



Public-Private Partnerships for Integrating Small, Poor Countries into the Global Trading System

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Nathan Associates Inc.
TCB Project

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Public–Private Partnerships for Integrating Small, Poor Countries into the Global Trading System

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Nathan Associates Inc.
Support for Trade
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Sponsored by USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) and implemented by Nathan Associates Inc., the Trade Capacity Building (TCB) Project, 2001-2004, helps developing countries assess their trade constraints and prioritize their trade-related technical assistance needs. The project provides trade experts for short-term technical assistance in developing countries and assists USAID Missions in designing, implementing, monitoring, and evaluating technical assistance that will stimulate economic growth and reduce poverty. Electronic copies of reports and materials related to trade needs assessments, resource guides, and trade training workshops are available at www.tcb-project.com. USAID Missions and Bureaus may seek assistance and funding for activities under this project by contacting John Ellis, USAID/EGAT, TCB Project Task Manager at jellis@usaid.gov.

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Executive Summary

Many barriers prevent small, poor countries from participating fully in the global economy. To integrate themselves fully into the global economy, small, poor countries must invest in public goods and services such as information and communications technology, transportation infrastructure, trade facilitation, skills and services linked to economies of agglomeration, research and extension, systems for certifying grades and standards, and market development. In industrial and more advanced developing countries, governments traditionally have provided these goods and services. But the governments of small, poor countries lack the capacity to carry out these tasks.

One way to overcome a lack of governmental capacity is for public–private partnerships to provide public goods and services. Private companies and associations often can meet the need for public goods more efficiently than the public sector because they are more motivated and have money for research, quality certification, and market development and are more likely to attract managers with a commercial orientation. Yet the public sector still has a necessary role—to establish policies and the regulatory environment and ensure that public goals are met in the long term.

Some private organizations in small, poor countries have joined with the public sector in the information communications and technology industry and some natural resource-based industries to expand access to information, facilitate transportation and trade, achieve economies of agglomeration, advance research and extension, improve adherence to SPS and other grades and standards, and facilitate market development. In this paper we describe successful public–private partnerships in Uganda, Mali, Guatemala, Chile, and Jordan, and present lessons learned from these partnerships. Experiences in these countries demonstrate that public–private partnerships as a strategy for integrating small, poor countries into the global trading system can be successful.

1. Introduction

Small, poor developing countries have much to gain from participating in the global trading system.¹ The World Bank estimates that “fast integrating” developing countries will grow 1.5 to 2 percent more rapidly per year than other developing countries (Kotschwar 2001, 2). To benefit from the global trading system, countries must overcome the barriers that prevent them from participating fully in the global economy. These barriers include inadequate infrastructure, weak institutions for identifying and exploiting market opportunities, inability to meet health and safety standards, lack of capacity to produce and deliver goods and services in a timely fashion and according to specifications, and weak ability to negotiate trade and investment agreements.²

Overcoming these barriers requires investment in public goods and services, which are goods and services for which consumption by some does not take away from consumption by others and from which no part of the population can be excluded. A typical example is national defense. Other goods and services are considered public because although the initial fixed investment may be high, the cost of extending the benefits of that investment to a broad portion of the population is low. For example, the cost of conducting agricultural research can be high, but it generates benefits that can be transferred to a large number of farmers at very little additional cost. Public goods and services related to trade include transportation infrastructure, information and communications technology (ICT) infrastructure, export promotion, systems for certifying norms and standards (including sanitary and phytosanitary [SPS] standards), efficient and fair legal and regulatory structures, and viable research and extension programs.

¹ The definition of “small, poor country” used in this report includes not only the 49 nations defined as least developed by the United Nations, but some small, lower-middle income countries as well, because these countries do not have large enough GNPs to achieve reasonable economies of scale to provide the public services needed for participation in the global economy. One useful definition is a GNP of less than \$10 billion per year. This includes 42 countries in Africa, 8 countries formerly in the Soviet Union, 5 countries in Asia, 9 in Latin America, 3 in the Middle East, and 10 in Europe. Most of these countries have a population of less than 25 million and a GNP per capita of less than \$745, the threshold between poor and lower-middle income, according to the World Bank (World Bank 2003, pp. 14-16).

² This paper was prepared with the assistance of Valeria Carou Jones and Sylvia Ciesluk.

Governments of developed countries traditionally invested in these goods and services, but small, poor countries' governments may be unable to do so because they lack the required funds and skilled personnel. The World Trade Organization and other multilateral organizations recognize small, poor countries' difficulties and have established the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries to assist them in meeting their WTO obligations and participating more fully in the global economy.

If governments of small, poor countries cannot provide public goods and services, can the private sector in these countries step in and supply public goods and services related to trade capacity building? Because of their public nature, such goods and services are not likely to be provided by individual private enterprises, but may be provided through the collective action of the private sector. In the developed world, trade associations, research organizations, foundations, and other private sector institutions often play a vital quasi-public role, often in cooperation with government, which may participate directly or provide some financing or regulatory oversight.

