

" PROMOTING MARKET AND TECHNOLOGY ACCESS: LESSONS LEARNED"

Report on the MTAP Workshop
 March 31, 1987

Introduction: This report summarizes the findings of the 4th workshop of the Market and Technology Access Project (MTAP) which was held at the Department of State, Washington D.C. under the sponsorship of the Bureau for Science and Technology, USAID, on March 31, 1987.

The purpose of the workshop was to review progress and lessons learned to date from the research and field trials being carried out under MTAP. The research component of MTAP began in October, 1987 with the award of the Research and Evaluation contract to Arthur Young and Company. In October, 1985, three sets of field trials, designed to gather data on the operations of commercial intermediaries engaged in the promotion of co-ventures between U.S. and LDC firms, were initiated. The contractors selected to carry out these field trials included Intermatrix, Inc. for work in Thailand and India, International Commercial Services (ICS) for work in Costa Rica and Business Development and International Marketing (BDIM) for activities in Turkey, with Georgetown Venture Trading working in Tunisia and Yemen under a subcontract to BDIM.

The first session of the workshop began with an overview of government-sponsored trade and investment promotion programs. This was followed by a discussion of alternatives to existing approaches, including the role of specialized commercial firms such as trading companies, venture brokers, technology brokers, and other types of intermediary firms. These introductory remarks were followed by a contractor panel and general discussions focused on the lessons that have been learned under MTAP relating to promotional and organizational techniques of intermediary operations and strategies for achieving commercial viability. The final session focused on the implications of MTAP for the design of future trade and investment promotion efforts sponsored by A.I.D.

Overview of Government-Sponsored Programs to Promote Trade and Investment

Virtually every government in the world has some kind of foreign investment and trade (usually meaning export) promotion program. In many cases, they have dedicated agencies whose principal purpose is the attraction of foreign investment, although such agencies often have investment regulatory responsibilities as well. Examples abound. Some of the better known agencies are:

- .. The Irish Development Authority (IDA)
- .. The Economic Development Board of Singapore
- .. CINDE of Costa Rica
- .. The Board of Investments of Thailand, BKPM in Indonesia, etc.

There seems to be a general feeling that the effectiveness of government-sponsored investment and trade promotion programs has been, at best, mixed. Even the best of such programs have generated criticism and have exhibited uneven performance. For example, the vaunted IDA program which has been credited with attracting billions of dollars of foreign investment and with creating tens of thousands of jobs has been criticized for "excessive" costs per job generated (figures range from \$10,000-\$20,000 per job). Other programs, like that of the Singapore government, which was credited with the enormously successful economic development program of the island nation, have proven, during the recent economic downturn, that they are only as effective as both economic conditions and the country's business environment permit.

Developing country agencies have attracted substantial funding from international donors, including A.I.D. Estimates of current A.I.D. project funding for trade and investment promotion activities, many of which have been carried out in conjunction with developing country agencies, range from \$50-100 million.

Over the past decade, A.I.D. has supported a variety of efforts to promote trade and investments, including:

- .. Government investment or trade promotion programs carried out by government agencies or quasi-autonomous trade or investment promotion centers;

- .. Programs managed by consultants in conjunction with local government agencies or quasi-autonomous centers;

- .. Programs managed by consultants in conjunction with local private sector associations (e.g. Arthur Young/FUSADES, IPAC/FIDE);

- .. Activities involving U.S.-based business associations working in conjunction with LDC business associations to promote mutually advantageous business collaboration.

In addition to projects that have emphasized trade and investment promotion, A.I.D. missions and central programs have provided feasibility study funding, business development funds, training grants, and loans to firms involved in developing manufacturing or trading ventures. Other efforts have focused on improving the business climate through policy research and dialogue, or overcoming infrastructure constraints by funding the construction of industrial estates, export-processing zones, roads, ports, and communications facilities.

With few exceptions, results of government-sponsored trade and investment promotion programs have not met expectations. Some of the areas in which actual performance has not measured up to initial expectations are as follows:

- .. programs have taken a long time to produce meaningful results
- .. costs have been high relative to results
- .. programs have generally not been sustainable without high levels of donor or governmental funding

In many cases, the problems that trade and investment promotion programs have experienced in producing results in accordance with time tables established by program planners have been the result of unrealistic initial expectations. Trade and investment promotion is inherently a labor and time-intensive process. Even strictly private international ventures take a long time and a lot of effort to mature, and the mortality rate is very high. This is particularly true for ventures in developing countries where government policies and regulations frequently produce long delays and extra expenses for entrepreneurs, and where deficiencies in infrastructure, existing industrial capacity and commercial support systems impose additional delays and costs on new enterprises.

