PN-ACS-582

MALR
USAID
APRP
RDI

Ministry of Agriculture & Land Reclamation
US Agency For Intl. Development
Agriculture Policy Reform Program
Reform Design and Implementation

وزارة الزراعة واستصلاح الأراضي
الوكالة الأمريكية للتنمية الدولية
مشروع إصلاح السياسات الزراعية
وحدة تصميم وتنفيذ السياسات

RDI REPORTS

Ministry of Agriculture and Land Reclamation

AGRICULTURE POLICY REFORM PROGRAM

Reform Design and Implementation Unit (RDI)

USAID CONTRACT NO. 263-C-00-97-00005-00

Report No. 56

APRP

Reform Design and Implementation Unit

Development Alternatives Inc. Group: Office for Studies & Finance, National Consulting Firm Development Associates, Cargill Technical Services, The Services Group, Training Resources Group, Purdue Universities, University of Maryland

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Marketing Strategies for Food Exports from Developing Countries

[With Recommendations for Egypt]

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January 1999

TABLE OF CONTENTS

RDI Acronyms List

ACRONYM	*DESCRIPTION*
AC	Agricultural Census
AERI	Agriculture Engineering Research Institute
AHD	Aswan High Dam
AIC	Agricultural and Irrigation Committee of the People's Assembly
ALCOTEXA	Alexandria Cotton Exporters Association
APRP	Agricultural Policy Reform Program
ARC	Agriculture Research Center
AY	Agricultural Year Locator (October 1st to September 30th of the following year)
BOD	Board of Directors
CAGA	Central Administration for Governorates Affairs
CAPMAS	Central Agency for Public Mobilization & Statistics
CAPQ	Central Administration for Plant Quarantine, MALR
CASC	Central Administration for Seed Certification
CASP	Central Administration for Seed Production
CAWD	Central Administration for Water Distribution
CBE	Central Bank of Egypt
CIDA	Canadian International Development Agency
CIF	Cost, Freight and Insurance
CMA	Capital Market Authority
Co.	Company
COP	Chief of Party
CSPP	Egyptian-German Cotton Sector Promotion Program
CTS	Cargill Technical Services
DA	Development Associates, Inc.
DAI/B	Development Alternatives, Inc./Bethesda
EAO	Egyptian Agriculture Organization
ELS	Extra Long Staple Cotton
ERSAP	Economic Reform and Structural Adjustment Program
ESAS	Egyptian Seed Association
ESAs	Employee Shareholder's Association
ESOPs	Employees Stock Ownership Program

ACRONYM	DESCRIPTION
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FDIs	Foreign Direct Investments
Fed.	Feddan = 4200 square meter
FIHC	Food Industries Holding company
FOB	Free on Board
FSR	Food Security Research Unit
FY	Fiscal Year
GA	General Assembly
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GOE	Government of Egypt
GTZ	German Technical Assistance Agency
HC	Holding Company
HEIA	Horticultural Export Improvement Association
IDA	International Development Association
IFC	International Financial Cooperation
IPPC	International Plant Protection Convention
IPO	Initial Public Offering
IIMI	International Irrigation Management Institute
IR	Intermediate Results
Kg.	Kilogram
Kt.	Kentar
Libra	Pound of 0.45359 kilogram, also abbreviated as lb.
LE	Egyptian Pound
LK	Lint Kentar of cotton, 50 kgs.
LOE	Level of Effort
LS	Long Staple cotton
MALR	Ministry of Agriculture & Land Reclamation
MENA	Middle East North Africa
MEIC	Ministry of Economy & International Cooperation
MIMW	Ministry of Industry & Mineral Wealth
MT	Metric Ton

ACRONYM	DESCRIPTION
MOF	Ministry of Finance
MoTS	Ministry of Trade & Supply
MPE	Ministry of Public Enterprises
MPWWR	Ministry of Public Works & Water Resources
MLS	Medium-Long Staple cotton
MVE	Monitoring, Verification & Evaluation Unit
NARS	National Agriculture Research Center
NBE	National Bank of Egypt
NCF	National Consulting Firm
NFPA	National Food Processor Association
NGO	Non-Governmental Organization
O & M	Operation & Maintenance
OSAF	Office for Studies And Finance
OVR	Office of Variety Testing & Registration
PA	People's Assembly
PBDAC	Principal Bank for Development and Agricultural Credit
PEO	Public Enterprise Office
P&L	Privatization & Liberalization
PIDP	Partnership In Development Project
PMU	Project Management Unit
PPC	Program Planning Committee
PRA	Participatory Rapid Appraisal
PU	Purdue University
PVP	Plant Variety Protection
RETD	Real Estate Tax Department
RDI	Reform, Design & Implementation Unit
ROW	Rest of the World
SCC	Sugar Crops Council
SCRI	Sugar Crops Research Institute
SIIC	Sugar and Integrated Industries Company
SK	Seed Kentar of cotton (157.5 kgs.)
SPC	Seed Privatization Committee
SS	Short Staple cotton

ACRONYM	DESCRIPTION
STTA	Short Term Technical Assistance
SWG	Sugarcane Working Group
TA	Technical Assistance
TAMIS	Technical & Administrative Management Information System
TAT	Technical Assistance Team
TF	Task Forces
TO	Training Officer
TOR	Terms of Reference
TNA	Training Needs Assessment
TRG	Training Resources Group
TSG	The Services Group .
UIT	Unified Income Tax
UMD	University of Maryland
USAID	United States Agency for International Development
US$	United States Dollar
USPMA	U.S. Produce Marketing Association
USDA	U.S. Department of Agriculture
WB	World Bank
WTO	World Trade Organization
WUA	Water User Association

MARKETING STRATEGIES FOR FOOD EXPORTS FROM DEVELOPING COUNTRIES

A Paper presented at IFCON '98
The Fourth International Food Conference:
Trends in Food Science and Technology - Global Perspective
November 24-27, 1998
Mysore, India

Executive Summary

Many agricultural marketing strategies in developing countries rely on the principles of *Comparative Advantage* and in so doing tend to lose out to rival countries that have introduced and practiced the tenets of *Competitive Advantage.*

This paper seeks to explain and explore the proposition stated above. The differences between *comparative advantage* and *competitive advantage* are given, using at its base the competitive advantage approach of Michael Porter in his book *The Competitive Advantage of Nations* (1990, New York: Free Press) . Case studies from five countries examine how use of competitive advantage tenets improved chances for success in food export experiments.

