-PC-AAA-428
ISN= 89069

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992–93 (Part 6)

HEARINGS AND MARKUP

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

TRADE AND DEVELOPMENT PROGRAM, BUREAU FOR PRIVATE ENTERPRISE, HOUSING GUARANTEE PROGRAM, AND OVERSEAS PRIVATE INVESTMENT CORPORATION AND MICROENTERPRISE

FEBRUARY 28, MARCH 5, 19, AND APRIL 18, 1991

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992–93 (Part 6)

HEARINGS AND MARKUP

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

TRADE AND DEVELOPMENT PROGRAM, BUREAU FOR PRIVATE ENTERPRISE, HOUSING GUARANTEE PROGRAM, AND OVERSEAS PRIVATE INVESTMENT CORPORATION AND MICROENTERPRISE

FEBRUARY 28, MARCH 5, 19, AND APRIL 18, 1991

U.S. GOVERNMENT PRINTING OFFICE

46-816 WASHINGTON : 1991

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-035710-1

COMMITTEE ON FOREIGN AFFAIRS

DANTE B. FASCELL, Florida, *Chairman*

LEE H. HAMILTON, Indiana
GUS YATRON, Pennsylvania
STEPHEN J. SOLARZ, New York
HOWARD WOLPE, Michigan
SAM GEJDENSON, Connecticut
MERVYN M. DYMALLY, California
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
MEL LEVINE, California
EDWARD F. FEIGHAN, Ohio
TED WEISS, New York
GARY L. ACKERMAN, New York
JAIME B. FUSTER, Puerto Rico
WAYNE OWENS, Utah
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American Samoa
GERRY E. STUDDS, Massachusetts
AUSTIN J. MURPHY, Pennsylvania
PETER H. KOSTMAYER, Pennsylvania
THOMAS M. FOGLIETTA, Pennsylvania
FRANK McCLOSKEY, Indiana
THOMAS C. SAWYER, Ohio
DONALD M. PAYNE, New Jersey
BILL ORTON, Utah
(Vacancy)

WILLIAM S. BROOMFIELD, Michigan
BENJAMIN A. GILMAN, New York
ROBERT J. LAGOMARSINO, California
WILLIAM F. GOODLING, Pennsylvania
JIM LEACH, Iowa
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
JOHN MILLER, Washington
BEN BLAZ, Guam
ELTON GALLEGLY, California
AMO HOUGHTON, New York
PORTER J. GOSS, Florida
ILEANA ROS-LEHTINEN, Florida

JOHN J. BRADY, JR., *Chief of Staff*
ANNE GREY, *Staff Assistant*

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

SAM GEJDENSON, Connecticut, *Chairman*

HOWARD WOLPE, Michigan
MEL LEVINE, California
EDWARD F. FEIGHAN, Ohio
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
AUSTIN J. MURPHY, Pennsylvania
BILL ORTON, Utah

TOBY ROTH, Wisconsin
JOHN MILLER, Washington
AMO HOUGHTON, New York
DOUG BEREUTER, Nebraska
BEN BLAZ, Guam

JOHN SCHEIBEL, *Subcommittee Staff Director*
EDMUND B. RICE, *Minority Staff Consultant*
KATHLEEN BERTELSEN, *Subcommittee Staff Consultant*
DONNA LA TORRE, *Subcommittee Staff Consultant*
JULIE ELIASON, *Subcommittee Staff Consultant*

CONTENTS

WITNESSES

DRAFT LEGISLATION AUTHORIZING AID'S MICROENTERPRISE DEVELOPMENT PROGRAM

Thursday, February 28, 1991: Page
Henrietta Holsman Fore, Assistant Administrator, Bureau for Asia and Private Enterprises, Agency for International Development 3
Alex Rondos, director, congressional relations, Catholic Relief Services 25
Cheryl A. Lassen, Lassen Associates 38
William Burrus, executive director, Accion International 48

REAUTHORIZATION OF THE TRADE AND DEVELOPMENT PROGRAM

Tuesday March 5, 1991:
Priscilla Rabb Ayres, director, Trade and Development Program 80
Jim Andrews, vice president, government affairs, M.W. Kellogg Co 103
William Trammell, vice president, project finance, Fluor Corp 111

REAUTHORIZATION OF PROGRAMS WITHIN AID'S BUREAU OF ASIA AND PRIVATE ENTERPRISE AND OVERSIGHT OF OPIC'S PROGRAM

Tuesday, March 19, 1991:
Henrietta Holsman Fore, Assistant Administrator, Bureau for Asia and Private Enterprise, Agency for International Development 127
James Berg, executive vice president, Overseas Private Investment Program 169

MARKUP OF SELECTED PORTIONS OF FOREIGN AID REAUTHORIZATION

Thursday, April 18, 1991:
George Folsom, Deputy Secretary for International Development and Debt Policy for the Treasury Department 207

APPENDIXES

1. Text of subcommittee draft foreign assistance legislation 237
2. Letter dated April 30, 1991 from Hon. Sam Gejdenson to Hon. Dante Fascell, transmitting subcommittee recommendations 358

HEARINGS ON FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992-93

Part 1—Full committee

Part 2—Subcommittee on International Security and Scientific Affairs

Part 3—Subcommittee on Europe and the Middle East

Part 4—Subcommittee on Human Rights and International Organizations

Part 5—Subcommittee on Asian and Pacific Affairs

Part 6—Subcommittee on International Economic Policy and Trade

Part 7—Subcommittee on Africa

Part 8—Subcommittee on Western Hemisphere Affairs

Part 9—Full committee markup

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992-93

Draft Legislation Authorizing A.I.D.'s Microenterprise Development Program

---

THURSDAY, FEBRUARY 28, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE,
Washington, DC.

The subcommittee met at 10:45 a.m., in room 2172, Rayburn House Office Building, Hon. Edward F. Feighan, presiding.

Mr. FEIGHAN. Ladies and gentlemen, we will begin the hearing of the Subcommittee on Economic Policy and Trade. At the discretion of the Chairman, I would like to welcome everyone to the hearing this morning and we will be joined by the Chairman of the subcommittee who is, unfortunately, detained by commitments at another full committee, but will be joining us at some point during the course of this morning's hearing. And in anticipation of Mr. Gejdenson's arrival, I want to thank him for the record for holding this hearing.

This is really a continuation of the hearing that we held last September on A.I.D.'s Microenterprise Development Program. At that hearing. the subcommittee and A.I.D. began what I felt was a very helpful and fruitful dialogue on how A.I.D. works, what constraints the agency faces, and of particular concern to this committee, what we can do together to fashion legislation to ensure that our assistance fully recognizes and responds to the enormous potential of microenterprise development.

The draft legislation that we are reviewing this morning is an outgrowth of that effort. We have been working on it for the past six months and we will continue to refine it, so that the draft before you should not be considered by any means a final product. It is more, I think, a distillation of the ongoing consultations that we have had with A.I.D. and P.V.O. representatives.

I would also like to thank our colleague, Congressman Ben Gilman, and indicate to the subcommittee that Congressman Gilman and I have an agreement in principle to make sure that the final version of this legislation reflects the concerns that he has had with the microenterprise program as well.

It would then be my intention to see this bill finally incorporated into our overall foreign aid vehicle as a Gilman amendment to that legislation.

The draft bill before us does three things. First, it lays out goals for A.I.D.'s microenterprise program, to continue and expand its emphasis on microenterprise. It calls for A.I.D. to increase its effort to reach the poor and women.

Second, it creates a general authority for the President, through A.I.D., to carry out this program. It recognizes the need for an umbrella approach that addresses the full range of needs faced by microenterprises, providing credit, institutional development, training, technical assistance and policy reform.

And, third, it establishes an overall earmark of $85 million for each of the next 2 fiscal years, with a sub-earmark for special attention on reaching the poorest sectors of the developing world. This lower tier would receive $20 million in 1992, and $30 million in 1993.

The bill appears in draft form today because we are still working to establish a way to identify and target assistance to that lower tier. In the past, Appropriations Committee report language has called for $300 loan cap and for targeted assistance to the poorest, 20 percent of the population.

I think both Mr. Gilman and myself are convinced that, although the loan cap is an imperfect and indirect measure, it nevertheless accomplishes the goal of seeing that A.I.D. channels its aid to the poorest of the poor. I would hope to explore that issue more closely this morning and see if we can reach an accommodation that would accomplish our mutual goals of developing a true umbrella approach that reaches the poorest of the poor.

I would like to welcome our witnesses this morning, and I particularly would like to thank Henrietta Holsman Fore for her efforts in keeping this dialogue on such a productive track and giving us the benefit of her staff's time in trying to reach a nearly consensus bill.

I also want to thank those groups who are represented here this morning, as well as several other private voluntary organizations who have shared their ideas with us, and I very much look forward to your testimony and continuing our work together.

The gentleman from Wisconsin.

Mr. ROTH. I thank the Chairman for yielding to me.

I see the bells are ringing. I have to go to the floor to make a statement. But if the Chairman would be so kind, I would like to take just about a minute and a half to give you my views.

Mr. Chairman, no one doubts the good intentions of those who support this program. No one does. We all want to see improvements in these poorer countries. People should have the opportunity to improve their lot in life. The private voluntary organizations are working harder around the world with many of these projects. Some of us support them with our own charitable contributions. We all have.

But we have to ask why should this fall on the American taxpayer, and maybe that's why we have this hearing. Why should we tax our citizens to make what is basically small business loans or grants to other countries? Why should we give $50 million in $300

increments to be taken from American pay checks to be loaned to entrepreneurs in other countries?

I suppose one could ask the impolitic question of what gives this Congress a right to take American tax dollars for these overseas purposes such as this. This is the kind of program that forces my constituents to ask what the heck is going on in Washington. And we take our surveys, all of the congressmen take their surveys; this is one of the things that people seem to be questioning.

There is no real connection to our foreign policy interests just because people in Congress still believe that they can pile program on program and hand the cost to our taxpayers, and to move on to other ideas. On the other hand, having this program on the books does, I think, provide somewhat of an example of what people are upset about with our Congress today.

So, my message is very blunt, and that is, does this mean, legislation like this, that we are going to have welfare handout, handouts to people overseas? I look at this as a well-intentioned program, but it's going to turn out to be nothing but a handout to some foreign huckster with an off-the-wall idea.

And I appreciate the Chairman for allowing me to make these remarks, because I have the greatest respect for him and for Mr. Gilman, but I think that we have to, in reviewing legislation like this, be very circumspect, and I think this is one of the views that many people would share. I thank the Chairman for allowing me to speak.

Mr. FEIGHAN. Thank you, Mr. Roth.

Well, we will begin the hearing with, I guess, the broadest possible range of views on microenterprise, at least American foreign aid dollars flowing into microenterprise programs. I will not attempt a rebuttal of my colleague's views.

Mr. ROTH. We will have a lot of time for that.

Mr. FEIGHAN. We will have more than ample opportunity for that. But perhaps the administration will undertake that in their testimony.

I would invite then our first witness, Ms. Henrietta Holsman Fore, the Assistant Administrator for the Bureau of Asian and Private Enterprise, in the Agency for International Development, and welcome, Ms. Holsman Fore, back to the committee. You may begin your testimony.

STATEMENT OF HENRIETTA HOLSMAN FORE, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND PRIVATE ENTERPRISES, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. FORE. Thank you, Congressman Feighan.

I am pleased to have the opportunity to continue the dialogue with you about A.I.D.'s Microenterprise Development Program which was begun so productively during the hearings before this subcommittee last September.

I hope, in my remarks today, to lead you to the conclusions, first, that we have listened and responded to Congress on the subject of microenterprise. Second, that A.I.D. has assembled an excellent microenterprise team and has a genuine commitment to the microenterprise program. And, third, that sufficient guidance now exists

for A.I.D. to run the kind of program both you and we can be happy with.

What we need now is time to bring you results and accomplishments. We request relief from arbitrary targets and other limiting factors which drain enormous energy from our dedicated staff. Our highest priority for A.I.D.'s microenterprise program, and I would venture to guess, yours as well, is to reach as many people in the developing world as possible with the microenterprise services that we support.

As Administrator Roskens stated in recent testimony, the whole A.I.D. program should aim to give all people, especially poor, children and women, a stake in the prospects of economic development. Nowhere is this more apt than in microenterprise development.

What stands in the way of meeting the needs of the majority of the self-employed and microentrepreneurs? The answer, we believe, is not simply more money from donors. One-third of the developing world's population, about 1 billion people, have incomes less than $370. If we are ever to achieve more than a token response to this need, it must come not from limited donor capital, but from effective local institutions that can mobilize local funds to serve the poor in growing numbers.

A.I.D.'s microenterprise program seeks to help by creating and nurturing stronger local groups and institutions who can, in turn, offer credit. We have participated in such a process with breathtaking results in the development of Bank Rakyat Indonesia's Unit Desa System. A.I.D. worked to convince Indonesia's Minister of Finance to try the program. A.I.D. financed training of the BRI staff and supported a team of advisors who worked with BRI's management in implementing the new program. Now the program lends more than 2 million people, and it takes in nearly $600 million in savings. This example shows how helping local groups and institutions makes it possible to reach geometrically increasing numbers of poor people.

A focus on the benefits—reaching people—as a result of our program is far better than an exercise of counting the dollars going into our program. Accordingly, A.I.D. is now setting program objectives in terms of results, especially the numbers of people reached. We would like to achieve the following program objectives in 1992 and 1993:

First, increases of 10 percent in each year in the number of microenterprise loans made through A.I.D.-supported programs;

Two, so that the programs will focus on the very poor and on women, a rate of increase in the numbers of loans to the very poor and to women higher than 10 percent each year;

Three, increases of 5 percent in each year in the number of local institutions and local microenterprises receiving training or technical assistance through A.I.D.-supported programs;

And, fourth, development of new policy and regulatory reforms on behalf of microenterprises in two countries each year.

Within this objective-setting process, we will pay close attention to the poor, to the very poor, and to loans for these people using country-by-country criteria.

I was pleased to see in the draft legislation the implicit recognition that assistance to the very poor cannot be defined by an arbitrary fixed loan size set in the United States for the whole developing world. It is contrary to democratic values for Washington to dictate loan ceilings to locally managed grassroots programs.

As you know, initial attempts to impose a specific loan size ceiling were soundly rejected by the implementing private voluntary organizations. The Advisory Committee on Microenterprise, convened at the request of Congress by A.I.D., unanimously recommended against establishing $300 as a loan ceiling. A letter making a similar recommendation was sent to Congress last year from 19 of the leading U.S.-based PVOs who implement the microenterprise program.

A loan cap is inconsistent with the aim of helping the poor move out of poverty. As their businesses grow from tiny beginnings, borrowers continue to need finance, and local microenterprise institutions are almost certainly their only hope for obtaining it.

I am reminded of a seamstress in a black township in Port Elizabeth, South Africa. The Get Ahead Foundation gave her a small working capital loan to buy cloth. After a year, she was ready for a much larger loan to buy an electric sewing machine which enabled her to compete with products coming into the township from the outside, and to employ several other women to help. She was able to do it because the Get Ahead Foundation is not only committed to very poor people, it is committed to helping them get out of poverty.

Returning now to A.I.D.'s program, the Agency has developed an action plan to achieve the objectives outlined above. Highlights of the plan are:

Our missions will design new programs and extend existing ones. USAID/Nicaragua, for example, is planning a major program of microenterprise credit. It will be a terrific opportunity to support the rebirth of the entrepreneurial spirit in Nicaragua.

New projects are also about to begin in Bangladesh, Egypt, Malawi, El Salvador, Dominican Republic, Jamaica, and others.

A.I.D.'s Women in Development Office will ensure that each and every microenterprise program A.I.D. supports will be designed to maximize the participation of women.

A.I.D. is committed to better reporting. We have already expanded the Agency-wide data gathering system to report on funding levels for microenterprise programs. More importantly, we will soon be able to report systematically on achievements. A microenterprise monitoring system has been designed to assess numbers of loans and sizes of loans, numbers of clients trained, gender of clients and institutions assisted. A team is in Africa right now carrying out a field test of the system. We expect to begin worldwide implementation soon thereafter. With regular information, we should be able to more than satisfy you that A.I.D. is carrying out the kind of microenterprise program that you want to see.

With regard to the legislation drafted by your staff, we are also pleased by the very positive spirit that you have mentioned in your opening remarks that has characterized the recent dialogue with this subcommittee, and compliment you and your staff on the open consultative process.

We do not agree, however, with the continuation of the earmark on microenterprise, and are particularly disappointed to see that this draft contains not only an extension of the existing earmark, but a new sub-earmark for poverty lending. Such earmarks require top-down decisionmaking in an area that cries out for a grassroots approach.

Further, given A.I.D.'s strong microenterprise program and continued commitment to microenterprise, I question the need for any legislation on microenterprise at all. A.I.D.'s achievements to date and promise of future commitment are such that we have moved beyond the need for legislative earmarks.

Since my arrival last year, I have sought to show you that A.I.D. has both an excellent program in microenterprise as well as a renewed commitment to expand the achievements of that program. A.I.D. has worked very hard to craft a program that incorporates congressional concerns. I am hopeful that both through our dialogue with you and actions within A.I.D. we can satisfy congressional concerns without the need for further legislation.

We propose, as an alternative to legislation, a consultative process based on establishing internal A.I.D. objectives as I described earlier in which the objectives are arrived at through consultation rather than legislation. You have my personal commitment to consult with you throughout that process

In closing, let me say how proud I and many, many others at A.I.D. are of the microenterprise program. It is an extremely effective program that continues to be on the forefront of the worldwide microenterprise movement. We ask you to give us the leeway to make it the best program it can be.

Thank you for this opportunity to present A.I.D.'s views on microenterprise development. With me is Dr. Michael Farbman, Director of our Office of Small, Micro and Informal Enterprise, and we would both be happy to answer any of your questions.

[The statement of Ms. Fore follows:]

PREPARED STATEMENT OF HENRIETTA HOLSMAN FORE

ASSISTANT ADMINISTRATOR

AGENCY FOR INTERNATIONAL DEVELOPMENT

I am pleased to have the opportunity to be here today to continue the dialogue with you about A.I.D.'s microenterprise development program, which was begun so productively during the hearings before this Subcommittee in September, 1990. As you requested, I am prepared to update you on A.I.D.'s implementation of its microenterprise program and to comment on the proposed microenterprise legislation. The Administration has not had the opportunity to review fully this draft legislation, and would be pleased at a later time to provide detailed comments. My remarks today are of a general nature.

We have spent a great deal of time during the past two or three years talking about our areas of difference regarding microenterprise development. Meanwhile, we have overlooked how very much we have in common. In my testimony today I would like to focus on those common interests and share some ideas about how to pursue them together.

Our highest priority for A.I.D.'s microenterprise program -- and, I would venture to guess, yours as well -- is to reach as many people as possible with the microenterprise services we support. The need is very great, and most of it is unmet. In most countries only a small fraction of the poor have access to loans, training or any other kind of assistance. We are working toward a day in which the vast majority of the poor can get the kind of financial and other services that enable them to pursue their own

economic activities. Reaching the majority of the poor will make a major contribution toward poverty alleviation, economic growth, and a fairer, more democratic social fabric. This statement echoes that of A.I.D. Administrator Dr. Roskens in his testimony before the House Foreign Affairs Committee three weeks ago, in which he called for the whole A.I.D. program to give all people, especially the poor, children and women, a stake in the prospects of economic development." Commitment to these values underlies our belief in the importance of microenterprise development.

What stands in the way of meeting the needs of the majority of microenterprises? The answer, we believe, is not necessarily a shortage of funding, particularly funding for loans. Successful institutions can raise loan capital themselves: from the savings of their own clients, from local private sources, and from large, multilateral donors like the Inter-American Development Bank, IFAD, and the World Bank. Rather, the factor limiting expansion of microenterprise activities most severely is the shortage of effective institutions that can serve the poor in growing numbers.

A.I.D.'s microenterprise program seeks to help create and nurture such institutions. We help institutions build their programs in whatever way makes the most sense for them: be it support for operating costs, assistance in design of management systems, staff training, computers, or loan capital. A.I.D. often

develops relationships that continue for many years. Where those partnerships are successful, the results are truly rewarding -- after several years of perfecting their operations, the institutions grow to reach thousands and tens of thousands of people. At the same time, these programs grow increasingly independent of A.I.D. support.

We have participated in such a process with breathtaking results in the development of the Bank Rakyat Indonesia's (BRI's) Unit Desa System -- now approaching two million borrowers and seven million savers. A.I.D. worked from the start with Indonesia's Ministry of Finance to convince them to try the program. A.I.D. provided financial and technical support to BRI from the initial planning stages until today. We financed training of the enormous BRI staff, and maintained a team of advisors at headquarters who worked with BRI's management in developing and implementing the new program. Now, the program mobilizes hundreds of millions of dollars -- all from the savings of its clients, and the days of intensive dependence on A.I.D. are drawing to a close.

We see similar patterns in many other instances as well. The institutions move up the learning curve slowly at first. Once the take-off point is reached the real benefits of A.I.D.'s years of investment in the microenterprise programs appear. A.I.D. has already fostered this type of process in Indonesia with BRI and

several of the smaller provincial systems, in the Dominican Republic with ADEMI, in South Africa with the Get Ahead Foundation, and elsewhere, and now institutions we support are on the brink of real expansion in Kenya, Bolivia, and Egypt, among others. We also see great promise for the rapid replication of smaller programs, such as those using the village banking methodology, which are carried out with A.I.D. funding by several U.S. private voluntary organizations.

From talking with some of you and with your staffs, I know that you share our excitement when these programs begin to take off. We all want to see institutions develop to the point where they can make a real impact on the poor of their countries. Helping this kind of expansion happen is at the heart of your interest in microenterprise development and of ours.

If we can agree on these aims, we should consider a simple, yet far-reaching proposition: A.I.D.'s microenterprise development program ought to be judged by the results it achieves, not by the inputs that go into it. Throughout the entire Agency, we are reorienting ourselves to measure success by our achievements, not by inputs. The American people can rally behind a foreign assistance program that demonstrates a real difference. We owe it to them to show that their foreign assistance dollars result in important, tangible changes in the world.

