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EXPORT AND INVESTMENT PROMOTION: FINDINGS AND MANAGEMENT IMPLICATIONS FROM A RECENT ASSESSMENT A DISCUSSION PAPER

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EXPORT AND INVESTMENT PROMOTION: FINDINGS AND MANAGEMENT IMPLICATIONS FROM A RECENT ASSESSMENT A DISCUSSION PAPER

Recent economic literature has demonstrated that outward-oriented economies with strong trade, investment and export systems have achieved better development results than inward-oriented economies. In the 1960s and again in the 1980s, A.I.D. devoted substantial resources to supporting outward-oriented economic growth both through policy reform efforts and intervention through projects focused on export and investment promotion. While most observers consider policy reforms to be fundamental in stimulating export-led growth in developing countries, there is less consensus about the value of promotional assistance. Important questions facing donors are: Is export and investment promotion assistance worthwhile? Does it merit continued support from A.I.D.?

I. Background

CDIE initiated a worldwide assessment of A.I.D.'s experience with export and investment promotion services in 1989. The purpose has been to assess the contribution of intermediaries providing information and services to exporters in developing countries. Issues examined include:

> Rationale: What is the justification for donors to intervene with support services to exporters and investors?
>
> Impact: Do these institutions have an impact on the firms they assist, e.g. exports, jobs? Do they have an impact on the market for support services?
>
> Economic Return : What is the return on A.I.D.'s investment in these promotional institutions?
>
> Service Mix : What service strategies appear to have the greatest impact?
>
> Service Providers: What type of intermediaries offer the best vehicle for delivery of these services?

CDIE focused initially on export and investment promotion projects in the Latin America and the Caribbean (LAC) region, where nearly two-thirds of such projects have been implemented. A desk review examining 15 projects resulted in a report, "Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean." CDIE followed up with field visits in Guatemala, the Dominican Republic, Costa Rica and Chile, culminating in a synthesis report, "Export and Investment Promotion: Sustainability and Effective Service Delivery." In the LAC

study, successful programs in relatively favorable policy environments were examined. In 1991, CDIE initiated fieldwork in Asia, examining programs in India, Indonesia, Thailand and Korea. However, in the Asia region, the aim was to examine promotional institutions in the context of economies with differing trade orientations. In both the LAC and Asia regions, cross country surveys of exporters were conducted.[1] A series of country reports and technical reports on export and investment promotion in Asia is nearing completion. CDIE is conducting a brief review of evaluation studies on projects in the Near East region. CDIE will also complete a final synthesis assessment report.

Five issues explored in CDIE's work and synthesis are discussed below: (1) the rationale for project intervention; (2) the impact of export and investment promotion services; (3) the return on A.I.D.'s investment; (4) service mix: export promotion and investment promotion; and (5) effective service providers. The paper will conclude with a summary of preliminary findings and management implications.

II. Key Issues and Findings

A. The Rationale for Project Intervention

Policies and a regulatory environment supportive of an outward-oriented economy are fundamental to the expansion of nontraditional exports and economic growth in developing countries. Given the importance of an economy's policy orientation to export growth, why should donors bother with promotional programs at all? Donors and governments have devoted, and continue to devote, substantial resources for support services to exporters and investors. However, neither trade theory nor academic studies have paid much attention to the processes involved in marketing of exports or stimulation of investment.[2]

This assessment and other research provide convincing evidence that several justifications for intervention with export and investment services have merit. **One important rationale is that policy measures do not directly address supply responses by firms.** Reforms associated with balance of payments adjustment and trade liberalization do not necessarily result in a rapid supply response by firms in developing countries. At the time of a shift from import substitution to a more open policy regime, exporters often have little knowledge of foreign markets, lack contacts

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[1] Data was aggregated across countries in two sets: one for the LAC study, including Costa Rica, the Dominican Republic, and Guatemala; and another for the Asia study including India, Indonesia, and Thailand. No survey was conducted in Korea, as U.S. assistance was provided over 25 years ago.

