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Research Report

Import promotion as an instrument of development cooperation: Lessons from European experiences for Austrian development cooperation

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Import promotion as an instrument of development cooperation – lessons from European experiences for Austrian development cooperation

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Vienna, July 2019

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List of Abbreviations

ADA	Austrian Development Agency
BA	business associations
BGA	Federation of Wholesale, Foreign Trade and Services
BMZ	German Federal Ministry of Cooperation and Development
BSOs	business supporting organizations
CBI	Centrum tot Bevordering van de Import uit ontwikkelingslanden
CSR	corporate social responsibility
DC	development cooperation
DITC	Department of International Trade Cooperation
EPAs	Export Promotion Agencies
EU	European Union
EUR	Euro
GIZ	Gesellschaft für Internationale Zusammenarbeit
GVCs	Global Value Chains
HICs	High Income Countries
IHA	Import Information Hub Austria
IPD	German Import Promotion Desk
IPOs	import promotion agencies
ITC	International Trade Centre
LICs	Low Income Countries
MIPRO	Manufactured Imports and Investment Promotion Organization
NL	Netherlands
NORAD	Norwegian Agency for Development Cooperation
SDGs	Sustainable Development Goals
SECO	State Secretariat of Economic Affairs
SIPPO	Swiss Import Promotion Programm
SMEs	Small and Medium Enterprise/Small and Mid-sized Enterprise
TFO	Canadian Trade Facilitation Office
TRIC	Trade Related Instruments Connected
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Abstract

This briefing paper discusses import promotion agencies (IPOs) as a comparatively new instrument of development cooperation in Europe. The paper assesses the potential of import promotion agencies to promote exports from Low Income Countries (LICs) to High Income Countries (HICs). The comparative analysis of European IPOs reveals that their mandates and priorities typically reflect the particular articulation of interests of development cooperation and business associations in each country. The paper concludes by presenting policy recommendations for Austria.

Keywords: Import Promotion, Export Promotion, Structural Transformation, Global Value Chains, Import Information Hub Austria

1. Introduction

Import promotion has become an important pillar of private sector development activities in many European development cooperation (DC) programs. Import promotion is seen as a way of building up sustainable sourcing chains for European companies, while at the same time promoting exports of low-income countries (LICs) and the upgrading of their export industries. While other European donors such as the Netherlands, Switzerland or Germany have already established import promotion organizations (IPOs) as part of their DC and/or in order to support importing companies, in Austria the discussion is only at an early stage. Against this framework, this briefing paper discusses the potential role that IPOs can play in DC programs and presents a comparative analysis of the activities and institutional framework of European IPOs.

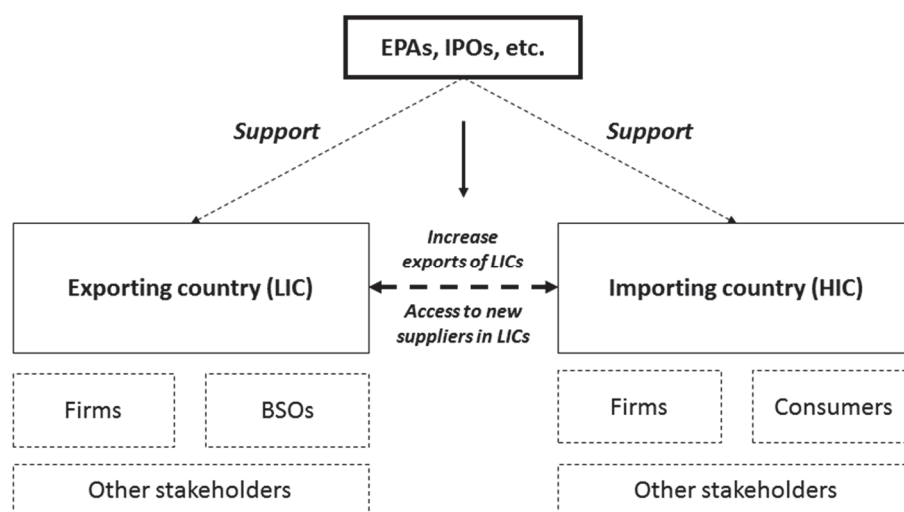
2. Increasing exports and support upgrading in LICs: the role of IPOs

Increasing exports and export diversification continues to be of strategic importance for LICs. Exports may drive learning from industrialized countries (Pasinetti 1993: 157f.) and relax the balance of payments constraint (Thirlwall 1979, 2002). The diversification of exports into higher value-added products and away from primary products through industrial upgrading (Gereffi 1999), in addition, is crucial in order to increase the value of exports and reduce income volatility (UNECA 2013).