This report describes the kinds of trade-related needs that small, poor countries have and analyzes various types of public-private partnerships that might help these countries meet these needs, including equity participation, budgetary support, governing board representation, and regulatory structures. Formal partnerships involving joint public-private equity participation, which are common in developed countries, are rare in small, poor countries, but partnerships defined more broadly are widespread.

In the next section of this report, we describe some severe difficulties that small, poor countries face in integrating into the global trading system and which require investment in public goods and services. We then discuss how public-private partnerships might be organized to undertake these investments and the problems that these partnerships frequently encounter. Finally, we provide some examples of successful public-private partnerships in several natural resource-based and ICT industries and some lessons that these examples have taught us.

2. Trade-related Needs of Small, Poor Countries

During the 1980s and 1990s, many small, poor countries undertook substantial programs of policy reform and structural adjustment, reducing trade barriers and realigning their exchange rates. Although open trade and exchange rate regimes are essential for success in trade, they are far from sufficient. Countries also need infrastructure and institutions that will enable them to take advantage of export opportunities and compete in the global trading system. Before they can be fully integrated into the global trading system, small, poor countries need ICT, transportation, trade facilitation, economies of agglomeration, research and extension, SPS controls, grades and standards, and market development. All of these are issues that public-private partnerships seek to address.

Information and Communications Technology

In recent decades globalization has placed a high premium on a skilled, educated workforce that can use ICT to access and process information (Stryker, Salinger, and Plunkett 2003, 5). Use of ICT for trade is especially critical in small, poor countries that are isolated from the global economy. Increasingly, suppliers in the global market work with value chains that span several countries, requiring suppliers to control, manage, and communicate across international links in the chain. Adding value to the production of goods and services at particular stages in these chains requires investing in a skilled workforce and ICT infrastructure and establishing a legal and regulatory environment that encourages ICT innovation and competition.

In the early 1990s the ICT industry in most developing countries was characterized by inefficient, outmoded state-owned monopolies. Since then, ICT industries in many countries have been liberalized, privatized, and subjected to more efficient regulatory regimes. Most small, poor countries' governments have disengaged from providing ICT services and have assumed more of an oversight role. Generally they have granted exclusive rights to one or more major private ICT service providers for a well-defined period of time on condition that

the service providers achieve a minimum rate of infrastructure expansion. At the same time, companies providing value-added services such as telephone and fax that use the ICT infrastructure have been forced to operate in a more competitive environment. But in most small, poor countries, progress in achieving privatization and greater competition has been slow and the cost of ICT is still high and few people have access to it—a situation that needs to change if these countries are to benefit from more open trade.

Transportation

Trade in most goods and services depends on well-developed transportation systems to manage widely dispersed supply chains. Transportation improvements can lower costs for agricultural production and marketing, open up access to markets, and lead to diversification of output (Binswanger, Cheng, Bowers, and Mundlak 1987 111-131; Riverson and Carapetis 1991). But many small, poor countries suffer from poor location and inadequate transportation infrastructure, which translate into high transportation costs and uncertain availability. Countries without direct access to the sea are particularly disadvantaged because innovations such as just-in-time delivery have increased the importance of rapid and timely transport.

ROAD

A number of factors influence the costs of road transportation: the age of the vehicle fleet; import duties and other taxes on trucks, spare parts, and fuel; and road conditions. So, although road transport is the province largely of the private sector, public tax policy and government investment in building and maintaining road infrastructure have an important influence on costs. In addition, transporter syndicates often set truck transportation rates well above competitive levels. Rate-setting is largely unregulated because ministries of transport generally no longer have that responsibility but have not yet developed competition policy in this sector.

RAIL

The public sectors in small, poor countries have long owned and operated the railroads. Many of these national railroads are now close to bankruptcy and are being privatized. They often lack freight cars and experience long delays, too-frequent stops, and high costs. These issues are only beginning to be confronted, and regulatory oversight of private sector railroad operations is in its infancy.

AIR AND SEA

Air and sea freight services are also being privatized, although ports and airports still tend to be operated by public authorities. Although competition policies are not well developed, competition is nevertheless increasing, partly because of the financial failure of many state-owned airlines. Air freight service continues to be irregular and expensive. Sea freight suffers from a lack of competition and the failure of exporters to organize and consolidate shipments so as to have sufficient bulk to make it profitable for carriers to stop at the ports of call.

Trade Facilitation

Trade facilitation involves the many customs and other procedures that are required to move goods and services across national frontiers. In small, poor countries complex customs, inspection, and logistic requirements deter the use of the most cost-effective trade corridors (Castro 1993, 17). Inadequate parking, handling, and storage facilities delay customs clearance. Barriers imposed by police, the military, customs officers, health officials, and local authorities often result in costly illegal payments and delays (Stryker 2002, 4).