A.I.D. is taking action on this proposition. We are now setting internal goals for the microenterprise program in terms of results. We plan to set ambitious goals for ourselves and those organizations we support -- and we plan to reach those goals. Because our purpose is to expand the reach of microenterprise programs, particularly credit programs that make small loans, we propose to set objectives for the institutions we support to reach more and more people, and we will achieve the objectives both by helping programs to grow and by supporting additional programs.

We are working with the following program objectives for each of 1992 and 1993:

- Increases of 10 percent in 1992 and again in 1993 in the number of microenterprise loans made (or borrowers financed) through A.I.D.-supported programs.

- A rate of increase in numbers of loans to the very poor and to women higher than 10 percent each year, so that the program overall will increase its focus on these groups.

- Increases of 5 percent in each year in the number of institutions and microenterprises receiving training or technical assistance through A.I.D.-supported programs.

- Development of a new policy and regulatory reform or subsector-based assistance effort on behalf of microenterprises in two countries each year.

We aiming for these goals, particularly those on credit, because we think that microenterprise programs in many countries are beginning to come of age, and are on the verge of significant expansion. The preliminary figures that we have obtained most recently show that on the obligations and expenditures side, A.I.D. is putting significantly more funding into credit programs, and we expect this to be multiplied on the output side. We are focusing on the numbers of loans or borrowers rather than dollar volume because we feel that this information measures more accurately the success of the program. This focus will force A.I.D. and its grantees to keep their eyes on the shared goals of expanding outreach and replicating programs.

Within the objective-setting process, we will pay close attention to loans for the very poor, using criteria that take country-by-country variation into account. I was pleased to see in the draft legislation the implicit recognition that assistance to the very poor cannot be defined by an arbitrary, dollar-denominated loan size, set in the United States for the whole of the developing world. The poor in one country may not be identical with the poor in another country, and it is inconsistent with

democratic values and good financial sense for Washington to dictate loan ceilings to locally-managed grassroots programs.

As you may remember, initial attempts to impose a specific loan-size ceiling were soundly rejected by implementing organizations. The Advisory Committee on Microenterprise, convened by A.I.D. at the earlier request of Congress, unanimously recommended last year against establishing $300 or any other fixed figure as a loan ceiling. A letter making a similar recommendation was sent last year from 19 of the leading U.S.-based PVOs who implement the microenterprise program to the Chairmen of the House and Senate Appropriations Committee Subcommittees on Foreign Operations. A.I.D. feels very strongly that such a loan cap is inconsistent with the financial viability of the institutions that make loans and with the aim of helping the poor move out of poverty. As their businesses grow from their tiny beginnings into more stable sources of income, borrowers will continue to need access to finance, and the microenterprise institutions we support are almost certainly their only hope for obtaining it.

Returning now to A.I.D.'s program, the Agency has developed an action plan to achieve the goals I described above. The plan is currently being discussed internally throughout the Agency and in consultation with the Advisory Committee on Microenterprise. It contains the following elements:

- The A.I.D. field missions will be informed of our planning objectives, and internal communication throughout the Agency will ensure that they are clear to everyone involved in programming decisions.

- A significant number of missions are designing new programs and extending existing ones this year. USAID/Nicaragua, for example, is planning a major program of microenterprise credit. This will be a terrific opportunity to support the rebirth of an entrepreneurial spirit in Nicaragua and to stimulate employment for the majority of Nicaraguans whose standards of living suffered under the previous government. New projects are also about to begin in Bangladesh, Egypt, Malawi, El Salvador, Dominican Republic, and Jamaica, among others.

- A.I.D.'s Women in Development Office will ensure that every single new microenterprise program A.I.D. supports will be designed to maximize the participation of women. Through its GENESYS project and by working with GEMINI, that office funds gender consultants who work with A.I.D. and its grantees at the critical design stage to examine and eliminate possible barriers to women's participation and to promote actively greater women's involvement.

- The GEMINI project will make a major effort to promote microenterprise development among the A.I.D. field missions and cooperating host country organizations. This effort is already well under way. Last fall, GEMINI held two conferences for practitioners -- one on microenterprise finance and one on non-financial assistance. At the earlier conference, representatives from Grameen Bank, BRI/BKK, ACCION International, village banking programs, credit unions, and others examined the prospects for expanding microenterprise finance. A videotape of this conference will be distributed to A.I.D. missions and grantees, and regional conferences on the same themes will be held as soon as travel restrictions are lifted and planning can begin.

- GEMINI is also examining the village banking methodology and is assisting U.S. PVOs who are implementing village banking programs in a variety of countries. As the methodology becomes better understood within A.I.D., it will generate greater interest in support for such programs.

- Very importantly, A.I.D. is developing a monitoring system that will measure the results of our assistance

in terms that coincide with the objectives we set. We will report on the status of this system later in these comments.

- The new Institutional Reform and the Informal Sector (IRIS) Project promises to expand dramatically A.I.D.'s capability to support reform of the regulatory, institutional, and policy structures in developing countries.

- The Office of Private and Voluntary Cooperation is continuing to emphasize microenterprise development in its matching grant program, with new grants in this area to be awarded in 1991.

With regard to the legislation drafted by your Subcommittee staff, we are very happy about the positive spirit that has characterized the recent dialogue with this Committee, and complement you and your staff on the open, consultative process that you have been following. We value the dialogue at the staff level very highly, and believe that it is crucial for generating greater understanding of both Congressional aims and the nature of the A.I.D. program.

A.I.D. is in fundamental agreement with the ultimate goals the proposed legislation seeks to address. However, we cannot agree

with any legislation earmarking A.I.D. funds, and are particularly disappointed to see that this draft bill contains not only an extension of the existing earmark, but a new sub-earmark for poverty lending. Such earmarks artificially constrain our employees in the field by requiring them to implement a top-down approach, in an area that cries out for a grassroots approach.

Further, given A.I.D.'s strong microenterprise program and continued commitment to microenterprise, I wonder why any legislation on microenterprise is necessary at all. A.I.D.'s achievements to date and promise of future commitment are such that we have moved beyond the need for legislative earmarks. Since my arrival last year, I have sought to show you that A.I.D. has both an excellent program in microenterprise, and a renewed commitment to expand the achievements of that program. Microenterprise activities make development sense, and A.I.D. will continue to promote them. A.I.D. has worked very hard to craft a program that incorporates Congressional concerns and objectives. A.I.D. has realized the value of loans for the very poor, and in fact, the focus on credit in very small amounts has increased. I am hopeful that both through our dialogue with you and through our actions within A.I.D. we can satisfy Congressional concerns without the need for further legislation.

As I described above, A.I.D. is setting ambitious but realistic

goals of accomplishment for its program, and, as I will describe in a moment, A.I.D. is putting in place a system to track performance in reaching these objectives. We propose, as an alternative to legislation, a process which is based on these objectives, in which the objectives are arrived at and performance is monitored through consultation rather than legislation. You have my personal commitment to consult with you in all phases of such a process.

I know how important it is for A.I.D. to be able to report on the results of our microenterprise efforts, and I am happy to say that we are moving ahead promptly to develop our systematic monitoring capability. We have already expanded our normal Agency-wide data gathering process to include information on the funding level of our microenterprise program. Through this system A.I.D. assembles data on all A.I.D. operations in preparing for the annual budget submission to Congress. We already have begun to use this system to collect systematic information on actual and proposed funding levels for microenterprise programs, as needed both for planning purposes and to track compliance with any earmark. Data from that exercise are now being analyzed, and will be presented in this year's report to Congress on the microenterprise program.

Just as important, we are working to develop the ability to report systematically on achievements. A microenterprise

monitoring system has been designed that will give us information on 1) numbers and sizes of loans, 2) numbers of clients trained, 3) gender of clients, and 4) other indicators, at the level of the projects and organizations A.I.D. supports. That system is now being field-tested before it is implemented worldwide. Our team is in Africa today carrying out a pre-test in three countries. The results of that test will be available in March and will be discussed in the report to Congress. We expect to begin implementation worldwide as soon thereafter as possible. With this kind of information coming in regularly, we should be able to more than satisfy you that A.I.D. is carrying out the kind of microenterprise program you want to see, without the necessity for further legislation of any kind.

In closing, let me say how proud I and many, many others at A.I.D. are of the microenterprise program. It is an extremely effective program, that continues to be in the forefront of the worldwide microenterprise movement. We ask you to support our efforts to make it the best program it can be.

Mr. FEIGHAN. Thank you, Madam Administrator.

Mr. FARBMAN, you may proceed to join the table.

I know that you have some scheduling constraints but there are a few questions that I would like to get into. It seems clear to me that over the past several months or actually a couple of years, as we have been trying to build a better understanding of microenterprise, it has been an elusive term for us. The Congress has used the term microenterprise generally to contemplate the provision of credit to the very poor. A.I.D. has frequently used microenterprise in a fairly more expansive view, although clearly much of, if not most of what A.I.D. is directed for the benefit of the poor.

But can you just summarize for us, Ms. Holsman Fore, the commitment that A.I.D. has to that niche of microenterprise that constitutes credit programs aimed at the very poor? Not as a rebuttal to my colleague's opening remarks, but in response to those members of Congress or Americans who would not fully appreciate the value of credit programs within the entire construct of microenterprise as being an integral and very valuable part of our overall development plan.

Ms. FORE. As you know, we do feel that credit is an integral part of it. It is one of several parts to us. On the credit side, as you know, last year we lent out through the various private voluntary organizations that we work with approximately 45,000 loans that were approximately $108.

We plan to increase that amount geometrically by increasing our support to the local institutions that in turn can lend out more. We have such a huge problem, as you and I have discussed, that we need to try to get to more of the developing world. We have many new field projects going on. Specifically, FINCA in El Salvador has a new one, and the Women's Entrepreneurship Development Project (WEDP II) in Bangladesh are earlier institution-building initiatives that are particularly aimed at the poverty lending capabilities of our institutions. For example, Prodem in Bolivia and Fondomicro in the Dominican Republic are looking very good and strong, and many more of the poverty lending and village banking U.S. PVOs are receiving assistance from central A.I.D. funding.

So, we think that through many of those mechanisms of helping other groups locally, the concern for poverty lending is going to be addressed through these institutions.

Mr. FEIGHAN. Administrator, you have discussed the action plan that your office has been working on for fiscal year 1991. Is that action plan complete? Is it still in process? What is the status of that?

Ms. FORE. As you know, in December, the A.I.D. Microenterprise Advisory Committee agreed to assist in the development of this action plan. It is going to be presented on March 19 when the Advisory Committee next meets. It has been in draft. It is not yet finalized, and it has several parts in it that I believe your staff has begun talking about, ways we can market microenterprise, field workshops, which seem to be a very important component, technical assistance to the local implementing organizations, and, of course, better data.

Mr. FEIGHAN. And at this point in the action plan what are the recommendations for targeting to the poorest of the poor and for women?

Ms. FORE. In the draft?

Mr. FEIGHAN. In the draft so far.

Mr. FARBMAN. Well, those are two separate issues.

Mr. FEIGHAN. Right.

Mr. FARBMAN. In the first instance, what we are trying to do for targeting women is consistent with what we are doing overall in the agency. As I am sure you are aware, we have a fairly comprehensive approach to dealing with women in development in all the sectors in which we work, and that certainly applies for microenterprise development.

Our Women in Development Office works very closely with Ms. Fore's staff, and with the field missions to try to assure that in each and every case of a new project being developed for microenterprise, they will promote quality control, as it were, with respect to how the project reaches women.

More generally, the Women in Development Office does a lot of training for private sector development with respect to women which almost exclusively means microenterprise development. There is a lot that we do inside the agency to both raise awareness and to try to increase the reach of our projects very proactively in order to increase the numbers of women affected.

On the side of increasing the poverty-lending focus, this we do principally through supporting those institutions, whether they be U.S. PVOs or host country institutions, which have that predilection to work with poverty loans. You and your staff have heard from quite a few of them: the U.S. PVOs, programs that are not necessarily PVO projects in the developing countries. We can document that we are increasing the amount of support that we are giving to programs which we know have very substantial commitments to the poverty-lending side of what they are doing.

And I think that, as Ms. Fore mentioned in her introductory comments, as we begin to collect the performance data rather than to focus on how the dollars are applied on the input side to our projects, I think you will see that we have achieved our objectives of increasing the focus of our worldwide program on that kind of lending.

But at this stage I would say, the evidence is circumstantial, but I think a heavy burden of circumstance supports this.

Mr. FEIGHAN. Now, to accomplish that, does A.I.D. have in each of its missions today, or does it contemplate in the future having one individual identified as maintaining responsibility for microenterprise development, including the two categories that we just mentioned of reaching out to the poorest of the poor and to women?

Ms. FORE. In all of our missions, we have asked more than one person to be interested in and looking at the microenterprise area. And if they have a project outlined and underway, there is at least one responsible person in every mission. If they do not yet have a program, then there just may be one person who is looking at microenterprise, seeing what might be best for that particular coun-

try, what the local institutions are, and what the needs are. Are they more on the policy side? Or is it more in credit or training.

Mr. FEIGHAN. It sort of sounds like no.

Ms. FORE. No. That is a yes. Is it that there is one person tagged? There is at least one in the missions where we have programs going on. In the ones where we do not, there is not one person that is assigned to do microenterprise poverty lending as their sole focus.

Mr. FARBMAN. May I add, Congressman?

Mr. FEIGHAN. Please.

Mr. FARBMAN. I think that part of the perceived problem here is not really a problem at all. We have often said to you how the projects in the field are often quite different, one from another. They take many different shapes. They are done under the guise, sometimes of agricultural support or rural development support. They may be part of urban projects. They often are done just as grant programs directly working with the local non-governmental organization community. The point is that these projects can be supported in our missions in any of a number of places. And, as you know from our earlier reporting, we have projects in microenterprise development in over 50 missions.

Where it is supported in the mission can be somewhat idiosyncratic. But I think you can be assured that because of the reporting requirements which we are now pursuing, our missions are seeing to it that they are much more informed on what those projects are doing. We are assured that there are people or a person, at least, in virtually every mission, to whom we can turn and consider that individual a counterpart for this program.

Mr. FEIGHAN. I understand that. But it seems to me if there is not one individual who feels that sense of responsibility, it is going to be very difficult doing accurate country-by-country analysis. And if a PVO in a particular country wants to participate, who do they know to turn to if there is not one person that there is identified?

Now you are going to say there are going to be lots of people that they can turn to. It seems to me that it might be somewhat more efficient and helpful if there was one person who had that as part of their mission.

Mr. FARBMAN. I think partly you are underestimating the networking and intelligence-gathering capabilities of some of the PVOs. They normally know better than we do.

Mr. FEIGHAN. I always do, so I am sure you are right.

Let me turn to the issue of earmarking that the Administrator raised in her testimony which we thought was very reasonable. Of course, without dealing with the general principle of earmarking which I know you do not want to get into, but we thought that the $85 million earmark was particularly on target, not at all arbitrary and that estimated expenditures for 1990 were 83.8—will be 83.8 million. So that seemed to be a realistic target. But let me ask you about that subcategory of an earmark.

We talk about a benchmark of $20 million in aid to the poor sector for fiscal year 1992. Now, we would include in that figure, of course, institutional support for intermediaries that support village banking and credit programs and other poverty lending activity. Is

that a realistic earmark? Setting aside the general principles o earmarks, does that $20 million figure strike you as being realistic'

Ms. FORE. Let me just be clear that I know what you are includ ing in it. You are saying that it is for credit programs, but also foı institutional strengthening and training.

Mr. FEIGHAN. For those institutions that are engaged in thos credit programs.

Ms. FORE. In credit programs. And is there any limitation on th type of lending? Like a certain poverty level? Is that what th question is?

Mr. FEIGHAN. Well, we will get to that.

Ms. FORE. We will get to that one later.

Mr. FEIGHAN. Yes. We will get to that.

Ms. FORE. You know our basic premise about all earmarks and how they shape a program artificially. This, to our way of mind, is a real grassroots program and it should be shaped in a grassroots way, based on what the needs are. We will have difficulty with any sub-earmark of that sort. It drives a program and shapes it in a way that is not necessarily what is needed in a country or what we here in this room want.

Mr. FEIGHAN. In terms of an earmark. Now if it were in terms of a goal that we reached after the consultative process, it would seem like a realistic goal.

Ms. FORE. Well, as I mentioned earlier, what we are hoping to do is to focus not on how much money goes into a program, but what the results and achievements are of the program, itself. What are we getting for it? Where is that U.S. taxpayer dollar going?

And so what our objectives are that we have set within our office is to try to get at what those achievements are, rather than how much money is going in. The sub-earmark addresses how much money is going into the program. And what we hope to move all of us toward is measuring what we have been able to achieve with the money that has gone into our program. That is what we have set our internal objectives on.

Mr. FEIGHAN. Let me deal with this issue now of the loan caps. I understand in your testimony you restated your opposition to loan caps. And this has been probably the one area that we have all given the most rhetorical attention to, at least, if for no other reason that it does seem to target our attention on what our mutual goals are.

If our goal is to reach the very poorest of the poor, it seems to me we can either means test the recipients of our programs—and nobody wants to do that. I mean the bureaucracy that we would have to create to do that would be enormously difficult and costly and very counterproductive. Or we can use, it seems to me, the indirect measure of a loan cap. You have argued that the loan cap is incompatible with developing self-sustaining institutions.

My view is that under this two-tier system now that we are proposing in the draft legislation, institutions can have a very diversified portfolio that includes both large loans and small loans under a $300 cap. We would like to see those small loans counted against the sub-earmark and the rest of the portfolio counted against the larger earmark.

Would that not solve the problems for institutions that lend both above and below the $300 loan caps? The argument of self-sustaining—of not assisting self-sustaining institutions I think does not hold up.

Ms. FORE. Well, there are two parts to that, I think. One is the difficulty that our private voluntary organizations have in segregating their lending programs into two categories—those that are below a loan cap and those that are above. We have lots of letters here that are coming in from our private voluntary organizations saying how difficult it is for them currently to differentiate this way, and that it is causing a costly burden to them, both in time and in money to do so. If we can give them grant money, in time they can do it; but they cannot do it now. They cannot do it without further funds, and it is a real imposition. It is not we that are gathering the data, it is the 400 institutions that are working with us around the world. So that is one difficulty that is a mechanical one with any kind of a loan cap.

The second aspect has to do with the notion of growth. These people that we are helping are indeed very poor. They are very needy. And to get out of poverty, which I think is all of our goals, there is not a line drawn in the sand for how you get out of poverty. You have to be sure that you are out enough that you do not slip back, that there is a way to be sure that it holds, that it is a sustainable effort that you have put into it.

There is an example that I could cite from East Java in Indonesia about a women's credit organization. They began with a few women just baking cakes and savories which they sold to the street vendors. Their reputation grew, their market grew and soon they needed to buy ovens and they were catering to the local businesses.

Once they are at that stage and they have a real business going on, hopefully we believe they are out of poverty. They will not slip back in again, but you need to get them far enough up that they will not just slip back. And a loan cap just sets a line where you are saying people who borrow under $300 are needy and poor and those above $300 are not as needy or poor. And they are all very poor and very needy.

Mr. FEIGHAN. And I want to ask you in just a few minutes about the monitoring program that may be underway, but before I get to that, I just want to make clear why we are continuing the dialogue and why we are pursuing legislation and why we are including in that earmarks. In 1988, we had an earmark of $50 million and A.I.D. spent just over $5 million on loans of $300 or less. A year later, in 1989, with an earmark increased to $75 million, A.I.D. actually spent less money on loans of $300 or less. So it raises the question to us in the absence of legislation, would A.I.D. spending on microenterprise increase or decrease. And we are hoping that if nothing else, the earmarks can demonstrate the intensity of the Congressional interest and support for increasing expenditures in those categories.

Ms. FORE. I hear that. It is something we are after, also. Though the numbers stayed the same—approximately the $5.5 million—as you know, in 1989, the total number of loans under $300 grew so that there were 46,000 loans rather than 41,000 loans with the same total dollar amount. So we did increase the number of loans

that went out. They were just smaller. And with respect to trends, as you know, we currently do not have an accurate way to gather those data. But we are hearing that lending volumes within the institutions that are lending to that very poor category are increasing geometrically. We do not have perfect data on this, but every indication is that they are increasing. We really think we are under-reporting this lending. There is clear growth in it.

Mr. FEIGHAN. Now the monitoring system that we have talked about at previous hearings presumably will address some of those difficulties. Can you give us an update at this point, Administrator, on the development of a monitoring system? And it seems to me that there was a pilot program that was to be in place or may in fact be in place. Can you give us a status report on that?

Ms. FORE. We have a pilot group that just went out, as I mentioned, to Africa: Swaziland, Botswana and Malawi. They were delayed a little bit because of the Gulf crisis and travel restrictions. They are out there now. Their report is due back in by March 15th. If they have shown that we have got a good system, that the private voluntary organizations can indeed use in the field, then we will go out immediately worldwide with it and begin that data collection so that by this time next year we should have a very good system in place.

Mr. FEIGHAN. Worldwide system?

Ms. FORE. Worldwide system, so that our pilot should be coming back in by March 15th. I think we have consulted with you on each one of the categories for which we are gathering the data. There are a lot of private voluntary organizations who need to be brought to one uniform reporting format, but I think as you will hear later that everyone can come to it. It just takes some time and money and effort.

Mr. FEIGHAN. Thank you very much, Administrator. I appreciate your testimony this morning and particularly your ringing endorsement of portions of our proposed legislation. We look forward to talking to you again, soon.

Ms. FORE. Thank you, Congressman Feighan. I also appreciate your ringing endorsement for some parts of our program.

Mr. FEIGHAN. Thank you.

Our second panel will consist of Mr. Alex Rondos, the Director of Congressional Relations for Catholic Relief Services; Sheryl Lassen, of Lassen Associates, and Mr. William Burrus, the Executive Director of Accion International.

Mr. FEIGHAN. Mr. Rondos, you could begin your testimony if you will, and then we'll proceed to Dr. Lassen and Mr. Burrus.