[2] See Keesing, D. and S. Lall, (1988), Keesing, D. and A. Singer (1990a),(1990b), (1991 draft), and Wells, L. and A. Windt (1990).

with buyers abroad, and need guidance to adapt production to the market. Survey data revealed that exporters found several services critical to their export growth: contacts with buyers and foreign partners, foreign market information and technical assistance for production. In some more advanced countries, markets that provide these services are relatively well developed. In others, where policy reforms are more recent, the markets for such services have not yet come into being.

A related justification is that donor-sponsored provision of services speeds up the private sector response to market forces. In time, entrepreneurs will respond to policy improvements, but promotional support can accelerate export growth and the development of a private export services market. With increased knowledge, more firms will be able to export, and to export products on the "investment frontier," i.e. underexploited sectors poised for rapid export growth. Survey data on demand and actual consumption of services provided from whatever source (commercial or subsidized) suggest that services play an integral role in export expansion. In the outward-oriented economies examined, all the firms used and considered a few key services to have a significant impact on their export expansion. Almost all these firms have had strong export performance. It seems reasonable to infer that the use of these services was correlated with the export performance of these firms.

Third, positive externalities or spillover benefits do appear to be associated with the provision of services to exporters. Workers leaving established exporting firms have been an important source of "new starts" in the export sector. In some countries (India, Thailand), project interventions have helped push the policy process forward. In addition, relatively rapid success in export growth probably increases the chance that outward-oriented policies will be sustained over the long term.

In sum, there is a justification for donor-sponsored provision of support services on the basis of "infant industry" and "learning by doing" considerations. But, however valid these justifications are for intervening in the export services market, donors still need to address the following questions: Is there market failure in the export services industry? Is there a vibrant private sector willing and able to respond to this demand?

Market failure is not a compelling rationale for project intervention with support services in countries with a dynamic private sector and relatively efficient markets. For example, the export services market is currently competitive and functions relatively well in Thailand, Indonesia, and Korea, countries which have undergone major economic liberalizations affecting trade and investment. But, market imperfections may provide a sufficient rationale for donor assistance in some cases. This might include economies where there has been movement toward policy and regulatory reforms, but the policy reforms have not yet stimulated adequate supply responses either from exporters or from weak and inefficient private service markets.

Several factors may contribute to a slower supply response by entrepreneurs and the market for support services in some countries as opposed to others. One key factor is the extent and nature of the policy improvements. The legacy of past import substitution policies is often embodied in powerful interest groups and institutions, which can seek to undermine those promoting export expansion.[3] Another important factor is the credibility of government's commitment to an open policy regime and export growth. The investment climate in developing countries is often highly sensitive to inconsistent implementation of government policies. Business may be skeptical about the durability of government commitment to reform. A third factor is the human resource base. The lack of highly skilled professionals, such as engineers, can inhibit a rapid response by entrepreneurs to policy improvements. A fourth factor is the weak ties which some entrepreneurs have to the international economy. Not all countries have first or second generation immigrants, who are able to use family connections in their country of origin to develop an export business.

In countries which have undergone significant policy improvements, donors need to ensure that there is sufficient potential to stimulate a more rapid supply response. The factors identified above are one basis for determining whether such potential exists. Still, donor involvement should be temporary, covering the limited period of time between the introduction of sound policies and the emergence of a competitive private services market. There is little basis for intervention ad infinitum since the services industry will expand over time in response to exporters' demand.

B. Impact of Export and Investment Promotion Services

Survey evidence suggests that export and investment services have had a positive impact on export growth, foreign investment and employment in developing countries. Based on data currently available, service use seems to be correlated with the strong export performance of firms in outward-oriented economies. However, exporters and investors obtained most services from buyers, foreign partners or other private intermediaries, and not from governments or donors.