Inadequate trade facilitation systems create an “efficiency penalty.” According to the World Bank, antiquated trade administration in poor countries, combined with the failure to adopt information technology in support of trade facilitation, accounts for a 7 percent loss in the value of goods shipped (Lakshmanan 2001, 7). Facilitating trade requires simplifying administrative and commercial procedures for the movement of goods and services, investing in supporting infrastructure, and removing other barriers to trade flows.

Both the public and the private sectors need to act to facilitate trade. Governments need to examine carefully their trade policies and procedures to ensure that these do not unnecessarily restrict trade. They must also commit to reducing delays and eliminating the environment that fosters illegal payments associated with implementing the policies and procedures that are in place. The private sector needs to lobby for reform and monitor the implementation of reform. And both sectors need to use computerized systems in applying customs, health, safety, and other regulations and in facilitating logistical operations in an atmosphere of legitimacy and transparency.

Economies of Agglomeration

Economies of agglomeration refer to cost savings that are achieved when a number of firms invest in a particular industry, expanding the market for specialized skills and banking, insurance, brokerage, and other services. Economies of scale pertain to a particular firm and result from the expansion of the volume of sales in relation to fixed cost. Industrial countries, for example, produce and distribute value-added goods and services at relatively low cost

because they have specialized in these industries for some time; they therefore enjoy economies of agglomeration and of scale. Small, poor countries, however, produce and export bulk primary commodities, which do not benefit from cost-reducing economies. Although these countries would like to diversify, they face competition from countries much more experienced in value-added production. Some countries have been able to overcome this disadvantage because of their lower labor costs, but it has become increasingly difficult to do so because labor costs have become less important as a competitive advantage in a world where quality, style, and timeliness have become more important than cost.

Achieving economies of agglomeration and scale in small, poor countries will require collaborative action—such as market research, workforce training and education, technological transfer and adaptive local research, and export promotion—on the part of the public and the private sectors to identify potential competitive advantages, the constraints on exploiting this advantage, and the requirements for overcoming these constraints. Some of these activities, such as basic education, will be the responsibility of the public sector, while others, such as technology transfer, will be carried out primarily by the private sector.

Research and Extension

Research and extension for natural resource-based industries such as agriculture have been historically the domain of both the public and private sectors. Basic research is a public service because the benefits to some accrue to all at low additional cost. Applied, proprietary research is more often conducted by the private sector, which can capture the resulting gains. But applied research and extension often builds knowledge in an industry as a whole, thus spreading benefits beyond the investing firm. Agricultural research yields high returns—from 15 percent to more than 400 percent, with a mean of about 50 percent (ISNAR 2003, 11). Research can meet both consumers' and producers' demands for improved quality, product diversification, convenience, safety, greater technological efficiency in production and processing, better distribution and marketing, and cost reduction throughout the value chain, from producer to consumer (Hartwich, Tola, and Janssen 2001, 4).

The objectives of the public and private sectors often differ. In agriculture, for example, public sector research organizations have focused on production and food security, whereas the private sector has focused on proprietary processing and marketing research (Hartwich, Tola, and Janssen 2001, 1). Sharing resources and knowledge can enhance the contribution that each sector makes to the development of natural resource-based industries, and private sector organizations might be able to undertake some of the research that has traditionally been the domain of the public sector.

In small, poor countries, public research and extension for natural resource-based industries have been underfunded for many years. The quantity and quality of research have declined,

and agricultural research results have not been disseminated to farmers, processors, and other users. Some small, poor countries have tried recently to find new ways to link farmers and other users more directly with researchers through contract farming, television and radio, demonstration farms, and other mechanisms. These efforts, involving both public and private sectors, need to be evaluated and, when successful, extended to other countries.

Sanitary and Phytosanitary Controls

Production and marketing systems in small, poor countries tend to be diverse, made up of many unorganized small-scale producers and traders. The unregulated informal sector produces and distributes a significant portion of food products for direct consumption. Rapidly growing populations, urbanization, and natural environments that expose consumers to a range of potential food safety risks also make effective food safety regulation and control difficult.

The Uruguay Round Agreement on Sanitary and Phytosanitary Measures increased the importance of inspection and quality control of exports of natural resources, yet adoption of these measures has been slow (Kotschwar, Hufbauer, and Wilson 2001, 32). International food standards are legally in place in many small, poor countries but are not enforced. Inadequate technical and managerial infrastructure—laboratories, human and financial resources, regulatory frameworks, and enforcement capacity—weakens the abilities of these countries to comply with international standards. Such systemic weaknesses may threaten public health in these countries and keep them out of global food markets.