A.I.D. projects have frequently not taken these considerations into account and have forced contractors and implementing organizations to operate on time schedules that have been very unrealistic given the problems found in even the best of the A.I.D. recipient countries. In some cases, projects have been designed with time horizons as short as two years, barely enough time to generate results from even simple types of trading ventures and clearly not enough time to expect results from more complex investment related activities. Even standard four and five year projects have not allowed sufficient time for results to be achieved, or have proposed targets for job creation or

numbers of new ventures that would have been difficult to achieve in projects lasting twice as long.

More serious than unrealistic timing in A.I.D. projects have been design features that have resulted in excessive costs and unsustainable activities. A.I.D. and other donors have borne a high percentage of the costs of LDC trade and investment promotion programs; little attention has been given to developing approaches for passing costs on to beneficiaries or to implementing organizations who, in turn, could recover costs and generate profits from clients. As a result, seldom have these types of programs been self-sustaining. In addition, programs have suffered from having the wrong types of people involved, and from offering inappropriate types of incentives to individuals and organizations responsible for implementing promotion programs.

Where trade and investment programs have been under the direct control of government agencies, problems of excessive costs and ineffective performance have been very common. Conflict of objectives and untrained staff play a big role in reducing effectiveness. In addition, these organizations move slowly and without much understanding of business needs and concerns. Unfortunately, the government run organizations are often jealous of their areas of responsibility and block other individuals and organizations pursuing trade and investment activities. Limited manpower in the developing countries means that government institutions normally are staffed with individuals lacking the business credibility and skills necessary for effective promotion and support.

Even when implementation of promotion programs is assigned to non-governmental organizations (such as FUSADES in El Salvador or FIDE in Honduras), close management or control by public sector agencies can adversely affect performance by introducing additional levels of bureaucracy into what is essentially an entrepreneurial task.

In spite of the private sector development objectives of A.I.D.'s trade and investment promotion programs, many of the recent and past programs in this area have failed to take advantage of private sector mechanisms to promote trade and investment, and have failed to incorporate profit incentives and cost-saving measures that might have made such programs more effective, less costly, and more viable.

A final difficulty with many donor supported investment promotion programs is the singular focus on activities that attract direct foreign investment to the exclusion of other types of co-ventures such as licensing, co-production, trade and sourcing relationships, training and management services contracts, and

joint ventures involving little investment by the foreign partner. There is growing evidence that these other types of co-ventures are becoming the dominant modes of international business and that traditional forms of direct foreign investment are declining in relative terms. This shift in what firms are actually doing is often not reflected in government sponsored investment promotion programs which continue to emphasize direct foreign investment and often discourage these other types of activities.

Looking for Alternatives: the Role of Commercial Intermediaries in the Promotion of Collaborative Ventures

MTAP was designed to test alternatives to traditional export and investment approaches, particularly the question of whether decentralized approaches relying more heavily upon certain types of commercial intermediaries might be able to perform more effectively than programs managed more directly by public sector agencies. Early research indicated that it should be possible to harness the entrepreneurial drive of the private sector to develop more effective trade and investment programs that benefited both LDC and U.S. firms. There was sufficient evidence that there were private sector intermediaries already engaged in a range of trade and investment promotion activities in developing countries, albeit on a relatively small scale and with few resources. If such intermediaries could be encouraged, U.S. and overseas enterprises would both benefit and trade and investment in developing countries would expand.

Research conducted during the early part of MTAP has confirmed some of these early assumptions. More specifically, this research has resulted in the following conclusions:

.. In an increasingly competitive global business environment, firms of all sizes are increasingly being compelled to engage in international business operations in order to remain competitive.

.. Small and medium firms (SMEs) frequently require the presence of external agents to assist them in identifying and developing international business opportunities. (So do many larger firms who may not have the specialized in-house capabilities to investigate and undertake new international activities.)

.. A variety of intermediaries exist who can and do assist firms in their international business dealings. In large

measure, these consist of the traditional suppliers of services to the enterprise (its lawyer, its banker, its accountant, etc.) who offer advise in the course of their normal services, often with no extra charge and relating to an aspect with which the offerer is familiar.

.. There is strong evidence of the emergence of new types of intermediaries who seek to engage and guide SMEs in international ventures as a principal activity. Such intermediaries tend to be more aggressive in their approach and offer a wide range of needed services, often acting as a "facilitator" or "general contractor", bringing to bear external talent as required.

