of industry experts to prepare preliminary feasibility analyses which would serve as the basis for brokering joint ventures, co-ventures, or product purchase arrangements.

Deal Brokering: The work of brokering trade and investment projects (typically involving joint ventures between U.S. and local firms) would be carried out by USAID Missions or A.I.D. contractors. Identification of qualified and potentially interested U.S. partners requires a knowledge of the U.S. agribusiness sector and the skill and ability to make contacts with key individuals and to sell the firm on making a commitment to participate in the program. A.I.D. should consider employing the services of a contractor with personnel having private sector experience for this work.

Agribusiness companies which participated in the search and screening process would be natural joint venture partners in an investment project. A detailed feasibility study would most likely be carried out by the U.S. investor before a deal is finally negotiated, possibly with financial support from A.I.D. Support from A.I.D. may also be called for at this stage to establish financial, market and technical viability of the project, and possibly also in the form of loans or venture capital investment through a local A.I.D.-supported financial institution.

Post-Investment Assistance: Industry expertise in technical, financial, marketing, and managerial areas may also be needed once the joint venture is launched. Training should be an integral part of this effort, including internships at the U.S. company location.

This targeted approach receives considerable support from studies prepared for the World Bank by Donald Keesing, Andrew Singer, and Paul Hogan.¹⁹ They find that lack of export

¹⁹ Hogan, Paul, Donald B. Keesing, Andrew Singer, The Role of Support services in Expanding Manufactured Exports in Developing Countries, Economic Development Institute of

know-how is a key constraint to prospective exporters in developing countries and that trade promotion organizations in the public sector are typically unable to provide the needed support. They note that production know-how is only likely to come from association with a foreign partner or a foreign consultant willing to provide specialized expertise at market rates. The authors go on to emphasize the importance of access to support services provided by private sector suppliers in helping them meet export standards. Initially, donors may need to provide exporters with access to commercial service suppliers abroad, while assisting local service firms to upgrade their competence. Examples of service suppliers include accounting and audit firms, export market research firms, insurance companies, product inspection services, freight forwarders, and warehousing and storage firms.

4.5 Role of the U.S. Agribusiness Community

As will be evident from the foregoing discussion, it is our contention that U.S. agribusiness should play a much more active role in A.I.D. T&I promotion activities than it has in the past. U.S. agribusiness can contribute substantially to such efforts by providing the services of qualified staff, jointly with an A.I.D. contractor, to do the following:

- Participate in missions to identify agro-industrial sectors and enterprises with potential for development, particularly those with export potential.
- Prepare investment profiles or pre-feasibility studies for agro-industrial projects and identify prospective local investors.
- Through reports and personal accounts of the field work, generate interest on the part of their employer in pursuing contacts with developing country entrepreneurs with a view to establishing joint ventures, co-ventures, or product purchase arrangements.
- Prepare feasibility studies which cover technical and financial aspects of a proposed investment.
- Provide both pre-investment and post-investment technical assistance to upgrade production facilities of existing enterprises to meet export standards.
- Provide training for local employees of a joint venture, either on-site or through internships in a processing plant of the U.S. partner.

Perhaps most important of all, the U.S. firm can furnish a market for the finished product, either through intra-company trading in the case of a joint venture, or simply by purchasing the product of the local enterprise which was the recipient of technical assistance provided under a T&I

the World Bank, 1991.

promotion program. Financial assistance for the purchase of equipment may also be provided by the U.S. company to the local enterprise, with repayment offset by product purchases.

