

## **EXPORT DEVELOPMENT SERVICES: DO THEY WORK?**

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**Two questions will be the focus of my presentation. Are export development services needed? And if so, what works?**

To try and answer these questions, I conducted with Jim Fox a worldwide assessment of A.I.D.'s experience with export and investment promotion services for USAID's Evaluation Office, the Center for Development Information and Evaluation (CDIE).

In this presentation, I will emphasize two key findings.

**Ignore the market at your peril.** It is a fundamental and all too prevalent mistake for donors and governments to overlook the **market for export services** when developing export promotion programs.

**Exporters need a choice of service provider,** because results matter. To stimulate exports, support services have to give emerging exporters access to those providers which they value most -- often buyers and suppliers -- and then get out of the way.

### **Background on the Study and Survey**

Throughout the 1980s and early 1990s, USAID devoted significant resources into private sector development programs offering export and investment services in Latin America and the Caribbean. Between 1990 and 1993 alone, USAID spent about \$250 million a year financing provision of such services to government and private institutions worldwide. Increasingly, managers raised questions about the value of business development service programs. These concerns led to this USAID study on export promotion services. The study concentrated on four issues: (1) the rationale for donor intervention in the support services market, (2) the economic impact of A.I.D.'s investment, (3) export and investment promotion service strategies, and (4) effective service providers. Initially CDIE focused on A.I.D. experience in Latin America and the Caribbean, where nearly two-thirds of USAID promotion projects were being undertaken. Following a desk review of 15 projects, CDIE undertook fieldwork in Costa Rica, the Dominican Republic, Guatemala and Chile, where successful programs in relatively

favorable policy environments were examined. The fieldwork culminated in a published study, *Export and Investment Promotion: Sustainability and Effective Service Delivery*. This effort was followed by fieldwork in four Asian countries: India, Indonesia, Korea and Thailand, where programs in a variety of policy environments were examined.

The study undertook a cross-country survey of nearly 300 exporters, including firms receiving services from A.I.D. assisted intermediaries and those not receiving services from those intermediaries. The object of the survey was to determine what types of services exporters actually used, which ones had the greatest impact on their export growth, and who provided these services. In addition, the assessment teams drew extensively on interviews with a wide range of service providers: consulting firms, trade associations, government trade promotion offices, trading companies, buyers, foreign investors, and private non-profit institutions. One of the premises of this study was that it was impossible to assess the value of different services and providers without surveying exporters and without reaching a better understanding of the private market for service provision. The CDIE assessment report *Export and Investment Promotion Services: Do they Work*: synthesizes the findings from the research and provides valuable pointers in regard to how donors should structure assistance programs. Copies of the report are available here at the conference.<sup>1</sup>

### **Why Intervene with Export Development Services?**

Why should donors or governments intervene with support services to exporters? CDIE's assessment and other research<sup>2</sup> provide convincing evidence that policy measures do not automatically lead to a supply response. When trade reforms are first implemented, firms new to exporting often need to "learn" the process of exporting. Even with stable monetary and fiscal policies, there are still a hundred reasons why firms do not export. Government paperwork requirements, the indifference of shipping companies, corruption in the ports, inadequate legal arrangements for spoilage liability for perishable products between shipper and exporters, the absence of firms specializing in packaging, the inability to reach a buyer by phone, the inability of a buyer to get a visa easily. The list could go on indefinitely, but the central point is that the institutional weakness of countries new to exporting place firms at a serious disadvantage compared to firms in established exporting countries.

Keesing and Singer<sup>3</sup> have argued that firms in developing countries are often unaware of their own inefficiency. Such firms attribute too much of their inability to

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<sup>1</sup> C. McKean, and J. Fox 1994. *Export and Investment Promotion Services: Do They Work?* USAID Program and Operations Assessment Report No. 6.

<sup>2</sup> Y. W. Rhee 1989. *The Role of Catalytic Agents in Entering International Markets: Preliminary Findings from a Review of Export Success Stories in Eleven Countries*. Industry and Energy Department Working Paper, Industry Series Paper, No. 5. Washington, D.C. World Bank. D.Keesing, and A. Singer. 1990A. *Development Assistance Gone Wrong: Why Support Services Have Failed to Expand Exports*. PRE/WP, WPS 543. Washington, D.C. World Bank.

<sup>3</sup> Keesing and Singer 1990.

export to external factors and too little to their lack of efficient production. Import restrictions creating protected domestic markets have given entrepreneurs a false sense of competence. These entrepreneurs are only slowly aware of the critical roles that quality control, price and on-time delivery plays in international markets. Once their eyes are opened to the importance of these factors, access to buyers and technical support focused on production constraints can provide them with the means for lowering costs and raising quality.