STATEMENT OF ALEX RONDOS, DIRECTOR, CONGRESSIONAL RELATIONS, CATHOLIC RELIEF SERVICES

Mr. RONDOS. Thank you very much, Congressman. I am very grateful on behalf of Catholic Relief Services to be able to comment on the draft legislation.

The CRS has a long history of implementing credit programs targeted at the poor in the Third World. They range from grain credit schemes to village banking networks to programs for small enterprise training and credit.

These are programs which we have run through a wide array of counterpart organizations, including the church and secular groups, cooperatives and credit units.

And to build on this experience, in 1987, CRS launched a $5 million Small Enterprise Development Program with the support of AID. The purpose of the program is to develop alternative financial enterprise service institutions for the poor that they themselves can manage. This program is currently being tested in Thailand, Peru, Bolivia, Togo and Senegal.

In welcoming the interest taken by Congress to support lending programs for the poor, I would like to make some general comments to underscore the significance of your initiatives.

First, let us finally dispense with any prejudice that may still linger that the poor cannot handle finance and more significantly still that they don't nor cannot save. We have learned that credit can be given cost effectively to large numbers of the poorest in the world and given under appropriate methods, the commensurate savings are significant.

Collection and savings in such schemes are best managed by the local benefitting community and communities can indeed and in our view must eventually sustain financially such schemes so that many of the social costs and requirements of the community are supported through such schemes.

Second, with adequate support for the strengthening of indigenous institutions, such programs can reach very large numbers. We would submit millions. The value of each dollar invested is retained and grows for years to come.

We look at this through a particular prism which is that of Catholic Relief, which for almost four decades now has been distributing food and providing a nutritional and economic safety net to millions in need of assistance.

We would now testify that it is also quite possible to bring credit and generate savings with lasting benefits to improve the lives of those same very poor populations.

Third, more than 50 percent of the world working age population must live outside the formal sector. That is, they can expect no formal employment and must employ themselves. They range from indigent mothers, for example, who need a few dollars capital to buy tomatoes to sell on the street corner, to a carpenter who needs more working capital and technical assistance to expand his enterprise and become an employer within the community.

The vital lesson we believe should be drawn is that the needs of these millions of impoverished vary. There is no one single method of bringing assistance to them, and we would caution against any tendency to impose dogmatically any single methodology of credit and finance for the poor.

In our testimony, however, we would like to focus particularly on the issue of what is now referred to as poverty lending.

We do microenterprise programs. We believe that they are vitally important and must be supported and your legislation, the draft legislation, has clearly identified that as a major target.

The fact that we are able to discuss lending and savings programs for the poor with relative sophistication and some confidence is in very large part thanks to the resources and support pro-

vided by USA.I.D. to small business and microenterprise programs during the last 15 years.

A.I.D.'s matching grant program to build PVO capacity to implement microenterprise programs has been particularly successful in our experience. It has helped to build the institutional capacity to program the type of funding intended by this legislation in greater quantities and with greater effect.

We would now look to A.I.D. to join us to continue sharpening its focus on reaching the very poorest, and by that I mean the destitute, by encouraging its field missions to support more of these programs.

We would also emphasize that A.I.D. spending on microenterprise should occur to the greatest possible extent in the field where the true learning occurs and experience is gained.

Any temptation to fund policy research within the United States rather than in the field under this legislation should be curbed.

In short, progress made by A.I.D. in its enterprise programs must now expand to reach the poorest rungs of societies in the third world.

In our own programs, Catholic Relief Services has learned that not only can we reach micro entrepreneurs with a small base of assets but we can also reach the destitute who have no assets. These are the people who are the traditional recipients of food, health care and other social welfare programs that CRS has run over many years.

In the last several years, CRS credit programs have reached thousands of participants in our food programs in the Philippines, India and Indonesia. We see this essential complementarity between sustaining nutritional status of very vulnerable groups on the one hand and enhancing their economic asset base on the other as a potentially exciting breakthrough in providing assistance for long term self-reliance to very large numbers of very, very poor people.

The participants in our programs are usually women who have few or no assets. Their needs and indeed some of their objectives differ significantly from a blacksmith, a carpenter, a mechanic or any other micro entrepreneur who CRS serves through its microenterprise programs.

Thus CRS makes a very important distinction between its microenterprise programs, which we would emphasize again, have brought vital merit, and those which serve the destitute. Those are programs which have been referred to as poverty lending.

Hence, we believe that the effort made in the draft bill to structure the targeting of participants in such programs into two levels, microenterprise and poverty lending, will encourage all practitioners in this field of trying to reach the poor to develop a capacity also to reach the destitute.

We would suggest that the sections of the draft bill addressing the poorest target group can be strengthened. The poverty lending methodology has certain characteristics which we use as criteria in our own programming and which might be useful to your own legislation.

Poverty lending programs target the poorest with limited or no fixed assets. These people have no collateral. The programs use

series of very short-term and productive loans. They have a loan ceiling to guarantee that the participants are among the poorest.

Poverty lending emphasizes savings mobilization and eventual cost recovery in order to reach large numbers of poor people on a financially sustainable basis.

The programs work through group mechanisms which promote community solidarity.

They are designed, finally, with social as well as economic goals in mind. Communities come together to find solutions to their own problems in health, education and infrastructure.

We feel that a loan ceiling of $300 as recommended in the draft does not place any constraint on poverty lending schemes or indeed on any general credit programs. Loan ceilings are already used in all our lending programs to ensure that only the destitute are being served. Since these programs require a high level of community participation as a substitute for collateral, only those poor enough to be attracted by a very small loan will be willing to find the time and the commitment to participate.

In Senegal very recently, where CRS opened a village banking project, we found an enthusiastic response from villagers to the opportunity of obtaining a mere $40 loan. This is just one example.

There has been much discussion about developing a loan cap under this legislation, which addresses the differences in various economies and it was alluded to again this morning by the administration.

We have found that income levels among the very poor do not in fact fluctuate so widely around the world, be it in Latin America, Asia or Africa. The average monthly wage of an agricultural laborer would range between about $25 to $75. A $300 loan would represent over six months of wages in many countries.

In the absence of a loan cap, one could index the ceiling to six months of average wage of agricultural labor in the appropriate country. However, I hope that in the discussion afterwards we can come back to this issue and I would like to elaborate on some of our own views on it.

Women should also be considered preferred participants of such poverty lending schemes. Our experience shows us that women are among the most destitute and they have always spent their income on the welfare of their children. Their repayment record is, quite frankly, much better than that of men. In many of instances, this has led CRS to create exclusively women's groups to participate in these programs.

The inequalities in gender that are still pervasive in so many parts of the world still result in men monopolizing the benefits of programs when they participate with women.

We are also pleased that the draft legislation recognizes the need to strengthen the institutional capacity to do poverty lending. There are a myriad of initiatives throughout the Third World which await modest amounts of seed capital and a little training in financial management to achieve a lasting impact on very large numbers of people.

Given the demonstrated potential of poverty lending and microenterprise programs to reach so many who are poor and in need and self-employed in the Third World, there could be no more

useful investment than in strengthening the capabilities of these institutions to absorb and manage what amounts to an alternative financial system for the majority of the world's very poor.

I would like to conclude our testimony by stressing the significance of the initiatives that you have chosen to support.

If the hundreds of millions of poor targeted by the intent of this legislation are not incorporated into the economic life of their societies by being granted access to affordable credit and finance, economic development will only benefit the favored few.

Third World governments, most of which are deeply in debt, will be left with a financial and political bill for the neglect of the majority of their population. And donor societies like our own will find themselves financing more and more relief programs at the expense of the growth of economically healthy and socially equitable societies.

That, Congressman concludes my testimony, and I thank you very much.

[The statement of Mr. Rondos follows:]

ALEX RONDOS, CATHOLIC RELIEF SERVICES

Mr. Chairman, members of the Committee, I am very grateful for the invitation extended to Catholic Relief Services to comment on the proposed draft micro-enterprise legislation.

Catholic Relief Services has a long history of implementing credit programs targeted at the poor in the Third World. They range from grain credit schemes to village banking networks to programs for small enterprise training and credit.

To build on its experience with credit, in 1987, CRS launched a $5 million Small Enterprise Development program with the support of USAID. The purpose of the program is to develop alternative financial and enterprise service institutions for the poor that they themselves can manage. The program, currently being tested in Thailand, Peru, Bolivia, Togo and Senegal, employs a variety of methodologies.

In welcoming the interest taken by Congress to support lending programs to the poor, I would like to make some general comments to underscore the significance of your initiatives:

First, let us finally dispense with any prejudice that the poor cannot handle finance. We have learned that credit can be given cost-effectively to large numbers of the poorest in the world; collection and savings, in such schemes, are best managed by the local, benefitting community; and, communities can sustain such schemes when they develop organizationally and use some of the scheme's savings to finance other social costs such as teachers and clinics.

Second, with adequate support for the strengthening of indigenous institutions, such programs can reach millions. The value of each dollar invested is retained and grows for years to come

For many years, through our food programs, we at Catholic Relief Services have helped provide a nutritional and economic safety net to millions in need of assistance. We can now testify that it is also possible to bring credit and finance to bear -- with lasting benefits -- to improve the lives of the same poor populations.

Third, more than fifty per cent of the Third World's working age population must live outside the formal sector: that is, they can expect no formal employment and must employ themselves. They range from indigent mothers, for example, who need a few dollars' capital to buy tomatoes to

sell on a street corner, to a carpenter who needs more working capital and technical assistance to expand his enterprise and become an employer within the community. The vital lesson we believe should be drawn is that the needs of these millions of impoverished vary. There is no one single method of bringing assistance to them and we would caution against any tendency to dogmatically impose any single methodology of credit and finance for the poor.

With these observations in mind, I would now like to speak briefly to some of the questions you have raised when inviting us to testify before your Committee.

The fact that we are able to discuss lending programs for the poor with relative sophistication and some confidence is in large part thanks to the resources and support provided by USAID to small business and micro-enterprise programs during the last fifteen years.

AID's matching grant program to build PVO capacity to implement microenterprise programs has been particularly successful, in our experience. It has helped to build the institutional capacity to program the type of funding intended by this legislation in greater quantities and with greater effect.

We would now look to AID to continue sharpening its focus on reaching the very poorest by encouraging its field missions to support more of these programs. We would also emphasize that AID spending on micro-enterprise should occur to the greatest extent possible in the field where the true learning occurs and experience is gained. The tendency to fund policy research in the United States under this legislation should be curbed, in favor of field programs which directly benefit the poor.

In short, the progress made by AID in its enterprise programs must now expand to reach the poorest rungs of societies in the Third World.

In our own programs, Catholic Relief Services has learned that not only can we reach micro-entrepreneurs with a small base of assets , but we can also reach the destitute who have no assets -- the people who are the traditional recipients of food, health care and other CRS social welfare programs. Over the last several years, CRS credit programs have reached thousands of participants in our food programs in the Philippines, India and Indonesia. We see this essential complementarity between sustaining nutritional status of very vulnerable groups, on the one hand, and enhancing their economic asset base, on the other hand, as a potentially exciting breakthrough in providing assistance for self-reliance to large numbers of very poor people.

The participants in our programs are usually women who have few or no assets. Their needs differ significantly from blacksmiths, carpenters, mechanics and other micro-entrepreneurs whom CRS serves through its micro-enterprise programs. CRS thus makes a very important distinction between its micro-enterprise programs, which we should emphasize, have vital merit, and those which serve the destitute - what we would refer to as poverty lending.

Hence, we believe that the effort made in the draft bill to structure the targeting of participants into two levels - micro-enterprise and poverty lending - will encourage the practitioners of micro-enterprise programs to develop the capacity to reach the destitute through poverty-lending.

We would suggest that the section of the draft bill addressing the poorest target groups be strengthened. The poverty lending methodology has certain characteristics which we use as criteria in our own programming and which might be useful to your legislation:

Poverty lending programs target the poorest with limited or no fixed assets. They have no collateral. They use a series of very short term, productive loans. They have a loan ceiling to guarantee that the participants are among the poorest. Poverty lending emphasizes savings mobilization

and cost recovery in order to reach large numbers of poor people on a financially sustainable basis. The programs work through group mechanisms which promote community solidarity. They are designed with social as well as economic goals in mind; communities come together to find solutions to their own problems in health, education and infrastructure and use the proceeds of such programs to make improvements in these areas.

We also feel that a loan ceiling of $300, as recommended in the draft legislation, does not place any constraint on poverty lending schemes. Loan ceilings are already used in all our lending programs to ensure that only the destitute are being served. Since these programs require a high level of community participation as a substitute for collateral, only those poor enough to be attracted by a very small loan will be willing to find the time and commitment to participate. In Senegal for example, where CRS opened a village banking project a year ago, there was an enthusiastic response from villagers to the opportunity of obtaining a mere $40 loan.

There has been much discussion about developing a loan cap under this legislation which addresses the differences in various economies. We have found that income levels among the very poor do not in fact fluctuate so widely among countries. In Latin America, Asia and Africa, the average

monthly wage of agricultural labor ranges between $25 - $75. A $300 loan would represent over six months of wages in many countries.

In the absence of a loan cap, one could index the ceiling to six months average wage of agricultural labor in the appropriate country.

Women should also be considered preferred participants of such poverty lending programs. Based on our experience, women are among the most destitute and they have always spent income on the welfare of their children. Their repayment record is better than that of men. In many instances this has led CRS to create exclusively women's' groups to participate in these programs. The inequalities in gender that are still pervasive in so many parts of the world result in men monopolizing the benefits of programs when they participate with women.

We are also pleased that the draft legislation recognizes the need to strengthen the institutional capacity to do poverty lending. There are a myriad of initiatives throughout the Third World which await modest amounts of seed capital and a little training in financial management.

Given the demonstrated potential of poverty lending and micro-enterprise programs to reach vast numbers of the poor

and self-employed in the Third World, there could be no more useful investment than in strengthening the capabilities of these institutions to absorb and manage what amounts to an alternative financial system for the majority of the world's poor.

Mr. Chairman, members of the Committee, we would like to conclude our testimony by stressing the significance of the initiatives you have chosen to support. If the hundreds of millions of poor targeted by the intent of this legislation are not incorporated into the economic life of their societies by being granted access to affordable credit and finance, economic development will only benefit the favored few. Third World Governments, most of which are deeply in debt, will be left with the financial and political bill for the neglect of the majority of their population. And donor societies like our own will find themselves financing more relief programs at the expense of the growth of economically healthy and socially equitable societies.

Mr. FEIGHAN. Thank you very much, Mr. Rondos.
Mr. Lassen.

STATEMENT OF CHERYL A. LASSEN, LASSEN ASSOCIATES

Ms. LASSEN. Thank you very much, Mr. Chairman.

I am not testifying on behalf of any particular institution today. I come before you as a person who has worked 20 years in development assistance, has seen over a hundred of the micro and small enterprise projects in 28 different countries, is very familiar with a number of PVOs of how A.I.D. is supporting these agencies. And also this past summer, I actually did some research on this very question: is microenterprise credit something distinct from poverty lending? Should there be loan caps, et cetera. Which was very interesting and I would like to offer some of the results of that.

In terms of what I feel the strengths of A.I.D. are, it's very, very clear to me that in the 1980s, A.I.D. was absolutely a leader in recognizing the importance of the informal sector and of encouraging assistance to poor producers. And really we have learned a great deal. We have come light years in our understanding of credit and saving services called financial intermediation to the poor.

In the 1980s, A.I.D. was willing to make a loan or to promote making loans to the poor—let's say the poor tailor who had just a sewing machine and was working out of small corner of his or her house and that really was a breakthrough. Those loans did not require collateral, et cetera.

But the challenge of the 1990s is not just to continue making loans to these poor producers with a sewing machine, but to make loans to the very poorest producers who don't even own a sewing machine, who don't have any assets and that is really what we are concerned about when we talk about getting assistance to the very poorest of the poor.

Now, to me, we all have a major challenge. A.I.D. is not the only agency that has real difficulty getting assistance to the poor. The World Bank, other U.N. agencies, other European donors have the same challenges. So this is not something unusual.

If you will look at the statistics about this, we can say, well, they're not very good but I think actually they're very telling.

Of the fiscal year 1989 A.I.D.-supported microenterprise projects that they reported to Congress, only 13 percent of those projects were really focused predominantly on the poorest. Only 6 percent of those projects were focused predominantly on women.

Administrator Holtzman's remark that yes, we want to increase assistance, for example, her remark that 49,000 loans were made to the very poorest and we want to increase this by more than 10 percent—well, increasing 10 percent of almost nothing is still almost nothing. That's the dilemma we face.

So what do we do about this?

I feel that there are real leaders in AID. There are many people I admire who are doing a really good job, a sincere job and they demonstrate sincere commitment. And I frankly was very thrilled to hear Administrator Holtzman talk today.

But nonetheless, I still feel that there is an unwillingness within the agency to make distinctions between assistance to the poor and

to the destitute and to target significant resources to the agencies and to the approaches that are assisting the latter.

Sometimes I suspect—I have the impression that there's almost an attitude of triage. I once had an A.I.D. official tell me, "Well, what's the difference if we make a loan to somebody who has an annual income of $50 or $500? They're all poor."

Actually, there's a great deal of difference. In the 1990 World Development Annual Report by the World Bank, they showed that there were over 400 million people below the poverty line. In many of these countries, we are talking about 50 to 70 percent of the economically active people in the informal sector.

And it is not trivial semantics to be really making distinctions about the poor, the moderately poor and the severely poor. And it really is important that we have assistance that reaches the very bottom.

Therefore, even though I understand when A.I.D. administrators come and they ask for flexibility, it is a very varied world, I nonetheless really support these earmarks. I feel it's very important to make distinctions between credit to the poor and credit to the very poorest or the destitute. And that is why I urge that this legislation make the distinction between those two. In fact, we have come to refer to credit to the very poorest as poverty lending. To me, it is something very distinct from microenterprise credit.

It's not so distinct in terms of the methods used, but it is distinct in terms of the clientele served. One of the things I noticed from my research in looking at program after program after program is that all these programs when they start making thousands of loans they have a central tendency of who they loan to. And it's true that some programs for microenterprise credit—yes, they may have 5, 10 percent of very small poverty loans, very, very small assistance. But the central tendency is not the destitute. Is not the very poorest.

And that's why I think it's important to separate the two and actually have earmarks so that we not only have programs that assist the microenterprise sector, very important programs, but we also start to really have significant programs developed and significant programs that target the destitute.

Now, in terms of the question of the loan cap, a small dollar loan cap to me makes a lot of sense when you are talking about credit to the destitute, to the very poorest, to poverty lending. It makes very good sense.

It makes less sense when you are talking about credit to the poor, to the slightly higher strata within this huge informal sector.

Why does it make less sense? Because microenterprise credit in fact needs to be a little bit more than $300 and also different kinds of microenterprises—some are a little bit more capital-intensive. What you might need for, let's say, retail trade is different than what you might need if you were a welder. So that's why there has to be greater flexibility when you're talking about microenterprise credit.

A small dollar loan ceiling doesn't guarantee—if we had such a thing, it wouldn't guarantee that programs would necessarily make more loans. There are other factors affecting that. But if there were such a cap, what it would do, especially in the poverty lend-

ing area, is it would kind of lock in the assistance to the destitute. And it would prevent these programs from kind of being captured and taken away, which happens very frequently. They get captured and they start increasing the size of the lending and pretty soon they lose their focus on the very poorest.

And this is what I'm concerned with. There is already so little of the assistance there that I don't want to see that focus lost. And I feel a loan cap is very effective in doing that, in locking in that focus.

When we talk about assistan.e to destitute women, I believe that really—poverty lending and assistance to destitute women, it's just about you're talking about the same thing. And it's been my experience, unfortunately, in many cultures today, women are not allowed to own productive assets. Young women, young girls are not allowed access to education. Oftentimes there are very unstable family situations which make women the predominant or oftentimes the sole support of children. These are very compelling reasons for having poverty lending and really making it a predominant focus.

And even if programs are not large, to these very disadvantaged groups just even making a few thousand loans can set a precedent for more equitable institutions in these countries that's extremely important.

In this respect, I agree very much with A.I.D. that the United States foreign assistance program can never hope to make enough loans to help everyone. But what it can do, what it can do, is assist these countries to build more workable, more equitable, more democratic, more economically democratic institutions.

That's another reason why you want to support poverty lending, because it really helps with the tremendous problem of building economic democracy.

The question of is it difficult to know—is it difficult to trace if a loan is under a certain size or above a certain size, I don't believe that's difficult at all. If you can trace whether a loan is made to a man or a woman, if you can trace whether it's for agriculture or for commerce or whatever, it's very easy to know if it's below a certain size or above a certain size. That's not difficult at all.

In terms of the draft legislation, as I say, I support the earmarks. I think it is necessary and I support the sub-earmark. I am not satisfied at all, in fact, I'm really uneasy with the idea that we're going to increase 10 percent of almost nothing. That's why I feel we have to have these earmarks. That's why I feel that there has to be—there has to be something more than informal consultation about the size and the dimensions of the goals we're pursuing in this area.

At the same time, an earmark for what? We have a real problem in terms of microenterprise and poverty lending because the agencies that know how to provide these services, that know financial intermediation and development banking, often do not have a propensity to work with the poor, the very poor especially, or they don't have the methods to go where those people are and in a very cost effective way organize them for services. So that's their difficulty.

In terms of PVOs, those who have a great commitment to working with the poor don't have the methods oftentimes for financial intermediation. There's a lot of modernization that needs to take place.

A compromise that I have thought of perhaps would be we would keep the focus on microenterprise credit and poverty lending but for agencies that need technical assistance, training, whatever to set up these programs, we would allow that to be counted in as the allotment.

You have to distinguish between assistance that is credit focused, direct assistance that is credit-focused, and assistance that is focused very little on credit or focused on other things.

That's really where the problem lies a lot. That's where we have to weed out is that there's a lot of assistance out there that is ill-focused, not cost effective. So I'm not uneasy when you talk about—when the legislation talks about credit-focused assistance. I definitely feel that this is a lot where reaching large numbers has to move.

In closing, I would say that the legislation has recognized two major inequities: the inequity of getting assistance to the very poorest and the inequity of distribution of assistance by gender. But those are not the only inequities. There are some other major inequities that in the 1990s we have to address.