A.I.D. programs should provide a mechanism for the use of these agribusiness company employees on a paid basis in connection with T&I promotion programs in countries where immediate investment prospects are dim, and for partial defraying of expenses in other situations. This recommendation echoes one in a paper prepared in July 1991 by an Administrator's Fellow from the private agribusiness sector, Fernando Gumucio, which calls for "establishing a grant fund to defray the cost of preliminary business studies and related activities. This could leverage a much larger investment by minimizing the private sector's risk of investing in a given developing country."²⁰

A 1991 agribusiness strategy paper prepared by the Europe Near East Bureau found that:

"The U.S. private sector tends to be cash short when LDC investments are under consideration, but is often willing to assign personnel and technology to new ventures that expand the scope of corporate operations and that create lines for future expansion. Partnerships, management contracts, product brand franchises, licensing agreements and joint ventures between U.S. firms and local agribusinesses are beneficial to both sides. A U.S. partner is a highly regarded asset when seeking financing for agribusiness investment and expansion."²¹

To gain some perspective, it is helpful to note that there are different categories of firms with differing interests within the agribusiness community.

Food processors may be interested in joint ventures with local food processing firms to develop lower-cost sources of supply or to have a manufacturing base nearer to foreign markets. A number of the larger U.S. food processors have operated subsidiaries overseas for many years. Examples are Dole, Hunt Wesson, Del Monte, and Heinz. Other companies who don't have off-shore operations do source product abroad. The latter firms have an interest in acting as twelve-month suppliers to their customers -- "keeping the pipeline full" -- and so may buy off-season from the southern hemisphere, or buy on a spot basis to make up shortfalls in U.S. supply. The large "transnational" firms, such as those mentioned above, and multi-nationals such as Nestle and Unilever, have many years' experience working in developing countries. They know how to assess the feasibility of setting up operations in these areas, and usually have already established their own priorities in terms of new investment locations. Nonetheless,

²⁰ Gumucio, Fernando. Enhancing A.I.D.'s Private Sector Initiative Through Agribusiness, July 1991.

²¹ Balis, John S., Agribusiness Strategy (Draft), Bureau for Europe and the Near East, A.I.D., March 1991

A.I.D. support in covering project investigation costs could tip the balance in favor of a given country if the business climate there is generally favorable.

Smaller companies, on the other hand, may be interested in investments abroad but do not have the resources to make these investigations. Typically, they need a whole range of support in-country, including information on business conditions and regulations and introductions to potential partners in the local business community. Credits, loan guarantees, and even venture capital may be necessary to bring about an investment.

Commodity marketing companies, such as feed grain and soybean companies, are primarily interested in exports. Investments abroad would probably be limited to port receiving facilities. They would, however, be very interested in projects which develop new markets for them, such as a poultry industry. There could be interest in providing know-how in feed formulation and in the design and construction of animal feed plants using U.S. feed grains combined with locally-sourced ingredients.

Input supply companies, such as suppliers of seeds, fertilizer, agricultural chemicals, and packaging materials, may be interested in new export markets for U.S.-manufactured products, or they may be looking for locations for manufacturing facilities to supply local and regional markets. They can supply marketing expertise to help assess the viability of enterprises of this type in developing countries.

Equipment suppliers are another category of agribusiness company with which A.I.D. can work. The major manufacturers of food processing and packaging equipment are aggressive worldwide marketers; many also have manufacturing facilities abroad. Provided there is at least a long-term prospect of sales, such firms may be willing to provide technical sales personnel to help assess the cost and viability of new processing ventures in developing countries. In less desirable areas, it may be necessary to defray the costs of their services.

4.6 Legal and Ethical Issues

A recent memorandum from the Office of the General Counsel²² deals with some legal issues raised by the Administrator's "Partnership for Business and Development Initiative", specifically those which call for A.I.D. to provide financial assistance to U.S. business firms operating in developing countries. Its purpose is to clarify the conditions under which A.I.D. can make grants, loans and loan guarantees to private U.S. companies, and to avoid charges of preferential treatment of individual U.S. firms benefitting from A.I.D. programs.

²²Memo from Michael G. Kitay, AGC/PRE, to George Laudato, A-AA/A and John E. Mullen, A-PRE, dated October 11, 1991.