The CDIE assessment found that filling in specific service gaps can speed up the private sector response to policy improvements, and can accelerate export growth. With more knowledge and contacts, firms will achieve a higher level of export sales and more firms will enter the market. In short, intervention in the market for export services can be justified based on “infant industry” and “learning by doing “ considerations.

Export services also appear to have a positive impact on export growth and employment. CDIE survey evidence suggests that service use seems to correlate with strong export performance of firms in outward-oriented economies. Assisted firms (i.e. those receiving services from AID supported intermediaries) in Guatemala, the Dominican Republic, and Costa Rica had a significantly higher rate of export and employment growth than unassisted firms did. In Asian countries surveyed, assisted and unassisted firms had essentially the same export performance. The difference in performance can be attributed to several factors. First, the projects in the Central America were big in relatively small economies, whereas in Asia projects were small in relatively large economies. Second, providers in the Central America region targeted services highly valued by exporters surveyed and had a strong results orientation, whereas in Asia, AID-assisted providers focused on services less valued by exporting firms.

However valid these justifications may be for intervening in the export services market, the question still needs to be asked. Are there already private providers extending such services to firms new to exporting? Is there market failure in the export services industry? Market failure was found not to be a compelling rationale for donor intervention with support services in countries such as Thailand or Korea, where a dynamic private sector and relatively efficient markets already existed. But if policies are favorable to exporting and the service provider market is still weak and inefficient, there may be a rationale for intervention.

### **Effective Strategies are Sector-Specific, Results-Focused, Time-Bound and Linked to the Existing Support Service Market**

Service strategies are most responsive to exporters’ needs when they are sector-specific, results-focused, time-bound and linked to the existing support services market. Moreover, the strategy needs to ensure that the institutional structure of the provider fits the type of service extended.

Successful service strategies have paid close attention to the stages of the exporting process in a specific subsector. Exporters require different types of information and services at different stages in their learning process. Learning how to produce and get exports of cut flowers, melons or snow peas to developed country markets is technically complex and product-specific. Unless the “know how” provided is directly relevant to closing a deal with a specific buyer, it will not be effective.

More effective service strategies are highly targeted, results-focused and time-bound. Not surprisingly, exporters value services that yield results: increased export sales. Exporters surveyed reported that foreign market information, buyer contacts and production-related technical assistance contributed significantly to their export performance. Since developing country firms typically produce to buyers’ orders, exporters valued support services that help them form enduring relationships with their business partners, such as buyers, investors, suppliers, to address supply-based constraints. Exporters surveyed were dissatisfied with the performance of government trade promotion offices (TPOs) delivering such services, while giving higher marks to more free-standing programs. The advantage of these strategies is their substantial flexibility to target firms ready to export and to provide access to high quality services to those best able to benefit. Moreover, they have a built-in “sunset clause” which TPOs do not.

Another key factor contributing to effective service provision is the program’s linkages to the existing support services markets and the private sector. With high quality technical staff, strong relationships with buyers and other private sources of expertise, and ties to industry associations, such programs had a greater potential for meeting exporters’ demands and delivering results. A very promising trend is the growing use of cost-sharing approaches, which require exporters to risk their own money and identify their own private sector suppliers. Evaluations of USAID cost sharing grant funds for export development services in Kenya and Ghana are very positive about the potential of this instrument. Another approach with strong potential is INSOTEC, which charges for its services, aiming to provide business development services on a financially sustainable basis.

Finally, the institutional structure of the export support service entity must fit the type of service provided. Membership-based trade groups, such as exporters associations, have been effective in providing basic information on buyers and foreign markets. But private non-profits or freestanding projects have been more effective in providing customized, firm-specific services. The point is that they often have the autonomy, expertise and flexibility to link firms with appropriate commercial sources of services, such as buyers, suppliers, and investors.

**I will highlight two cases of effective approaches.**

One is a targeted, time-bound export services program in Central America, the Non-Traditional Agricultural Export Support Project (PROEXAG), later known as EXITOS. Its objective was to create and strengthen private sector capabilities in providing training and technical assistance in skills related to production technologies and market intelligence. This project built strong links to emerging non-traditional exporter associations, such as AGEXPRONT in Guatemala, and worked with lead entrepreneurs with the capacity to be successful. With a clear understanding of firm's needs at different stages in the learning process, they sought to link local firms with buyers and other commercial suppliers of critical services. Rather than providing such services directly, the project facilitated exporting firms access to the "know how" of private providers, helping to improve their capacity to produce export quality crops, ship them on time and deliver them in the required condition on a consistent basis. This project was able to introduce commercially viable new crops, new production and post-harvest technologies, to enhance market linkages, to improve use of technical and market information, and significantly to increase exports.

Another example is the business service approach adopted by INSOTEC, a non-profit organization in Ecuador with strong links to small industry associations.<sup>4</sup> Even though INSOTEC does not specialize in export services, its profitable technology services program developed by Jose Antonio Lanusse demonstrates the value of "market-based" approach to business services. Lara Goldmark and Rosario Londono (1997) make the point very well.