Services provided by A.I.D.-assisted intermediaries had a positive impact on exports, investment and employment in some cases. In the CBI region, assisted firms had a significantly higher rate of export and employment growth than unassisted firms. However, assisted and unassisted firms in the Asian countries had essentially the same export and employment performance. Why did the A.I.D.-assisted firms perform better relative to unassisted firms in the CBI region[4] than in Asia?

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[3] See for example, the paper by Jim Fox, "Feedback Loops and Economies of Scale: Achieving Export-Led Growth in the Caribbean Basin." A.I.D./LAC/DP. August 8, 1990.

[4] The Caribbean Basin Initiative (CBI) region includes designated countries in Central America and the Caribbean eligible for duty free benefits under the Caribbean Basin Economic Recovery Act (1983).

The most probable reason is that A.I.D.-assisted institutions were much less significant as providers of services to exporters and investors in Asia than was the case in the CBI region. Several factors played a role. First, projects in the CBI region were big projects in relatively small economies, while projects in Asia were small projects in relatively large economies. Second, projects examined in the CBI region tended to have a strong results-orientation, while projects examined in Asia (with a few exceptions) tended to be exploratory projects not explicitly linked to reaching specific beneficiaries. Third, the projects in the CBI region targeted highly valued services (e.g. buyer contacts, foreign market information, and technical assistance for production),[5] while the projects in Asia, with the exception of India, targeted services not highly valued, (e.g. investment missions, consulting services, and feasibility studies). In India, services provided by an A.I.D.-assisted institution did have an important impact. The PACT project demonstrated to Indian firms the rewards of linkages with foreign firms, e.g. improved technology, improved methods, products competitive on world markets. Moreover, in the context of incipient policy improvements in technology and investment, the project signalled directions for further policy change in indigenous research and development, and venture capital.

Promotional programs by themselves have typically not been sufficient to stimulate substantial increases in nontraditional exports at the national level. In the CBI region, where the impact has been greatest, promotional programs were responsible for about 5 to 30 percent of total national growth in nontraditional exports. However, in this region, policy reform efforts worked hand-in-hand with project-based initiatives. Each may have reinforced the other.

C. The Return on A.I.D.'s Investment

Export and investment promotion programs have the potential to offer attractive rates of return to A.I.D. investment in countries. Economic rates of return for four promotional institutions examined in this assessment ranged from 12 to 26 percent.[6] These rate of return estimates were based on direct, short-term benefits from increased exports and employment. In no case did the estimates include benefits from future investment or spin-off investments from the initial ventures, nor benefits derived from the impact of the promotional activities on policies. However, this level of return can not be automatically assumed for other A.I.D. export and investment promotion programs. Many A.I.D. programs have such inadequate information systems for tracking project impact that make calculating rates of return ex-post is difficult, if not impossible. In fact, nine of the 12 promotional institutions examined in

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[5] Firms surveyed, particularly exporters of nontraditional agricultural crops, found technical assistance for production by A.I.D.-assisted intermediaries and others to have a significant impact on their export operation.

[6] Such rate of return analysis was conducted on the PACT program in India, the PROEXAG program in Guatemala, the CINDE program in Costa Rica and the IPC program in the Dominican Republic.

the field did not have sufficient information about assisted firms to undertake a rate of return analysis.

Undertaking cost benefit analysis based on export and employment impacts has made clear the importance of economic analysis, as well as the practical and conceptual limitations of this approach for promotion projects. First, it is difficult to track down benefits. The benefits examined are indirect; firms receiving services generate economic activity leading to increased exports and investment. A key information source on benefits is the project management, which may (or may not) be able to provide a firm-by-firm list of specific investments or exports that have taken place and can be linked to the intervention. Without such a list, evaluators have the complex task of reconstructing a list of assisted firms from project records, and then contacting the companies to determine project impact. Second, it is costly and time consuming to gather the required data. For-profit firms have been unwilling to provide detailed data on costs and profits.