Grants may be made to private companies to reimburse reasonable costs (not fees) but must be subject to competition.²³ Grants may be made for "activities relating to trade and investment in agriculture, aquaculture, natural resources management, and other rural industries". Loans to private entities do not require competition.

Another memo²⁴ deals specifically with grants for pre-feasibility studies. It concludes that "there are no legal or policy restrictions to prevent A.I.D. from making grants to private businesses for prefeasibility studies", as long they serve a valid developmental purpose. It is suggested that these grants be limited to 50% of the cost of the study and be reimbursable if the project is ultimately successful. (N.B. Similar terms have applied to A.I.D. and OPIC programs in the past.) The memo also noted that A.I.D. could provide partial guarantees covering up to 50% of the debt or equity contributed by private investors.

The above statements simply confirm what has been A.I.D. policy for some time. Basically, A.I.D. can make grants to private companies as long as the availability of such grants is made public, through such publications as the Federal Register and the Commerce Business Daily, giving others the opportunity to compete for them.

However, a recent study done for the Africa Bureau notes that A.I.D. policy in the past has imposed some conditions on such grants. "1988 grant restrictions state that grants to private enterprises may be used for the purposes of training and technical assistance only if such assistance is programmed 'in such a way that provides for competitive access for many enterprises rather than one enterprise'". However, the author notes that another more liberal ruling appears to allow grants to single firms without competition if there are "externalities" which go beyond the project itself, such as development of a new technology or introduction and marketing of a new service. The complex and ambiguous A.I.D. regulations require comprehensive study, but that on the basis of a brief analysis the author concludes that A.I.D. policy on direct assistance to the private sector "must be justified by a development purpose which results in either (a) measurable redistribution of equity beyond the principals in the firm, (b) successful transition to non-subsidized operations, (c) measurable contribution to the public good, (d) expanded collective improvements or opportunities beyond the firm itself, or (e) economic growth."²⁵

²³An exception is made for buyers of privatized LDC companies, who may receive a grant without competition if provision is to be made for widespread public ownership of shares of the privatized firm, or if shares are to be set aside for employees of the firm.

²⁴Action Memorandum for the Assistant Administrator, PRE, from Robert Sonenthal, GC/PRE, dated July 21, 1990

²⁵ Kulibaba, Nicolas. Issues in Direct Assistance to the Private Sector (Draft Report), Labat-Anderson, Inc., January 1992

Recently A.I.D. took a new approach to grant funding when it advertised for grant applications from consortia of universities, PVOs, foundations, and for-profit firms for "restructuring agricultural and agribusiness" in four East European countries. The grantee would be reimbursed for expenses only. Since no profit or fee would be paid, it was clearly expected that universities or other non-profit organizations would take the lead. Sub-grantees could be for-profit entities (who could charge a fee for services) and it was specified that at least one operating agribusiness company would be among them. Thus it appears that the mechanism used here to directly involve U.S. agribusiness companies in development work is a grant to a non-profit organization which would in turn contract with such firms. The fact that the grant is publicly advertised, and that it specifies the participation of private firms, avoids any charges of favoritism. The grantee is then presumably free to select agribusiness firms with whom to collaborate without any further competitive processes.

The East European grant program is significant in that it provides a mechanism for using the services of industry specialists on a paid basis to assist in preparing or implementing trade and investment projects -- one of the recommendations of this paper. No restrictions are placed on the eventual direct participation of the specialist's employer (the agribusiness firm) in trade or investment activities arising from his work. Without such provision, few if any agribusiness firms would make their employees available to assist in development work where there was no prospect of doing business in the foreseeable future. Even with this provision, it seems clear that an agribusiness firm would only agree to collaborate if it could see a profit-making opportunity at some time in the future, however distant.