INSOTEC has developed a business service model in which the provider actually integrates itself into the production process. Microentrepreneurs... outsource certain production functions to INSOTEC for a fee. Blue jean makers go to INSOTEC's business service centers to have their buttonholes.. made by machine ...What differentiates INSOTEC from any other actor in the production chain is that they play a market development role, identifying services that are needed, providing them for a time while disseminating the new technology to the community, and then *pulling out of the market* once the local market begins taking over INSOTEC's functions.<sup>5</sup>

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<sup>4</sup> While the experience of INSOTEC in Ecuador was not part of this USAID assessment, I have followed its evolution for over ten years.

<sup>5</sup> L. Goldmark and R. Londono. 1997, *Technology Access Services for Microenterprise: Best Practices Series*, Inter-American Development Bank, Washington, and D.C. pg. 5.

INSOTEC starts from the premise that business development services have to be revenue generating and directly linked to the private service provider market. INSOTEC has developed a service strategy that fills key gaps facing specific firms in an industry, and has “brokered” linkages between such firms and commercial providers, such as suppliers of technology. Increasingly, INSOTEC is a financially sustainable private provider of business services, with strong industry ties, access to quality technical expertise, and sufficient flexibility to respond to services gaps.

### **Service Providers: Give Exporters a Choice**

A critical question before embarking on export promotion programs is: Who should provide the services? The short answer is NOT GOVERNMENT. In CDIE’s survey, exporters gave little to no credit to government service providers, and had a low opinion of government assistance programs. (See Annex) The governments of Costa Rica, the Dominican Republic, Guatemala, Indonesia and India provided fewer and less valuable services than did the Thai government. The Thai government stands out among surveyed countries in providing more and better services to exporters than in other survey countries. Both Thailand and Chile were exceptional cases where government TPOs appeared to fulfill service gap. They had the authority to weed out those not yet able to export; they had technically qualified staff; and the private sector was committed to the future of these institutions. Donald Keesing and Andrew Singer came to the very same conclusion about government service providers in their seminal critique of trade promotion offices (TPOs).<sup>6</sup> TPOs, established often with donor support since the 1960s, mistakenly sought to provide a centralized permanent office in each developing country for trade information and market research, providing services free of charge.

What the CDIE survey found was that exporters gave the most credit to their export success to their private business partners -- buyers, foreign investors, and suppliers. Firms rated most of the services provided by buyers and foreign partners as having a significant impact on their entry into the export market or the expansion of their exports. In the countries surveyed in the Caribbean region, firms gave significant credit to AID-assisted private non-profit institutions or freestanding projects. Such providers targeted those services most valued by exporters surveyed and had a strong results orientation. The fact that export firms surveyed credited a variety of private suppliers of services suggests that no single provider can meet the diverse needs of exporters and investors.

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<sup>6</sup> D. Keesing and A. Singer, 1990, *Development Assistance Gone Wrong: Why Support Services Have Failed to Expand Exports*, PRE/WPS 543, Washington D.C. World Bank. 1990

## **Decision Tree for Export Development Services Programs**

We have developed a decision tree for Export Development Services programs suggesting how to think about the issues. (See Annex)

Focus first on the policy environment: has trade been liberalized enough? Are macroeconomic and trade policies, and the business environment sufficiently favorable? If not, there is little justification for intervention with firm-level export services.

If policies and the business environment are favorable, focus on the export support services market: are buyers, foreign partners, and private associations able and willing to respond to the demand for services?

If the private support service market is too underdeveloped to respond, focus on identifying the “gap” and the justification for intervention and short-term subsidies to fill the gap.

Once exports have taken off and a well-functioning service provider market has developed, there is no longer a rationale for intervention.

## **Findings about Structuring Export Development Services Programs**

What have we learned about structuring export support services programs as a result of this study? I will conclude by mentioning seven key findings.

First, focus on bottom-line impact: achievement of export growth and improvement in the private provision of services

Second, emphasize services, such as foreign market information, buyer contacts, access to technology, that lead to longer-term linkages between firms new to exporting and commercial sources of services, such as buyers and suppliers.

Third, assist intermediaries to “broker” linkages between exporting firms and commercial providers from abroad -- buyers, suppliers, investors -- those most valued source of export support services.

Fourth, do not limit assistance to one service provider. Consider approaches which allow firms to select their own service provider, such as cost-sharing mechanisms, or which improve firm access to a variety of private providers of support services, either for-profit or not-for-profit. A key factor is that private service providers have strong industry ties, access to quality technical expertise, and sufficient flexibility to respond to service gaps.

Fifth, avoid government service providers for export development services in most cases, particularly for technical services at the firm level.

Finally, ensure that assistance is time-bound, results-focused, and based on a defensible economic rationale.