The emergence of Global Value Chains (GVCs) in the last decades has provided new opportunities and accelerated some constraints for economic development, industrial upgrading and export diversification in LICs (Gereffi 1994, 1995, 1999). GVCs can serve as stepping-stones for firms in LICs to integrate into the global economy, but the integration into GVCs and the exportation of higher value products is challenging for many supplier firms in LICs. The power imbalances between lead and supplier firms as well as the high level of buyer requirements for exports to key consumer countries are the main reasons for the exclusion or marginalization of LIC-supplier firms in GVCs (Ponte/Gibbon 2005). Integrating into GVCs might thus also lock supplier firms in LICs in low value activities without contributing to learning and development.

Governments in high-income countries (HICs) and LICs alike promote exports and upgrading through a variety of policies on the macro-, meso- and micro-level. On the national and international level, many different organizations and programs with a mandate to promote exports from LICs to HICs emerged in the last decades. The following discussion focuses in on two types of organizations with a specific mandate to promote exports from LICs on the firm level or the broader institutional framework and export-enabling environment: Export Promotion Agencies (EPAs) and IPOs (Figure 1).

Figure 1: Model of export and import promotion to increase exports from LICs to HICs



Note: BSOs = business supporting organizations

Source: Adapted from Gripsrud/Benito (1995: 144)

EPAs are embedded in the exporting country and play a crucial role in supporting exporting or potentially exporting firms through a variety of services with a focus on capacity building (Table 1). The first EPA was established in 1919 in Finland, and by the mid-1960s, they became a widely adopted instrument (Seringhaus/Botschen 1991; Lederman et al. 2010).

Table 1: Typical activities of EPAs

<ol style="list-style-type: none"> 1. Export information and market research (general, sector, and firm level information, such as advice on trade finance, logistics, customs, packaging, pricing, market surveys, or services such as online information on export markets, importer and exporter contact databases, etc.) 2. Production support (technical assistance and capacity building to upgrade production for specific export markets, support supply of necessary inputs) 3. Marketing support (trade fairs, exporter and importer missions, follow-up services offered by representatives abroad) 4. Finance and guarantees (export credit guarantees against political and commercial risk, direct loans, interest subsidies, rediscounting, currency exchange permits, insurance, tax incentives and subsidies in general) 5. Country image building (advertising, promotional events, advocacy)

Source: Adopted from Elvey (1990) and Lederman et al. (2010).

In the 1970s, IPOs gained in importance as an instrument of DC. IPOs are typically located in HICs and involved in promoting exports of LICs *to the home country/region of the IPO* through the support of exporters in LICs and/or importers in HICs. Unlike EPAs, IPOs are embedded in the importing country with four important implications. First, the rationality for setting up IPOs from the perspective of the importing country can be twofold. On the one hand, IPOs may be driven by DC, putting an emphasis on the developmental effects of supporting exports from LICs to HICs. Importers and related business associations (BA) in HICs, on the other hand, may also have an interest in setting up IPOs in order to support their global sourcing activities and in accessing new suppliers in LICs. In these cases, the emphasis of IPOs is on supporting global sourcing activities of importers in HICs, and not the developmental effects of increased exports in LICs. In reality, both of these aspects often play a role in the activities

of IPOs, in particular since IPOs engage in connecting buyers and suppliers, implying that there are buyers with an interest in new or intensified relations to suppliers from specific LICs.

Second, IPOs are better connected to potential buyers and consumers, giving them an advantage in conducting activities targeted towards these groups, and providing IPOs with market intelligence and knowledge about buyers' requirements (Table 2). IPOs might use their position to capacitate exporting or potentially exporting firms in LICs (e.g. through financing experts that provide technical assistance). In this context, IPOs may also play a role in promoting corporate social responsibility (CSR) measures in LICs.