This paper recommends that A.I.D. provide financial support to U.S. agribusinesses investigating and implementing projects in developing countries. We have suggested that such support is particularly necessary in countries where conditions are such that the U.S. company would not otherwise be interested. In such cases, an approach which targets individual enterprises would be used, and A.I.D. support would be required to partially or fully cover costs of providing U.S. agribusiness company experts to make initial assessments of business prospects, screen potential projects and local investors, prepare feasibility studies, and provide technical assistance. Such assistance would not necessarily be linked to any investment by the U.S. firm, but in the event an investment is made some reimbursement arrangements would apply. No such reimbursement would be required if product purchase only was involved, for example if goods produced by an enterprise assisted by the U.S. agribusiness company were purchased by that company.

5. RECOMMENDATIONS

- (1) A.I.D. should adopt an agency-wide policy of working closely with the U.S. agribusiness community in promoting trade and investment in developing countries, and should clarify and promulgate widely the "rules of engagement" which would govern such joint efforts.
- (2) A.I.D. should enlist the support of the U.S. agribusiness community in development efforts through organization of a body such as a committee or council to coordinate with A.I.D. Both large firms with overseas operations and smaller firms with limited international experience should be represented. Types of firms would include those specializing in food processing, commodity marketing, input supply, and equipment supply.
- (3) A.I.D. and the coordinating body should jointly work out procedures for the use of employees of these firms to participate in planning and implementation of T&I programs. This should involve high-level commitments from the companies to provide personnel, working out of necessary administrative procedures, and arrangements for full or partial reimbursement for their services.
- (4) A.I.D. should adopt different approaches to agribusiness T&I promotion depending on the level of development of the country and on the prospects for trade and investment activities by U.S. firms. Where an initial assessment reveals prospects for such activities on a purely commercial basis, USAID Missions abroad would limit their programs to relatively low-cost indirect promotion programs -- those which concentrate on providing information and referral services to U.S. and local businessmen. For all other countries -- those which would not otherwise be considered for trade or investment activities by agribusiness companies -- programs would target for promotion specific enterprises which are identified as having potential despite the existence of other constraints.
- (5) To assist in implementing these programs, A.I.D./W and USAID Missions abroad should contract for the services of a consulting firm or university staffed with personnel having private sector experience and knowledge of and contacts with the U.S. agribusiness sector. The contractor should be responsible for (1) conducting an initial "triage" to select countries for T&I programs, (2) carrying out diagnostic studies in those countries to identify marketing constraints and to make a preliminary identification of promising agribusiness sectors and enterprises, and (3) deciding on the most appropriate type of T&I program for each country.
- (6) Where a targeted or enterprise-specific approach is indicated, the A.I.D. contractor should -- in cooperation with the U.S. agribusiness council recommended above -- identify interested U.S. agribusiness firms specializing in the agro-industries concerned, and arrange for the use of personnel from those firms to assist in a project and investor search and screening process. The output of this process should be profiles of potential

investment projects matched with qualified local investors. During the same mission or a subsequent one, a contractor/ agribusiness company team should prepare feasibility analyses to serve as the basis for brokering of joint venture, co-venture, or product purchase arrangements between a local and a U.S. agribusiness firm. Salary and travel costs of these personnel should be partially or fully reimbursed by A.I.D., as indicated above. Involvement of these firms should continue through the feasibility study phase, still with A.I.D. support, and include both pre-investment and post-investment technical assistance as appropriate. The expectation is that the U.S. firm involved in the preliminary work would become the partner of the local assisted firm.