Given the practical constraints of undertaking detailed cost benefit analysis, CDIE has developed a back-of-the-envelope approach to help managers in the future calculate a rough estimate of the return to promotion projects.[7] This simplified approach to setting and monitoring performance targets is based on analysis of the economic return from job creation alone. A positive attribute of the approach is its reliance on basic data that an effective management information system should be tracking in the first place, and that it provides a conservative rate of return. A negative feature is its oversimplification of the cost benefit procedure.

Apart from the practical limitations of traditional cost benefit analysis, there are conceptual limitations as well. First, some experts question the appropriateness of using the standard shadow price technique. They argue that shadow pricing key variables is evidence not only of the divergence between market prices and social prices, but also evidence of policy failure. For example, in India, where wages and exchange rates do not accurately reflect the value of foreign exchange and labor, the benefits for the rate of return analysis came from shadow pricing these variables. Moreover, economic analysis of promotion projects needs to go beyond focusing only on benefits in terms of additional exports and employment. If promotional projects are based on an "infant industry" rationale, economic analysis should include analysis of the growth and development of the "infant industry," in this case the market for support services. Key measures of success are the growth of a private service provider market, and the growth of nontraditional exports. A related issue is whether

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[7] For a detailed description of this approach, please refer to the CDIE technical report, "Measurement of Costs and Benefits in Promotion Projects." CDIE did not use this approach for the rate of return analysis conducted for this assessment; rather, after reflecting on the data limitations, CDIE wanted to consider other approaches to help those carrying out such analysis in the future.

the A.I.D. intervention is supporting a dynamic private support services market or creating monopolies.

D. Service Mix: Export and Investment Promotion

1. Export Promotion

Exporters require different types of information and services at different phases in the exporting process. In the early stages, firms need information primarily as a means to secure a foreign buyer. When asked about their first export contract, firms surveyed gave great importance to information about foreign markets and buyers. This finding challenges the common assumption that standardized services are of little to no value to exporters. This assumption stems from the well documented failure of government trade promotion organizations (TPOs) to provide timely and relevant information to exporters.[8]

Based on CDIE survey data, buyers and foreign partners are the primary source of foreign market information and contacts for exporters, two of the most valued services for exporters surveyed. However, government and private sources (chambers of commerce, trade associations, personal contacts) also play modest roles in facilitating buyer contacts. Firms new to exporting, which did not yet have established networks with buyers or investors from abroad, were most responsive to this subsidized support for buyer contacts. Private fee-based services, e.g. consulting firms, have been insignificant as service providers.

Later, once a buyer is identified, exporters often need supply-based services to respond to the requirements of the buyer or foreign partner. These range from sample preparation, to production assistance, technology acquisition and adaptation, training support, and quality control. Exporters surveyed gave great importance to production and engineering assistance. Survey evidence confirms that buyers, foreign partners, and suppliers, not the government or other private groups, are the primary sources of these customized services. This finding reinforces the value of foreign market information and buyer contacts, which provide a key link to technical assistance from buyers and partners from abroad.

One exception to this trend has been the reliance on A.I.D.-assisted intermediaries for technical assistance by exporters of non-traditional agricultural crops from the Caribbean Basin. A main source of such services was PROEXAG, a regional project which sought to link these growers directly with buyers and other commercial suppliers of services, and provided very high quality technical support directly.

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[8] See, for example, Keesing, D. and A. Singer (1990a) and (1992).

The key for firms in developing countries wanting to export is establishing long term linkages with buyers, investors and others in developed country markets.

2. Investment Promotion

International firms[9] use a wide variety of services to make complex, long-term decisions about investing in export-oriented industries in developing countries. They need information about potential country sites, e.g. the level of development, the investment climate, the size of the domestic market and potential export markets. They need to assess and compare the feasibility of potential sites, and to identify local partners or collaborators in the investment. Finally, they need to draw on local service suppliers to prepare feasibility studies and other pre-investment paperwork to comply with local regulations and procedures.