What are they? Well, one inequity is the availability of financial services for people who live outside of large urban areas. Another inequity is the distribution of microenterprise and poverty lending programs across geographic regions, particularly the scarcity of them in Africa.

Another inequity is the distribution of technical knowledge about sustainable approaches to poverty alleviation. There are too few agencies who want and need to work with the very destitute who know how to provide cost effective financial services.

Really, we are not just talking about agencies who do only microenterprise or poverty lending. We're talking about agencies who work in mother-child health, nutrition, youth employment, food, drug eradication—all of these agencies need poverty alleviation. It's an essential vehicle for them to produce these other kinds of benefits.

And they can actually multiply greatly the number of people we reach. So we shouldn't just be looking at this as though this were the preserve of, let's say, the Private Enterprise Bureau or those concerned only with business. It is not.

Finally, to me it's still frustrating because despite what Administrator Holtzman says, and the fact that yes, A.I.D. is moving, A.I.D. has a lot of initiatives, I still know of situations with local NGOs, even with American PVOs who have very promising approaches, very promising methodologies for poverty lending, and it frustrates me to see them struggle to establish and spread their work with little or no assistance from A.I.D.

So I still feel there's a lot to be done. I'm encouraged by the statement of leadership and the fact that there are objectives, but I think we need to actually set our sights a lot higher. And even

though I recognize that there is a need for flexibility, I feel that it's very important to have legislation that sets those sights, that sets those earmarks because to me, it's just a double reinforcement of the direction in which we need to go.

[The statement of Ms. Lassen follows:]

PREPARED STATEMENT OF CHERYL A. LASSEN

before the

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
FOREIGN AFFAIRS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

February 28, 1991

Personal Background

Mr Chairman and members of the Committee, thank you for inviting me to testify on proposed micro-enterprise legislation.

Starting in 1970, I have spent 20 years in economic development working with more than 100 programs of small and microenterprise assistance in 28 countries. I have a PhD in International Policy and Program Analysis. Last summer I wrote a research paper examining whether "poverty lending" was the same as "micro-enterprise credit," or whether it was a significant new methodology. I testify today not as a representative of one particular foreign assistance institution, but as someone familiar with the comparative needs of many types of development agencies and poor producers in developing countries.

1. Critique of A.I.D.'s Microenterprise Program

In terms of strengths, AID was a leader in the 1980s in recognizing the importance of the informal sector and putting its resources and learning behind the development of microenterprise credit programs. As a result, hundreds of thousands of poor producers benefitted who otherwise would have been excluded from access to credit and savings services. The coverage of these microenterprise programs is not what it needs to be for the size of problems with unemployment and poverty in Third World economies, but real advances have been made in defining methods to build microenterprise programs of scope and self-financing capability.

AID was willing to sponsor loans in the 1980s to poor producers like an unlicensed tailor who owned a sewing machine and worked out of a corner of his small house. The challenge of the 1990s is to go a step further and make credit available to the truly destitute producer who does not even own a sewing machine or any productive assets.

AID, along with most major bilateral and multilateral donors, has had difficulty reaching the truly destitute with credit assistance. Of 170 AID-sponsored microenterprise projects reported to Congress in FY 1989, only 13% were identified as focusing predominantly on the poorest. Only 6% of FY 1989 AID-sponsored microenterprise projects targetted predominantly women beneficiaries.

BEST AVAILABLE COPY

There has been an unwillingness by AID to make a distinction between the poor and the destitute and to target significant resources to agencies and approaches assisting the latter. The attitude has been one of "economic triage" --- of helping the poor types that are larger and easier to assist. Typifying this attitude, an AID officer told me one day, "What difference does it make whether microenterprise credit programs target someone with a $50 annual income or a $500 annual income---they are both poor." Actually, it makes a great deal of difference. The 1990 World Development Report of the World Bank estimated that there are over 400 million producers in the Third World below the poverty line, half of whom are severely poor. It is not trivial semantics to distinguish strata of "the poor," "the moderately poor," and "the severely poor," and to be especially concerned that assistance reaches those at the very bottom.

One way to correct this is to make the distinction between "microenterprise credit" and "poverty lending" and to earmark resources specifically for each. Both of these types of assistance have similar methods that rotate large volumes of credit on a cost recovery basis. However, the central tendency of microenterprise credit programs is to reach a clientele of producers who are the upper strata of poor, while that of poverty lending focuses predominantly on the lowest half of the informal sector poor.

What is needed is the will of top AID managers to spearhead the emergence of effective new programs of economic development assistance for the severely poor with potential to reach large numbers. Where there is the will, ways will be found to take risks, make it easier and faster for promising new agencies to deal with AID, and sever or retool less equitable, ill-focused, or cost-effective programs.

2. Can small dollar lending programs (less than $300) make a significant contribution to poverty alleviation?

Small dollar lending policies such as a $300 loan cap make sense for poverty lending programs aimed at assetless producers with extremely limited money management experience. They make less sense (or, require a higher cap) for microenterprise programs that assist producers with slightly more assets and management experience, or with types of economic activity that are more capital intensive.

Small dollar loan ceilings do not guarantee that because the size of individual loans are smaller, more beneficiaries will be reached. Experience shows that the size of a program depends more on the efficiency of its methods and its willingness to increase scale. What the presence of a small dollar loan cap can do is target assistance on a more destitute strata or gender of producer.

Both the microenterprise legislation and AID have recognized the importance of increasing the access of destitute women to producer credit. It is an unfortunate aspect of many Third World cultures

BEST AVAILABLE COPY

that women are blocked or very restricted from owning [illegible] productive assets such as land, large animals and other [illegible] production. Today in many villages of Asia and Africa, [illegible] permitted to go to school and gain an education [illegible] Often there are unstable family situations where women are [illegible] upon to be a principal--at times, sole--source of support for their children. Even credit programs that reach several thousand can have a significant impact on a country's development by enabling those with severe disadvantages to increased income and employment to break through the cultural barriers arrayed against them [illegible] pave the way for more equitable institutions to exist in these countries.

On an individual level, sustainable development does not depend on the size of a loan received by a producer. It depends on his or her continuing access to means of production such as credit, plus the support of group organization in cases where cultural barriers must be overcome that pose great difficulties to individuals.

In the absence of a specific loan cap but where there is concern with focus on the poorest, I recommend that a distinction be made between "microenterprise credit/assistance" and "poverty lending/assistance" with amounts earmarked for each. USAID missions and contractors to AID should report on the equity dimensions of their program, and who is benefitting in relation to these strata of poor.

In the FY 1989 reporting to Congress on AID-sponsored microenterprise projects, I was disturbed to see that 46% projects did not have reporting on equity. Funding preference should be given to programs that produce direct rather than indirect benefits (eg., research, policy reform, costly administrative arrangements). Programs should be designed and monitored by AID in order to have a clear and effective focus on equity. Equity reporting should be done routinely.

3. Comments on the draft microenterprise legislation.

I welcome the sub-earmark contained in this legislation which distinguishes between microenterprise credit and "credit to the very poorest," and urge that the term "poverty lending" be used and legitimized.

Within the sub-earmark of credit for the very poorest, a small dollar loan cap of $300 or less is appropriate, as is a high quota of assistance to destitute women (eg., two-thirds of the resources). Within the microenterprise credit earmark, the ceiling on individual loans should be higher (eg. $2000). Male microenterprises are usually more capital intensive than female microenterprises, and it is likely that a lower percentage of microenterprise credit will go to poor women producers (eg., one third of the resources).

Further building of institutions capable of equitable, cost-

BEST AVAILABLE COPY

efficient, sustainable assistance to poor [illegible] for two reasons. One is that those with experience and management systems in development banking often lack the [illegible] the severely poor as well as methods to [illegible] The other is that those with a philosophy about [illegible] disadvantaged often lack experience and management [illegible] to deliver substantial volumes of credit and savings services on a cost-recovery basis.

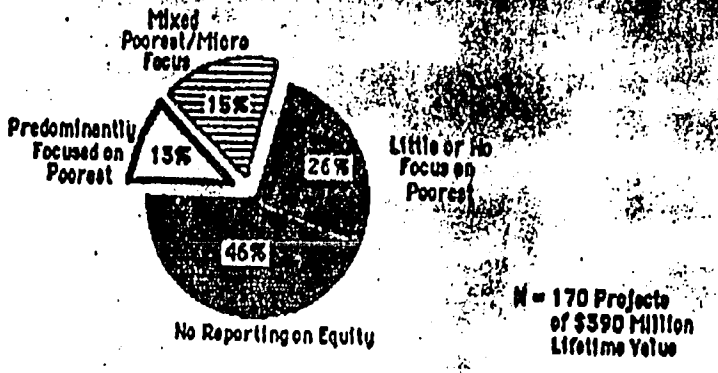
Because institution-building is key to microenterprise credit and poverty lending, the legislation should allow expenditures for loan fund capitalization, and training, technical assistance and operating subsidies necessary to start these programs to be counted as part of the "credit assistance" category (as distinguished from non-credit direct assistance such as vocational training or indirect types of assistance).

This legislation has recognized the great inequities in access to microenterprise assistance among different strata of the poor and between genders. But there are additional forms of inequity that AID should make every effort to address. One is an inequity of financial services for people who live outside of large urban centers, especially rural people. Another is an inequity in the distribution of microenterprise and poverty lending programs across geographic regions, particularly the scarcity of them in Africa which has a higher proportion of economically active producers in the informal sector than any other area of the world. Another inequity is the maldistribution of technical knowledge about sustainable approaches for poverty alleviation. There are too few agencies who want and need to work with the destitute who know how to provide cost-effective financial services. AID should welcome and encourage agencies working in tangential areas of poverty alleviation such as child survival, women-in-development, youth employment, family planning, and drug erradication to become proficient in approaches like poverty lending that are a low cost vehicles for other types of development. Finally, it is frustrating to know of promising methodologies for working with the very poorest by indigenous agencies and American private voluntary organizations such as FINCA (Foundation for International Community Assistance), and to see them struggle to establish and spread their work with almost no assistance from AID. I urge greater will by the top management of AID to give immediate priority attention to redressing these inequities.

BEST AVAILABLE COPY

Table II.1

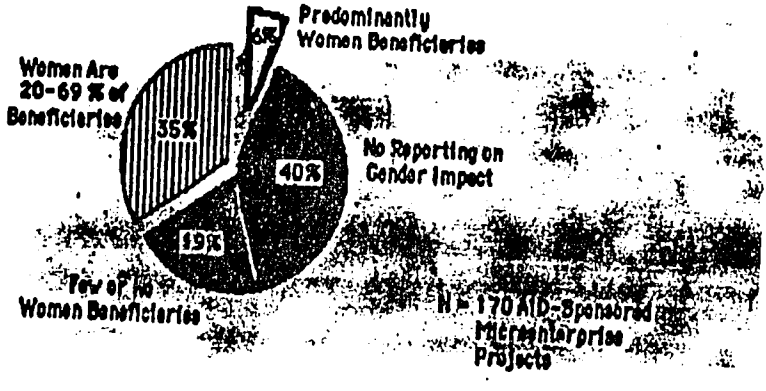
FOCUS OF A.I.D.-SPONSORED MICROENTERPRISE PROJECTS ON THE POOREST IN FY 1989



Notes: In a 1990 report to the US Congress, AID reported 170 projects in its FY1989 portfolio which provided assistance to microenterprises. AID Missions estimated that in 21 projects, the poorest of the poor were 70%-100% of the beneficiaries. In 29 projects, the poorest constituted 20%-69% of the beneficiaries. In 44 projects, the poorest were less than 20% of the beneficiaries. Indirect microenterprise assistance was furnished in 76 projects, which did not report on the distribution of benefits.

Table II.2

FOCUS OF A.I.D. SPONSORED MICROENTERPRISE PROJECTS ON WOMEN IN FY 1989



Notes: also in the 1990 Microenterprise Report to the US Congress, there were 10 microenterprise projects with 70%+ women producers as beneficiaries; 68 projects in which women were 20-69% of beneficiaries; 19 projects in which women were less than 20% of the beneficiaries; and 59 microenterprise projects which did not report on gender impact.

Source: Cheryl Lassen, "Poverty Lending: Something

Mr. FEIGHAN. Thank you, Dr. Lassen.
Mr. Burrus.

STATEMENT OF WILLIAM W. BURRUS, EXECUTIVE DIRECTOR, ACCION INTERNATIONAL

Mr. BURRUS. Thank you, Congressman. I appreciate this opportunity to testify at this hearing. By way of background, I would like to say that I am representing ACCION International today and no other views. ACCION International is a U.S.-based private volunteer organization which this year is celebrating its 30th year of service in support of the economic initiatives of the poor throughout the Americas. ACCION has developed a network of some 50 local organizations in 13 countries, all of which provide loans and other services to low income people.

During the past five years, that is the period 1986 to 1990, these affiliates collectively loaned out about $100 million to over 100,000 of the self-employed poor. The average loan size during this period was slightly under $300 and more than 50 percent of the borrowers have been women.

I should point out that while a common philosophy of lending exists throughout the network of organizations, each affiliate of ACCION International is independent and, therefore, the diversity of experience within the ACCION affiliation is really quite remarkable. We have experience in lending, for example, to the poorest of self-employed women in Guatemala, for example, a market or street vendor who might need $50 to buy fruits and vegetables. We have experience in the Dominican Republic lending to a shoemaker who might have three or four employees and who needs, say, $1500 to buy additional tools. So the diversity that we bring, I think, is interesting. We also have become known in part for our use of the solidarity group lending technique which brings together 4 to 6 borrowers usually to cross-guarantee each others' loans.

We have been asked first to talk about the strengths and weaknesses and possible areas of improvement in the microenterprise program of A.I.D. It is my view that the most notable strengths of the A.I.D. program are the following.

First, I think A.I.D. truly does have a diversity in its portfolio of projects.

I think if there is one lesson that ACCION, itself, has learned over the years it is that the microenterprise sector is extremely diverse and dynamic and the programs to assist that sector must be demand driven to reflect this diversity. A.I.D. I think has most appropriately taken the position that it should support a broad range of efforts designed to assist the self-employed poor. This would include all different types of businesses as well as different sizes of businesses, from the single person who prepares food in a street kiosk to an auto repair shop, for example.

Secondly, I believe that A.I.D. rightly puts emphasis on the institutional support of those entities that are delivering credit and assistance to the poor. It recognizes that these institutions are the cornerstone of any successful strategy for assisting the self-employed poor.

Third, and related to that, the A.I.D. program I think also emphasizes the creation of sustainability and self-sustaining financial institutions. It recognizes that over the long term the poor in developing countries are best served by the creation of self-sustaining financial intermediaries. In other words that they will operate in such a way that as a minimum they will cover the cost of doing business and hopefully even more and, therefore, be able to expand what they are doing.

Fourth, is a question of decentralization. I know others have testified before this subcommittee that the decentralized nature of A.I.D. is a weakness, but in my view, I see it as a strength insofar as it allows for program financing decisions to be made at the mission level where the action is and where one can more effectively take into account the specific realities of each country.

I would quickly add, however, that decentralization only works if throughout the agency there are clear guidelines and a coherent program of microenterprise development shared by the key people in the agency.

Fifth, and Dr. Lassen talked about this, A.I.D. has traditionally had an active component of applied research which I think has been very, very important. I can honestly say that ACCION, itself, in the early 1980s radically altered its methodology as a result of our participation in one of the early efforts in the research, the so-called Pisces Program. So I think that is an important part of what A.I.D. has to offer to the development community.

Finally, as a strength, I would identify that A.I.D. supports innovations in the microenterprise field. Believe it or not, A.I.D.'s turnaround time on projects is relatively short as compared to the World Bank and the Inter-American Development Bank and other entities. A.I.D.'s flexibility gives it a comparative advantage in supporting new initiatives which often are experimental, which often represent the state-of-the-art and which are often run by grassroots organizations and PVOs. This flexibility also enables A.I.D. to deal directly with these entities rather than simply through bilateral arrangements, government to government, which very often slows down the process, if not stops it.

Now in terms of the weaknesses of the A.I.D. program, I would identify the following: The first is that I think the A.I.D. program lacks a clear mandate to support microenterprise development. My view from an outside perspective is that there is not a clear mandate from the Administrator and from the assistant administrators that A.I.D. is serious about continuing and expanding its work in microenterprise development. I do not believe that that mandate has been clearly communicated.

Secondly, I think still there is lack of a clear well defined microenterprise program within A.I.D. I think in the past few years, A.I.D. has found itself in a defensive or reactive posture, oftentimes. In part, this is because it has not developed and articulated a well defined action plan. And we heard testimony this morning that that is in process and I am a member of the Advisory Council of A.I.D. on microenterprise development and I have been assisting in the development of that plan. I can testify today that that plan does not yet exist and I think it is absolutely critical that the plan

is developed and is shared throughout the agency and has the full support of the Administrator.

Finally, and I will not go into it at all except to say that, clearly, today still there is a lack of a monitoring and reporting system, a simple system which is absolutely essential to learn more about what A.I.D. is and is not really doing in this field.

Now in terms of improvements related to A.I.D., they fall out of the weaknesses. And the first is that I believe that the action plan is absolutely essential. A.I.D. needs to develop and implement its action plan. And I think that would be a great improvement.

Secondly, the Administrator needs to issue in my view a clear statement to the mission directors and other personnel that microenterprise development is and will continue to be a high priority to the agency.

Third, as an improvement, I would suggest and it has been mentioned time and time again, the agency needs to hold at least one regional workshop in Asia, Africa and Latin America per year to increase—why do we keep talking about these workshops? It is because there is no question that the mission personnel, the mission directors need to increase their skill levels and their knowledge about the state-of-the-art in microenterprise. They need to understand it better and, therefore, hopefully become more committed to it.

I think the Agency needs to take advantage of other opportunities as well, training programs that they run constantly for personnel, to continually upgrade the knowledge and skills of the A.I.D. personnel, particularly those who are in the field who are making most of the decisions related to where A.I.D. dollars are going.

And again, finally, it would be nice if A.I.D. developed a simple low-cost monitoring system.

We have also been asked to testify on the role that small dollar lending, that is $300 or less, can have on the alleviation of poverty. I can say quite strongly that it is the collective experience of the network of ACCION's affiliates in Latin America that very small loans, including those well under $300 can make a significant contribution to the alleviation of poverty.

It is clear that a very small loan—$50, $75—can result in the increase of a borrower's income even if that increase is from a daily net income of 3 or $4 to 5 or $6. That is an important increase in that person's income level. I won't go into how those increases often come about, but the evaluations that have been done on our programs, at least, pretty much point to the fact that you can expect increases in income through this type of lending.

Now if implemented on a large scale in any given country, I believe such loans can have a significant impact on that country's development. We know that the informal sector is extremely large. It often includes the majority of the population in many countries around the world. And if done on a large scale, this type of lending, small scale lending can have a critical impact at the macro level in these countries.

Now, is this sustainable development? That is one of the questions we were asked to address.

I believe sustainable development with this type of lending will occur primarily to the extent that, in the process viable financial

institutions are created that over time can dramatically expand their work and over the next 5, 10, 15, 20 years can continue to reach more and more borrowers. That, I think, is how it becomes sustainable.

Now, with this testimony, however, I am not recommending that A.I.D. should target all of its microenterprise lending under $300. I think the strength of A.I.D.'s program is the diversity it displays and my view is that it should be doing lending all along what I choose to call the microenterprise continuum, with very, very small loans up to somewhat larger loans.

My own view is that the $300 loan cap, the subject of so much debate and discussion, can be useful as a measure but I personally feel that it is too restrictive and too indirect to determine if the programs are actually reaching the poorest of the economically active. I think it can be useful as a guide but in the absence of the $300 loan cap, I would recommend that the subcommittee follow the recommendations that were made by the Advisory Committee to A.I.D. on Microenterprise which establishes relevant criteria to judge the eligibility of program borrowers considering a variety of measures, including the amount of collateral, the degree to which someone is self-employed or the degree that they have one or two employees working for them, the amount of assets that they may have, the extent to which they are landless—rural laborers, for example, and certainly the degree to which programs are reaching women.

Now I would like to make some specific comments regarding the draft bill supporting A.I.D. and authorizing microenterprise programs within AID. I should say that I strongly support the general thrust of this draft bill. I would make the following specific observations.

I think first, it recognizes the importance of credit in assisting the self-employed poor. I think that credit is terribly important. But it also notes that other activities such as training, policy reform, and technical assistance are necessary and appropriate and should be included.

The bill emphasizes the critical role of institutional development. And I absolutely think that is critical. Along the same line, the bill rightly focuses on the financial intermediaries through which A.I.D. works, and actually establishes various appropriate criteria for determining the eligibility for assistance.

And I would just say that some of those criteria specifically points 6 and 7 need further clarification. I know that you are working on that, and I will not go into any of the details.

I also think that there is a clear emphasis placed on women in the legislation, and I applaud that completely. I also agree that a monitoring system needs to be set up. That is addressed in the legislation.

And finally, related to the legislation, I would say that I believe that a specific amount for each fiscal year should be used for direct credit activities. The bill actually talks about combining credit and institutional development. I personally feel that credit is so important, while not to belittle institutional development, because I also believe that is important, but credit should be singled out, and we

should be able to see specifically how much money is going to credit, and at what levels. I think that is terribly important.

I would like to conclude my remarks by stating that some individuals have wanted to divide this development field, microenterprise development, into two camps; those who are doing so-called "poverty lending," and those who are doing so-called "microenterprise lending." I have to tell you that I personally find this division to be artificial, misleading, and wholly detrimental to the dialogue.

It seems to me that a great amount of energy and resources over the past several years has been spent on splitting hairs on this issue, with the $300 loan cap presented as some magical dividing point between the two.

But I would submit to you that those of us and I think that it includes everybody in this room, those of us who believe in microenterprise development as a truly effective development strategy for reaching the poor, should be joining forces and not arguing over loan limit size as some litmus test for determining who is working with the poor and who is not working with the poor. I think that we are hair splitting.

I believe that the poor majority in the developing world will be better served through our collective will to greatly increase the overall amount of money available.