Simply stated competitive advantage seeks to segment the high-end markets for foods and to carry out value-added processing as close to the source of the product as possible. High quality packaging, presentation, and advertising are essential and when quality control standards are reached they are accompanied by a Seal of Quality or recognizable logo. Marketing technique replaces low-cost production (a comparative advantage tenet) as the pivotal element in this strategy.

I. INTRODUCTION

Many agricultural marketing strategies in developing countries rely on the principles of *Comparative Advantage* and in so doing have tended to lose out to rival countries that have introduced and practiced the tenets of *Competitive Advantage*. What do I mean by this statement? What are the differences between *comparative advantage* and *competitive advantage*? What is the evidence that *competitive advantage* is superior?

Comparative Advantage relies on creating an economic advantage from the low cost of and easy access to the basic factors of production - natural resources, climatic conditions, off-season production, geographic proximity, and plentiful and inexpensive labor. *Competitive advantage* builds on these comparative advantages to actually improve or increase existing factors and to introduce new factors of production; to carry out promotional activities to enhance demand and to identify and select a specific corner of any particular market; and to organize a network of related and support institutions to underpin the emerging industry.

II. THE *Competitive Advantage* APPROACH

This approach is best outlined by Michael Porter in his book *The Competitive Advantage of Nations* (1990, New York: Free Press) and characterized by what he calls the four elements of the "diamond." These elements interact in all possible ways and must all be addressed to some extent if a successful strategy is to be achieved. But the over-riding theme that permeates the approach is the contrast between *comparative advantage* and *competitive advantage*. The former is based on the stock or endowment of factors of production, with more stock meaning cheaper stock, whereas the latter is based on the ability to create new and improved factors of production, as well as to generate improved conditions for the other three elements of the diamond, namely 1) competitive firm strategies and rivalry, 2) increases in demand and 3) a network of related and supporting industries. Developing countries, he notes, have the daunting task of upgrading all four parts of the triangle simultaneously. It is a much more challenging task than is the model based on factor costs and economies of scale.

Porter focuses his effort with the notion of "clustering," which he prefers over such generalized policies of import substitution or protection for nascent industries through tariffs or subsidies. His clusters start with a select industry as a base and then develop the downstream, upstream and related industries to support the base. Government has a leading role to play in helping to select the focus industry and to create the environment in which the elements of the diamond can be improved. "Government is seen as the principal engine of factor creation" and is seen to be justified by the externalities and synergistic benefits to the economy that exceed those of any participant, he writes. Porter's research shows that those countries that follow the principle of creating factor conditions and improving the related elements of the diamond have succeeded in developing industries that are competitive on a global basis.

Porter conducted his research of successful industries all over the world and found that almost all of them reached maturity in developed countries. He developed a staging pattern that drives competitive development. The four stages are 1) factor-driven, 2)

investment-driven, 3) innovation-driven and 4) wealth-driven. Industries in developing countries, even in the four tigers, have not reached beyond stage two, according to Porter's classifications.

If this be the case then the promotion of food export industries from developing countries should concentrate on creating and improving factor conditions and increasing investments. But identifying unique demand opportunities or creating new demand, stimulating the formulation of clusters and supporting institutions, and organizing the business structure to create more rivalry and competition will all enhance the prospects for successful entry into world-class markets.

Competitive Advantage has been applied—in one way or another, to greater or lesser degrees of intensity—in each of the five case studies presented in this paper. Successes have been substantial in almost all cases evaluated, not only in terms of returns to the participating firms but also from the point of view of community or country-wide impacts. Moreover, for Kenya green beans and Guatemalan snow peas, they have become the world leaders for those commodities. Ecuador is fast approaching the status of Colombia for cut flowers, and Sri Lanka is poised to be a world-class competitor in tropical fish, vanilla and pyrethrum.

III. COUNTRY CASE STUDIES

Ecuador: The USAID-supported PROEXANT (Promotion of Exports of Nontraditional Agricultural Products) project played a major role in stimulating the increase of nontraditional agricultural exports from a mere $3 million dollars in 1978 to more than $75 million dollars in 1994. Almost 100,000 new jobs were created in the process. This was done by providing technical assistance in product development, technology transfer, market identification, technical training in agronomy, post-harvest handling and processing, and policy reform. The project introduced a Seal of Quality that was placed on all products exported, based on rigorous pre-export inspections, thereby creating recognition in the export markets for a safe, healthy, and high-quality product. Each product in this program had its own market niche and market window in the major export markets of the United States and Europe as well as in the neighboring regional markets of Colombia, Venezuela, and the Antilles.

The principal high-end crops and products that the project promoted were passion fruit juice and concentrate, dehydrated bananas, melons, gypsophila, carnations, tropical flowers, asparagus, broccoli, hearts of palm, Tahiti limes, early season pineapple, ginger, mango, okra, blackberries, blueberries, raspberries, baby corn, artichoke, snow peas, and French green beans. Less high-valued crops considered for local and regional markets were lettuce, cucumbers, onions, potatoes, squash, peas, carrots, and spinach.

Technology transfer was achieved by introducing such production techniques as induced mango flowering to accelerate harvesting which would coincide more to export market windows; rapid propagation of pineapple through apical meristem gouging; controlled flowering of pineapple using artificial flower induction; semi-mechanized pesticide application to control timing, quantity and uniformity; and introductory field trials of imported seeds for berries, asparagus, broccoli, Tahiti limes, mango, and ginger. Technology development was generated through field experimentation and development in other crops as

well. The issue of quality control and phytosanitary regulation received concentrated attention by the project: a Seal of Quality was developed for all exported, nontraditional agricultural products administered by the project, and workers exposed to pesticide residues were routinely examined and checked for excess exposure.

The project's influence extended to the policy arena. Project staff sat on several committees and commissions, such as the Customs Committee, the Advisory Foreign Commerce Committee, the International Committee for Canning and Packing, and the International Transport Commission. The project had an impact on the formulation of several new laws such as the Law to Facilitate Exports and Maritime Transport, and the Pesticide Law. Every company interviewed during USAID's evaluation was convinced that the nontraditional crop sector would not have grown at all had the project not been an active broker for the interests of the fruit and vegetable industry in Ecuador.