Gripsrud and Benito (1995: 144), in addition, suggest that IPOs in HICs should supplement the export promotion activities in LICs by also focusing on supporting importers and the marketing of products from LICs. The support of importers can take many different forms, but most importantly includes supporting the establishment of new buyer-supplier relationships through the provision of information about business/sourcing opportunities, the organization of purchasing missions or exhibition rooms, and the financial support of specific sourcing or marketing activities. IPOs may also set up an import guarantee scheme, which to some extent insures buyers from delayed delivery or product deficiencies, and further incentivizes imports from LICs. Regarding the marketing of products from LICs, the marketing literature argues that the generation of demand in HICs for products from LICs is crucial because of country-of-origin effects, which suggest that the image of products from LICs might hamper demand in HICs, potentially justifying financial support for country- or region-specific marketing activities (ibid.). Overall, DC-oriented IPOs must always carefully consider whether the support of importers and the financing of marketing activities is more beneficial relative to capacitating exporting firms or the enabling environment in LICs.

Third, IPOs are not embedded in the exporting country and might thus have a broader approach towards capacity building in LICs, also targeting the broader institutional framework and business environment. Depending on the specific LIC's context, institutions to support exports may be relatively weak. In these instances, IPOs may support the export-enabling environment in LICs (either directly or indirectly through cooperation with DC agencies).

Fourth, EPAs are embedded in the political economic context of LICs, potentially biasing their activities. Thus for political reasons they may favor specific business groups or economic sectors. Delinked from national vested interests, IPOs may play an important role in supporting marginalized business or social groups with export potential (e.g. small enterprises, female entrepreneurs, sector's with a high degree of female employees, etc.).

Table 2: Potential advantages of IPOs vis-à-vis EPAs to increase exports of LICs to HICs

1.	Market intelligence and knowledge about buyers' requirements in the importing country (capacitate exporting firms through technical assistance, promote CSR, etc.)
2.	Funds for supporting buyers in importing country (through providing information, organizing purchasing missions or exhibition rooms, financial support of sourcing activities, etc.)
3.	Network in the importing country to establish and support buyer-supplier relationships (link exporting and importing firms)
4.	Additional available funds to support or conduct export promoting activities in the exporting country (e.g. supplement activities of EPAs)
5.	Broader focus on the capacitation of institutions/enabling environment in the exporting country (e.g. capacitate EPAs, etc.)
6.	Delinked from LIC political economic context , allows for supporting of marginalized businesses or social groups

Source: own elaboration

On the international level, the promotion of exports from least developed and other countries is supported by the International Trade Centre (ITC) and various multilateral initiatives such as the Aid for Trade program of the World Trade Organization. The ITC, for example, was established in 1964 and is a joint agency of UNCTAD and the WTO. The ITC has six focus areas, which include the provision of trade and market intelligence, the building of a conducive business environment, and the capacitation of trade and investment supporting institutions, amongst others. Given the multitude of institutions active in export and import promotion at both the international and national levels, there is a clear case for close coordination between their activities.

3. Examples of IPOs in Europe

This section presents an overview of key IPOs and their activities in Europe. The section differentiates between IPOs that are organizationally closer linked to a business association (BA) or a DC agency, even though many BA-IPOs are closely collaborating with DC agencies and vice-versa. All of the presented European IPOs are members of the Trade Related Instruments Connected (TRIC) network. Table 3 presents a detailed overview of three selected European IPOs. Non-European IPOs such as the Japanese *Manufactured Imports and Investment Promotion Organization* (MIPRO, since 1978) or the Canadian *Trade Facilitation Office* (TFO, since 1980) are not considered in this section.

3.1. Development cooperation IPOs

The Center for the Promotion of Imports from developing countries (*Centrum tot Bevordering van de Import uit ontwikkelingslanden*, CBI) is the largest IPO in Europe and was established in 1971. CBI is funded by the Netherlands Ministry of Foreign Affairs and is part of the Netherlands Enterprise Agency. The budget was roughly EUR 25 million in 2016 (CBI 2017). CBI plays an important role in the Netherlands' DC programmatic framework linked to the Sustainable Development Goals (SDGs), and is mandated to support the exports of small and medium-sized enterprises (SMEs) in developing countries to Europe by promoting their integration into GVCs. The aim is not only to increase exports, but also to improve the quality of trade through a reduction of CSR risks. At the beginning of the 2016-2020 period, CBI was active in 35 countries and supported 25 sectors, but the current strategy intends to reduce the number of countries/sectors in the near future (ibid.).