To export to industrial country markets, producers of high-quality horticulture, livestock, and other products in small, poor countries need training in internationally accepted plant, animal, and human health inspection standards and processes (Stryker, Salinger, and Plunkett 2003, 20). These include standards of food safety, pesticide residues, food additives, veterinary drug residues, food contaminants, and food labeling developed by the Codex Alimentarius Commission (CODEX) and certification of food preparation processes in accordance with the hazard analysis and critical control point (HACCP) system. Standards become increasingly important as supermarkets proliferate in Latin America, Asia, and Africa, making adherence to these standards a requirement for selling not only in international markets but in local and regional markets as well.

The Good Agricultural Practices (GAP) certification was developed in response to consumers' concerns about food production and security, food safety and quality, and the environmental sustainability of agriculture. Although open trade in food and farm products can be beneficial, consumers fear that food-borne toxins and diseases can be more easily transmitted. They are also concerned that pressure to expand exports may lead to environmental degradation and unsustainable production systems. GAP certification increasingly requires

adherence not only to SPS standards but also to environmentally sound practices such as integrated pest and nutrient management and soil-conservation agriculture.

Governments are responsible for establishing and overseeing the regulatory system that ensures food safety, and plant and animal protection. For such a regulatory system to be effective, however, the private sector needs to institute SPS controls all along the value chain, from production to consumption. Requirements include transport and storage infrastructure, processing equipment, efficient inspection procedures, and training on following these procedures.

Grades and Standards

Grades and standards define and categorize products in terms of quality, safety, and authenticity using a consistent terminology commonly understood by market participants (Starkey, n.d.). They can be voluntary or mandatory. As much as 80 percent of world trade is affected by standards, and the costs of testing, certifying, and adapting to these standards can equal 2 to 10 percent of production costs (Kotschwar 2001, 19). Standards for quality are increasingly defined on a global scale, such as the International Organization for Standardization (ISO) 9000 series on quality (Hartwich, Tola, and Janssen 2001, 4). Compliance with international trade standards is critical for participating in international markets and taking advantage of initiatives such as the U.S. African Growth and Opportunity Act and the European Union's Everything But Arms legislation (World Bank 2003).

Most small, poor countries do not have the financial or skills capacity to meet world trade standards. To ensure compliance with international grades and standards, small, poor countries must first establish an internationally recognized quality-control and certification system. This requires not only national legislation but also institutional mechanisms for monitoring fulfillment of the standards. Here private sector associations can play a vital role by issuing certificates of compliance and encouraging exporters to obtain international certification (International Trade Forum 2002, 20). Unlike for sanitary and phytosanitary standards, the government generally does not have to ensure compliance as long as consumer safety is not threatened and there is no need to protect against plant and animal pests.

Market Development

Producers in small, poor countries frequently lack sufficient local demand for their products. They must look for buyers beyond their borders where competition is often fierce, but they lack accurate and timely market and trade information. Trade promotion organizations have specialized expertise and resources and can provide entrepreneurs in small, poor countries with valuable trade information, market studies, and consumer profiles. They can help them

develop marketing plans, provide them with representation abroad, and advocate for trade policy reform (Giovannucci 2001). Trade promotion organizations can also help identify local and regional markets, develop international trade opportunities, and disseminate information about the trade potential to foreign importers.

Obtaining useful market information requires substantial investment in ICT infrastructure, human capacity building, and the establishment of institutions that enable the information to be disseminated for market development. The extent to which the public sector should participate in market development is open to question. It is unlikely to have the specialized expertise required to identify market opportunities, but it can play a role in increasing foreign awareness of the country's export capacity and in promoting its image abroad.

3. Characteristics of Public–Private Partnerships

According to public goods theory, public–private partnerships are best for producing goods that require large investments that neither the public sector nor the private sector is able or willing to provide entirely on its own. The public and private sectors have inherent differences that define their scopes of interest. The private sector focuses on profit and appropriation of private goods for a short-term payoff. The public sector concentrates on social welfare and free access to public goods for a long-term payoff (Vieira and Hartwich 2002). Nevertheless, they share an interest in seeing that public goods and services that are needed to ensure full participation in the global economy are provided.

In a public–private partnership, the private sector can supply the motivation, expertise, and some financial resources, while the public sector can provide additional financial resources and help to ensure that the investments are in the public interest, are not subject to private sector monopoly, and are consistent with long-term social objectives. Vital to the success of public–private partnerships are institutional structures, which can take many forms, including jointly owned corporations, joint representation on boards of directors, legally constituted conventions, joint memoranda of understanding, and legally defined competition policy and regulatory structures. The private sector may carry out its responsibilities through quasi-public institutions such as professional and business associations, trade unions, or nongovernmental organizations. All public–private partnerships require a written document that clearly delineates the responsibility of each sector. The following characteristics of public–private partnerships must be defined:

- Purpose of the partnership;
- Types of problems that the partnership tries to solve (ICT, transportation, trade facilitation, economies of agglomeration, research and extension, SPS controls, grades and standards, market development);
- Type of partners involved and relative extent of their involvement (government ministries and other public agencies, private organizations, NGOs, community groups, academia);

- Nature of the partnership (joint venture, joint board representation, legal convention, memorandum of understanding, legally defined competition policy and regulatory structure);
- Extent to which power is shared (ranging from consultative partnerships to joint decision making, resource pooling, and sharing of ownership and risk); and
- Funding of the partnership (private sector subscription or dues, government budget line-item, specific levies, donor assistance, contract fees).