Guatemala: Hannover Brands from Pennsylvania, USA, wanted a new source of vegetables in the mid-70s and so they ventured into the highlands of Guatemala to build an IQF (quick freezing) plant for broccoli, Brussels sprouts, okra, and cauliflower. The farmers in the area were contracted to supply the plant with the produce it needed. The project was extremely successful and bred several offspring. Three large packing houses now operate in the same area, contracting small scale farmers (1 hectare or less) to provide them with supplies on a year-round basis.

Perhaps the most interesting offspring of this activity has been the Cuatro Pinos Cooperativa (the 4 Pines Cooperative). The early farmers who supplied Alcosa (the Hannover Brands plant) with broccoli and cauliflower were unhappy with their contracts and prices one year and decided to form a cooperative to market their own produce fresh to the United States. They began with snow peas and now a large percentage of U.S. imports of snow peas, particularly in the winter, are dependent on Guatemala. The Cooperative continues to expand and diversify its products and other marketing groups have also been initiated in the highlands.

Some of the entrepreneurs from the highlands have moved to Guatemala's coastal plains to grow melons and other vegetables with equal success but not through contract farming. Nevertheless, they still employ significant numbers of Guatemalan farmers and generate significant foreign exchange and income for the country from their exports.

In the Guatemalan situation, it was significant that all donors supported the formation of the Gremial, a Guild for the exporters of all nontraditional agricultural and nonagricultural products. The Guild acted as a catalyst and principal lobbyist to the government for reforms that exporters identified as necessary to improve their trade. The Guild was instrumental in developing express licensing through a "one-stop shop" office window; in liberalizing air and sea transportation, in improving the speed and efficiency of port services, in introducing warehousing and cold storage at the airports, and in harmonizing phytosanitary regulations and inspections.

There were two significant social impacts deriving from Guatemala's nontraditional crops export program. First, Glover and Kusterer (1990) report that "the most positive transformational effect of agribusiness on women's lives comes not from contract farming but from reprocessing plant employment. Small-town and rural women who worked in the

packing sheds, canning plants, or freezing factories were unanimous in reporting that employment increased their self-esteem, self-confidence, and household influence. Legal minimum wages, not often available to women in informal employment, dramatically increased women's incomes"...as they became "major earners of outside income, received health care for their families, and enjoyed child care at the factories." This "empowered them in their relations with husbands and fathers." Factory employment provided an "escape route from patriarchal social systems" and the women favored the "bureaucratic, impersonal management style, the well-defined division of labor, the time clocks, and the chance to work with large numbers of other women," all of which gave rise to improvements over their traditional position of subordination in rural social systems.

The second event occurred when President Serrano was accused of human rights abuse and using unconstitutional powers. In retaliation the United States threatened to suspend
the Caribbean Basin Initiative's duty-free trade preferences and the long-standing Generalized System of Preferences that Guatemala enjoyed. In response, the private sector exporters, with the help of the Gremial, created such an opposition to the President that they forced him from power and replaced him with a champion of human rights in order to retain their privileged import status with the U.S.

Kenya: The decades of the 70s and 80s were the decades of the Green Revolution in agriculture, when new technologies in rice and wheat were introduced to Asia so that the Indian subcontinent learned how to feed itself. But the decade of the 90s belongs to Kenya, where we have the "Green Bean" revolution. In the remote hills of Kenya, on meager land holdings of an acre or two, thousands of once-poor farmers, mainly women, are participating in an export explosion. They are called outgrowers and over the years they have learned their agriculture well and they can now grow as good a green bean as any you'll find in Europe. In fact, most of what they produce ends up on dining tables in France, the U.K., the Benelux countries, and Germany. It appears that the French green bean is now known as the Kenyan green bean.

During the 70s, agriculturalists had trouble getting farmers to adopt new seed varieties and to use fertilizers and pesticides on crops they grew mainly for home use. However, farmers wisely applied inputs and generated fair profits on cash crops as long as market prices were good (price supports were often granted through the Coffee Board, the Kenya Tea Development Authority or the Cotton Board) and credit was available, usually subsidized by the Government through the Integrated Agricultural Development Project. But over the years, prices did not hold stable, and the incentive to produce these cash crops among small scale farmers evaporated.

In other parts of the country the Government, with help from USAID, GTZ, SIDA, World Bank, and other donors, tried to develop the drylands with subsidized credit, targeted extension, small earth dams, water bore holes, rural access roads, and many other improvements, but the economics were not on their side. Not until the introduction of green beans in the mid-80s was it possible to make a difference in the lives of the small-scale farmers. The earlier efforts relied on infrastructure development for production without considering the market. The products that were introduced had low margins with high costs and low market prices, and could not sustain the variations in climate and prices. The farmers

could not claim even a *comparative advantage* in these crops - maize, beans, cassava, sorghum, cowpeas, pigeon peas, and cotton.

Enter the Kenya green bean with all of its high technology, quality demands, extreme perishability, and phytosanitary requirements. If one were to predict what would have been the next cash crop to follow those others it certainly would not have been green beans or snow peas under small-scale, microenterprise farming conditions in Kenya. But the revolution succeeded.
Presently, scores of exporters and several canners/processors daily collect boxes of green beans all over the hills surrounding Nairobi, reaching beyond Meru, and deliver the beans to the airport in time for the evening flights to Europe.

The initial drive to create a *competitive advantage* in green beans was spearheaded by well-connected exporters who saw an opportunity for the production and sale of a specialty niche market product from their own farms and those of their neighbors, and who had strong connections in several European markets. As the Kenyan green beans caught hold in the European consumer markets, demand grew rapidly. The need for more production spread throughout Kenya, wherever the climate and water was appropriate, as small scale farmers took up the challenge of producing these beans for the exporters. All the years of training in food crops and cash crops gleaned from the aforementioned projects helped these farmers to know when jump on this bandwagon. Now they are cutting their own bench terraces (ledging slopes with terraces as a soil conservation technique), not to conserve the land for future generations but to find some more space to grow more beans. The farmers have even been seen cutting down their coffee trees to plant more beans.