.. The new class of intermediaries, although it has elements of a new service industry, is characterized by a great deal of diversity and fluidity. There are many different types of contractual and financial arrangements with their clients. A variety of "models" can be discerned, some emphasizing more traditional "consulting" services, others focusing on financing, still others specializing in trade or investment deals, or finally a combination of these.

MTAP was designed to capitalize on the existence of business intermediaries to facilitate international collaborative ventures between U.S. and developing country enterprises leading to increased trade and investment in developing countries. There appeared to be sufficient opportunities in enough countries to justify the project.

The MTAP field trials were specifically designed to alleviate perceived obstacles in launching and sustaining intermediary operations by providing financial and other support to intermediaries to help them expand their operations in developing countries. This approach was seen as a way for A.I.D. to benefit from the resources that private firms could bring to bear on trade and investment problems in developing countries. At the same time, it offered potential costs savings to A.I.D. in that A.I.D. did not bear the full cost of the operations (the contractors would cost-share). In doing so, A.I.D. sought to attract a different type of contractor, one who would not be compensated via consulting fees but who would generate (and be allowed to keep) profits from the intermediation business.

A particular focus of MTAP is its emphasis on experimentation and analysis of different types of trade and investment promotion approaches. It does this by developing and analyzing different types of trade and investment promotion projects, more decentralized, smaller-scale, and private sector run. It also seeks to analyze other trade and investment promotion projects that A.I.D. has funded to produce a broader data base so that the

utility of different approaches can be more fully evaluated and understood.

Workshop discussion of the above points focused on the magnitude of A.I.D.'s current investment in export and investment promotion projects (estimated at about \$60-100 million since 1980) and on the relative advantages of the government vs. the private sector as an agent of export and investment promotion. The point was made that the government may have an inherent advantage because of its authority and power. Although this point was conceded, the counter point was made that the inherent inefficiencies of the public sector negate much, if not all, of the advantage. For trade and investment promotion efforts to be truly effective, however, participants concluded that close cooperation between government agencies and private sector organizations is essential.

Lessons Learned from the MTAP Field Trials

The MTAP field trials have begun to produce some very interesting information relating to the role of commercial firms in promoting trade and investment related ventures in developing countries. The workshop discussions focused mainly on the recent experiences of the MTAP contractors, the problems and opportunities they have encountered, and the strategies and approaches they have been employing to develop ventures and achieve commercial viability.

1. Principal Problems/Constraints

In the course of pursuing the development of specific ventures, the MTAP field trials contractors have encountered certain difficulties that were not fully anticipated when the project began.

.. First, time requirements for developing ventures has proven to be much longer than was expected. The weak local capacity, confusing trade and investment policies in both the U.S. and the target countries, and the lack of experience of LDC entrepreneurs in dealing with U.S. firms (and vice-versa), has resulted in unanticipated delays and costs. The shortest time to arrange a basic export for an existing product seems to be about a year. Ventures that require changes in product or significant new capital may require two to three years to reach start-up stages. This is in significant contrast to normal time frames for similar transactions in NICs such as Taiwan or Hong Kong.

.. Second, as suggested above, initial assessments of production capacity in the countries selected for the field trials appear to have been overly optimistic. Even though the countries selected are among the more advanced countries in which A.I.D. is involved, a closer examination of capabilities of firms in specific industries has revealed that each country has only a thin layer of firms which might be able to compete internationally with effective assistance. Original macroeconomic studies suggested excess capacity. Actually, most firms are not able to expand into international markets or even benefit from foreign technologies without dramatic changes in their operations. Thus, trade and investment promotion efforts can not just focus on identifying opportunities and promoting linkages, but must concentrate directly on approaches that help to build local capacity.

.. Third, the recent surge in protectionism and legislative changes in the U.S. has been a major deterrent to project development. Recent trade actions by the U.S., difficulties in getting customs rulings, and the growing informal blockages at customs offices in the U.S. have slowed some projects and made both U.S. and LDC entrepreneurs more cautious when considering new international initiatives.

Overall, the MTAP contractors' experiences and other evidence points out that trade and investment development in developing countries is time consuming and costly. Nevertheless, opportunities for profitable co-ventures are being identified and the long term prospects for intermediary services appear to be promising. How to survive in the short-term appears to be the major problem.

2. Organizational Strategies --Developing Networks

The initial phase of the MTAP field trials has reaffirmed the importance of established networks to the success of intermediary operations. Contractors who came to the project with strong existing networks in the U.S. and the overseas markets in which they are working have had an easier time in bringing projects into development. It is useful to note which contractors had significant networks operating in their MTAP target countries before the award of the A.I.D. contracts.