CBI operates according to what is called an 'integrated approach', not only focusing on exporting companies, but also involving different stakeholders in program development and implementation. The key services provided by CBI include: (i) the provision of coaching programs for SMEs in developing countries, which include advisory or technical support services through experts, the financing of fairs or the organization of buyer-supplier meetings; (ii) the support of business support organizations (BSOs) in developing countries; (iii) the provision of market information for exporters on high-potential sectors in Europe; (iv) information and advice for policy makers; (v) consultation with buyers in the development and implementation of specific programs. Activities with respect to the provision of information for exporters to the EU market in the form of studies on market requirements, high potential sectors and more are particularly extensive and used by many IPOs of the TRIC network.

The Swiss Import Promotion Programm (SIPPO) was established in 1985 and is financed by the State Secretariat of Economic Affairs (SECO). SIPPO is steered by SECO and Swisscontact, with the latter also being in charge of the implementation of the mandate in cooperation with BHP Bruggen und Partner as well as Helvetas Swiss Intercooperation (since 2017). SIPPO's overall objective is to strengthen the competitive position and facilitate market access and exports of companies in partner countries to Switzerland, the EU and regional

markets. Unlike many other IPOs that undertake supporting measures in partner countries, SIPPO particularly focuses on supporting BSOs instead of individual firms to provide 'last mile services' for exporting companies. In 2018, SIPPO was active in 11 countries and 6 sectors and had a yearly budget of roughly EUR 4.3 million (SIPPO 2018).

The services provided by SIPPO in partner countries capacitate export promotion boards and sector-wide associations in their effort to deliver a variety of services (market intelligence, B2B matchmaking, networking, etc.) to individual companies. Buyers in Switzerland and other countries are supported with market and product intelligence, B2B events and purchasing visits to selected suppliers.

Table 3: Detailed comparison of selected European DC-IPOs

	CBI	SIPPO	IPD
Country	EU (NL)	Switzerland	EU (Germany)
Organization	DC-oriented	DC-oriented	DC-oriented
Established	1971	1985	2012
Budget (EUR, p.a.)*	~25 million	~4.3 million	~3-4 million
Mandate	Support exports of SMEs in developing countries to Europe	Promote exports of firms in partner countries to Switzerland, the EU and regional markets	Sustainable import promotion of products from developing and emerging markets as well as sustainable business relations
Client orientation	Value chain approach, SMEs, BSOs	BSOs in partner countries; buyers	Micro (exporters, importers) and meso-level (BSOs)
Scope	35 countries / 25 product categories	11 countries / 6 sectors	13 countries / 5 sectors
Approach	Integrated approach: support selected SMEs and business enabling environment in developing countries, promote CSR, link selected exporters with importers in Europe	Support BSOs to improve competitive position and facilitate market access and exports of companies in partner countries to Switzerland, the EU and regional markets; link exporters and importers	Support BSOs, exporting firms in their "last mile" as well as German/European SMEs in their global sourcing activities
Key Activities	<ul style="list-style-type: none"> Coaching programs for SMEs (technical support through experts, finance fairs, organize buyer-supplier meetings, etc.) Technical support for BSOs Provide market information on EU export sectors Inform/influence policy makers Include importers in implementation of programs 	<ul style="list-style-type: none"> Capacitate BSOs, in particular export promotion agencies and business associations Matchmaking activities Provision of market and product information for importers Organize business visits to vetted suppliers 	<ul style="list-style-type: none"> Provide market, sector and country analysis for German/European importers Targeted matchmaking between importers and exporters through the organization of purchasing missions and fairs Support of exporting firms in their "last mile" (e.g. finance experts) or BSOs Close cooperation with GIZ

Note: *Budgets calculated based on average yearly budget within latest planning period. Exchange rate: 11.04.2019.

Sources: Various documents, websites and telephone interviews.

The German Import Promotion Desk (IPD) was established in 2012, is financed by the German Federal Ministry of Cooperation and Development (BMZ) and implemented by sequa gGmbH¹ in close cooperation with the Federation of Wholesale, Foreign Trade and Services (BGA) (IPD 2019). Similar to CBI, IPD supports both exporting and importing firms (in particular SMEs) through targeted matchmaking activities (e.g. through the organization of fairs and purchasing missions), the provision of market, sector and country analysis, and the support of BSOs and selected exporting firms (e.g. financing of experts). IPD also cooperates closely with the Gesellschaft für Internationale Zusammenarbeit (GIZ) in the implementation of country-specific support programs. In 2019, IPD was active in 13 countries and 5 sectors. The budget of IPD is around EUR 3-4 million per annum.