The Kenya green bean model was one of identifying a unique market niche and supplying that market with a quality product, fresh from the field, and packed in market-ready containers. Some exporters to Marks and Spencer prepare boxes ready for the retail shelf in Nairobi. The value chain (as Porter refers to the movement of the product from production to consumption, including all of its transformations) in Kenya is very precise. The growers harvest there 1/4 acre plots at 11:00 AM every Monday, Wednesday and Friday, fifty-two weeks out of the year, assemble their three kilogram boxes at a point on the roadhead to resort the beans, check off their pesticide application record with the buyer representative by three PM, load the beans on the buyer's truck by four, arrive at the buyer's repacking shed and cold store near the airport in Nairobi by seven PM in Nairobi, cool down until 10:30 PM and are then loaded on the planes for a night flight to Europe. The fresh products are in the European markets within twenty-four hours of harvest. The number of exporters involved varies from twenty during the low volume seasons to close to one hundred during the peak season.

USAID calculations show that almost 100,000 people make an income from green bean production alone. Most of the farmers interviewed said that green beans were their only cash crop. Although there are some large farms producing these crops, the outgrower schemes may account for 70% of the total employment. And this is also the case for outgrowers of flowers, snow peas, mangoes, Asian vegetables, avocados, mangoes, pineapples, passion fruit, macadamia, cashews, a variety of citrus and berries, guavas, peaches, and plums. Although Kenya has not achieved such a pronounced *competitive advantage* for these crops as they have for the green beans, they have been able to carve out smaller advantages by processing them into marmalades, dried soups, preserves, pickles, juices, pieces in syrups and sauces, and many other types of canned and jarred fruits and

vegetables. One verification for determining the degree to which a *competitive advantage* has been achieved is to measure the growth in employment in the industry. For the total horticulture industry in Kenya it is estimated that the total number of wage or income earners reaches almost half a million when one includes all the export and domestic horticulture crop acreage. This income, in addition, generates from one million to two million jobs in the agriculture-driven non-agriculture sector due to the multiplier effect. These jobs are generated to produce the consumer goods that these direct employees demand, for food, clothing, transportation, services, house construction, etc. This is quite an impressive achievement for Kenya's horticultural sector given that employment is one of the central themes of Government policy and economic growth strategy.

But the "Green Bean" revolution had yet another, more startling and surprising phenomena, in my judgment. This revolution has led directly to a rapid increase in women's emancipation. On a visit to the Mwea Irrigation Project in Kirinyaga District, I was accompanied by four women, all of whom played prominent roles in the training, management and direction of the farmers groups that were being visiting. Their supervisors and colleagues were also women. The Mwea Divisional Extension Officer, a woman I first met 20 years ago, said at least 75% of the farmers she worked with were women, and that in certain crops and for certain functions, women virtually performed all of the work involved. A woman heads the Monitoring and Evaluation section of the Ministry of Agriculture's Farm Management Division and is a senior officer in the headquarters of that Ministry. The District Agricultural Officer in Kirinyaga, where we were visiting, was a woman, as was her Training Officer, her Farm Management Officer, her Field Crops Officer, her Home Economist, and her Horticultural Extension Officer. The private exporter traveling with us was a woman. The representative of the Horticultural Crop Development Authority's (HCDA) Airport Inspection Service was a woman. One of the two HCDA headquarters staff members, who had initially developed the training session and was leading our visit, was a woman. Lastly, an international NGO servicing the horticultural sector in the District (Organic Matter Management Network) had just assigned a woman to be their local horticultural crops promoter.

Women not only play a prominent role in the production and marketing of horticultural crops in Kenya and elsewhere in the world, but they are the majority of employees in all of the processing plants that I visited as well. Women do the sorting, trimming, cooking, and packing in the processing of fruits and vegetables for canning, preserving, freezing, bottling, drying, and packaging. Women do all of the flower picking and packing in the flower greenhouses and packing sheds. The ratio of women to men on these assembly lines—whether they are sophisticated belt- and machine-driven canning operations, or homemade cooking, hand-trimmed, and hand-filled jar systems, or simply tables for sorting and tying for flowers—is at least 4 to 1. When it is recognized that packing plant jobs carry extra social benefits (as noted by Glover, *op. cit.*), then support for these kinds of activities is perhaps the best way to promote women's welfare compared to any of the other targeted activities that the donor community and host-country governments have designed to promote women in development.

Sri Lanka: The Agricultural Enterprise project in Sri Lanka (AgENT), was designed to stimulate the development, diversification, and commercialization of agricultural products through the promotion of private sector agro-enterprises. The project created a business center that provided entrepreneurs with both short- and long-term technical assistance in

production techniques, market identification, processing technologies, packaging and advertising advice, and training in good business practices. The business center also operated a market information network for buyer contacts and provided timely market prices for the principal products targeted by the project. The project facilitated the attendance of Sri Lankan entrepreneurs at international trade shows and organized several market tours and missions to neighboring regional markets, Europe, and the U.S.

A unique feature of the project was the co-financed grants program. Entrepreneurs were encouraged to submit requests for grants that would finance the development of new products, testing of new packaging and processing technologies, production of advertising materials, and attendance at fairs and other off-shore events. These grants were often coupled with the provision of technical assistance. The grants covered 50 percent of the cost of the new activity and were only granted to existing, fully operational enterprises. The project team's insistence to select clients with existing viable enterprises rather than new business start-ups produced a strong base of innovative entrepreneurs who effectively exploited project services and generated a spread effect within their respective industries. The project team also focused on development opportunities throughout the whole market channel for priority industries and thus, produced a balanced approach that was far superior to the often-used strategy of targeting only one activity within the channel. Several hundred firms were assisted by this fund.

Each of the efforts being carried out by the project address crucial elements of the *competitive advantage* diamond. Introducing production and processing technologies improves factor conditions; producing advertising materials, accessing information, developing promotion campaigns and attending trade shows expands demand. Management training is also part of the diamond on the factor creation side. One critical element not often covered by development projects was the financing provided through the co-financed grants activity. And the business center itself helped create the cluster effect by bringing together and formulating related and supporting enterprises.

Another unique feature of the project was its Women's Entrepreneur Development component. A certain amount from the co-financed grants program was set aside exclusively for women entrepreneurs, and a full-time staff was assigned to identify women entrepreneurs and provide them with the necessary assistance that they required to move their enterprises into sustainable and profitable operations.