- BDIM (active networks in Turkey)
- ICS (active networks in Costa Rica)
- Intermatrix (networks in Thailand not active)
- GVT (networks in Tunisia and Yemen not active)

All the contractors had contacts and some presence in their target markets but only two had very active networks. These two contractors have had greater initial success in project development, suggesting again the vital role of strong networks. In the case of Intermatrix, the task of developing an effective local presence in Thailand has proven to be particularly time consuming and has required staff time and resources that otherwise might have been focused on identifying and developing ventures.

3. Client Development.

The MTAP contractors have employed a variety of approaches for locating clients in the U.S. and their target countries. ICS has experienced a certain degree of success with monthly business missions which they have organized for small groups of businessmen as a way of introducing them first hand to business opportunities in Costa Rica. For ICS, this has been an effective way of developing clients but does not in itself generate revenues. Intermatrix, likewise, has participated in one business mission organized by the Thai Board of Investments. This mission was focused closely on the jewelry industry and has produced useful contacts that Intermatrix intends to follow up on for future activities in this sector.

Workshops have provided another avenue for identifying potential clients. Intermatrix has organized and participated in a number of workshops focused either on particular problems (i.e. sourcing) or on business opportunities in Thailand or the ASEAN region. Experience to date has shown that workshops, properly focused and organized, may be effective as one tool for client development. However, like business missions, they require careful planning, focus, and follow-up to be effective. They are generally not a useful means of generating revenues for the intermediary.

The MTAP contractors have typically gone through an initial period in which they focused on developing new clients and identifying a wide range of possible projects. Over time, the tendency has been to focus on a smaller client base with whom relations of trust and credibility have been established in order to pursue specific, high priority projects. Once a sufficient volume of business has developed, intermediaries can afford to be much more selective in taking on work with new clients, and can select among the better projects and more capable clients. At this point, activities such as workshops become important more from the standpoint of network development than for the purpose of developing new clients.

3. Service Mix

The contractors tend to emphasize services that fit the needs of their various markets and which also fit the capability and historical pattern of their own firm. Those contractors working in larger countries tend to focus on larger scale projects that take longer to develop but have large profit potential. Not surprisingly, the MTAP contractors have tended to focus first on established clients and types of projects with which they had previous experience.

Examples of the types of services being provided by the MTAP contractors include the following:

- Offering to help U.S. clients export to the MTAP target country or involve itself in major contract opportunities (especially true of the Turkey program)
- Offering market research services to clients for fee sometimes to build a relationship
- Offering to locate partners and sources of technology, financing, marketing assistance, etc.
- Helping develop unique strategies for major U.S. corporations in the MTAP country (true in Turkey and Thailand)
- Providing export management services
- Providing a variety of general consulting services associated with business planing and project management
- Offering to locate finance or to provide equity contribution directly (more in Turkey and Costa Rica a although some equity options also in Thailand)
- Providing offshore sourcing strategies and follow-up assistance for U.S. companies

4. Strategies for Achieving Commercial Viability

There are two aspects of commercial viability relevant to intermediary activities. One is the viability of the ventures that are promoted by the intermediary; the other is the commercial viability of the intermediary itself. In most donor

-financed trade and investment promotion activities, establishing viable ventures is the primary consideration. In MTAP, contractors face the challenge of launching ventures which work and which pay them. Experience to date has shown that this fact exerts pressure on the MTAP intermediary which is not felt by consultants working on other types of A.I.D. business development efforts. The need to get paid exerts a powerful influence in determining, within a given country context, what services an intermediary can afford to offer.

Contractors have been involved in MTAP programming for between one and two and a half years, yet only one of the programs is approaching break-even for the contractors. In the case of Turkey, the contractor was not expecting early cash flow developments since their strategy is based on longer term projects that require greater time. The other programs had hope for faster income generation from consulting fees, trading revenues, and success payments.

The MTAP program, as a cost-sharing activity, has the contractors investing funds and time and seeking any reasonable manner to develop positive cash flow. Difficulties with existing productive capacity, competition with European and Japanese competitors and their supporting government financing activities, unreal profit expectations of clients, and other factors have slowed the development of successful ventures. Yet all the contractors still believe there are long term profit opportunities in their areas. (Tunisia and Yemen may be the exceptions).

At this time the contractors are vigorously seeking strategies that can help them improve revenues and enhance their long term viability. These include:

- Charging for more up front consulting services
- Charging for technology searches and partner searches
- Avoiding projects with long start-up requirements
- Avoiding clients without existing track records
- Looking for opportunities to trade already available products
- Taking equity as a means of generating longer term profits
- Seeking other contracts for consulting work or feasibility studies to reinforce their existing programs with A.I.D.