Although public-private partnerships appear to be ideal for providing public goods and services, many have not been successful for a variety of reasons discussed below.

Public-private partnerships in small, poor countries often do not have clearly defined institutional structures. Government ministries and agencies are often reluctant to give up their prerogatives even though they do not have the resources to carry out their obligations. At the same time, the private sector is not organized to take on public sector responsibilities. The public and private sectors may meet frequently to discuss problems but not be able to resolve them. Rivalries may arise because of a lack of a clear understanding of the responsibilities of each.

The right financing mix is important for the success of a public-private partnership. Public-private agencies and private sector associations generally have five sources of funding: member subscriptions, line items in the government budget, specific levies, grants or capital contributions from donors, and sales of the public-private partnership's services.

For member subscriptions to be a reliable source of funds, private enterprise members have to be convinced of the viability and profitability of an association's activities before they are willing to subscribe or pay dues. Furthermore, members are often concerned that the association serves the interests of its president rather than those of members. The magnitude and reliability of recurrent funding through line items in the limited government budgets of small, poor countries are questionable. Furthermore, dependence on public funds limits the autonomy of private sector organizations. A levy dedicated to the private sector organization is one way to avoid the vagaries of line item funding. With a levy on the exports of a particular product, for example, as exports grow (perhaps because of the activities of the private sector organization), revenue from the levy increases. Grants or capital contributions from donors, foundations, or the government are not sustainable unless they contribute to an endowment or the capital is preserved in some way. Finally, private sector associations and other quasi-public institutions may sell their services on a contract basis, but this reduces their ability to act in the collective interest of their members or the public.

Successful Public–Private Partnerships

Some public–private partnerships have proven successful in addressing the trade capacity constraints of small, poor countries. Private organizations in several ICT and natural resource–based industries have joined with the public sector to expand access to information, facilitate transportation and trade, achieve economies of agglomeration, advance research and extension, improve adherence to SPS and other grades and standards, and facilitate market development. Such improvements have helped small, poor countries overcome their disadvantages in the global trading system and increase exports. Following are examples of successful public–private partnerships in small, poor countries.

ICT IN MALI AND UGANDA

ICT facilitates trade by improving access to market information and by enabling the export of ICT services. Mali and Uganda both began the 1990s with state-owned telecommunications monopolies. Both countries recognized the need to change the structure of the industry to benefit from improved ICT technology and both began a process of liberalization, deregulation, and privatization (Stryker and Nash 2003). They enacted legislation establishing legal frameworks for privatizing the state-owned monopoly, liberalizing value-added services and other elements of the telecommunications network, and establishing a telecommunications regulatory body, but the two countries differed significantly in the degree to which they liberalized their networks.

Uganda issued licenses for mobile telephone service to three competitors, two of which were private. Competition kept prices low, and lower prices fed demand and enabled fixed costs to be covered on the higher volume. Uganda now has one of the best mobile telephone networks in Africa. Mali, by contrast, issued a single license for mobile service to MALITEL, a subsidiary of the state-owned telecommunications utility SOTELMA, thereby seriously delaying the development of cellular service.

Both countries liberalized value-added network services to a limited degree and licensed a number of Internet service providers to use fixed and mobile local telephone networks, but imposed constraints on access to two-way satellite transmission. They feared that the voice-over-Internet protocol would allow users to place calls directly over the Internet, bypassing the public telecommunications companies. Although this would be a loss from the phone companies' perspective, it clearly would be a gain from the users' perspective.

Financing generally has not posed large problems. The licenses provided to major carriers have given them sufficient financial incentive to undertake substantial investments. However, the social objective of providing universal service has not been met because of the high cost of serving poor rural areas. Both countries have relied on encouraging competition, subsidizing individual providers that were willing to invest in remote and sparsely populated areas, and

encouraging investment in public access facilities such as pay phones, telecenters, and cyber cafés. It is questionable as to whether this has been adequate to achieve all potential economic and social benefits.

The public-private partnership model of privatization, liberalization, and regulation used in the ICT sector of Mali and Uganda has worked reasonably well. The responsibilities of the public and private sectors have been spelled out in legislation. Financing, primarily through foreign direct investment, has been adequate in relation to absorptive capacity. The major questions that have arisen are how rapidly to move forward, how much competition to introduce at one time, and how to best serve outlying areas.