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ANNEX

Memo

February 10, 1992

To: Richard D. Abbott, AMIS Project
From: John S. Balis, NE/DR/PIE
Subject: AMIS Agribusiness Staff Paper
Ref: Your Memo of February 4, 1992 and attached draft

1. The agribusiness sector has rapidly gained importance within the development programs in the Near East countries. At this point there are several aspects of the development program which contribute to optimistic projections of the future; such as, the trend toward privatization, interest in foreign participation in business ventures and the possibilities for expanded trade and exports. But with the considerable policy, political and economic flux in the region, there are also serious reasons to be cautious. On balance, the USAID Missions in NE are including agribusiness in their development programs and are interested in resources that can support this course of development assistance.
2. The Executive Summary includes a paragraph on trade, industry or commodity associations, an idea that I would like to have seen developed further in the body of the paper. It is not the lobbying and business contact functions that are particularly important for development activities, but the member education and services functions that can make such organizations powerful development intermediaries. In the Near East there are a number of such organizations that can be reorganized, and in some cases are being reorganized, under the privatization policy of the government and converted to provide such sector development services.
3. Catalyst may not be the best term for the process described in Section 2.6 (page 21). You seem to be describing pilot activities which stimulate associated growth as well as continue to grow and often take a major place in the economy. These pilot enterprises are very much a part of the system, and not something which in some indirect way stimulates a reaction. It would also be better to describe technical, marketing and other business services as legitimate parts of the agribusiness sector and not as catalysts for sector growth. There are a few instances where one, new enterprise or service will actually cause take-off of a sector, or even a locality, but that very enterprise will grow with the expansion of the sector. Agribusiness is complex and needs supplies, markets, services, etc, etc to succeed and grow. It seems like we have spent too much time on considerations of the magic bullet, and are neglecting the basics involved in the economic transformation that will be associated with the development of the agribusiness sector.

4. At several points, such as Item 2, Section 2.7, you have used terms like "...were generally effective and produced a good return..." It would be helpful to have the data. To illustrate, the Executive Summary states "services provided by the embassy agricultural and commercial attaches scored well ahead of USAID Missions." (page vi) On page 28 it is reported that the usefulness of AID was rated favorably in 11% of the responses as compared with 16% for the Commercial Attachee and 23% for the Agricultural Attachee. For a sample of 100 this kind of difference is hardly significant and can hardly be rated "well ahead of". Incidentally, I'm still a little perplexed by these results, as I've had a number of business executives convey a quite different opinion about the relative merits of AID and embassy support. But my point is that getting back to the numbers can help in understanding what's going on in any particular case and there can be wide differences of opinion about what might have been "generally effective" and "produced a good effect".

5. In line with the current reorganization of AID and the decentralization of authority and responsibility to the Mission level, Section 4 could be revised. It will not be a question of deciding in which country the agribusiness effort will be directed, but whether agribusiness has a place within a country program. What will be the trade-off between assistance in the agribusiness sector and effort in other areas. Closely related to this is the effectiveness of alternative forms of assistance to the agribusiness sector. The NE Missions have made the decision to participate in agribusiness development, and the programs are a combination of policy reform, trade promotion, education, rural financial services, etc, including deal brokering. No Mission has chosen to concentrate on trade and investment promotion as a course of action. The approaches differ from country to country, but they are well reasoned in terms of the country context. It is not a question of selecting countries for "triage" regarding the existence of a trade and investment program (Recommendation 5), but several countries are interested in determining the most appropriate type of T&I activity.

6. The presentation of the "fast track" approach is not convincing. (Section 4.4.2, page 34) It is intriguing to visualize a scheme that would get things going rapidly in the agribusiness sector by brokering deals, but the number of permutations and combinations for joint venture deals and alliances in NE is large and there are too many imponderables and unknowns to manage at the agribusiness sector level. AID can facilitate deal making by increasing the quantity and quality of information available and by improving the flow of information. But if we're working with the private sector, we need to keep the old saying in mind, "You can lead a horse to water, but you can't make him drink!". Somehow brokering suggests that we'll be able

to make them sign on the dotted line. That's not really an appropriate relationship for a government agency and the private sector. This raises questions about recommendation 6. It would be more appropriate to produce information that was widely published and distributed to the target enterprises, and perhaps AID might, when invited, facilitate the negotiation of deals as an interested third party.

cc: T Mehan, R&D/EID
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