International firms interviewed placed a high premium on country-specific and sector-specific information in making their initial decisions to invest in export industries. They have tended to build on previous business or personal contacts overseas to gather such information. For example, importers often become investors and joint venture partners in developing country export firms, by virtue of their knowledge and experience in that country. Local business partners and contacts are the primary source of country- and sector-specific information. Firms also get general information about the investment climate and government regulations from trade associations, distributors/trading agents, and government agencies, but such information did not have a significant impact on their investment decisions.

To identify a local partner, international firms relied most heavily on internal sources, i.e. its overseas staff in the region or personal contacts, rather than on government agencies, associations or consulting firms. In the later stages, after the local partner or site is identified, firms gave greater priority to hiring private entities to assist them with feasibility studies, legal problems, or government regulations.

Given the complexity of the investment decision-making process, it is not surprising that successful A.I.D.-assisted investment promotion institutions have paid careful attention to the stages of the investment process. For example, CINDE in Costa Rica first focused on getting general information about the investment climate to potential investors, then targeted sector-specific information to select investors through overseas offices, and followed up with site visit support in-country. Investment in export industries has grown rapidly in Costa Rica. However, service strategies

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[9] This assessment defines international firms as subsidiaries of foreign companies, (American, Japanese, etc.). In the CBI region, nearly all the international firms surveyed were subsidiaries of U.S. companies. For the assessment in the Asia region, CDIE conducted follow up interviews with U.S. firms with international operations.

adopted by some A.I.D.-assisted institutions, e.g. investment profiles, feasibility studies, investment missions, were of little relevance to investment decisions.

E. Effective Service Providers

The most effective service providers are in the private sector. Exporting firms surveyed gave the most credit for making exports or an investment happen to their business partners, principally buyers, foreign partners and trading agents. In Asia, firms rated most services provided by buyers and foreign partners as having a significant impact on export entry or expansion.[10] On the other hand, exporting firms gave little credit for their success to government providers and had a low opinion of government assistance programs. In the LAC region, firms gave significant credit for their success to A.I.D.-assisted institutions, primarily private not-for-profit organizations. The fact that firms gave credit to a variety of private suppliers of services suggests that no single service provider can meet the diverse needs of exporters and investors.

Nonetheless, donors have often focused their assistance on a single service provider, often a government-sponsored promotional institution. Studies by Keesing and Singer at the World Bank and the CDIE studies confirm that public sector export promotion organizations[11] have typically been dismal failures. The relatively few exceptions are in countries which have already achieved excellent policies and a strong policy commitment to expand manufactured exports. These exceptional institutions have been able to meet four key conditions: they have the support of the business community; are adequately funded; have qualified staff paid commercially competitive salaries; and are somewhat independent of the government.[12] Rarely do promotional institutions in developing countries meet these conditions. The few government agencies found in the CDIE survey, that meet most but not all these conditions, were in economies with highly favorable policy environments and with governments committed to promoting nontraditional exports (Thailand, Indonesia).[13] Still, these government institutions appear to have only a modest impact, primarily on firms new to exporting. Firms surveyed in Thailand and Indonesia gave these government providers only neglible credit for making their exports happen.

Similarly, research on investment promotion institutions concludes that government organizations are often ineffective. An IFC study on investment promotion concludes

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[10] Nearly 90 percent of services provided by foreign buyers were rated as having an impact on firms surveyed based on the CDIE cross country data from Asia.

[11] Keesing and Singer refer to these export promotion institutions as trade promotion organizations (TPOs).

[12] Keesing, Donald and Andrew Singer, "Why Official Export Promotion Fails," Finance and Development March 1992, pg. 52.