- Promoting multiple projects with known clients and associates
- Developing specialized capabilities in a limited number of business areas
- Limiting services that do not provide immediate cash flow (e.g. business missions and seminars to develop new clients)
- Seeking to develop multiple sources of income from each venture (front end consulting fees, finders fees for locating financing, commissions for sourcing equipment or materials, trading profits or commissions from sales of goods, etc.)

One of the principal dilemmas for the intermediary is whether to concentrate on activities that produce modest returns in the short term or whether to work on projects that may take much longer to develop but which may offer much greater potential income possibilities.

The ability to focus on longer term, higher return projects is directly related to the firm's overall financial strength and availability of ancillary income. BDIM, as one example, has been in the fortunate position of having ancillary funds available to sustain their initial intermediary operations. This has allowed them to spend time in identifying high pay-off areas that offer significant long-term possibilities without having to succumb to short-term pressures to generate cash flow from less attractive ventures.

What the MTAP field trials have shown so far is that the business of providing intermediary services to facilitate the development of international co-ventures is, like most businesses, one which requires considerable front-end effort and perseverance to produce success. Also, like most businesses, it helps to have money to start with and to have ancillary funds to sustain you along the way. Beyond these obvious truisms, the field trials are beginning to demonstrate the importance of established personal networks, as well as shedding light on the types of services that might be feasible for commercial intermediaries to provide. The question of what types of intermediary services will ultimately prove to be effective and commercially sustainable in promoting co-ventures between LDC and industrialized country firms can not yet be answered.

Implications of MTAP for the Design of Trade and Investment Promotion Projects

MTAP has been designed to investigate the feasibility of an increased role for commercial intermediaries in trade and investment promotion programs. Even though the MTAP field trials are still a long ways from yielding conclusive results, a number of lessons have been learned from these field trials and the research and evaluation component of the project that shed light on this issue.

In previous reports we have noted the cost-saving advantages of contracting with private venture promoters. The initial phase of the MTAP research verified that there were a wide variety of intermediary firms who are quite willing to undertake venture promotion efforts in developing countries on a cost-sharing basis. We have estimated the costs of the MTAP field trials contracts to be only one-third to one-half the amounts of standard consulting contracts funded by A.I.D. for similar types of activities.

The MTAP field trials are beginning to demonstrate that the activities of commercial intermediaries and brokers can serve as a useful complement to public sector programs. Even in countries where certain types of intermediary services may not be feasible on a completely commercial basis, the MTAP findings suggest that a partial subsidy to a private firm through some type of cost-sharing contract might still prove to be a less expensive option than current programs which require the funding organization to bear the full costs. In addition, cost-sharing arrangements with commercial suppliers of intermediary services may prove to be a useful mechanism for gaining access to specialized skills, services and resources not commonly available to public sector organizations through standard consulting relationships.

In addition to the immediate cost savings that cost sharing contracts with intermediaries make possible, this strategy has the added advantage of being consistent with longer term market trends. As trade and investment opportunities and relationships develop between countries, opportunities develop for an expanded range of intermediary service functions. The MTAP research is beginning to shed light on the ways that donor funding can facilitate the development of sustainable, commercial services rather than thwarting their development by offering fully subsidized services to business firms.

CONCLUSIONS

In many of the countries where A.I.D. is involved, increasing their participation in international trade and investment flows is an important concern of the governments and local private sectors. Because of the basic problems involved, trade and investment promotion requires close public sector-private sector cooperation.

Most promotional efforts to date in developing countries have been the responsibility of public sector agencies. Standard trade and investment promotion programs have been costly and not notably effective. Private sector participation has been weak.

The MTAP research and field trials are beginning to suggest alternative ways of structuring trade and investment promotion programs. The MTAP findings suggest there might be important advantages for government funded promotional efforts to rely more on commercial suppliers of intermediary services to carry out certain types of promotion-related services. In some cases, commercial intermediaries might prove to be useful complements to existing programs and institutions. Over time, as trade and investment opportunities develop in particular countries, the government's trade and investment promotion strategy might do well to focus on assigning a greater role to firms engaged in private promotional activities.

A.I.D. can play a useful role in helping to develop models for improved public sector-private sector cooperation in international trade and investment promotion. A number of A.I.D.-funded projects, including MTAP, are beginning to provide useful lessons on how programs in this area can be improved. It is important that these lessons continue to be analyzed and applied to future trade and investment promotion projects.