TRADE FACILITATION AND PROMOTION IN GUATEMALA

In Guatemala, a private sector organization, AGEXPRONT, is responsible for facilitating trade and promoting nontraditional exports. It helps design policies and strategies for developing foreign trade, promotes the competitiveness of companies and the country as a whole, lobbies the government on maintaining a macroeconomic environment that gives stability and assurance to exporters, helps to ensure that government tax and non-tax barriers to trade are kept to a minimum, and formulates trade strategies and action plans related to labor and the environment.

AGEXPRONT's School of Foreign Trade helps participants understand international marketing strategies, specific procedures in the export process, and negotiation techniques. AGEXPRONT maintains a documentation center for exporters and develops market studies, market profiles, and international contact services. It also promotes and coordinates activities to assist Guatemalan exporters in establishing contact with potential foreign buyers, mostly by participating in trade shows and organizing trade commissions around the world.

AGEXPRONT has a development division that works with small and medium-sized companies to include them in the export process. For this purpose it makes deals with government and nongovernmental organizations and cooperatives in rural areas, promoting the development of small communities by finding markets for their products. With USAID funding, AGEXPRONT is setting up business centers around the country, each with 5 to 10 workstations equipped with Internet access, television, video, fax, and photocopier. AGEXPRONT's trainers will travel to the business centers to train individuals, communities, and Mayan groups in their own language.

The Guatemalan government has delegated to AGEXPRONT the following public services:

- Operating a unique window for exports;
- Modernizing and improving export paperwork via the Internet;

- Ensuring that all agricultural products comply with phytosanitary guidelines established by the importing country and monitoring responsible use of natural resources to protect the environment;
- Providing technical and nonfinancial assistance to pilot projects and activities aimed at transferring technology to producers and improving the quality of nontraditional exports;
- Providing support for special customs regimes;
- Supporting the Guatemalan International Transport Users' Committee, which is responsible for protecting the interests of producing sectors when dealing with international transport companies;
- Supporting the Commercial, Investment, and Tourism Representatives Program, the purpose of which is to have permanent representation to support trade, tourist, and investment promotion in strategic markets.

These services are spelled out in agreements with individual ministries, which oversee activities. Financing comes from line items in the government budget.

Part of AGEXPRONT's success is the result of its multiple sources of funding. In addition to subscriptions and members' dues, which pay for lobbying and other general member services, AGEXPRONT contracts with larger, more experienced firms to undertake marketing and other studies. Its developmental work with small and medium enterprises and with business centers in rural areas is funded primarily through donor assistance, whereas the regular public services it furnishes are paid for with line items in the public budget.

AGRIBUSINESS IN CHILE

Fundación Chile is a private agribusiness development center, partially endowed by the government, that has developed innovative ways to transfer technology, develop new businesses, and provide quality control and certification of products, services, and processes that are transferred to a number of small, poor countries through cooperative programs.

Fundación Chile's most innovative technique for transferring technology is setting up demonstration companies that incorporate the chosen technology and demonstrate its effectiveness to economic agents, lowering the private sector's risk in adopting the new technology. The first step in setting up such an enterprise is to identify a project opportunity and conduct a market study. The project selected must have export potential and be based on technology that has been proven abroad but not implemented in Chile. After a project is selected, a company is set up, and technical expertise is brought in as needed. The process is considered complete when the economic and technical feasibility of the new technology has been fully demonstrated. Fundación Chile's share of the company is then sold to the private sector to recover the economic resources invested. This cycle takes an average of 4 to 7 years.

The first demonstration company, *Salmones Antártica S.A.*, was founded in 1983. It promoted the rapid development of the salmon industry, which did not exist in Chile. Within six years of its creation, 60 salmon-producing firms had been established. From 1983 to 1992, salmon production went from 94 metric tons to 35,000 metric tons. Chile is now the world's second-largest producer of salmon in captivity, with annual exports of \$200 million. This is an example of a public-private partnership playing a vital role in achieving important economies of agglomeration and scale.

Fundación Chile also helps Chilean products meet SPS standards—a service that has proven profitable for Fundación Chile as well as beneficial for the government and Chilean farmers. Fundación Chile helps small fisheries and food processing plants with quality assurance programs, and offers them training in operating efficiency and cost reduction to help them compete in domestic and export markets. Since 1981, the government has authorized Fundación Chile to certify the quality of exported fruits and vegetables. A quality seal from Fundación Chile guarantees that the product meets quality requirements established by national and international standards. Fundación Chile is also certified under the ISO/IEC25 Guide and maintains connections with regulatory agencies in importing countries such as the U.S. Food and Drug Administration.