The project chose specific high-valued crops and products to promote which had an initial *comparative production advantage* in Sri Lanka and for which they developed specific *competitive advantages* through the services rendered by the project. Crops selected were vanilla, pyrethrum, tropical fish, aromatic herbs and spices, essential oils, special feeds for poultry, sunflower, fine green beans, ornamentals and foliage, tomatoes, and onions. An earlier project had already introduced cantaloupes and okra to the local market and for export, and the project followed up on these developments. The vanilla promotion may be poised to create a unique *competitive advantage* in the near future. Nine hundred growers have formed an association to market their beans to an exclusive buyer in Europe, and initial processing will begin shortly in Sri Lanka to take advantage of this buyer's commitment. High-quality vanilla has been introduced as a diversification from tea production.

Nepal: In the Rapti development project in the remote central highlands of Nepal, a phenomenal situation occurred in another USAID-funded project. The project developed pockets of intense cultivation of high-valued crops. Farmers in the hill country may have to walk one or two days to reach a road connection, which reduces the choice of crops that can be successfully grown and marketed because of the perishability factor. Nevertheless, apples have been successful in the higher elevations, as have cauliflower, radish, mustard seed, carrots, cabbage, pumpkin, and tomatoes. With the assistance of the project which brought buyers to the local road heads, the farmers in the pockets have been able to market their crops for cash incomes. Incomes have increased significantly in the area, in some instances ten fold, resulting in increased animal production and food purchases for home consumption. The most interesting result of these changes in the local consumption patterns is the increase in Vitamin A consumption amongst children under five years of age. The income elasticity of Vitamin A in the Rapti project "pocket" areas is .80. (A 1% increase in income leads to a .8% increase in Vitamin A consumption.) No other study of this correlation has yielded results above .40. My thesis in Colombia in a very successful maize, bean, and horticulture project known as the Caqueza Project (mentioned above) showed a Vitamin A income elasticity of only .2.

The project in the Rapti area of Nepal began by just selling the newly introduced produce in the local, domestic markets, but these markets have begun to be saturated with the medium-valued fruit and vegetable products mentioned above. The next generation of the project seeks to expand trade across the border into India and is using the techniques of *competitive advantage* presented above to accomplish this task.

IV. HOW DO WE PROMOTE NONTRADITIONAL FOOD EXPORTS? WHAT ARE THE LESSONS LEARNED?

Step 1: ***Identify which foods and food products to promote.*** Several consultants contracted to determine the set of products that should be promoted in any given country have used the technique of Competitive Positions Analysis. This analysis calculates the costs of production per unit of output and successively adds the unit costs of transportation to the assembly markets, to the wholesale markets, and to the ports; the costs of packaging, sorting, packing, cleaning, enhancing, or checking quality; any fees, duties, or taxes; and the shipping and distribution costs to the ultimate consumer markets. These costs are stacked one atop the other to determine the total cost per unit to place the produce in the destination market. Then seasonal prices in several markets are overlaid onto these costs to see at what time period in the year consumer prices are higher than costs for the product delivered to any specific market. When prices are above costs then a potential "market window" appears. At least four years of price data should be superimposed on top of each other in order to detect trends and consistencies. If the peaks and troughs in the price curve occur at different time periods one year to the next, then the reliability of these "market windows" would be suspect; if the price variations are the same each year, the analysis can be assumed to have produced fairly robust results.

Once the time period for potential profitability is identified a check on the volume of market country production and imports during that time period is made. If the quantity of production within the market country is large relative to the quantity of imports then the potential for exporting to that country is riskier than it would be if the quantity of imports is

high. Secondly, it would be preferred to target those countries where import volumes are robust and the quantity that the exporting country wishes to ship is a small portion of that import volume. This choice is made to avoid saturating any market at any given time period, which would lead to rapid decreases in prices, thus making the whole exercise unprofitable. The price and volume data are collected in what are described as Market Profile Studies.

When carrying out this analysis, many crops or products should be looked at, usually 50 or more. Once the five to eight most promising products and their "market windows" are discovered, more in-depth analyzes can be conducted. Competitive Positions Analyzes can be used to determine the competitiveness of any specific product with respect to in-country costs and market prices. However, another type of analysis that is also useful is the Competitor Profile. For each product that is selected for development, determine the unit costs the same way in each country that competes with the host country. The price overlays in the final markets will be identical but the unit costs for each activity - production, processing, transportation, fees and taxes, etc., will differ. Then comparisons can be made with companies producing the same commodities at the same time in the other countries. The information gathered can be used to compare in-country costs with those of one's competition. Labor usage and wage rates per unit output and labor productivity calculations can be developed, as can input and packaging costs. The number and value of fees assessed, licensing requirements, import and export duties, and sales and income taxes can be identified. Shipping costs should also be scrutinized to make sure that national airlines or shipping companies do not exert monopoly control on these services and charge excessive fees vis a vis one's competitors. Once all of these aspects of the cost profile are analyzed, one can move to introduce those policy reforms that are needed to bring in-country costs more in line with or less than competitor country and firm costs.

Step 2: ***Determine production potential.*** From the Competitive Positions Analysis, a set of products will be identified. These products will then have to undergo adaptive trials for local production. It is generally easier to improve the technology of products that are currently produced in the target country or area than it is to introduce completely new products and technologies to the area. However, existing products may not have the high value-added advantage of a new product. In several instances new products have been introduced successfully, such as snow peas in Guatemala, green beans in Kenya, asparagus in Ecuador, or vanilla in Sri Lanka.

The adaptive trials must cover all aspects of growing, harvesting, packaging, processing, transportation and shipping. It must be determined that each commodity or product selected can be produced to specifications at the highest quality level, and that the product can be preserved from one end of the market channel to the other. If the product fails to meet any one of these tests it will not be pursued any further.

Growing cabbage in the Caqueza Project in Colombia several years ago serves as an example of failure to conduct a complete Competitive Positions Analysis. This was a region where maize and beans were the predominant crops. Agronomists and extension agents suggested growing cabbage as an alternative, to earn higher returns. The farmers quickly followed the agronomist's recommendations and produced 50 tons of cabbage per hectare. But where could they sell so much cabbage? When the cabbages reached the market place, the price fell to less than the value of the gunny sacks they were packed in. The expected

"advantage" evaporated before it was realized. The farmers dumped their unsold cabbage in front of the extension agency and stomped on it yelling "You told us to grow it, now you sell it." Merely growing a new product because it is easy does not insure its sale.