Based on the successful experience which A.I.D. has had in this field I would encourage and challenge A.I.D. to commit a level of resources which is well above the suggested amount in this draft bill. It can be done.

And if A.I.D. is serious about this, hopefully we might be sitting here two years from now feeling that there is no need for any other earmarks or for specific legislation, because in fact A.I.D. is committing an amount of money that you think is appropriate.

From my point of view, the know-how for effectively lending to the self-employed poor has been clearly demonstrated in many settings around the world. And you have heard from a number of people who have been involved in it.

The true challenge from my point of view that we all face in the 1990s is how to scale up our efforts to reach truly significant numbers of those men, women, and children who are living in dire poverty in the developing world.

Thank you very much.

[The statement of Mr. Burrus follows:]

STATEMENT

BY

WILLIAM W. BURRUS

EXECUTIVE DIRECTOR

ACCION INTERNATIONAL

Mr. Chairman, as the Executive Director of ACCION International, I would like to express my appreciation for the opportunity to testify at this hearing on the Agency for International Development's Microenterprise Development Program.

ACCION International is a US-based Private Voluntary Organization which this year celebrates its 30th year of service in support of the economic initiatives of the poor throughout the Americas. ACCION has developed a network of over 50 local affiliate organizations in 13 countries. As private non-profit entities, these affiliates serve as financial intermediaries, providing credit and other services to the self-employed poor. During the past five years, these organizations have loaned out $100 million to over 100,000 of the self-employed poor. Average loan size during this period has been just under $300. More than 50% of ACCION's borrowers are women.

I should point out that while a common philosophy as well as general principles and methodologies of lending are strongly shared by ACCION's affiliates, each is independent. Therefore a rich diversity of experience in microenterprise lending exists within the network. We have experience in lending to the very poorest of self-employed women, such as in Guatemala, where our affiliate, Genesis Empresarial, lends the equivalent of $50 to a female street vendor of fruits and vegetables; or in the Dominican Republic, where our affiliate, ADEMI, provides a $1500 loan to a shoemaker with two employees who needs capital for purchasing leather, small tools and other materials. While some ACCION affiliates make individual loans, we have come to be best known for pioneering the solidarity group lending technique in Latin America in which 4-6 borrowers form a group to cross guarantee each others' loans.

[illegible] to address [illegible] the microenterprise field. However, I am aware that [illegible] Subcommittee has on previous occasions received the testimony of other witnesses and by this point is well informed about the broader issues implicit in this discussion.

I should also add that ACCION is a member of SEEP (Small Enterprise Education and Promotion Network) and is a participant in GEMINI, an AID financed technical assistance, training and research effort for organizations at all levels working in microenterprise development around the world. Finally, I am a

member of the Advisory Committee on Microenterprise Development appointed by the AID Administrator at the suggestion of Congress. My remarks today, however, only reflect the views of ACCION International and may or may not coincide with those of the members of the Advisory Committee or SEEP.

AID's MICROENTERPRISE PROGRAM: STRENGTHS, WEAKNESSES AND IMPROVEMENTS

The first question raised by the Subcommittee for consideration in the testimony relates to the strengths, weaknesses and areas for improvement in the microenterprise program of AID.

STRENGTHS

It is my view that the most notable strengths of the AID program are:

1. Diversity in its portfolio of projects

If there is one lesson learned by ACCION over its many years of experience, it is that the microenterprise sector is extremely diverse and dynamic and that programs to assist the sector must be demand driven to reflect this diversity. AID has most appropriately, I think, taken the position that it should support a broad range of efforts designed to assist the self-employed poor. This range includes programs which assist all types of businesses, including those of petty trading, services such as bicycle repair, and those involved in production, such as a wood furniture maker. It also includes different sizes of businesses, from the single person who prepares food in a street kiosk up to an auto repair shop where as many as ten individuals may be employed. What ties all these diverse businesses together and makes them eligible for AID assistance is that they are owned and run by low-income individuals who do not have access to formal bank credit or other services. They are microenterprises of the informal sector.

[illegible]

recognizes that the support of those institutions which deliver credit and other services is a cornerstone of a successful strategy for assisting the self-employed poor. Upgrading of personnel skills, developing better management information systems and improving management capabilities are examples of the kind of institutional support that AID provides.

3. Emphasis on the creation of sustainability and self-sustaining financial intermediaries

Much to its credit, AID has recognized that over the long term the poor in developing countries will best be served through the creation of self-sustaining financial intermediaries. In delivering credit, mobilizing savings and providing other services, these intermediaries must be managed so as to at least reach the financial breakeven point. Providing credit to the poor can only be done on a massive scale if the institutions charged with doing so follow appropriate lending principles, including charging a positive rate of interest. AID's policy papers on financial markets development and on microenterprise development are clear in their intent to promote and assist those institutions which can become self-sustaining.

4. Decentralization of programming decisions

While some others have testified before this Subcommittee that the decentralized nature of AID is a weakness, I see it as a strength in so far as it allows for program financing decisions to be made at the Mission level. Being close to the action and the realities of each country enable the Missions to respond effectively to real needs. I would quickly add, however, that decentralization only works if there are clear guidelines and a coherent program of microenterprise development which are shared by the entire Agency.

5. Active component of applied research

During the 1980s AID established its leadership role among international donors by supporting pioneering, practical research in the microenterprise field. Here I am referring to the PISCES, ARIES and the current GEMINI projects which have and will continue to shed light on what works and what doesn't, and sharing the lessons learned with the broad development community. ACCION itself has greatly benefitted from this research. I can honestly say that the design of our microenterprise programs was radically altered in the early 1980s as a result of the PISCES research. For example, the use of solidarity groups as a means of cross-guaranteeing loans made to the self-employed poor became an integral part of the ACCION methodology as a direct result of learning about the effectiveness of this technique from the PISCES research project.

6. Support innovations in the microenterprise field

Believe it or not, AID's turnaround time on projects is relatively short and streamlined compared to those of the multilateral lenders such as the InterAmerican Development Bank and the World Bank. This flexibility gives it a comparative advantage in supporting new initiatives which often experiment with innovations and advance the state of the art in the field. Many such innovations come from grassroots organizations, US private voluntary organizations and others which AID can support directly without necessarily channeling its resources through the host country governments.

WEAKNESSES

I believe the major weaknesses of the AID program are:

1. Lack of a clear mandate to support microenterprise developmer

My view, from an outside perspective, is that there is not a clear mandate from the Administrator and Bureau Assistant Administrators that AID is serious about continuing and expandir its work in microenterprise development. While decisions about specific projects should emanate from the field Missions, Missic Directors should feel that microenterprise is high on the priority list of the Agency and the Administrator. I hope and assume that this commitment is present but I don't believe that it is being communicated. Those within the Agency, particularly in Washington in the newly-organized Office of Microenterprise Development, do not have the power or support to effectively influence the Bureaus and Missions in matters related to microenterprise.

2. Lack of a clear well-defined microenterprise program

In the past few years AID has often found itself in a defensive or reactive posture. In part this is because it has not articulated a well-defined action plan. The Advisory Committee has urged AID to develop such a plan, with particular reference to how it plans to increase its commitment to lend and provide assistance to the poorest of the self-employed.

3. Lack of a monitoring system

AID has not yet developed a simple system for monitoring progre in microenterprise and for reporting that progress to Congress and other interested parties. Part of the difficulty stems fro the fact that AID must depend on the financial intermediaries i supports for basic data and [illegible] institutions simply do [illegible] the format requested by A[illegible]

IMPROVEMENTS

I believe important improvements in the AID microenterprise program can be achieved by:

1. Developing and implementing an ongoing action plan which

integrates the work of the Agency in this field.

2. The Administrator issuing a clear statement to the Mission Directors and other personnel that microenterprise development is and will continue to be a high priority for the Agency.

3. The Agency holding regional workshops each year in Asia, Africa, and Latin America to increase Mission personnel's knowledge of microenterprise as an effective development strategy and taking advantage of other opportunities for upgrading the knowledge and skills of Mission personnel in this area. These specific actions were recommendations made to AID by the Advisory Committee.

4. The Agency developing a simple, low cost monitoring system to accurately determine the present and future status and impact of its programs.

SMALL DOLLAR MICROENTERPRISE LENDING PROGRAMS ($300 OR LESS)

The Subcommittee has also requested that I testify on the role that small dollar lending ($300 or less) can have on the alleviation of poverty.

It is the collective experience of the network of ACCION's affiliates in Latin America that very small loans, including those under $300, can make a significant contribution to the alleviation of poverty. From the impact evaluations that have been done in our programs, it is clear that a very small loan can result in the increase of a borrower's income, even if that increase is from a daily net income of $3 to $5. This increase in income often derives from the ability to buy more raw materials or merchandise and therefore to sell more. It may also result from cost savings through the bulk purchase of raw materials or from paying less interest on the loan as compared to the traditional rates charged by loan sharks on which many small scale borrowers depend.

If implemented on a large scale in any given country, I believe such loans can have a significant impact on that country's development. Many studies around the world such as those of Hernando de Soto in Peru have demonstrated [illegible] the small [illegible] [illegible] of the informal sector represent [illegible] dynamic [illegible] of the economy. This is where most of the [illegible] and services are created and provided; it is here where most of the new jobs are created. It is also true that most of the tiny enterprises of the informal sector are capital starved, or often have to rely on those who charge usurious rates of interest. Providing loans to this sector, particularly if done on a large scale, reaching hundreds of thousands or even millions of people, will have a significant impact on a country's development.

Is this sustainable development? I believe sustainable

development with this type of lending will occur to the extent that, in the process, viable financial institutions are created. These institutions should be capable of reaching massive numbers of borrowers, of offering increased amounts of credit to the borrowers as they grow and need additional capital, and of encouraging savings among the borrowers as well.

With this testimony, however, I am not recommending that AID should target all its microenterprise lending to loans under $300. The strength of AID's program is the diversity it displays, in which many loans need to be well over $300 to best assist the self-employed poor. My view is that the $300 loan cap, the subject of much debate among those interested in the ongoing microenterprise legislation, is too artificial and restrictive and too indirect to determine if the programs are actually reaching the poorest of the economically active. It may be useful as a guide to the Missions and the financial intermediaries, but only along with other measures such as the number of employees in a business, its level of assets, lack of access to credit, and other guidelines related to the target group.

In the absence of a $300 loan cap, I would recommend that the Subcommittee follow the recommendations of the Advisory Committee which advise that the AID Mission personnel establish relevant criteria to judge the eligibility of program borrowers considering various measures including:

1. 1-10 employees
2. lack of collateral
3. no access to formal financial sector resources
4. limited fixed assets
5. landless rural laborers
6. informal sector enterprises
7. individuals in the poorest 50% of the population
8. Individuals whose income fall below the country specific average per capita measure
9. High percentage of women

I want to reiterate that I believe AID is currently supporting programs which lend to the poorest of the self-employed and should be strongly encouraged to increase its commitment to this area. Further, I believe it is reasonable to request that AID, as part of its action plan, estimate how much its expects to spend in microenterprise development each fiscal year and of that amount, what percentage will be used to support the very poorest of the self-employed.

COMMENTS ON THE DRAFT BILL AUTHORIZING THE MICROENTERPRISE PROGRAM WITHIN AID

I strongly support the general thrust of this draft bill. It recognizes the diversity of the microenterprise sector and

provides AID with the necessary flexibility to effectively carry its program out.

I would make the following specific observations:

1. While it recognizes the importance of credit in assisting the self-employed poor, it also notes that other activities such as training, policy reform and technical assistance may be appropriate activities.

2. The bill emphasizes the critical role of institutional development of the financial intermediaries if microenterprise development is to be sustainable.

3. The bill most rightly focuses on the financial intermediaries through which AID works and establishes appropriate criteria for determining which will be eligible for assistance. Several of these criteria, particularly points #6 and #7, need further clarification.

4. An emphasis is placed on reaching women, which to the extent that this is accomplished, will help ensure that the program is reaching the poorest of the self-employed.

5. While I agree that a monitoring system needs to be put in place, from direct ACCION experience I urge that this system be kept as simple as possible. The expectations for such a system should be realistic: it will be more a monitoring and reporting system than an evaluation system. Such a system, for example, will not be able to measure the "overall impact on economic development in each developing country" of AID's program.

6. I believe that a specific amount for each fiscal year should be used for direct credit activities, not credit and institutional development. The amounts stated in the draft bill - $20 million for fiscal year 1992 and $30 million for fiscal year 1993 are minimal amounts and should be raised to reflect the central role that credit itself plays in assisting the poor.

Mr. Chairman, I wish to conclude my remarks by stating that some individuals have wanted to divide this development field into two [illegible] those who are doing so-called "poverty lending" and those who are doing so-called "microenterprise lending". I find this division artificial, misleading and wholly detrimental to the dialogue. A great amount of energy and resources has been spent the past several years splitting hairs on this issue, with the $300 loan cap presented as some magical dividing point between the two. But I would pose the question: If a market vendor in Bolivia has received several short term loans beginning with $100 and because of good payback and increased sales over a year's period now needs more than $300, is she no longer eligible for a "poverty alleviation" loan? Or similarly, if a woman in Peru who

originally borrowed $250 for her dress making business now needs a loan of $325 because of an increase in the price of cloth, are we no longer alleviating poverty by giving her that loan?

Those of us who believe in microenterprise credit as a truly effective development strategy for reaching the poor should be joining forces, not arguing over loan limit size as some litmus test for determining who is working with the poor. I believe the poor majority in the developing world will be better served through our collective will to greatly increase the overall amount of money available. Based on its successful experience in this field, I encourage and challenge AID to commit a level of resources which is above the suggested amount in the draft bill. The know-how for effectively lending to the self-employed poor has been clearly demonstrated in many settings around the world. The true challenge before all of us now is to scale-up our efforts to reach truly significant numbers of those men, women and children living in poverty.

Mr. FEIGHAN. Thank you, Mr. Burrus. And I want to thank all of the panel members. This was an exceptionally helpful panel.

Let me just take a minute here for some ministerial functions. First, to offer the regrets of the Chairman of the subcommittee, Sam Gejdenson. As you know, the subcommittee had been scheduled to commence at 10:00, and was preempted by a full committee meeting. And Sam was here earlier, but unfortunately was not able to offer the statement that he wanted to. So it will without objection be included in the record of today's hearing.

[The statement of Mr. Gejdenson follows:]

STATEMENT OF CONGRESSMAN SAM GEJDENSON
CHAIRMAN
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
FEBRUARY 28, 1991

IT IS THE RESPONSIBILITY OF GOVERNMENTS, ESPECIALLY WEALTHY GOVERNMENTS LIKE THE UNITED STATES, TO TRY TO EXTEND THE RIGHTS OF THE PRIVILEGED TO THOSE MUCH LESS FORTUNATE THAN OURSELVES. TO UNDERSTAND THE LEGISLATION BEFORE US TODAY, ONE MUST RECOGNIZE THAT A FUNDAMENTAL RIGHT HAS BEEN HISTORICALLY DENIED TO THE POOREST AMONG US: ACCESS TO CREDIT. ACCESS TO CREDIT SIGNIFIES SO MUCH MORE TO THE POOR THAN A DIRECT LOAN. IT PROVIDES DIGNITY. IT PROVIDES HOPE FOR A BETTER FUTURE. IT PROVIDES A CONCRETE ROAD OUT OF WHAT ONCE WAS AN ENDLESS PATH OF POVERTY.

TODAY WE WILL BE REVIEWING A DRAFT BILL WHICH WILL AUTHORIZE THE MICROENTERPRISE-POVERTY LENDING PROGRAM WITHIN THE AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.). THE ISSUE OF WHETHER OR NOT A.I.D CAN RUN AN EFFECTIVE MICROENTERPRISE PROGRAM HAS BEEN HOTLY DEBATED IN THE RECENT PAST. IN SEPTEMBER OF 1990, THIS SUBCOMMITTEE HELD A HEARING WHICH BROUGHT TOGETHER ALL PARTIES INVOLVED IN THE DISCUSSION, NAMELY A.I.D., PRIVATE VOLUNTARY ORGANIZATIONS (PVOs) AND NON-GOVERNMENTAL ORGANIZATIONS (NGOs).

THE GENERAL ACCOUNTING OFFICE, WHICH PROVIDED THE SUBCOMMITTEE WITH A PRELIMINARY REPORT IN SEPTEMBER, CONCLUDED THE FOLLOWING:

* CONTRARY TO CONGRESSIONAL INTENT, THE A.I.D. OVERSEAS MISSIONS INVESTIGATED BY THE GAO DID NOT SPECIFICALLY TARGET THEIR MICROENTERPRISE PROJECTS TO THE POOREST OF THE POOR OR EMPHASIZE CREDIT ASSISTANCE TO WOMEN.

* THE GAO ALSO DETERMINED THAT LOANS FREQUENTLY EXCEEDED $300. THIS ALSO VIOLATES THE CLEARLY STATED INTENT OF CONGRESS.

* FINALLY, THE GAO FOUND A.I.D. DID NOT HAVE A SYSTEM TO TRACK DETAILED INFORMATION REGARDING ITS MICROENTERPRISE CREDIT ACTIVITIES.

THE DRAFT BILL BEFORE US TODAY RELIED HEAVILY ON THE PRELIMINARY REPORT FROM THE GAO AND IS THE RESULT OF EXTENSIVE COOPERATION BETWEEN THE CONGRESS, THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND THE MANY PRIVATE ORGANIZATIONS WHICH IMPLEMENT MICROENTERPRISE AND POVERTY LENDING PROGRAMS. IT IS, THEREFORE, A CONSENSUS BILL. BY PLACING THE MICROENTERPRISE/POVERTY LENDING PROGRAM WITHIN A.I.D. ON A TWO-YEAR AUTHORIZATION TRACK, CONGRESS IS SENDING A CLEAR SIGNAL TO THE EXECUTIVE BRANCH THAT WE ARE COMMITTED TO THIS PROGRAM AND PLAN TO REVISIT THIS ISSUE DURING THE NEXT CONGRESS. FURTHERMORE, IT IS MY HOPE THAT WITH THIS LEGISLATION WE CAN FINALLY END THE DEBATE ON LOAN SIZE AND MOVE ON TO THE SOCIAL, POLITICAL AND ECONOMIC EFFECTS OF THE GROWING INFORMAL SECTOR WITHIN DEVELOPING COUNTRIES.

I WANT TO COMMEND MY TWO COLLEAGUES, CONGRESSMEN FEIGHAN AND GILMAN FOR DRAFTING SUCH A THOROUGH, THOUGHTFUL PIECE OF LEGISLATION. I ALSO WANT TO THANK THOSE FROM A.I.D. AND THE MANY PVOs WHO SPENT COUNTLESS FRIDAY AFTERNOONS TRYING TO HAMMER OUT THEIR DIFFERENCES.

AS I SAID IN SEPTEMBER, IT IS THE INTENTION OF THIS SUBCOMMITTEE TO PROVIDE ACCESS TO CREDIT TO THE POOREST OF THE POOR. I BELIEVE THIS BILL CAN ACCOMPLISH THAT GOAL. I LOOK FORWARD TO HEARING THE TESTIMONY OF ALL THE WITNESSES.

Mr. FEIGHAN. Also I wanted to ask Mr. Farbman if he would be willing to submit to additional questions submitted by the Chair to the agency, questions which we were not able to address today.

Mr. FEIGHAN. In addition to that, my colleague, Congressman Gilman, who all of you know has spent a tremendous amount of time and energy on these issues, has a statement that will be entered for the record. And he has questions that he would like to submit to all of the panelists, the A.I.D. representatives as well as our second panel as well. So if you would be willing to respond to those, we would appreciate it.

[The statement of Mr. Gilman follows:]

STATEMENT BY THE HONORABLE BENJAMIN A. GILMAN
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE

FEBRUARY 28, 1991

MR. GILMAN: I want to thank the Chairman for holding this hearing at this appropriate time. I regret that I am unable to attend due to personal reasons.

AID has been a leader in small and micro-enterprise development over the past twenty years, but has shown a reluctance to complement that work with an aggressive "poverty lending" strategy. We want to encourage the poverty lending strategy without seeming to disparage the work in small and micro-enterprise development. This hearing hopefully will enable us to look more closely at such possibilities.

President Bush has commented favorably on pursuing a "poverty lending" strategy, stating in a 1988 campaign speech concerning the Grameen Bank, one of the most successful poverty lending programs, "[this approach] represents an encouraging development,...and I am very interested in and supportive of this concept, I will carefully reexamine proposals for similar programs."

I understand that a draft of AID's "action plan" for its micro-enterprise development program circulated in December had little or no mention of the importance of targeting resources to the poorest people. This is a subject of great concern for me.

While I am encouraged by AID's assistance to FINCA's village banking program in El Salvador and similar projects. I would hope that in the future more resources are made available to "poverty lending". My colleague the gentleman from Ohio, Mr. Feighan, will be introducing legislation to ensure such an approach and I join with him in his initiative.

I look forward to reading the transcript of the hearing at a later date.

"INSATIABLE" DEMAND FOR CREDIT

Mr. Gilman: In a September 8, 1990 article in the National Journal, Bill Burrus of ACCION International, who will be testifying shortly, said that the market for credit among the poor is "insatiable". He added, "There are millions upon millions of people who need money. It's the largest untapped credit market in the world." Do you agree with this assessment, and how do you see A.I.D. working with indigenous non-governmental organizations such as the Self-Employed Women's Association in India and the Grameen Bank in Bangladesh during the next five years to assure that some of this "insatiable" demand is met?

Answer: A.I.D. experience supports Mr. Burrus' observation that the market for credit among the poor is "insatiable", with the help of viable local institutions. A.I.D. is committed to helping to meet some portion of this demand, even where high interest rates, weak markets and hyper-inflation may mitigate development efforts. In fact, the essence of A.I.D.'s microenterprise program is to identify and strengthen indigenous institutions of all types in the developing world that can become effective and efficient channels for the provision of financial services to the poor. A.I.D. will continue to work for the next five years and beyond with such organizations as the Bank Rakyat and Badan Kredit Kecamatan in Indonesia, the myriad national development foundations and grass-roots organizations found throughout Latin America, the growing numbers of

indigenous microenterprise credit programs in Africa, and the affiliates of the dozens of U.S. private and voluntary organizations that have been so instrumental in pushing out the frontiers of what is feasible in this difficult assistance area.