[13] These include the Department of Export Promotion in Thailand and NAFED in Indonesia.

that quasi-government agencies have been more successful in promoting investment in developing countries than government agencies.[14] Government agencies are often primarily concerned with screening and negotiating with foreign investors, and not with promotion; moreover, they can not often attract well qualified staff with marketing skills, given civil service salary structures. The CDIE study found private or quasi-governmental organizations, such as CINDE in Costa Rica, to be more effective, since they were able to focus on providing investment promotion services and suitable incentives to qualified staff. Governmental agencies, such as the Board of Investment in Thailand and the BKPM in Indonesia, did not give priority to promotion; they were more concerned with licensing or providing investment incentives.

In recent years, A.I.D. has given little direct support to government promotional institutions. Instead, A.I.D. has assisted primarily private not-for-profit intermediaries. In the 1960s, A.I.D assisted in the creation of government organizations, such as KOTRA in Korea and the BOI in Thailand. In the 1980s, the tendency in the LAC region has been to assist or help create private not-for-profit intermediaries, given the serious limitations of government institutions. In Asia, A.I.D. worked with both governmental and private (for-profit and not-for profit) intermediaries to promote investment and technology transfer.

In creating or expanding private intermediaries to deliver services, A.I.D. has in many cases expected these institutions to be financially sustainable through fee income. Instead, the evidence indicates this has not happened. Fee income is an important and feasible source of partial support, particularly for export promotion programs. However, making complete financial sustainability a goal for these programs is unrealistic. It may be more appropriate to provide a time-bound subsidy, justified on economic grounds, such as public goods or infant industry considerations.

A lesson of this assessment is that the institutional structure of the promotional organization must fit the type of service provided to be effective. Some institutional structures have been relatively good providers of standardized services. For investment promotion, quasi-governmental agencies with strong ties to the private sector and a commercial orientation (e.g. competitive salaries, staff incentives) have been effective in responding to general information requests from investors (e.g. CENPRO in Costa Rica). For export promotion, trade organizations, such as exporter associations, have been effective in providing basic information on buyers and foreign markets. Only in Thailand and Indonesia were government export promotion departments effective as providers of standardized services.

Other structures have been relatively more effective in providing customized support, e.g. technical assistance for production, primarily for exporters of nontraditional

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[14] Wells, L. and A. Windt (1990). The authors limited their analysis to what they considered the two most popular structures: government and quasi-government agencies.

agricultural crops. Examples include private organizations, or free- standing project units created by a donor for a specific activity, both often financed primarily by donors. These intermediaries have had greater flexibility to hire the highly qualified technical staff essential to providing specialized support. The more successful intermediaries have had the expertise to link firms to appropriate commercial suppliers of services, such as buyers.

III. Summary of Findings and Management Implications

A. The Rationale for Intervention

If policies towards nontraditional exports are satisfactory and governments are committed to export-led growth, support services can potentially have a powerful impact. There may be a rationale for temporary donor assistance to help new exporters deal with the marketing and production challenges posed by the trade liberalization. This rationale holds if the private sector market for such services is not yet functioning adequately and if nontraditional exports have not yet taken off.[15]

Implications for A.I.D. programming have to relate to different country contexts as follows:

1. In outward-oriented economies which have achieved sustained nontraditional export growth over a three-to-five year period, there is little justification for intervention. At this stage, subsidized support services are usually redundant, and are likely to be competitive within a vibrant private sector support services industry.

2. In countries with dim prospects for export expansion, given an unfavorable policy environment, support services to exporters assisted by donors or governments should not be undertaken. In such a policy context, there is little to promote. Rather the priority should be on reforming the policies and regulations that inhibit export-oriented growth.

3. In countries where trade liberalization has made the expansion of nontraditional exports viable, projects providing support services to exporters can accelerate and expand export growth. The most propitious time for project intervention is when countries are undergoing a shift from an import substitution to a more open trade policy regime. Some interim policy measures, such as an export processing zone (EPZ), may constitute a policy improvement allowing for export expansion. Support services to potential foreign investors in the EPZ may be appropriate. However, donors must ensure that support services will not undermine the development of competing private service providers.