The Finnish Finnpartnership is another example of a state-owned IPO established in 2006 (Finnpartnership 2019). The agency is part of Finnfund's activities, which is in charge of Business Partnership programs and financed by the Ministry of Foreign Affairs. The main services provided by Finnpartnership include matchmaking activities and financial support for the creation of business partnerships via grants for Finnish companies. Finnish companies are eligible to apply for support to start business activities (the research and training phase of a project) that aim at establishing long-term and commercially profitable cooperation. The supported project needs to have a positive developmental effect in the target country. The budget for its activities is EUR 486,000 per year, excluding grants (EUR 5 million).

The Trade for Development Centre (TDC) is part of the Belgian development agency Enabel and supports smallholder organizations in exporting through financial support as well as financial and marketing expertise (TDC 2019).

3.2. Business association IPOs

In many countries, IPOs used to be closely linked to the national development cooperation agencies, but today, their activities are conducted by business associations or associated organizations. The new Swedish platform Make Trade (former Chamber Trade Sweden) was established in 2011 by the Swedish Chamber of Commerce (Make Trade 2019).² The platform supports importers and matchmaking activities, and also implemented a capacity-building program in developing countries (2011-2017) financed by the Swedish International Development Agency. The platform has a thematic focus on the economic empowerment of women.

Since 2016, Make Trade also runs the digital platform "Sweden on the Go" in cooperation with the Swedish Export Service Association and various regional Chambers of Commerce (Sweden on the Go 2019). The goal of the platform is to provide companies with access to qualified international consultants. The development of the platform was financially supported by Swedish government agencies (Tillväxtverket and Vinnova).

Virke, the Enterprise Federation of Norway, also engages in import promotion activities through its Department of International Trade Cooperation (DITC), which was established in collaboration with the Norwegian Agency for Development Cooperation (NORAD) in 2003 (Virke 2019).³ Through this collaboration, Virke is mandated to increase imports from least developed countries and emerging economies to the Scandinavian market through module based training programs targeting exporting companies. These programs particularly aim at training top management with regard to European market requirements, corporate social responsibility, good governance standards, amongst others. Virke also implemented a variety

¹ A development organization of German business associations.

² Sweden and Norway established IPOs that promote imports from developing countries in 1975 and 1977, respectively.

³ During the 1980s, the Norwegian IPO (NORIMPOD) was merged into the Department of Industry Development of NORAD (Gipsrud/Benito 1995).

of different additional developmental programs in collaboration with NORAD and other organizations (e.g. empowering women entrepreneurs in East Africa). In addition, Virke is also engaging in traditional IPO activities such as the provision of market information in collaboration with CBI and matchmaking activities (e.g. company database, linking to agents, distributors and imports, etc.)

The Import Information Hub Austria (IHA) is a pilot project of the Austrian retail association (Handelsverband) and the Austrian Development Agency initiated in 2016. The project aims to establish a matchmaking-platform to provide Austrian businesses with information on new and alternative sourcing opportunities in emerging markets and developing countries. The platform focuses on products for which the availability on the Austrian market is limited.

4. Comparative analysis of IPOs in Europe

Historically, IPOs in Europe tended to be government agencies closely connected to the programmatic framework of national DC programs. Today, IPOs in Europe differ in two important ways: their scope of activities and DC- or BA-orientation. The scope of IPOs differs depending on their mandate and may include supporting importers in HICs, exporters and BSOs in LICs as well as marketing for products from LICs in HIC markets. All European IPOs to some extent engage in promoting the link between importers and exporters through the provision of sector/market information and matchmaking activities.

Many European IPOs have a broad approach towards import promotion and provide capacitating services to exporters, BSOs or specific social groups (e.g. female entrepreneurs or smallholders) in LICs. The services offered to exporters in LICs have many similarities with the services typically offered by EPAs (e.g. financing of experts, provision of information, etc.), but they are more geared towards a specific HIC market. European IPOs have very specific mandates with regard to which services they should provide in exporting countries to which actors. CBI, for example, follows the idea that they support exporting SMEs in their ‘last steps’ towards exporting to the European market, but may also support BSOs. SIPPO, in contrast, focuses on capacitating BSOs to support specific sectors. TDC, on the other hand, supports smallholders and farmer-based organizations, which involves more than just supporting their “last steps” towards exports.