A list of over a hundred such Agency-funded indigenous private and voluntary organizations doing microenterprise development was provided to the Subcommittee on International Economic Policy and Trade in our letter of December 17, 1990. Strong local institutions are essential to meet the high demand for credit for the poor.

SUPPORT FOR "POVERTY LENDING" BY THE AMERICAN PEOPLE

Mr. Gilman: As you know, there is some degree of cynicism about foreign aid among the American people. I have long supported aid programs, but I have a desire to see them better appreciated and understood by the American people.

Do you share my opinion that the outpouring of support for "poverty lending" programs -- as evidenced by hundreds of newspaper editorials and articles, or the television coverage on "60 Minutes" and PBS -- provides an opportunity for A.I.D. to respond to the Legislation enthusiastically and, as a result, have our foreign aid program be better appreciated by the public?

Answer: The attention given to "poverty lending" in the media presents an excellent opportunity for the American public to see an important aspect of foreign aid in a positive light. Americans generously endorse programs that help people help themselves. Programs such as microenterprise development -- in which entrepreneurs gain access to and benefit from small loans -- do just this.

We have found that many Americans who say they oppose "foreign aid" -- in the abstract -- support many of the very operations (development of very small businesses; child survival; promotion of democratic institutions, protection of tropical forests) in which we are active. We share a responsibility to introduce and explain our

program to the American people. Furthermore, stronger business development in foreign lands -- brought about by U.S. aid dollars -- can increase markets for U.S. business products. The American public needs to know that careful management of our foreign aid resources in these ways represents a good investment for American growth and security.

A.I.D. TARGETING OF "THE POOREST OF THE POOR"

Mr. Gilman: In your March 30, 1990 Report to Congress, the target group you identified was "the poorest of the economically active population." I know that in some circles, that definition has been interpreted to exclude the poorest of the poor who may not be "economically active" by our definition. Elsewhere the report says, "A.I.D. assists [the] poor, but not the poorest people." And the General Accounting Office, in testimony before this Committee last Fall said, "None of the three countries we visited targeted their microenterprise projects to the poorest of the poor." What can you say to reassure me that A.I.D.'s working definition of its target groups now includes the "poorest of the poor"?

Answer: The General Accounting Office (GAO), in its written submission to the Subcommittee in September 1990, stated that although "...None of the three countries...visited targeted... microenterprise projects to the poorest of the poor," that "...according to some PVO officials, these people [women or the poorest 20 percent of the population] <u>were benefiting from their projects</u>..." (emphasis added). Though untargeted, the poor <u>were</u> being reached.

What is important to note is that A.I.D. is dependent in large part on choices made by private and voluntary organizations (PVOs) and local non-governmental organizations that implement activities in the field. A.I.D. has no central

control over a myriad of local decisions; it can only set the framework and provide the guidelines.

A.I.D. does not target, per se, any particular sub-stratum of the poor. Rather, it acts in the role of financier of these organizations. Some local groups focus on remote rural areas; some prefer urban squatter settlements; some deal predominantly with women; and others focus particularly on small-scale credit, or training, or technical assistance. Virtually all, however, deal nearly exclusively with the poor, and A.I.D. knows -- as the GAO also recognizes -- that many of those poor who benefit are the so-called "poorest of the poor".

In our testimony at the February 28 hearing, A.I.D. pointed out that it is providing increasing levels of support to advocates of "village banking" -- such as U.S. private and voluntary organizations FINCA, Save the Children, Catholic Relief Services, Freedom from Hunger Foundation,

Katalysis Foundation and others -- which claim to include the so-called "destitute poor" among their beneficiaries. The existence of this support indicates that a significant portion of A.I.D.'s program indeed benefits "the poorest of the poor".

Subcommittee on International Economic Policy and Trade
Committee on Foreign Affairs
U.S. House of Representatives

Hearing on Microenterprise Programs
February 28, 1991

Response to questions from Congressman Gilman:

1. Catholic Relief Services strongly supports both poverty lending and microenterprise programs. Indeed, we agree with your assessment that vast amounts of resources are needed to reach the world's 1 billion poor people. CRS would advocate a strategy by the US government which seeks to use its limited resources in a catalytic manner: the US government can build institutional capacity to program poverty lending monies which can then attract resources from local communities, other foreign donors, and US private constituencies. We believe that the US government can take the lead in this because it has a long tradition of foreign assistance and its US microenterprise intermediaries are among the most innovative in the international community. The road to building such institutional capacity can not happen overnight and it will take a strategic commitment on the part of USAID in addition to financial resources.

2. We do not believe that the PVO community will have difficulty absorbing the $50 milllion because the legislation allows for monies to be used for both the credit capital and the institutional support to deliver it. Although the current institutional capacity for poverty lending is limited, this legislation can strengthen that capacity in the next two years and build a foundation for an exponential growth in poverty lending institutions. It is our belief that in the next eight years hundreds of millions of dollars can be effectively channeled to meet the needs of the expanding numbers of self-employed poor which curently total over 400 million in the developing world.

Mr. FEIGHAN. Let me ask a few questions of the panelists, and starting with this issue of monitoring. Because I find it still painful that after a couple of years now that we are still debating whether or not it is possible for institutions in the field to do the monitoring that is necessary and the reporting that is necessary for what I think are fairly simple categories.

And Dr. Lassen responded to this. But I wonder if other panelists could respond to the issue of the difficulties that they see in a monitoring system, or the pitfalls that there might be in mandating a monitoring system. I do not see them on the surface. And if there are some out there, I sure would like to be aware of them.

Ms. LASSEN. The pitfall comes when you are not talking about credit assistance. I think that credit assistance is very direct. It can be monitored, the dollar amounts of it, the number amounts of it, et cetera. Once you get beyond that and talk about other kinds of assistance, the indicators are by no means as direct, and the impact is much more subtle. And there is where I think that a lot of difficulty arises.

Mr. RONDOS. I would echo two comments. One is let us not overcomplicate the issue. Secondly, really any contract that A.I.D. gives funds to—and let us not forget that A.I.D. is not implementing these programs, that it is a whole network of agencies, two of which are represented here—are under obligation to A.I.D. to be monitoring.

So it strikes me that the point is moot. A.I.D. is not doing the work, but we are. Their business is then to do a scissors and paste job. And I do not mean in any way to be frivolous about that. We are the ones who have to expend that energy.

Mr. FEIGHAN. And based on your knowledge for the operations of those institutions, how difficult is it to arrive at least the gross data on how many loans are under $300? How many women?

Mr. RONDOS. It is very simple. We have to be able to account for every single loan whether it is $10 or $1000. It is a simple matter of monitoring. Our staff has to do it in working with the indigenous organizations with which we work.

I think sometimes, and the point that I think is very significant, is the one that Dr. Lassen raised. That if we are looking for benefits, an impact that is beyond the purely economic, then you get into slightly more complicated aspects of monitoring. But insofar as credit and how much money goes to people and what levels are given, it strikes us really fairly simple.

Mr. FEIGHAN. Mr. Burrus.

Mr. BURRUS. Congressman, I would like to talk about the monitoring system. I think that one of the pitfalls, and I saw an early version of the monitoring system in its infancy, I think that one of the pitfalls is that there is a tendency on the part of everyone to want to collect a lot of data. And I think that there would be a tendency to set up a system, while it may be worldwide, that would be so complex and so costly that people will not end up being able to do it.

Mr. FEIGHAN. We do not want to do that, right, really we do not.

Mr. BURRUS. And I am really referring more to the consultants and to A.I.D. itself who want to set up the system. I have urged on the advisory council that this system not be thought of as an eval-

uation system. I think that it is properly named a monitoring system. And it needs just to collect some very, very simple specific data. I think that is the most that we should hope for at this point. If we go beyond that, we are going to have major problems, and we will be sitting here a year from now without this system being put in place.

In answer to your question can we track existing loans and loan sizes, I fully agree with the other testimony, absolutely. And if we cannot, something is wrong, we are not running our programs properly. Now one of the problems may be that the data that is being generated for day to day management of the programs may not readily say how many loans quantifiably are below $300, if that is the cutoff, and which are above. But that information is certainly available, and it means just taking a somewhat different cut at it.

Mr. FEIGHAN. Let me ask about responding to at least the presence of the letter that the Administrator referred to that 19 PVOs had signed, I do not see exactly where it is, but saying that there should not be a $300 loan cap.

Are you familiar with that, are you familiar with the participants who signed that letter, to what extent it is reflective of the majority view if it is, how do I explain that?

Ms. LASSEN. I very much agree with Bill Burrus when he said that it is totally counterproductive to be thinking of camps. It is totally counterproductive. In fact, how we should better think of this I believe is as tracks. Some agencies have a track where they deal primarily with microentrepreneurs. And they may have another kind of loan, a slightly different process, with which they deal with solidarity, groups of borrowers, et cetera.

So within the same large agency and programs, there can be actually be tracks. It should not be thought of as two opposing things, a zero sum or something like that.

I believe that when that letter came out or that kind of response came out, agencies were talking from what they predominantly knew how to do. And we have seen from the 1980s that what we predominantly know how to do is microenterprise lending. We know much less how to mount large scale programs outside of urban areas addressing some of these inequities with the very destitute.

So to me, a lot of what that letter was saying, that letter was in reaction of one camp versus another camp. Many of those agencies who in fact were reacting saw this as a zero sum, that allocations would be made either to this or to that.

Mr. FEIGHAN. I wonder if either Mr. Rondos or Mr. Burrus could respond to an area that Dr. Lassen had discussed, and that is the growth targets that A.I.D. had set. And we heard in the testimony this morning, particularly the testimony to reach a ten percent annual increase in the number of microenterprise loans.

I had the same reaction that Dr. Lassen did. That 10 percent is even far short of the increase that the agency points to in previous years. But if it was 20 or if it was 50 percent, it seems to me given the nature of the demands for this type of credit system, that it is just far short of the vision that we should have.

Let me wrap into that question, because it is probably going to be my last question. I have to go vote, and it is not possible for me to come back. That first question about are those goals of increases of 10 percent in overall loans, I think that it was 10 percent in loans to women, to what extent is that realistic?

In Ms. Fore's testimony, she stated that the factor of limiting expansion of microenterprise activities most severely is the shortage of effective institutions that can serve the poor in growing numbers. I think that those are related questions. And I would like it if either one of you can speak to that.

Dr. Lassen, you had spoken to it I think rather extensively in your testimony. Mr. Rondos.

Mr. RONDOS. Yes. We would agree, I think. We can get into all sorts of statistical games here in discussing certain percentages of percentages. And quite frankly, I and my colleagues get rather lost in that. The fact is that there are far more people who are poor and even more who risk becoming poorer in the days, months, and years to come in absolute numbers. And we know that we have before us methods by which we can reach them and help them, and create a decisive turnaround in their condition.

That is a simple and rather obvious fact. But we need to be reminded of it. AID, I suspect and I think, can and should be contributing far more in that direction. In fact, it would make a serious mistake in locking itself into specific percentages.

What we know is that there is a method now or there are methods that can reach lots of very poor people. In fact, they are not that complicated, either. So why not give those methods the vote of confidence.

Could you remind me of your second question?

Mr. FEIGHAN. Well, the second question was on the Administrator's observation that the fact that they are limiting expansion of microenterprise is really the shortage of effective institutions.

Mr. RONDOS. Yes. That is a double-edged sword. Yes, there is an issue of what people refer to as the absorbative capacity. If you throw too much money at any organization when it is not ready, it will kill that organization straight-away. And that we all have to be careful of.

But we then have to ask ourselves—let me give the example of CRS. At any one time, we are funding over 2000 projects around the world. CRS does not implement its own projects. It works through indigenous counterparts. Arguably, there are 2000 organizations which admittedly range from a small little parish to a large cooperative, all of which could potentially be using credit savings schemes and introducing them as part of their daily activities.

So yes, do not look at the institution, but look at the whole array globally of these civic initiatives for want of a better way of putting it, the cannon fodder of democracy of the future of these countries, which at the moment are being left out. So much more money could be put into those. Do not put too much too soon. Help them build up their managerial capacity.

Mr. FEIGHAN. Thank you.

Mr. Burrus, rather than asking for your response now, I am going to apologize, and conclude the hearing. I want to thank this panel very much. Each one of you I think has been enormously

helpful today. And I appreciate the thoughtfulness of your testimony and the obvious time and effort that you put into its preparation. And it is going to be very helpful to us as we continue on our march on making this microenterprise program so much better over the course of time.

I will look forward to talking to all of you again very soon. And I thank again the Administrator's office for being present this morning. And that concludes today's hearing. Thank you.

[Whereupon, at 12:20 p.m., the subcommittee was adjourned.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992-93

Reauthorization of the Trade and Development Program

TUESDAY, MARCH 5, 1991.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE,
Washington, DC.

The subcommittee met at 1:30 p.m., in room 2255, Rayburn House Office Building, Hon. Sam Gejdenson presiding.

Mr. GEJDENSON. The Subcommittee on International Economic Policy and Trade meets today to review the role of the Trade and Development Program as we consider the reauthorization of the Foreign Assistance Act.

The Trade and Development Program [TDP) promotes the participation of U.S. firms in bilateral and multilateral development projects through the funding of feasibility studies, training programs and the dissemination of information regarding these projects.

Given the scarcity of resources for foreign assistance, TDP remains a popular program within the Congress. For every dollar invested in TDP activities, it is estimated that the U.S. receives a return of $75 to the U.S. economy.

In its congressional presentation for fiscal year 1992, the Trade and Development Program reports that exports associated with projects in which TDP provided assistance total more than $3.2 billion. It's difficult to think of any other program that has that much return for a dollar investment.

We have a number of issues which must be considered today. First, given the competition between U.S. companies and other international competitors, can TDP effectively assist our exporters in matching the competition if we keep TDP's authorization at its current level of $35 million?

Second, U.S. exporters have argued that the U.S. could improve the likelihood of private sector ability to win contracts in major development projects by establishing a special account within TDP to fund design and engineering services. These services would provide U.S. assistance at later stages of project development than are currently available under existing U.S. government programs. It is argued that by moving beyond the feasibility stage, the U.S. would receive an even greater export return on foreign assistance dollars.

Previous Page Blank

Finally, there seems to be a lack of coordination between TDP and other agencies within the executive branch. This committee has seen a number of proposals which essentially duplicate the work of TDP, and today I hope we can discuss the levels of cooperation within the various executive agencies which promote trade and/or development.

Frankly, in Congress, as I said earlier, there's great support for the work done, especially under our witness today, Ms. Rabb, and we hope that we can take a hard look at your opening statement and then later in questioning regarding the place and the cooperation you get from the rest of the administration. Go ahead.

STATEMENT OF PRISCILLA RABB AYRES, DIRECTOR, TRADE AND DEVELOPMENT PROGRAM

Ms. AYRES. Thank you very much, Mr. Chairman. I appreciate this opportunity to testify on behalf of the Trade and Development Program, and I would like to thank you, Mr. Gejdenson, and the members of this subcommittee for their tremendous support for TDP.

In the past 2½ years that I've been the director of TDP I've travelled extensively throughout the United States, and I have been most impressed with the vigor and success of U.S. exporters. However, the lion's share of U.S. exports—approximately 65 percent—are sold to the developed world—particularly the UK, Canada, Japan and Germany. This means that the U.S. sold an average of 35 percent of its exports to the developing world.

These figures indicate there is a vast potential for export markets as yet untapped. I am speaking of the markets of the developing and middle income world. In 1989, U.S. merchandise exports to developing countries totaled $118 billion, and while this figure does not include services exports, the U.S. share of these markets can and should be expanded tremendously. U.S. goods and services are highly valued in the developing and middle income world, and the U.S. has a significant role to play in assisting economic development and supporting emerging democracies.

Admittedly, these markets can be difficult to access. Distance, lack of familiarity, unstable economies and fierce foreign competition are daunting to private enterprise.

But there is an effective network of interrelated programs in the U.S. government that's designed to encourage U.S. companies to do business in the developing world and which offer assistance to help overcome the obstacles to market penetration. My agency, the Trade and Development Program, provides one of those programs.

The TDP is an independent federal agency that operates under a commercial foreign assistance mandate. That is, TDP promotes U.S. trade in international development through funding U.S. technical assistance in the planning stages of projects that are important to the development of the recipient countries and that also represent significant U.S. export and investment opportunities.

More specifically, TDP provides grants to support U.S. private sector participation in major projects. These grants fund feasibility studies and other planning services deemed crucial by the host government to move a developmental project to implementation. TDP-

funded studies must be done by a U.S. company or consortium. This U.S. imprint in the early stages of a major project enhances the opportunities for U.S. companies to compete successfully in project implementation.

The TDP is an extremely small agency. We have a ceiling of 28 people, and we're all based in Washington. Our budget request for FY '92 is $35 million. With operate around the world, working through our embassies abroad—specifically through the Foreign Commercial Service of the Department of Commerce. And we also benefit greatly from the industry and country expertise available from other federal agencies, and, of course, the U.S. private sector.

The TDP is uniquely suited to respond quickly to project opportunities, and, acting in the role of a catalyst, to introduce U.S. interests in the early planning stages of important projects.

The TDP supports projects that are identified by the host governments as being high developmental priorities. Typically, these projects are related to infrastructure development, such as telecommunications, energy and environmental projects. These projects must also be in sectors where U.S. industry is strong and competitive and for which international competitive bidding is expected for implementation.

U.S. companies compete for TDP-funded studies, and the selection of the company is made by the host government. The company selected operates under a contract negotiated between the company and the host government. Thus, while the grant is provided by the U.S. government, the true working relationship is between the U.S. company and the host government. The host government approves the scope of work prior to signing the grant agreement with TDP, and the study is monitored by the host government to insure that the study will meet the host country needs.

This process is designed to encourage a strong working relationship between the host government and the U.S. company. It is also designed to provide the host government with a useful product that should encourage project implementation and, of course, U.S. procurement.

Now, TDP does not require that U.S. goods and services be procured in project implementation. Rather, we help to position U.S. companies to bid successfully on the project and to encourage them to pursue additional business opportunities in that country. We look upon our grants as investments, with the return being the dollar volume of U.S. exports associated with project implementation.

The effectiveness of this approach is apparent in the fact that through fiscal 1989 TDP obligated a total of $138 million for project planning in developing and middle income countries. To date, in excess of $3.2 billion of U.S. exports have been associated with projects supported by TDP- funded studies. These same projects are expected to yield an additional 7 to $8 billion in the next ten years. This return is even more significant when the ripple effect of second and third generation equipment purchases and spin-off projects are factored into the equation.

I think the best way to describe this process is by providing an example.

In 1987, TDP provided a grant of $350,000 to the Electric Generating Authority of Thailand, or EGAT, for a power plant study in Bang Pakong. Black & Veatch International of Kansas City, Missouri, was selected to conduct the study in 1988. As a result of the excellent working relationship developed with EGAT during the study, Black & Veatch Engineering won a follow-on engineering services contract worth $30 million.

In addition, because the Black & Veatch study ultimately set procurement specifications which strongly favored U.S. generator and gas turbine technologies, General Electric won the tender for two 300 megawatt gas turbine combined-cycle power plants valued at $64.6 million. This also put G.E. in a favorable position to supply a similar project in Rayong, in Thailand's ongoing Eastern Seaboard Project.

Total exports from this project to date are valued at $210 million. A potential of $180 million in additional exports in expected in the future from this project.

This example also illustrates the fact that many companies, large and small, can benefit from a single TDP grant. G.E.'s subcontractors for this project numbered 28. These 28 subcontractors operate out of 35 facilities located in 20 states. In addition, because of the relationship Black & Veatch had established in the TDP-funded study, the company subsequently was selected as the project management consultant for the first integrated pulp and paper mill in Thailand. The project is funded at over $200 million. This is an example of the spin-off benefits that I mentioned earlier.

The TDP can also intervene at other critical times in the life cycle of a project to encourage U.S. procurement. For instance, we may fund the travel of procurement officials to the United States to meet with U.S. companies and visit U.S. plants and project sites.

An excellent example of the effectiveness of such reverse trade missions is the following:

In 1988, TDP learned that the World Bank was funding a $30 million project in Togo for new telephone switching equipment. With the hope of encouraging U.S. companies to take advantage of this excellent export opportunity, TDP provided $21,000 to fund an official visit to the United States by Togolese officials from the Office of Posts and Telecommunications.

The Togolese were introduced to U.S. telecommunications equipment and technology, and U.S. companies had the opportunity to establish business relationships with officials from a country they had never considered exporting to before. As of this date, U.S. firms have sold $600,000 of U.S. telecommunications equipment to Togo, with potential additional exports of $4 million.

In fiscal year 1990, TDP sponsored two such orientation visits by Turkish officials to expose them to American advanced educational technology and introduce them to U.S. companies that can provide equipment or services in that sector. The visits were designed to address Turkish education needs financed by four World Bank loans. As a result of these visits, U.S. firms located in New Jersey, Massachusetts, and Ohio have already sold $28 million of equipment and services. Another $170 million in educational equipment, computer software, and consulting services are expected to flow from these "reverse trade missions."

Another very recent example is a trip for the Greek Ministry of Health officials that was funded by TDP in January of 1991. Visiting several U.S. cities, the delegates were able to familiarize themselves with modern health care facilities, computer systems and applications, medical equipment, and a modern hospital administration system.

As a result of this trip, in February of 1991 Digital of Boston received a contract from the ministry for $3 million for computer systems to be installed in five hospitals. The firm believes that it could obtain another $10 million, which could bring its involvement to more than half of the total $21 million procurement for the project.

We may also invite foreign officials to attend conferences and technological symposia where U.S. technology, expertise and goods and services are presented. These conferences also provide an opportunity for state participation in TDP program opportunities and benefit state exports.

For example, in November, 1989, TDP funded the Conference on Asia-Pacific Petrochemical and Refinery Integration, or CAPPRI, in Houston. CAPPRI was organized by the state of Texas, the East-West Center in Hawaii, and the University of Houston's Small Business Development Center. The purpose of CAPPRI was to bring together senior and government decision-makers from the U.S. and Asia to discuss regional petrochemical markets and development prospects for the 1990s.