Experiences such as this are numerous around the world with respect to the production and marketing of food products. Some products which are notoriously easy to grow (high quantity yields per hectare with relatively low costs) have, as a result, relatively low unit selling prices—cabbage, tomatoes, potatoes, beans, watermelons, and yams among them. Try as one might, successful marketing of these bulk crops is almost impossible. Markets for these commodities must be segmented and broken up into separate components and the product must be altered to fit each of these segments. However, identifying these segments, determining how each commodity can be altered to fit the demand differences for each segment and training producers as well as marketeers how to satisfy this kind of fragmented market schedule, is not a simple task. "Relentless" change and accommodation to the vagaries of these kinds of markets are required and not many can rise to the challenge.

However, any given product may pass the tests at certain levels but not at all levels. Depending upon the degree of impact the successful introduction of the product might have, it might be determined that bringing in or developing new technologies to overcome the constraints would be a viable alternative. Examples of such technologies from our case studies would be modifying the flowering of mangos so that the harvesting of the fruit would coincide with the market window. Another example was cold storage at the airport in Guatemala for the snow peas. In Kenya, the co-financed grants program helped the entrepreneurs introduce special packaging and advertising for their hibiscus and chamomile tea bags. In some instances, the crop and all of its handling and packaging aspects were introduced from scratch. This was the case for cranberries in Chile, vanilla in Sri Lanka, and gypsophila in Ecuador. Nevertheless, whatever is introduced or adapted locally, the product must pass the test at each stage of production and handling if it is to succeed in reaching the consumer's table in the export markets.

Step 3: ***Introduce marketing activities.*** To penetrate the export markets for any product the quality must be superb. Universal standards have been set in Europe and North America, and one must adhere to these standards if one expects to be successful in these markets. To meet these standards, quality must be achieved at each step in the market channel from production through processing and handling all the way to consumer sales. The most common standard in Europe is ISO 9000 and in the United States it is the HACCP system. Many projects and consulting firms offer assistance to host-country firms for establishing production systems that meet these standards.

In Kenya, the famous green beans must not be sprayed within seven days of shipment to Europe. Inspectors must be able to trace back through the marketing channel in order to pinpoint the producer for each lot if a residue is found at the wholesale inspector's station. This would appear to be an impossible task given the structure of the production system with thousands of smallholders producing green beans on less than one-acre plots. But a system has actually been introduced in which the farmers or rural field station collectors keep notebooks that record time, date, and type of sprays applied to the product. Farm records have been attempted by farm management specialists for many years with little success but these same farmers who refused to keep records for their own management analysis during

the days of the Integrated Agricultural Development Program now willingly keep records for the end-market buyers of the high-valued green beans.

Packaging and product display are extremely important aspects of marketing that are often neglected in developing countries. Since local consumers are not used to distinguishing quality or paying for it in local retail outlets, packaging and display are not deemed important by the small farm producers. Nonetheless, if one wishes to make a mark in the end-user markets in Europe, Asia, or North America, bright, attractive, and transparent packaging is a must. Proper packaging can also lead to brand recognition for successive sales and in Kenya they have even been able to pack in plastic trays at the farm and export directly to retail outlets of the major supermarket chains in England, as mentioned before.

Access to the right market data on a timely basis is critical in order to know when and where to ship the product. However, it has been demonstrated time and again that pre-contracts or forward contracts work out better in the long run even though the shipper or supplier may seem to be accepting prices below the market on any given day. The ability to program one's production in advance with specified prices and/or volumes allows producers and processors to calculate their gross revenues in advance and avoid the volatility that most fruit and vegetable fresh wholesale markets exude. Consistency and stability in the market is the reason for executing "market orders" in some countries and forward contracting can obviate the need for such interventions by the state or local government.

Rapid access to reliable data is difficult. Few companies regularly collect the data and make it available to sellers and buyers alike. Other than large multinational food purveyors, I only know of one consulting firm in the U.S. that is capable of providing information on principal European, North American, and Far Eastern markets on a regular and frequent basis to farmers or buyers. And this firm does not provide this information on a regular basis to clients. None of the firms analyze the data in terms of a Situation and Outlook Report prior to dissemination.

The most important information that can be supplied to farmers, farmer groups, or local buyers is contact information and placements of orders. Whatever program is promoting the exports should offer the services of 1) contacting the buyers and placing them in direct communication with the suppliers and 2) encouraging joint ventures in collection, handling, processing, and marketing between the buyers and suppliers. This is the concept of the *catalyst*, someone who has a foot in both the supplier's market and the consumer's market, who can bridge this gap with ownership of the product and services. This is the most advantageous approach. The PROEXAG (USAID's project in Central America designed to promote nontraditional agricultural exports) project in Central America specialized in making the deal, in bringing the buyers and sellers to the table and actually participating in the deal negotiation, recommending how to structure the contract arrangement, and monitoring the progress along the way as the deal evolved.

Another marketing service that is quite useful is to provide access to targeted financing. This financing need not be subsidized, but it should be tailored to the specific needs of the fresh and processed food industry. There is a substantial degree of perishability and price volatility that prevents participants in this industry from obtaining normal credit and investment funds. Access to funding may mean providing some form of guarantee or introducing new financing instruments such as contract financing and discounting, letters of

credit based on pre-arranged sales agreements or simple letters of credit, invoice financing, or any number of specialized financing instruments common to the fresh and processed food industries in the developed countries. These financing instruments are common place in developed countries and noticeably lacking in developing countries.

Joint promotions through the development of a Seal of Quality for produce being exported by an association or a country that have undergone some form of inspection can be a real advantage for many products. Several countries have developed such a system with excellent results. However, it requires diligence and tenacity to maintain and keep current, and may be quite costly if it must cover an array of products.

Lastly, one must mention the need for intellectual property rights (for seeds especially), business proprietary protection and the issue of honoring contracts. The former two issues may require the enactment of new laws or regulations; the latter may be handled with a voluntary code of conduct or through local commercial courts dealing with contract law, if necessary. However, all are necessary if new products and technologies are to be developed and used to produce for export and to gain significant market penetration and market shares.

V. THE ROLE OF GOVERNMENT AND DONORS vs. THE ROLE OF THE PRIVATE SECTOR

What is the responsibility of Government in this process? Should everything be left to the private sector to do? Who starts the ball rolling and who sustains it?