The scope and mission of IPOs often depends on their institutional setup, and whether their activities are shaped by the interests of DC, BA, or a mix of both. DC-IPOs tend to have a broader scope in promoting exports from LICs. DC-IPOs activities are thus likely to have greater developmental effect compared to BA-IPOs. The main challenge for many of these DC-IPOs is to find a balance between the business interests in their home country and DC goals: the importers and business associations in HICs are important partners, but there is the threat that particular interests instrumentalize IPOs in case of insufficient institutional autonomy. The main question in this regard is how funds should be allocated between activities that support exporters, importers, or both. Linking DC activities to the interests of businesses in Europe is another important challenge for some IPOs.

BA-IPOs, on the other hand, tend to be driven by commercial interests and focus on supporting firms or sectors in their sourcing activities. All analyzed BA-IPOs support importers and the link between exporters and importers (e.g. through matchmaking activities, market information, etc.), but only some engage in directly supporting actors in LICs. BA-IPOs that engage in comprehensive DC activities are financially supported by DC agencies.

5. Conclusion and policy recommendations for Austria

This briefing paper has highlighted the potential of IPOs in promoting exports from LICs to HICs to the benefit of both. Today, IPOs in Europe differ in two important ways: their scope of activities and institutional framework (DC- or BA-orientation). The scope of IPOs differs depending on their mandate and may include supporting importers in HICs, exporters or BSOs in LICs as well as marketing for products from LICs in HIC markets. All European IPOs to some extent engage in promoting the link between importers and exporters through the provision of sector/market information and matchmaking activities. The scope and mission of IPOs often depends on their institutional setup, and whether their activities are shaped by the interests of DC, BA, or a mix of both. DC-IPOs or BA-IPOs with strong links to DC-agencies tend to have a broader scope in promoting exports from LICs.

In Austria, the discussion on import promotion is at an early stage. The IHA project established by the Handelsverband and Austrian Development Agency (ADA) in 2016 is a first step in engaging in import promotion, but so far only includes retailers and not all potential importing firms (e.g. manufacturing industries).

Even though there are many opportunities for import promotion activities (cf. Pollak/Lennkh 2017), the structure of the Austrian economy and the DC programmatic framework are key challenges for an Austrian IPO. First, in many Austrian sectors, the headquarters and sourcing activities of the companies are not located within Austria (see Grumiller/Raza 2019 for the Austrian leather and leather manufacturing sector), limiting their (local) interest in import promoting activities. Second, sourcing from LICs is generally riskier and requires higher initial investments, which is why the commitment of larger companies to engage in LICs is often more pronounced. The Austrian economy, in contrast, is dominated by SMEs, which could pose another challenge for import promotion on a larger scale. Third, experience from other European IPOs has shown that linking IPO activities to the activities of DC agencies can potentially leverage the effects of DC and import promoting activities. In Austria, private sector development and export promotion activities only play a minor role in the DC's programmatic framework. The promotion of exporting firms or of the business-enabling environment is also to some degree hampered by the particular characteristics of the focus countries of Austrian DC, the latter being not necessarily linked to importing firms' needs. An Austrian IPO would have to overcome these limitations by strongly linking its activities to other European DC-agencies or IPOs.

On the other hand, demand from Austrian consumers for fair and sustainable sourcing is clearly increasing. Awareness of consumers on issues of social, economic and ecological sustainability increasingly affects the sourcing practices of Austrian firms, and generally underlines the importance of corporate social responsibility (CSR) issues for sourcing. Supporting Austrian importing firms in their quest to improve sustainable sourcing practices could thus also support their competitive advantage. From our perspective, the potential developmental as well as societal case for enhanced import sourcing would thus have to be matched by a proven interest emanating from the private sector to support and participate in import sourcing. To this end, a systematic scoping exercise that assesses the potential for import sourcing amongst the Austrian corporate sector would be the next logical step. Complementing the two studies published by the Handelsverband (Lennkh/Kühberger 2017, Pollak/Lennkh 2017), it should identify specific products as well as Austrian companies that show a high interest in participating in import sourcing activities. Only upon the basis of the results obtained from such a study, should further steps towards the institutionalization of import sourcing in Austria be contemplated. A stronger institutionalization could then either take the form of establishing an import promotion organization in Austria, or of forging a cooperation agreement with an existing IPO from another European country, which would then make its programs fully accessible to Austrian companies.

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