Created in 1976 as a private nonprofit corporation, with an initial endowment from the Government of Chile and the International Telephone and Telegraph Corporation (ITT), Fundación Chile has a governing board with 50 percent of its representatives from the Chilean government and 50 percent from ITT. During its first 10 years it was managed by an ITT subsidiary, but today it is directed by Chilean nationals. It has benefited from a policy environment in Chile that has favored export expansion and efficient financial intermediation. Fundación Chile is currently an autonomous, self-sustaining institution with income from services, profits from new enterprises, and returns on financial investments. It is well capitalized from its initial endowment, but it maintains that capital base by charging for its services and by not hesitating to divest itself of unsuccessful ventures. The spirit of its managers is commercial and profit-seeking. It has tended to concentrate on a relatively few subsectors, which has helped it maintain a technically qualified professional staff.

CUT FLOWER EXPORTS FROM UGANDA

During the past few decades, the demand for cut flowers has grown considerably, attracting many new commercial producers and distributors into the international market. Flower exports are dominated by a few countries, and the cut flower imports are concentrated in the high-income countries of northern America, Europe, and Asia (Thoen, Jaffe, Dolan, Ba, n.d.).

The Uganda Flower Exporters Association (UFEA) was established in 1995 to bring together flower growers and exporters in Uganda to promote the flower industry locally and internationally. Following discussions with European buyers and local breeders, UFEA

opened a trial research center to test new rose varieties and other floriculture products, including chrysanthemum cuttings. Thereafter the center engaged in applied flower research, backed by publicly supported basic research at Makerere University and other research centers. In addition to its research activities, the center also provides training to farm workers. On completing the training, participants visit Kenya and Holland to observe the operations of successful growers and study market requirements.

The high perishability of flowers demands an effective and uninterrupted cold chain, efficient transportation arrangements, and mechanisms for rapid sales. Breakdowns in the system result in large product and financial losses (Thoen, Jaffe, *et al.*, n.d.). At the beginning of 2000, the large quantity of flowers and vegetables for export through Entebbe Airport could not be accommodated by scheduled passenger and cargo flights. As a result, freight rates increased and some rose growers missed out on high market prices in Europe. Following this crisis, exporters and growers worked together through UFEA to raise the capital for a new company, Fresh Handling, which provided cold storage, arranged freight shipments, increased the capacity and frequency of flights, and made a profit in its first full year of operation (USAID/Uganda, n.d.).

Although UFEA does not have a formal agreement with the government of Uganda other than its constitution as a professional association, it has signed a number of contracts and protocols with Makerere University and other publicly supported research centers. Publicly supported agricultural research in Uganda, as in much of Africa, focuses on basic food crops. Given the limited funds that are available for even this research, it is highly unlikely that any research on flowers would be conducted in Uganda without the UFEA. Thus in the absence of any formal agreement, there is an implicit understanding of a division of labor between the public and private sectors.

What is true of flowers is also true of other nontraditional agricultural and agroindustrial exports, though here the problem of organization is more acute. What makes the UFEA successful from an organizational perspective is the limited geographical area in which most of its members operate and the specialized nature of the business, factors that contribute to a sense of cohesion among its members. Other producer-exporter associations, such as those for fruits and vegetables, must address greater problems because of the geographical dispersion of their members and the variety of their products.

Funding for UFEA comes principally from membership subscriptions and USAID's IDEA project. UFEA has also received assistance from a Dutch importer in Holland, who buys most of the flowers exported from Uganda. From the beginning, fees were charged for research activities and training of farm workers. Thus there is a strong commercial orientation to the UFEA. Despite this, the question of sustainability will remain until the association is no longer dependent on donor support.

TRADE PROMOTION IN JORDAN

The Jordan Exporters and Producers Association for Fruit and Vegetables (JEPAFV), a private nonprofit organization, cooperates with the Jordanian government to promote top-quality exports of fresh produce and cut flowers. Founded in March 1994 by a group of private exporters and producers in Jordan's horticultural sector, JEPAFV helps small and medium-scale farmers, who often lack timely market information and technical know-how, improve productivity, ensure quality, and improve their knowledge of changing market standards. It also monitors the quality of horticultural exports from Jordan.

JEPAFV's activities include seminars and training sessions, trade fairs, demonstrations of post-harvest technologies, and marketing trips and trial shipments to existing and potential export destinations. A new information center has been established to give members access to information on crop prices and market trends for produce. JEPAFV publishes a monthly newsletter, lobbies the government for policy and regulatory reform, acts to create a favorable climate for agribusiness, promotes the establishment of strong marketing and export companies, and encourages joint venture projects with foreign investors in the agribusiness sector.

Although independent of the government, JEPAFV interacts with it on several levels. First it is an effective lobbyist, having influenced government policies and regulations regarding fruits and vegetables on a number of occasions. Second, it exerted influence on government negotiations regarding the Euro-Jordanian Partnership Agreement and the US-Jordan Free Trade Agreement. Third, it collaborates with the Agricultural Marketing Organization, a government agency under the Ministry of Agriculture, by disseminating to its members the Agricultural Marketing Organization's market outlook reports and market data, including information on post-harvest handling, packaging, temperature, transportation requirements, and pesticide residue tolerances in importing countries.