The Government has the responsibility to create an environment for positive change and to motivate industry to pursue these improvements. The basic role of Government is to educate the players. Its second role is to permit the players to operate within a constraint-free environment by removing policies that hinder or restrict the development of the targeted industry. And, the Government plays a role in introducing export-oriented incentives and fostering related and supporting institutions. But it's the Private Sector that must eventually take the ball and run with it.

Education is needed to develop among the country's human resources technical production and processing skills; a work ethic; and management, finance, marketing, and merchandising capabilities. Education transfers knowledge but also creates knowledge through scientific and socioeconomic research. When the educational system pushes the players to new levels of expertise and expands the envelope of understanding, industry is in a position to claim world-class recognition.

Government should modify its **Policy Framework** to reduce as many regulatory and pricing constraints as possible, allowing free pricing decisions for inputs, for raw materials, and for exchange of intermediate goods. They should reduce regulatory controls on the movement of goods within the country, the exchange of goods between enterprises, and the sale of all products to the extent that such controls prohibit the growth of any targeted commodity or product. Tariffs, taxes, fees, and duties must be kept in check—not necessarily eliminated (because this may be a major source of income for local or federal government) but reformulated to insure that their costs do not make the product

uncompetitive compared to competing countries and firms. Import restrictions on intermediate goods and or their corresponding quotas also must be examined carefully, especially in light of recent World Trade Organization regulations. Setting rigid product standards can be a two-edged sword. On the one hand standards will insure quality; on the other hand overzealous standards can often be too difficult for local entrepreneurs to match and may stifle development. Certain subsidies can promote the development of a competitive industry but in many cases they can have deleterious effects. Caution must be exercised when introducing subsidies.

Strategic Incentives for Exports are required. An outward orientation promoting exports must replace an inward orientation of protectionism. In addition to the appropriate policies, direct incentives for export may be introduced. Free trade zones and duty drawbacks are useful instruments but may retard innovation and creativity. They may protect the existing level of technology development rather than spur its advance. Tax holidays and exemption from duties on imported technologies, machinery, and equipment are more appropriate incentives. Other parts of a successful incentive package might be financing research, sponsoring trade fairs and trade missions, providing technical assistance, generating guarantees for investment risk taking in new technologies for a limited period, and constructing industrial parks. It is also important to improve transportation, ports, and terminal market facilities, assure an intact cold chain from field to consumer, and develop water and sanitation infrastructure.

Institutional Supports can channel these incentives into a structure that can make their delivery to the clients more efficient. In Chile the Fundacion Chile (an endowment fund formed during nationalization between IT&T and the Government), which conducted research on imported technology and adapted this technology to local conditions. The Foundation also identified markets and carried out promotional activities. The Foundation then created "trial" companies that used these technologies and marketing assistance to produce forestry products and furniture (from Eucalyptus, Pine and Longa); aquamarine products such as salmon, oysters, abalone and turlbut; and a host of fruit and vegetables for export, especially grapes and wines. After the technologies were perfected, the Foundation actually invested in (provided the financing for) and owned these companies, placing their own management in them and then sold them off after they reached maturity and were able to sustain profitability.

In South Africa, the fruit growers, represented by their firm Unifruco, let a competitive contract for the exclusive rights to market of all their produce. They ended up selecting Capespan as their representative. Capespan was formed by a merger between a wholly-owned subsidiary of Unifruco, Cape Brands, and a London-based marketing firm with contacts throughout Europe, Outspan. This company does all the promotion, advertising, and marketing for the growers, to include scheduling production, developing packaging, arranging for shipments, and receiving and distributing produce in Europe. The role of the Government is to sanction this contract and ensure that all members of Unifruco abide by the contract with Capespan.

Both the South Africans and the Chileans have developed a Seal of Quality and their own logo which has allowed them to gain market identification and establish market prestige and loyalty throughout the world. In North American and European markets both of these labels are well-known and regarded for the quality of their products.

Business service centers, or what some would call "incubators", have also been used to promote the development of new industries or the expansion of existing industries. These centers can operate out of a project office and simply supply advice on how to gain access to financing or even supply co-financed grants (as is the case with KEDS (Kenya Export Development Support project of USAID) and AgENT in Sri Lanka), provide technical assistance experts in production and processing, gather and collect timely market information and produce technical papers on different commodities or processing techniques, carry out specialized training programs for all industry participants, and host conferences, fairs, and trade missions. In some instances, the incubators are located within an industrial park and actually provide the physical services of telephones, computers, internet access, accounting, billings, collections, and secretarial services. Moreover, industrial parks in themselves can often help develop the "cluster" and the related and supporting firms that a key industry might require in order to gain the *competitive advantage* we have discussed. These kinds of business service centers are usually initiated by and supported by Government. Industrial parks are also Government supported in terms of their infrastructure and in the developed countries the "incubators" are often related to local universities or business schools. Few are totally self-supporting.

Lastly there are the commodity or industry associations which often provide their members with many of the services listed above for the business services centers, and also play a major role in lobbying for favorable policies and incentives. The score card on associations is
mixed: in some instances they have been critical in the creation of competitive industries; in other instances they have been a hindrance acting as an additional tax without providing any beneficial services (except for the vehicles and hospitality that the directors enjoy at the expense of the members.) In Egypt at the moment, there is an assumption that the former situation is the case.

VI. WHAT IS THE OUTLOOK? WHERE DO WE GO FROM HERE?

If a *Competitive Advantage* can be created for any specific industry, the outlook for that industry is healthy and robust. The result will be increased exports, additional employment, improved incomes, better nutrition, more opportunities for women, and the full realization of democratization in the process. But it will take concerted efforts as outlined above—relentless innovation and a penchant for constant change. Constraints can often act as a pivot point which unleashes creative activity designed to figure out how to overcome the constraint and in so doing creates the necessary ingredients for *competitive advantage*. The Kenyan green bean was a case in point. The fear of pesticide residues forced the farmers to keep daily log books on application times and rates. Competition forced them to develop retail packages in Kenya. When the US found pesticide residue on snow peas from Guatemala, the industry shut down exports and introduced more stringent inspections and safeguards, in order to assure the development and expansion of their market. In Ecuador, project was successful in introducing a Seal of Quality for all products exported under the project's inspection service. Also, because of international accusations of the harmful effects of pesticides on women workers, the project initiated an inspection service that proved that the toxic effects were negligible. In each instance, the participants faced a constraint and

responded to overcome the constraint or to eliminate its impact, and often creating additional advantage in the process (i.e. expanded markets penetration).