An integral feature of the conference was the opportunity for U.S. companies to learn about Asian oil and gas processing capability and to promote U.S. planning and technical services and products. CAPPRI opened an avenue for interregional exchange of information and trade between the U.S. and Asia-Pacific in the energy and petrochemical fields. The potential investment opportunities identified during this conference have been estimated at $20-22 billion.

The TDP also works closely with state development agencies as a prime mechanism to disseminate information on export opportunities to U.S. firms.

Large businesses frequently win the contracts for the business and then use small and medium-sized businesses as sub-suppliers. However, one area where small businesses benefit directly is TDP definitional missions, which are teams of U.S. experts who get information that TDP needs in order to make a determination as to whether or not to offer a grant for a project. Definitional mission studies are performed by small and minority-owned businesses. Thirty-nine percent of all TDP activities in 1990 were definitional missions.

The TDP also funds training, which consists largely of offering de minimis mixed credits in the area of training. The term de minimis refers to OECD guidelines which require prior notification of a mixed credit unless it is less than 3 percent of the contract price of $1 million, whichever is less.

These grants are offered for training packages in support of a U.S. supplier's bid on international contracts and provide important encouragement to U.S. industry in international market-

places. The export return is immediate, since the grant does not go forward unless the U.S. company is awarded the contract.

For example, the Chilean Telephone Company, or CTC, announced an award of a $29 million contract for the construction of earth satellite stations to the United States from Scientific Atlanta after TDP was able to offer a $750,000 training grant to CTC to make Scientific Atlanta's bid more competitive. The grant, in conjunction with conventional Ex/Im financing and the strong support of the U.S. ambassador in Chile, neutralized strong competition from NEC of Japan and Alcatel of France, and Scientific Atlanta was awarded the largest single international contract in the history of that company. TDP currently offers these grants as its core budget permits.

Over 579 companies in 42 states, Puerto Rico, and the District of Columbia have benefitted from activities supported by TDP. Many of these are small and medium-sized firms. In addition, there are other sub-suppliers associated with these projects, but it's impossible to identify them all.

This concludes my oral testimony, and I'd be very happy to answer any questions you may have.

[The statement of Ms. Ayres follows:]

Priscilla Rabb Ayres' statement 14

I appreciate this opportunity to testify on behalf of the Trade and Development Program, and I would like to thank Mr. Gejdenson and the members of this Subcommittee for their years of support for TDP.

In the past 2-1/2 years that I have been the Director of TDP, I have travelled extensively throughout the United States, and I have been most impressed with the vigor and success of U.S. exporters. However, the lions share of U.S. exports -- approximately 65%-- are sold to the developed world---particularly the UK, Canada, Japan and Germany. This means that the U.S. sold an average of 35 percent of its exports to the developing world.

These figures indicate that there is a vast potential for export markets as yet untapped. I am speaking of the markets of the developing and middle income world. In 1989, U.S. merchandise exports to developing countries totaled $118 billion. And while this figure does not include services exports, the U.S. share of these markets can, and should be, expanded tremendously. U.S. goods and services are highly valued in the developing and middle income world and the U.S. has a significant role to play in assisting economic development and supporting emerging democracies.

Admittedly, these markets can be difficult to access. Distance, lack of familiarity, unstable economies and fierce foreign competition are daunting to private enterprise.

But there is an effective network of interrelated programs in the U.S. government

designed to encourage U.S. companies to do business in the developing world, and which offer assistance to help overcome the obstacles to market penetration. My agency, the Trade and Development Program provides one of those programs.

TDP is an independent federal agency that operates under a commercial foreign assistance mandate. That is, TDP promotes U.S. trade in international development through funding U.S. technical assistance in the planning stages of projects that are important to the development of the recipient countries and that also represent significant U.S. export and investment opportunities.

More specifically, TDP provides grants to support U.S. private sector participation in major projects. These grants fund feasibility studies and other planning services deemed crucial by the host government to move a developmental project to implementation. TDP-funded studies must be done by a U.S. company or consortium. This U.S. imprint in the early stages of a major project enhances the opportunities for U.S. companies to compete successfully in project implementation.

TDP is an extremely small agency ---- we have a ceiling of 28 people, all based in Washington. Our budget request for FY 1992 is $35 million. We operate around the world, working through our embassies abroad ----- specifically through the FCS of the DOC, and we also benefit greatly from the industry and country expertise available in other

federal agencies, and, of course, the U.S. private sector.

TDP is uniquely suited to respond quickly to project opportunities, and, acting in the role of a catalyst, to introduce U.S. interests in the early planning stages of important projects.

TDP supports projects that are identified by the host governments as being high developmental priorities. Typically, these projects are related to infrastructure development, such as telecommunications, energy, environment. These projects must also be in sectors where U.S. industry is strongly competitive, and for which international competitive bidding is expected for implementation. U.S. companies compete for TDP-funded studies, and the selection of the company is made by the host government. The company selected operates under a contract negotiated between the company and the host government. Thus, while the grant is provided by the U.S. Government, the true working relationship is between the host government and the U.S. company. The host government approves the scope of work prior to signing the grant agreement, and the study is monitored by the host government to insure that the study will meet host country needs.

This process is designed to encourage a strong working relationship between the host government and the U.S. company. It is also designed to provide the host government with a useful product that should encourage project implementation and. of course, U.S. procurement.

TDP does not <u>require</u> that U.S. goods and services be procured in project implementation. Rather we help to position U.S. companies to bid successfully on the project, and encourage them to pursue addditional business opportunities in that country. We look upon our grants as investments with the return being the dollar volume of U.S. exports sold in project implementation. The effectiveness of this approach is apparent in the fact that through FY 1989, TDP obligated a total of $138 million for project planning in developing and middle income countries. To date, in excess of $3.2 billion of U.S. exports have been associated with projects supported by TDP-funded studies. These same projects are expected to yield an additional $7-$8 billion in the next ten years. This return is even more significant when the ripple effect of second- and third- generation equipment purchases and spin-off projects are factored into the equation.

I think the best way to describe this process is by providing an example.

In 1987, TDP provided a grant of $350,000 to the Electric Generating Authority of Thailand (EGAT) for a power plant study in Bang Pakong. Black & Veatch International of Kansas City, Missouri was selected to conduct the study in FY 1988. As a result of the excellent working relationship developed with EGAT during the study, Black & Veatch Engineering won a follow-on engineering services contract with EGAT worth $30 million. In addition, because the Black & Veatch study ultimately set procurement specifications which strongly favored U.S. generator and gas

turbine technologies, General Electric won the tender for two 300 MW gas turbine combined-cycle power plants valued at $64.6 million. This put G.E. in a favorable position to supply a similar project in Rayong at Thailand's on-going Eastern Seaboard project.

Total exports from this project to date are valued at $210 million. A potential of $180 million in additional exports is expected in the future from this project. This example also illustrates the fact that many companies, large and small, can benefit from a single TDP grant. GE's subcontractors for this project numbered 28, operating out of 35 facilities located in 20 states. In addition, because of the relationships Black & Veatch had established in the TDP-funded study, they were subsequently selected as the project management consultant for the first integrated pulp and paper mill in Thailand. The project is funded at over $200 million. This is an example of the spin-off benefits that derive from TDP projects.

TDP can also intervene at other critical times in the lifecycle of a project to encourage U.S. procurement. For instance, we may fund the travel of procurement officials to the U.S. to meet with U.S. companies and visit U.S. plants and project sites.

An excellent example of the effectiveness of such reverse trade missions is the following:

In 1988, TDP learned that the World Bank was funding a $30 million project in Togo for new telephone, switching equipment. With the hope of encouraging U.S. companies to take advantage of this excellent export opportunity, TDP provided

$21,000 to fund an official visit to the United States by Togolese officials from the Office of Posts and Telecommunications. The Togolese were introduced to U.S. telecommunications equipment and technology, and U.S. companies had the opportunity to establish business relationships with officials from a country they had never considered exporting to before. As of this date, U.S. firms have sold $600,000 of U.S. telecommunications equipment to Togo, with potential additional exports of $4 million.

In FY 1990, TDP sponsored two such orientation visits by Turkish officials to expose them to American advanced education technology and introduce them to U.S. companies that can provide equipment or services in this sector. The visits were designed to address Turkish education needs financed by four World Bank loans. As a result of these visits, U.S. firms located in New Jersey, Massachusetts, and Ohio have already sold $28 million of equipment and services. Another $170 million in educational equipment, computer software, and consulting services are expected to flow from these "reverse trade missions."

Another very recent example is a trip for Greek Ministry of Health officials funded by TDP in January 1991. Visiting several U.S. cities, the delegates were able to familiarize themselves with modern health care facilities, computer systems and applications, medical equipment, and modern hospital administration systems. As a result of this trip, in February 1991 Digital of Boston received a contract from the Ministry for $3 million for computer systems to be installed in five hospitals.

..rm believes that it could obtain another $10 ...ion order, which would bring its involvement to more than half of the total $21 million procurement for the project.

We may also invite foreign officials to attend conferences and technological symposia where U.S. technology, expertise and goods and services are presented. These conferences also provide an opportunity for state participation in TDP program opportunities and benefit state exports. For example, in November 1989, TDP funded the Conference on Asia-Pacific Petrochemical and Refinery Integration (CAPPRI) in Houston. CAPPRI was organized by the state of Texas, the East-West Center in Hawaii, and the University of Houston's Small Business Development Center. The purpose of CAPPRI was to bring together senior industry and government decision-makers from the U.S. and Asia to discuss regional petrochemical markets and development prospects for the 1990s. An integral feature of the conference was the opportunity for U.S. companies to learn about Asian oil and gas processing capability and to promote U.S. planning and technical services and products. CAPPRI opened an avenue for interregional exchange of information and trade between the U.S. and the Asia-Pacific in the energy and petrochemical fields. The potential investment opportunities identified during this conference have been estimated at $20-22 billion. TDP also works closely with state development agencies as a prime mechanism to disseminate information on export opportunities to U.S. firms.

46-816 O - 91 - 4

Large businesses frequently win the contracts for the business, and then use small and medium-sized businesses as sub-suppliers. However, one area where small businesses benefit directly is TDP definitional missions, which are teams of U.S. experts who compile information critical to TDP's internal selection process. DM studies are performed by small and minority-owned businesses. Thirty-nine percent of all TDP activites in FY 1990 were DMs.

TDP also funds training, which consists largely of offering *de minimis* mixed credits in the area of training. The term *de minimis* refers to OECD guidelines which require prior notification of a mixed credit unless it is less than 3% of the contract price or $1,000,000, whichever is less. These grants are offered for training packages in support of a U.S. supplier's bid on international contracts and provide important encouragement to U.S. industry in the international marketplace. The export return is immediate, since the grant does not go forward unless the U.S. company is awarded the contract in question. For example, the Chilean Telephone Company (CTC) announced an award of a $29 million contract for the construction of earth satellite stations to the U.S. firm of Scientific Atlanta (SA) after TDP was able to offer a $750,000 training grant to CTC to make SA's bid more competitive. The grant, in conjunction with conventional Eximbank financing and the U.S. Ambassador's support, neutralized strong competition from NEC of Japan and Alcatel of France, and SA was awarded the largest single international contract in the history of the

company. TDP currently offers these grants as its core budget permits.

Over 579 companies in 42 states, Puerto Rico, and the District of Columbia have benefitted from activities supported by TDP. Many of these are small and medium-sized firms. In addition, there are other sub-suppliers associated with these projects but it is impossible to identify with them all.

This concludes my oral testimony. I would be glad to take your questions.

Mr. GEJDENSON. Thank you. Let me commend you, again, on the job you've done here. There's only one mistake. Only two of these charts have Connecticut listed as beneficiaries, and you've brought four charts. You probably only should have brought two charts.

Let me ask you. Is this project in Thailand completed already? Do you want to identify yourself if you've got the details?

Ms. AYRES. Mr. Chairman, the study is completed.

Mr. GEJDENSON. And what happens now as a result of—we have a cessation of all AID assistance to Thailand, don't we, because of the coup? That's in law. What happens to this? I'm not—how our process works more than anything else.

Ms. AYRES. This is a project that is likely to be funded with untied money from either the World Bank, perhaps commercial financing. The——

Mr. GEJDENSON. Do you know what the World Bank does in this kind of situation? Do they stop for awhile? I'm curious to find out. We can find that out. I just——

Ms. AYRES. That's an excellent question.

Mr. GEJDENSON. No, I'm not expecting necessarily that it's in your area of responsibility, but what happens with other international organization and what other countries do. I agree with cutting off the programs when there's a coup. We ought to have disincentives for coups.

Let me start this. I've just given myself six hours. [Laughter.]

In 1988, the Trade Development Program—the Act—the Trade Development Program should serve as the primary federal agency to provide information to persons in the private sector concerning trade development and export promotion related to bilateral development projects.

In the TDP congressional presentation for 1992 it states the key objective for the fiscal year 1992 is to implement an effective and comprehensive strategy for distributing project information and export leads to the U.S. business community.

Are we to assume, then, that TDP has no formal means of distribution at this point? There's no kind of set process where either the Eric Atwaters, who's the Commerce guy in Hartford, Connecticut—does he normally get things from TDP and does he try to distribute—how do you make yourself known, I guess?

Ms. AYRES. Well, Mr. Chairman, we send our project information to major projects in the Department of Commerce, and that information, as I understand it, would then get to Mr. Atwater, and——

Mr. GEJDENSON. Do you send it out to like the 50 state commerce departments? I mean, would that make sense? Would it be an additional burden? I don't have an answer, so——

Ms. AYRES. We have a grant outstanding now to NASDA, and NASDA is——

Mr. GEJDENSON. NASDA is?

Ms. AYRES. The National Association of State Development Authorities. And NASDA is determining the most effective means of disseminating the information so that it goes to the state development authorities as well as through the U.S. district offices in the Department of Commerce.

And part of this study is also to determine exactly what kind of information is important and useful to the states to disseminate.

Mr. GEJDENSON. Because my sense—you know, it's not just on this issue. I was just back on the weekend in the district working with people on economic development, and the most frustrating thing is not just TDP but state programs or local—that good entrepreneurs who are used to being self-reliant and don't like to think of themselves as ever having friendly contact with government don't know the programs that can help make us competitive as a nation like this one.

And, you know, you can't just bury them with mail, because that's not going to do it, either. You've got to get it to the right people out there that it's going to make it work.

Section 2204 of the Trade Act of 1988 requires the Director of TDP to submit an annual report to the Committee on Foreign Affairs by December 31st of each year. Has TDP complied with the law?

Ms. AYRES. TDP is in the process of complying. We do have an annual report. I apologize that it is late.

Mr. GEJDENSON. You are not the only one. We have never found an executive agency that was on time. We are impressed when they actually do one.

Have you done previous years' reports, or have your predecessors done reports?

Ms. RABB AYERS. I am embarrassed to say that apparently we overlooked our annual report for last year; however, we do have one for 1988.

Mr. GEJDENSON. Can we get a copy of that?

Ms. AYERS. Yes.[1]

Mr. GEJDENSON. Is TDP a member of the Trade Policy Coordinating Committee?

Ms. AYERS. Yes.

Mr. GEJDENSON. And has the committee met?

Ms. AYERS. The committee is actually not a single committee. It is a very complex interaction of working groups. TDP is very active on most of the working groups, and I have participated in the two TPCC conferences sponsored by the Department of Commerce.

Mr. GEJDENSON. Who is the primary person in Commerce responsible?

Ms. AYERS. Secretary Mosbacher.

Mr. GEJDENSON. So it goes right from his office?

Ms. AYERS. Yes, and he participates in those conferences. There have been two conferences so far, one in St. Louis, and the kickoff was in Minneapolis.

Within the next two weeks, there is going to be one in Hartford, as well as Cincinnati, and I am glad that you have brought up the TPCC, in that this is also a very, very useful and very important means of getting information to the exporting community as far as what government agencies are available and how we work together.

Mr. GEJDENSON. And does that apply to inside the Government as well, like for instance with the Export/Import Bank and AID?

Ms. AYERS. Yes. We are all participating.

---

[1] Information on file at subcommittee.

Mr. GEJDENSON. So when the Export/Import Bank met with USAID on May 15th and announced they were creating a $500 million U.S. mixed credit pool to leverage financing for development projects, did they contact you?

Ms. AYERS. Well, this was prior to the TPCC.

Mr. GEJDENSON. May 15, 1990 was before the TPCC?

Ms. AYERS. Yes.

Mr. GEJDENSON. But did we not say that you should be included as of the 1988 Act where it said—the 1988 Trade Act that allowed mixed credits to be part of TDP's portfolio?

Ms. AYERS. Yes.

Mr. GEJDENSON. So is there somebody I can call at the AID or the Export/Import Bank to convince them you should play a more prominent role in this program?

Ms. AYERS. TDP is aware of the activities of the Ex/Im Bank-AID mixed credit fund. We are available to assist with project identification. We are called from time to time for information and assistance.

Mr. GEJDENSON. But shouldn't you just run it? I mean, I do not want to give you a territory grab here without the other folks, but should that not be in your bailiwick, or am I wrong there?

Ms. AYERS. Well, TDP does have the authority under the Trade Act of 1988 to administer a program of mixed credits in conjunction——

Mr. GEJDENSON. Pardon?

Ms. AYERS. TDP does have the authority under the Trade Act of 1988 to administer a program of mixed credits.

Mr. GEJDENSON. But you are not administering this program?

Ms. AYERS. No, sir.

Mr. GEJDENSON. And did somebody feel they were exempt from the law?

Ms. AYERS. I can only speak for the other agencies to say that the administration determined that the most effective means of administering a mixed credit program would be to combine the expertise and resources of Ex/Im Bank with those of AID, and we certainly are a third party.

Mr. GEJDENSON. Mr. Miller.

Mr. MILLER. Yes. Thank you, Mr. Chairman, and thank you, Ms. Rabb, for your testimony.

I have been reading these fantastic ratios, one dollar in and—what is it—how many dollars back?

Mr. GEJDENSON. 75.

Mr. MILLER. $75 back. How do you calculate this? How do you decide how many dollars benefit is due to a study of yours, for example?

Ms. AYERS. Well, initially when we learn of a project, we try to find out the potential for U.S. exports, and this determination is made by an expert who carries out the definitional mission, as I mentioned earlier. That is a ballpark figure, obviously, since we are talking about the very early stages of a project.

We also get in touch with the U.S. business community and make an assessment as to whether or not they feel competitive, if they are likely to bid on the project, and if they have a strong interest.

We have documented so far $2.1 billion in direct exports from the feasibility studies alone, and since 1981, TDP has spent $121 million to fund 411 studies.

Mr. MILLER. I guess what I am getting at, and this is not being critical, I am just trying to figure out how exact this science is, when you document X billion dollars of exports from these studies, how do you relate cause and effect?

Can you be sure that all these exports flow from your study, or can you not be sure that they would not have—some of them would not have happened in any event? I am just——

Ms. AYERS. Well, the answer is, we cannot take direct credit for the exports that ensure in the procurement on a project. Since TDP is involved in the early stages, we facilitate that procurement, but we do not have project finance, and our typical feasibility study is in the very early stages.

Mr. MILLER. So you are talking about, you have played a positive role in promoting these exports.

Ms. AYERS. Yes.

Mr. MILLER. Directly or indirectly. And it could be either. Okay.

My next question, and I confess to not being as knowledgeable about TDP as I should be, and after this session, I will be more——

Mr. GEJDENSON. Well, we are holding this hearing to help you out.

Mr. MILLER. That is right. That is why we have these hearings, and I thank you for doing that.

Mr. GEJDENSON. My pleasure.

Mr. MILLER. Eastern Europe. We hear a lot about American companies being discouraged in Eastern Europe, not feeling they can compete with Western European companies, Japanese or whatever.

Is that your experience? And if so, do you have any theories on why that is true, or have you done any studies on that?

Ms. AYERS. TDP has a very strong program in Eastern Europe, and Hungary and Poland and Czechoslovakia in particular, at this time.

We have found that early on there were a number of companies that were taken up with the excitement and the thrill of the process in Eastern Europe, and these companies just flooded into Eastern Europe with very, very high expectations.

A number of these companies either were not in a position to take advantage of the opportunities, or probably more likely the counties in Eastern Europe really were not prepared to be able to take advantage of what the U.S. companies had to offer.

Be that as it may, we have also discovered that there is a very, very strong core of U.S. companies that are presently very active, that are very interested in continuing to work in Eastern Europe, and I must say that our experience is that there is a very strong enthusiasm for operating in Eastern Europe.

Mr. MILLER. You are not discouraged?

Ms. AYERS. Not at all. No, we are not.

Mr. MILLER. Buy American programs, some of the countries, particularly Asian countries, have these Buy American programs.

Do you have any of studies or projects had any interaction with those Buy American programs?

Ms. AYERS. Yes.

Mr. MILLER. Could you give me your assessment of how valid these programs are. I mean, is it just puffery, or do you find they are meaningful?

I mean, I ask the question because I am considering having a conference in Seattle with several Asian nations that have Buy American programs with companies in my area, who, you know, do not seem to be particularly aware of them, have not, you know—but what advice do you give American companies about Buy American programs with Asian or other nations. Japan, South Korea, Taiwan all have these programs.

Ms. AYERS. TDP has had limited experience with Buy America programs, especially in Taiwan. I am not an expert on the effectiveness of such programs, but one important point as to Buy America programs is that there is a fundamental question that has yet to be answered, and that is what constitutes a U.S. product.

Does this mean this is a product that is merely assembled in the United States? If AT&T source is out of the Netherlands and 60 percent of their phone equipment is out of the Netherlands, is this a U.S. source, the software? Does that constitute a U.S. product or not?

Ms. AYERS. I think that there are going to be problems, and this is my personal opinion, I think there are going to be problems with these programs until we can deal with the issue of a definition of what really does constitute U.S. sourcing.

Mr. MILLER. So beyond that, you cannot assess how real or valid these programs are?

Ms. AYERS. I do not believe that I have the information.

Mr. MILLER. Well, I thank you. I think I have used up my time, Mr. Chairman.