Membership includes more than 100 companies or individuals that are active participants in Jordan's horticulture sector and together are responsible for more than 80 percent of total horticultural exports from Jordan. JEPAFV's revenues come from membership fees, donations and grants, publication sales, and fees for its activities. It receives technical and financial assistance from USAID/Jordan.

Lessons Learned

The preceding examples of successful public-private partnerships demonstrate that provision of public goods and services can be profitable although such partnerships are likely to require donor or government support, especially during the initial years. Private companies and associations are often able to meet the need for public goods more efficiently than the public sector alone because they are more motivated and have additional resources to devote to

research, trade facilitation, quality certification, and market development. They are also more likely to attract better managers with a commercially oriented perspective on what works and what does not. The public sector, however, is needed to establish the broader policy and regulatory environment and ensure that public goals are met in the long term. This sector can also help to furnish, where resources are available, vitally needed supplementary funding. Following are some of the lessons learned from these examples.

COMPETITION

An important lesson from the Mali and Uganda experiences with public-private partnerships in the ICT industry is that it is essential to introduce competition into the ICT industry as quickly as possible. Uganda was able to expand telephone service rapidly because the government issued several licenses to establish mobile cellular service. Uganda's experience also suggests that by increasing demand, which is elastic with respect to price, costs can be covered more easily than by charging high prices on limited volume. One way of maintaining low prices is to encourage investment in public access facilities such as telecenters in rural areas.

ECONOMIES OF AGGLOMERATION FOR TRANSPORTATION AND TRADE FACILITATION

Some private sector associations, such as UFEA in Uganda and JAFAPV in Jordan, have enabled small producers and traders to achieve economies of agglomeration in the horticultural sector by providing centralized facilities for quality-controlled packing and inspection. At these facilities, agents of the government or the private sector, as in Chile, ensure compliance with SPS requirements. Product assembly at the facilities also helps lower transport costs and encourages carriers to stop at the facilities to load the larger quantities of cargo assembled there. Private sector associations have also been important in distributing market information to potential users (in collaboration with government).

AGRICULTURAL RESEARCH FOR NONTRADITIONAL EXPORTS

The case studies and experience of some countries indicate the importance of public-private partnerships for agricultural research on nontraditional export crops. Government research institutions in most small, poor countries have no choice but to concentrate on basic food crops because they do not have the resources to work on nontraditional exports such as fruits, vegetables, and cut flowers. Yet this kind of research is essential for agricultural diversification and export promotion. Experience with public-private partnerships undertaking research on nontraditional exports has been mixed, but Fundación Chile and UFEA in Uganda have been successful. One requirement for success is focusing the research narrowly so as to ensure the availability of the scientific skills required for the research.

QUALITY CONTROL FROM FARM TO CONSUMER

The experience of Fundación Chile, UFEA in Uganda, and JEPAFV in Jordan has demonstrated the importance of ensuring quality control from farm to consumer by providing technical assistance, training, and access to the necessary laboratories and equipment at each stage in the value chain. This is essential for satisfying SPS requirements and other grades and standards. It is also important for obtaining Good Agricultural Practices certification, which is increasingly demanded for imports to industrial countries. Maintaining and controlling quality requires close cooperation between government and the private sector in defining and executing their respective roles.

INSTITUTIONAL AUTONOMY

Private institutions need to be flexible and autonomous to maintain positive links with the public sector and the business community while avoiding red tape. This does not mean that the public sector cannot be represented on their boards of directors, as the experience with Fundación Chile demonstrates. But the demarcation of responsibilities between the public and private sectors must be clear. In general, the public sector should establish the policy and regulatory framework within which the private sector operates, but day-to-day decisions regarding implementation should be left to the private sector. The success of this formula is amply demonstrated by Mali and Uganda's liberalization of their ICT industries.

SUFFICIENT RESOURCES

Financial resources should be sufficient for recruiting staff and carrying out the responsibilities assigned to the private sector in the public-private partnerships. But financial autonomy is not easy. Most of the organizations discussed in this paper still rely on donor assistance, although some, such as AGEXPRONT in Guatemala, have other sources of revenue, including member subscriptions and dues, line items in the government budget, and contract fees. Adequate capitalization is also important to avoid fluctuations in revenue due to the vagaries of budgetary allocations and donor financing. Fundación Chile has benefited enormously from having a large initial endowment. Consideration should be given to establishing such an endowment for similar institutions or donors should be prepared to provide financial assistance for an extended period.

SOUND, TRANSPARENT REGULATORY ENVIRONMENT

Mutual confidence and trust help ensure that public-private partnerships endure and thrive. To build confidence and trust, and to avoid corruption, the institutions and all partnership agreements must be clear, transparent, and carefully overseen by governing boards. It is also important that institutions exist in a sound, open policy and regulatory environment. Public-private partnerships can help maintain such an environment through their lobbying activities.

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