One must also remember that a key point in the diamond insists on domestic rivalry among firms, with many firms operating in competition with each other. And market determined prices—no cartels, no monopolies—is the cornerstone of successful *competitive advantage* in any industry. It appears that in many instances of privatization there is a tendency to replace Government control and oversight with rules and regulations imposed by an association, cooperative or union. This must be avoided at all cost. It is the rivalry that unleashes the competitive juices-this must be promoted.

There are two ways to approach the creation of *competitive advantage* - from the point of view of the Government and from the point of view of the entrepreneur. The Government must take a pro-active stance, and introduce activities that will lead to improved competitiveness. The Private Sector must not be complacent or defensive, and waiting for a paternalistic Government to make them competitive. They must act on their own to carve out their own niche, their own position in the market.

In Egypt, the Government has taken bold new steps to create competitiveness in horticulture. A major project in Agricultural Technology Utilization and Development has been initiated to transfer and adapt technologies in five horticulture commodities - strawberries, cantaloupes, mangos, green beans and grapes to assist in developing post-harvest product handling systems, and to provide market information and product specific promotional activities. This project has also been instrumental in promoting the activities of the horticulture exporters association and working with the input suppliers, especially the seed importers, trying to reduce the restrictions on fruit and vegetable seed imports.

Recently, the Government has developed another USAID project that will conduct similar activities within the horticulture processing sub-sector. This project will be initiated shortly. Several other projects address key activities within this sub-sector but are too numerous to elaborate here. But a more focused and concerted effort is required.

There are several actions that the Government could undertake to promote more competitiveness. First, the Government could establish a center that could act as the focal point for identifying constraints to competitiveness and to issue guidelines to all exporters on what principals they should follow and endorse in order to achieve competitiveness for their products. The constraints that should be analyzed currently create a "disadvantage" for Egypt's commodities. These have to do with the policies, rules and regulations that govern commodity sales and input supply - import and export controls, prices, delivery schedules, duties, tariffs, taxes, quotas, transportation restrictions, firm and product registration and an array of licensing controls. An analysis of these constraints needs to be conducted and a set of policy or regulatory reforms issued in order to reform, change or eliminate them. It has recently been proposed to carry out this analysis in the Egyptian Export Promotion Center (EEPC) of the Ministry of Trade and Supply.

In addition, a set of guidelines describing the key issues that must be considered in order to establish a *competitive advantage* must be developed. These guidelines will show potential exporters what they must consider before embarking on the development of a competitive product. It will indicate what is necessary in terms of a diagnostic study, and it

will demonstrate how to do the various competitor comparisons and market profile analyzes But most of all it will teach clients how to look at competitiveness, so that they will come to understand the concept and principles of *competitive advantage* and what and how they must behave in order to carve out competitive positions for themselves. This set of guidelines will also be developed by the EEPC.

In addition to the policy and regulatory review and the set of guidelines or principles for competitiveness, "competitiveness" studies must be conducted on specific commodities. These studies include Competitive Positions Analysis, Marketing Profiles, Competitor Profiles, Cluster Analysis and Industry or Sub-sector Diagnostics (similar to Structure, Conduct and Performance studies in marketing systems analysis). It is unlikely that individual entrepreneurs will have the resources to conduct these studies in depth and so it will fall on the shoulders of Government, donors or industry/commodity associations to finance them. It has also been suggested that the EEPC or another institution set up a fund to finance these studies. In Central America, a "Competitiveness Institute" has been established at INCAE (the Central America Institute for Business Administration), to conduct these profiles throughout the region, through committees formed in each country headed by the respective Vice Presidents.

Besides the analytical work, several technological and training centers are required. A center is required for importing processing technologies, testing and adapting them, and making them available to the public or private sector. Another center is needed to develop new technologies as opposed to just transferring existing technologies. Such activities may already exist within the Government's research centers but it is unlikely that they currently work at the level required, with abundant resources and on the most modern technologies for plant resources, product handling and processing techniques. A third center is vital that would be dedicated to train management in the art of competitiveness- as simple as that. Technical training for extension agents and marketing agents, and skills training for middle management for processing lines are also necessary. More auxiliary activities for the related and supporting clusters would be for machinery construction, quality control systems and product testing, cold chain and refrigeration equipment, airport and port terminal warehousing and cold stores, advertising agencies, and the development of specialized sources of financing (that could finance contract farming and export marketing of perishable products).

From the Private Sector perspective, the notion of creating a commodity specific association has drawn a great deal of attention recently. Several associations are in their infancy at the moment but virtually none of them has any financing. In the United States, such associations receive Government support under two Acts. One is the Market Promotion Act, which makes funds available to commodity associations for market promotion and exporting of member's products. The other is the Commodity Promotion, Research and Development Act of 1996. This act has many components, including the famous "marketing orders" of the US, but the more interesting program is the one which allows a commodity association or producer group to request a referendum in which the members agree voluntarily to cess their products communally and use the resources collected for market promotion and other activities of the association. The Government then grants them the license to levy the cess which then covers all producers across-the-board (similar to the Capespan situation in South Africa), and the Government gives oversight to insure that the monies collected are used for the express purposes that have been outlined in the original

proposal tendered to the Government. These two acts have been effective instruments for establishing commodity associations over the years in the United States.

In summary, the Government may 1) involve itself in analytical work to ensure that the policy and regulatory regimes are conducive to competitiveness; 2) delineate a set of guidelines for how producers, processors and exporters can organize themselves so that they can garner a competitive position in any specific product; 3) conduct competitiveness studies for clients and organizations; 4) establish technological and training institutes as noted above; 5) render assistance to those support or related institutions or enterprises that are required to fill the gap in the value chain of any specific commodity; 6) introduce legislation that would allow producer or commodity associations a mechanism by which they would receive public funds and/or be allowed to cess their export products for such funds; and 6) establish an endowment fund that could be used to finance the unique types of activities that are required for developing competitiveness in horticulture and food crop exports; and 7) be prepared to present anti-trust legislation if a compelling argument is made to show that cartel-like behavior or monopoly control of an industry is emerging.

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