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[15] See Section II, pp. 4–5, for a discussion of factors observed in a less than adequately functioning services markets.

4. In countries where trade liberalization increases the potential for nontraditional export expansion only in a few sectors, support services to exporters or investors in these sectors may also be justified in some circumstances. However, these interventions would need to have a significant demonstration effect on firms' linkages to the international economy and on the policy process. Again, donors must document that such interventions, undertaken for only a limited time, would not undermine the private services industry.

Implications: In developing an economic rationale for the intervention, focus first on the policy environment: has trade been liberalized enough? If not, there is little justification for donor intervention with promotional services. If policy improvements are satisfactory, then focus on the export support services market: are buyers, foreign partners, domestic private associations and/or firms willing and able to respond to the demand for services? If the market is too underdeveloped to respond, focus on identifying the nature of the "gap" and the economic justification for the subsidy (e.g. support services at less than full cost) to fill that gap temporarily. Once a well-functioning market for export support services exists, there is no longer a rationale for intervention.

B. Impact of Export and Investment Promotion Services

Export and investment promotion services, if properly targeted, can accelerate nontraditional export growth in favorable policy environments. Impact will be greater on the "investment frontier," in those underexploited sectors with the greatest export potential. In less than favorable policy environments, services may be able to expand the policy openings that do exist and can demonstrate the benefits of foreign investment to local firms eager to export. However, promotional programs' impact at the national level is typically modest, unless A.I.D.'s support, both for policy reform and project assistance, is large relative to national exports and when the sectors assisted are on the investment frontier. A.I.D.'s project monitoring systems are currently inadequate to track even basic impact indicators, e.g. export growth.

Implications: Focus on bottom-line impact: achievement of nontraditional export growth and improvements in the support services market. Give service providers sufficient flexibility and resources to respond to service "gaps." Link impact indicators directly to project activities. Support baseline data collection, tracking systems for impact indicators, and final project evaluations.

C. The Return on A.I.D.'s Investment

Export and investment promotion programs, if properly focused, can offer attractive rates of return on a donor's investment. Cost-benefit analysis that takes the traditional approach of drawing on employment and foreign exchange impacts provides one important measure of a project's economic return. However, for detailed cost benefit

analysis, there are significant cost and time considerations in tracking down benefits and gathering the required data. Since many projects do not attempt any economic analysis of these projects ex-post given the data constraints, CDIE considered it important to develop a simplified approach to setting and monitoring performance targets based on analysis of the economic return from job creation alone. In addition, given the conceptual problems with economic analysis based solely on export and employment impacts, economic analysis of promotion projects may need to go beyond focusing only on benefits in terms of additional exports and employment. To the extent that promotional projects are based on "infant industry" and "learning-by-doing" considerations, the economic analysis should include analysis of the growth and development of the market for support services, as well as non-traditional exports.

Implications: Use simplified approaches to assessing the costs and benefits for most promotion projects. Incorporate into the economic analysis the growth and development of the market for support services, to the extent that promotional projects are based on infant industry and/or learning by doing considerations. Undertake detailed cost benefit analysis ex-post based on employment and export impact selectively, e.g. only on major investments of A.I.D. resources.

D. Service Mix: Export Promotion and Investment Promotion

Successful service strategies have paid careful attention to the stages of the investment and exporting process and have helped establish long-term linkages between exporting firms in developing countries, and buyers, investors and other commercial service providers in developed country markets.

Export Promotion: In the early stages, firms place great importance on information primarily as a means to secure a foreign buyer. Later, once a buyer is identified, exporters often need supply-based services to respond to the requirements of the buyer or foreign partner. Exporters highly valued production assistance. However, buyers, foreign partners, and suppliers, not the government nor private associations, are the primary sources of such services. Foreign market information and buyer contacts given firms an important link to technical assistance from abroad. Firms new to exporting, which did not yet have established networks with buyers or investors from abroad, were most responsive to subsidized support from government or private institutions.

