

Investment and Export Promotion

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I. Setting Up Promotion Efforts

- A. A core program consists of: a central promotion office in the host country, a small number of foreign branch offices - e.g. New York City and a European office, at the least, and promotional material in the form of information packets and brochures.
- B. Investment promoters are usually government officials with little experience with business and have a limited understanding of business attitudes and approaches.
- C. Promotion office should be staffed by highly-motivated, private enterprise-oriented people with business experience, either directly or academically, and have excellent communication skills. This requires salaries comparable with the private sector in order to keep qualified personnel.
- D. Promoters need a clear conception of the host country's "balance sheet," that is, those assets which attract new investments as well as those liabilities which tend to deter investors. Before programs are developed, an honest examination of the host country's investment climate assets and liabilities should be undertaken. Strengths and weaknesses of past efforts should be taken into consideration.
- E. Activities should be tailored to a host country's national character and objectives. Promotion program goals should be as specific as possible in order to increase the likelihood of effective design and execution.
- F. Promotional materials should honestly and accurately portray the host country's business conditions, performance and prospects in order to establish credibility.
- G. Promotion agencies need easy access to information relating to the business climate and investment policies, maintain cooperative working relationships with other relevant agencies and be structured simply to avoid duplication of effort.

II. Investment Promotion Activities

- A. Investment promotion programs have a long lead time. Initially, investment promotion activities should begin modestly and have limited expectations.
- B. Promotion agencies often operate in a context of byzantine bureaucratic and legal structures which complicate otherwise simple activities. This hinders their progress.
- C. More effective programs provide for a role for promotion agencies in other investment-related activities, particularly in the development and review of economic and investment policies and in the administration of approvals. Agencies should not make policies, but they should have input. Common complaints are that investment incentives are not readily given despite rhetoric. Tax laws severely penalize equity investment. Poorly defined land policies cause confusion in agricultural investment.
- D. Promotion agencies should develop and nurture domestic constituencies in support of private sector initiatives. The promotion of indigenous investment should be a fundamental objective of investment promotion activities.
- E. Promotion programs should be flexible and easily adjusted. They should be reviewed, tested and adapted regularly as marketplace and host country conditions change.
- F. A small and passive program does not work. Targeted efforts work better than shotgun methods. It is better to concentrate on a few good targets than on many poor ones. Focus should be on primary markets, U.S. and Europe, rather than secondary markets, e.g. Asia.
- G. The ultimate measure of performance is the number and size of new investments in the country.

III. Export Development Activities

- A. Prioritize toward national goals. This will affect the choice of feasibility and marketing studies.
 - B. Decide who should export - who should be encouraged to export by understanding in which markets the host country is competitive and which companies in the host country can satisfy those markets.
 - C. Pick priority industries and priority entities (companies or cooperative arrangements by smaller firms). It is better to develop several quality products than many poorly.
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- D. A promotion agency must spell out its policies for all to see. Businesses must know exactly what kinds of services they can expect from the agency.
- E. Promotional efforts should be linked with feasibility studies. Feasibility study funding is recommended. Feasibility studies should be project specific. Feasibility studies closely tied with both the potential investor and the bank. Since feasibility studies have the role of securing funding, there should be a strong link to financing.
- F. Incentives to export must be clearly and consistently applied. Incentives must be freely given, especially to priority sectors. Incentives include foreign exchange benefits, incentives for incremental expansion of exports, duty, tariff and tax concessions. It is possible to overdo incentives, leading to net foreign exchange or value added losses.
- G. Develop export channels. Channels through which companies can easily export are crucial, particularly for smaller firms which have little or no export experience and cannot develop export programs on their own. This demands an integrated system of logistics, services, and information which satisfies the needs of suppliers and buyers. Locating organizations to help with these channels is important. These can be government organizations, export brokers, foreign venture partners, or large trading companies. However, export promotion is not export sales. Too close relationships with exporters will impede agencies' roles in developing new export products. Successful exporters can be "graduated" from promotion programs as their own sales programs become established.
- H. To be effective, export promotion agencies must be able to respond quickly to inquiries and opportunities with information and action. Computer tracking of suppliers, products, buyers, and other marketing information is advisable.
- I. Technical assistance in institution building should be spaced out over time. This allows for delays that are inevitable in implementing new policies.
- J. Other concerns include:
1. Problems with lack of access to long-term debt (5+ years) hinders development.
 2. Access to foreign exchange is difficult.
 3. Import licenses are delayed, both funded and unfunded. Bureaucracy and red tape deter potential investors.
 4. Investment incentives favor foreigners.
 5. Industrial buildings are not readily available and have long lead times, (as much as 18 months). This is an obstacle to project goals.

IV. Agricultural Export Constraints

- A. High level production costs due to low productivity at the farm level:
1. Inferior varieties - low-quality
 2. Limited number of varieties
 3. Low amounts of fertilizer both organic and inorganic
 4. Availability, cost and regulation of inputs
 5. Improper cultural practices and water management
 6. Excessive portion of total production is cull or not exportable
- B. Inefficient marketing system:
1. Excessive number of middlemen
 2. Inconsistent and questionable practices in marketplace
 3. Little price/market information, especially for the small/average grower
 4. Limited access to export markets
 5. Lack of grade/quality, sanitation standards and enforcement
- C. Inadequate storage and transportation:
1. Limited refrigerated transport
 2. Limited sailing/availability of RO-RO and container ships
 3. Lack of adequate cold storage for perishable fruits and vegetables
- D. Absence of market research and market development
- E. Inappropriate government regulations which have resulted in:
1. Higher cost of already costly inputs - e.g. import tax on dolomite limestone, other inputs not available.
 2. Policies that directly discourage national or foreign investment capital. Land tenure/ownership and other portions of Agrarian Reform should be seriously studied and revised.
 3. Taxes on exported agricultural produce, fresh and processed
- F. Lack of credit for the average grower and the cost of credit which is available

Main Sources Used

PNAAT030 An Assessment of Investment Promotion Activities
PNAAN527 Evaluation of the Project Development Assistance Program
PNAAN494 Export Marketing: A Bibliography
PNAAM784 Industrial Investment Promotion and Assistance to Small Industry
PNAAP785 A Private Sector Strategy for USAID
PNAAP337 Technical Consultation and Training (PRE) - PES
PNAAP238 Vegetable and Citrus Project Development with Emphasis on Export

These documents are available from AID/DIHF, Room 215, SA-18, Washington, DC 20523, or by calling (301)951-7191.