Investment Promotion: International foreign firms use a wide variety of services to make complex, long-term decisions about investing in export firms in developing countries. Potential investors placed a high premium on country-specific and sector-specific information in making their initial decisions to invest in export industries. Local business partners and contacts, and to a lesser extent quasi-government agencies, are the primary and most valued source of such information. To identify a local partner, firms relied on internal sources, or personal contacts, rather than on

government agencies, private associations or consulting firms. After the local partner is identified, firms gave priority to hiring private entities to assist them with feasibility studies, legal problems or government regulations.

Implications: Emphasize services, such as foreign market information and buyer contacts, that lead to long term linkages between developing country firms new to exporting, and commercial service providers from abroad, e.g. buyers. Avoid providing technical assistance for production directly. Rather, in seeking to help firms to overcome supply constraints, serve as a "broker" linking exporting firms with commercial providers, which will supply customized services such as technical assistance.

E. Effective Service Providers

Exporters gave the most credit for making exports or investments happen to their business partners, principally buyers, foreign partners and trading agents. Firms also gave significant credit to private not-for-profit organizations assisted by A.I.D., (only in the LAC region). However, exporters had little regard for the minimal contribution of government service providers. Government service providers typically fail to deliver effective export or investment promotion services. The very few exceptions are in countries which have already achieved excellent policies and a strong policy commitment to expand manufactured exports. The fact that firms gave the most credit to a variety of private suppliers of services suggests that no single service provider can meet the diverse needs of exporters and investors.

The institutional structure of the promotional organization must fit the type of service provided to be effective. In export promotion, private membership organizations, such as exporter associations, have been competent providers of basic information on buyers and foreign markets. Only in countries with exceptionally favorable policy environments were government export promotion departments effective, and only as providers of standardized services. Commercial service providers are an effective source of production technical assistance to exporters. As a result, private not-for-profit intermediaries often with donor assistance have been most effective when they use their technical expertise to link export firms to appropriate commercial service providers, such as foreign buyers. In investment promotion, quasi-governmental agencies are better at providing country and sector information, while non-profit private institutions with donor assistance have been more effective with more targeted support to investors. In either case, the institutions have retained a focus on investment promotion services and a highly qualified staff. In creating or expanding private intermediaries to deliver services, A.I.D. has had false expectations about creating lasting financial sustainability of these institutions. Fee income, while an important source of support particularly for export promotion, has not been sufficient to ensure continued sustainability.

Implications: In considering approaches to service provision, do not limit assistance to one service provider. Consider either assisting more than one private for-profit or not-for-profit service provider, or supporting cost-sharing mechanisms allowing firms to select their own service provider. Build on the existing service provider market for services and promote exporter access to commercial service suppliers. Remove policy and regulatory constraints to the development of a competitive service provider market. Avoid government service providers for either export or investment promotion. Do not make financial sustainability of the institution a criterion for assistance. Instead create time-bound, results-focused projects based on a defensible economic rationale.

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Glossary

BOI	Board of Investment in Thailand
BKPM	Indonesian Board of Investment Coordination
CBI	Caribbean Basin Initiative
CDIE	Center for Development Information and Evaluation
CENPRO	Center for Promotion of Exports and Investment in Costa Rica
CINDE	Coalition for Development Initiatives in Costa Rica
DEP	Department of Export Promotion in Thailand
EPZ	Export Processing Zone
IPC	Investment Promotion Council in the Dominican Republic
KOTRA	Korean Trade Promotion Corporation
LAC	Latin America and the Caribbean Bureau
NAFED	National Agency for Export Development in Indonesia
PACT	Program for the Advancement of Commercial Technology, an A.I.D. project in India
PROEXAG	Support Project for Exporting Nontraditional Agricultural Exports in Central America
TPOs	Trade Promotion Organizations

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