Mr. GEJDENSON. And then some. Mr. Orton.

Mr. ORTON. You were doing so well. I was enjoying it.

Thank you again for coming. It is apparent that TDP is achieving success. I have questions as to how we measure that success and how we accurately determine whether or not these countries would have bought American goods anyway. Also, how do we determine the involvement of TDP simply from the feasibility study aspect?

I am probably not as familiar as Mr. Miller with the operations of TDP, having just arrived in town recently—but I understand that your main focus is feasibility studies, is that right?

Ms. AYERS. Yes.

Mr. ORTON. As opposed to conceptual and design and so on.

Ms. AYERS. Yes.

Mr. ORTON. Is there any way that we can be sure that, in fact, the increased American exports are a result of TOP promotion? Would we be more effective if we expanded TDP's operations beyond feasibility studies into concept and design, as well as just feasibility?

Would that help us in increasing U.S. exports? How can we make this work better?

Ms. AYERS. Well, Mr. Orton, I think you correctly recognize that there is not a clear, direct line from a TDP study to the actual procurement. However, the nature of the process that TDP follows, which is to speak to the host government and have the host gov-

ernment identify important developmental projects, is the first step to introducing U.S. goods and services in the implementation of the project, because these are also typically the projects where there is very, very strong foreign competition, and these are also typically the projects where foreign governments support their industries.

And at least in the very first step, it is helpful that the U.S. Government shows its support for the project and for U.S. expertise by offering to fund a feasibility study.

We purposely do not require U.S. procurement in project implementation, but we want this to be a study that is really going to meet the needs of the host government. This is an aspect of TDP that is very highly valued by the host countries where we operate, and that helps to put U.S. companies on something of a more equal footing, and they are working cooperatively with the host governments.

So the U.S. companies, then, are selected by the host country, so the host country, then, has its choice of the qualifications of the company that it wants to work with, and that really does help to set the process.

Clearly, the closer you can get to the actual drawing or drafting of the specifications for the projects and selection of equipment would help to ensure that U.S. goods and services would be likely to be procured in project implementation.

Mr. ORTON. Going beyond feasibility to assisting in conceptual design and detail design of the project. Is this idea sound in that it would give us a more reasonable expectation of U.S. exports in that particular project?

Ms. AYERS. Yes, absolutely, especially since once the typical TDP study ends in the very early stages, it is possible that a French company will come in and take up the conceptual design, and at that point, whatever benefit is being done for U.S. businesses will certainly be diluted to some extent.

Mr. ORTON. Do you have any idea what costs would be incurred and how much more funding you would require to expand beyond the feasibility stage?

Ms. AYERS. I do not have any exact numbers, and, in fact, fortunately there are two experts on the private sector panel who might be able to be more specific than I can be.

It is my understanding that generally conceptual design costs approximately 2 percent of the project cost, and the detail design is somewhere around 6 percent of the project cost. So it would depend on a project-by-project basis as to how much it might cost.

Mr. ORTON. Are there any studies to tell us if we expanded into conceptual and detail design what amount of increased exports we would get? I am trying to figure out where we get the highest return for the amount of money invested.

You have done very well at $35 million. If we increase that manyfold, will we get a manyfold increase of the benefit? That is the question.

Ms. AYERS. And that is a very good question. I think it depends on the project. I think we can say that the return will be more sure, although if we put more money into a project, then it would take an incremental amount of exports proportionate to the increase in the TDP funding to show relative benefit.

But I would like to point out also that we are, in fact, on some projects, getting into conceptual design, as it is deemed important, as we can fund——

Mr. GEJDENSON. That comes out of—if the gentleman would yield—it comes out of your $35 million?

Ms. AYERS. Yes, yes, absolutely. In fact, there is one project in Poland for modernization of the power sector that is a $2 million project, but it was important to get into the feasibility study, which also gets into conceptual design to ensure the fact that German technology and equipment was not used to modernize this sector, and it is also a technology that is appropriate for other countries in that region.

So in that case, we did make a commitment for $2 million to fund the study, and, of course, we are hopeful for a tremendous return on that.

Mr. ORTON. Okay. Thank you, Mr. Chairman. I have used my time, and I have another committee meeting on the Subcommittee on International Development in the Banking Committee that I have to leave for.

Mr. GEJDENSON. Well, we will miss you.

Mr. ORTON. Excuse me.

Mr. GEJDENSON. Mr. Engel.

Mr. ENGEL. Thank you, Mr. Chairman.

The $35 million——

Mr. GEJDENSON. Mr. Engel, if you would speak into the mike. The other one is for the reporter. Keep that one close to you.

Mr. ENGEL. Oh, okay.

Mr. GEJDENSON. We need both versions of your statements.

Mr. ENGEL. The $35 million budget which was mentioned, when you consider the Mexican Free Trade Agreement and the rebuilding of Kuwait and possibly Iraq, and you mentioned Eastern Europe as I was coming in, in response to Mr. Miller's questions, how can TDP perform well in all these areas with a budget of only $35 million?

Mr. GEJDENSON. A great manager of the program. [Laughter.]

Ms. AYERS. Maybe I should just leave it at that. [Laughter.]

Mr. GEJDENSON. Do you need more?

Ms. AYERS. I'd be happy to. We find that TDP is structured in a way to be very adaptable. That is adaptable to a sudden drop-off in demand, such as happened in China and now in Thailand, as well as adaptable to an increase, such as the opening of Eastern Europe, with a set budget for the year.

What is important to us is that we operate very well on a project basis and that we are able to balance our resources, so that we can operate in the most effective way around the world.

We like to think that we do an excellent job. I know that the TDP staff does an excellent job, regardless of the amount of funding. It is a matter of how many projects and the degree to which we can do these projects, if we can go into conceptual design, for example, or if we should spend $21,000 on an orientation visit instead.

Mr. ENGEL. Because of the war in the Gulf, are you anticipating increased demand on your resources as a result?

Ms. AYRES. Well, as it happens, I am not sure if there will be a demand as far as the restructuring of Kuwait is concerned. I'm not—it is not clear yet whether or not there would be an important role for TDP to play in a country where they do have a great deal of money and they seem to have these resources available to them.

President Bush has already stated that no U.S. money will be used to rebuild Iraq and so I have no reason to expect that TDP will be involved in Iraq. However, countries such as Turkey have been affected and disadvantaged as a result of the war in the Gulf and we have already experienced an increase in requests from Turkey. So I do expect that, maybe it is a bit more indirect, but I do expect that we will have a somewhat increased demand.

Mr. ENGEL. Some of our friendly competitors, foreign competitors, particularly Japan, some of the others, France, Canada, Italy, they have similar programs, is that not true? But their budgets are much larger?

Ms. AYRES. Well, this is an issue that we have been struggling with probably since TDP was started. There really is no single program or agency that is directly comparable to TDP, although I think that it is fair to say that the overall foreign assistance efforts of the countries that you mentioned are very much more trade oriented and they certainly have a great deal more money behind them. So, I think that the logical conclusion is that of course whatever aspects of those overall assistance programs are comparable to TDP, they certainly are bound to be better funded.

Mr. ENGEL. Would that be the major difference, the fact that they are more trade oriented in their programs than ours?

Ms. AYRES. The major difference I think probably rests in the philosophy behind the program and of course the funding, and I am not sure which comes first.

Mr. ENGEL. What do you mean by philosophy? How would you classify their philosophy as being different and how do their programs vis-a-vis the way our program works?

Ms. AYRES. The basic philosophy that I am referring to is the strong feeling that it is appropriate for Government—for the French Government, the Japanese Government—to assist their industry by offering subsidies, concessional financing, by promoting trade both in the developed world, but particularly in the developing world. The U.S. Government believes that the U.S. private sector is competitive and it is important for the U.S. companies to compete for these projects.

And I would like to add here that in my experience at TDP I have been extremely impressed with how competitive U.S. companies are. But the difference I think is probably in the area of financing in terms of support.

Mr. ENGEL. So would you say if you compare our programs to their programs how would you rate the way their programs are working?

Ms. AYRES. Well, this is a personal opinion of mine. Certainly in terms of buying up projects, there are other programs that are more effective in buying the projects. In terms of really establishing a foothold in those countries and offering a valuable service, I have my doubts as to whether or not the results or what has been purchased is really worth the price.

I have travelled extensively to developing countries in my current position and I must say I have seen a number of white elephants that have been gifts of different governments, not of the U.S. Government. Take for one example, an air traffic control system in Harare that I learned was not operative after I had landed, fortunately, and I was told not to worry about it on the way out, but it had been a gift of the Italian Government, but it sat there, it was not working, it never had worked, but it was there.

And meanwhile, some U.S. companies were competing to put in an operating air traffic control system, and we did what we could to help.

Mr. ENGEL. So are we actually, if I might, just one final question, Mr. Chairman. Are we actually helping the private sector with our attitude or would we be better off in offering these subsidies and doing the other things that some of the other countries are doing?

Ms. AYRES. Well, again, my personal opinion, I think there is probably a happy medium. It is probably best to ask the private sector as to whether or not they are being helped. But I think that as the Chairman mentioned, the private sector would like to think that it can operate without government assistance except in those times when it would like some government assistance.

So I think that—I think that we are working together very very effectively and I am very much heartened by the attitude that is particularly apparent during the current administration, where the State Department has let the ambassadors know that it strongly encouraged the U.S. ambassadors that they are the senior commercial officers at their posts, where all of the agencies, all federal agencies are very interested in supporting trade and doing what they can to encourage U.S. trade.

Mr. ENGEL. Okay. Thank you very much.

Chairman GEJDENSON. Thank you. Just a couple of quick questions before I let you go. According to your presentation, you obligated more funds than were appropriated in 1992?

Ms. AYRES. Yes.

Chairman GEJDENSON. How much more did you obligate? I do it all the time. [Laughter.]

Chairman GEJDENSON. Master Card calls.

Ms. AYRES. In 1990 TDP obligated $600,000 over our appropriation for that year. We did that because we had funding that came from no year funding. In 1982, 1983 and 1984 TDP had no year funding and since that time there were projects where funding had been obligated that did not happen, other projects where not all of the money was spent, so we were able to reobligate those funds and we had husbanded those resources and had those available for urgent projects for 1990.

Chairman GEJDENSON. The efficiency and effectiveness of your organization is often attributed to your leadership and to the size of the organization. If we were to increase your authorization to 50 or $75 million could you—would you need an additional increase in your staff size or could you absorb that?

Ms. AYRES. Well, TDP has been—has grown ever since it was started in 1980 and in its first fiscal year the funding was somewhere under $5 million. I believe it was approximately $4 million. The process of growing in terms of budget and organization growth

is ongoing, and in fact we have recently evolved our organizational structure so that I believe that we can very efficiently and effectively administer a program with the $35 million budget and with very few increases in staff, probably in the administrative area, and then also I think in the project support. We have five new hires selected to—these are project officers to work with the regional directors, and it might be necessary to add one or two more project officers, but I believe that we have a structure now that can accommodate increased funding in the future and allow us to maintain the—maintain a small organization and one that can respond quickly and remain flexible. I think it is important to recognize that most of the time-consuming activities that TDP is involved with are done by the experts, by the private sector.

Mr. GEJDENSON. And expanding into including engineering and design, would that create tremendous burdens on the organization? Or, again, is that primarily contract work in the private sector?

Ms. AYRES. It is my belief that that is a logical extension of what we are doing. The process would not change. The process would be the same with host country contracts and using the expertise in the private sector.

Mr. GEJDENSON. We are going to have a talk with AID and the Ex/Imbank about I think the failure of your inclusion in a serious way and some of the programs they have initiated, but I had hoped that you would stand up for your organization and fight a little from the inside, as I think it will make a necessary improvement in how we do business. We thank you for coming and we hope to see more of those maps with stars back to Connecticut on them.

Ms. AYRES. Thank you very much, Mr. Chairman.

Mr. GEJDENSON. Thank you. Our next panel includes Mr. Jim Andrew, Vice President of Government Affairs with the M.W. Kellogg Company and Mr. William Trammell, Vice President, Project Finance, Fluor Corporation.

[Asides.]

Mr. GEJDENSON. No cereal here, hey?

Mr. ANDREWS. No, absolutely not. No corn flakes.

Mr. GEJDENSON. No corn flakes.

Mr. TRAMMELL. No fluorocarbons either.

Mr. GEJDENSON. No. Well, folks, why don't we start? We have Mr. Andrews first alphabetically; he can start.

Mr. ANDREWS. Sure, thank you.

Mr. GEJDENSON. Your entire statements will be placed in the record. Please feel free to proceed as you are most comfortable.

STATEMENT OF JIM ANDREWS, VICE PRESIDENT, GOVERNMENT AFFAIRS, THE M.W. KELLOGG COMPANY

Mr. ANDREWS. Thank you, Mr. Chairman.

My company is a wholly-owned subsidiary of Dresser Industries. Kellogg provides design, procurement, construction, plant operations, and maintenance for plants that are chemical processing facilities that take oil and natural gas and transform them into value-added products. Of our 1990 revenues of about a billion four hundred million, over 50 percent of those were derived from ex-

ports, primarily to developing countries. Foreign competition is becoming more intense in the overseas markets that we are in today.

We appreciate your past support of TDP. This program, although relatively small by U.S. Government agency standards, presents a unique resource to assist us in winning export work overseas.

The nature of our business requires extensive project development. To avoid exacerbating the debt problem existing in many developing countries, a thorough project development plan must serve as the foundation for capital investment. The most important components of the project plan are the feasibility study and conceptual design, which provide both the client and the lender, as well as potential contractors, a common basis to approach the work. Having a U.S.-backed feasibility study adds credibility to the effort and provides a professional avenue for U.S. firms to demonstrate to the client an understanding of the technical requirements and establish a commercial relationship that will assist us in winning the follow-on work.

TDP is agile, adaptable, and very responsive to a variety of circumstances to assure U.S. firms have access to increasingly difficult markets. Our experience in dealing with this organization is quite good. The staff, although small in number, is technically proficient and very professional. Their approach to business is non-bureaucratic; they understand simplicity in contracting and allow business to be done quickly while fully conforming to U.S. procurement law.

Their programs could be of more assistance to the exporter if expanded to include conceptual and detailed design. As I have stated earlier, the review required for financial decision-making is extensive. Lending institutions as well as the client's own hierarchy require detailed information on cost and feasibility. Further, TDP support of design for major infrastructure projects would put the U.S. on the same footing as other nations, particularly Japan. Our industry has experienced instances where the Japanese, for example, have received government support to accomplish detailed design. This enables specification of Japanese equipment or components, thus virtually assuring their sourcing from Japan. Therefore, by expanding the TDP's charter to include these services, we think we will enhance U.S. ability to export.

Two recent examples of TDP's adaptability involving my company are illustrative of TDP's effectiveness. The first is a feasibility effort we conducted for Petrogal, the Portuguese Oil Company. The study evaluated the actions that Petrogal must take to have their refinery products competitive in the EC-92 environment. This state-run oil company was being privatized and the client—Petrogal—was in a state of organizational change. A French company had an inside position to win this work. Our company believed that if we could do the feasibility study we would be positioned to compete strongly for the follow-on work, valued at over $300 million. TDP, with the help of our commercial attache in Lisbon, made the offer to support the study, the offer was accepted and we did in fact conduct the feasibility study. Unfortunately, we did not win the follow-on work, but another U.S. firm did. So for the purposes of TDP's mission, I think it was accomplished.

In another area, TDP supported a feasibility effort in Yugoslavia for a liquefied natural gas terminal. This project would receive LNG from Algeria and provide distribution to three other countries: Hungary, Czechoslovakia, and Austria. The project would provide an alternate source of energy for these countries, making them less dependent on the Soviet gas. Notwithstanding the uncertain situation in Yugoslavia, we believe the project will move forward. TDP, along with the commercial attaches and ambassadors of the countries I just mentioned, assisted us in winning the work.

After being selected, a French firm came along and made the offer to do the study for nothing. TDP responded immediately to alter the financial administrative arrangements for the grant so that we in fact had the same footing as our French competitor, and we won the work. An additional feature of this study provides for consortium staff to visit the United States and see LNG terminals similar to the one proposed for Yugoslavia. The visit, which would cost $25,000, will put the staff not only in contact with our engineering people, but also with equipment manufacturers here in the United States and obviously enhance our ability to win follow-on work.

The Coalition for Employment through Exports, a key advocacy group of U.S. companies on trade finance issues, supports a two-year reauthorization level of $120 million for the Trade and Development Program, $50 million for 1992 and $70 million for 1993. This represents an increase over the administration's request of $35 million. These levels of funding would enable the Trade Development Program to meet anticipated requests for pre-investment feasibility studies, engineering design services and training.

With the proliferation of market economies, the increasing effort by developing countries to reduce debt, and the move to privatize many government parastatal activities, the United States exporter has an excellent opportunity to contribute to the success of these initiatives. With the help of TDP, we can assure that the key ingredient of economic growth, that of prudent capital investment, is made with solid U.S. know-how. TDP's programs can provide the means to add more credibility to a developing country's decision-making process while directly improving U.S. export opportunities. Eastern Europe, Central and South America, Africa, and Asia all have examples of sound ideas that, with rational development, could provide wise capital investment and in turn could accelerate the development of their economies. TDP's capabilities provide the cornerstone of capital project development that if adequately resourced would assist U.S. firms to increase their own exports.

I thank you for the opportunity to testify and would be happy to take your questions.

[The statement of Mr. Andrews follows:]

PREPARED STATEMENT OF JAMES H. ANDREWS
VICE PRESIDENT, GOVERNMENT AFFAIRS
THE M. W. KELLOGG COMPANY

before the

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

TUESDAY, MARCH 5, 1991

Thank you, Mr. Chairman, for the opportunity to testify in support of the reauthorization of the Trade and Development Program (TDP). My company is a wholly owned subsidiary of Dresser Industries. Kellogg provides design, procurement, construction, plant operations, and maintenance services for oil and chemical processing facilities that transform oil and natural gas resources into useful value added products. Of our total 1990 revenues of $1.4 billion, over 50 percen are derived from exports primarily to developing countries. Foreign competition is intense in our international markets.

Mr. Chairman, we appreciate your past support of TDP. This program, although relatively small by U.S. Government agency standards, presents a unique resource to assist us in winning export work.

The nature of our business requires extensive project development. To avoid exacerbating the debt problem in many developing countries, a thorough project development plan must serve as the foundation for capital projects. The most important components of the project plan are the feasibility study and conceptual design which provide the client, the lender, and potential contractors a common basis to approach the work. Having a U.S.-backed feasibility

study adds credibility to the effort and provides a professional avenue for U.S. firms to demonstrate to the client an understanding of the technical requirements and establish a commercial relationship that will assist them in their attempt to win the follow-on work.

TDP is agile and adaptable to a variety of circumstances to assure U.S. firms have access to difficult markets. Our experience in dealing with this organization is quite good. The staff, although small in number, is technically proficient and professional. Their approach to business is non-bureaucratic; they understand simplicity in contracting thus allowing business to be done quickly while conforming to U.S. procurement law.

Their programs could be of more assistance to the exporter if expanded to include conceptual and detailed design. As I have stated the review required for financial decision making is extensive. Lending institutions as well as the client's own hierarchy require detailed information on cost and feasibility. Further, TDP support of detailed design for major infrastructure projects would put the U.S. on the same footing as other nations, particularly Japan. Our industry has experienced instances where the Japanese, for example, have received government support to accomplish the detailed design. This enables specification of Japanese equipment or components thus virtually assuring their sourcing from Japan. Therefore, by expanding TDP's charter to include these services, U.S. exports will be enhanced.

TDP is working well to coordinate their interface with the Export-Import Bank of the U.S. and the Overseas Private Investment Corporation (OPIC). Both of these agencies' programs are in complement with TDP. TDP has participated in a number of OPIC trade

missions. On last year's mission to Poland, I saw how the U.S. Commercial Attache, the TDP staff, and OPIC teamed to educate Polish authorities on U.S. export assistance programs. As a businessman involved on that mission, I saw business opportunities that in time will result in U.S. exports and make use of both TDP and OPIC's programs.

Two recent examples of TDP's adaptability involving my company are illustrative of TDP's effectiveness. The first is a feasibility effort we conducted for Petrogal, the Portugese Oil Company. This study evaluated the actions that Petrogal must take to have their refinery products competitive in the EC-92 environment. This state run oil company was being privatized and the client -- Petrogal -- was in a state of organizational change. A French company had an inside position to win this work. Our company believed if we could do the feasibility study we would be positioned to compete strongly for the follow-on work valued at $300 million. TDP, with the help of our Commercial Attache in Lisbon, made the offer to support the study. The offer was accepted, and we conducted the feasibility study. Unfortunately, we did not win the follow-on work, but a U.S. company did. So for purposes of U.S. exports, the TDP involvement led to a successful result.

In another area, TDP supported a feasibility effort in Yugoslavia for a Liquefied Natural Gas (LNG) terminal. This project would receive LNG from Algeria and provide distribution to three other countries: Hungary, Czechoslovakia, and Austria. The project would provide an alternate source of energy for these countries making them less dependent on Soviet gas. Notwithstanding the uncertain situation in Yugoslavia, we believe this project will move forward. TDP, along

with the Commercial Attaches and Ambassadors, assisted us in winning this work. After being selected, a French firm made an offer to do the study for free. TDP responded immediately to alter the financial administrative arrangements to make our use of the grant comparable t the French firm's approach. An additional feature of this study provides for four consortium staff to visit the U.S. to look at LNG terminals similar to the one proposed for Yugoslavia. The visit, costing $25,000, will put the staff in contact with our engineering staff and also equipment manufacturers during their brief stay in the U.S. This trip will further enhance the U.S. competitive posture to win the follow-on work.

Our two studies cost $1.4 million. While TDP's funds were increased in FY'91 to $35 million, clearly a further increase is, in my judgment, justified particularly if this Committee concludes that the program merits expansion.

The Coalition for Employment through Exports (CEE), a key advocacy group for U.S. companies on trade finance issues, supports a two year authorization level of $120 million for the Trade and Development Program - $50 million for FY'92 and $70 million for FY'93. This represents an increase over the Administration's proposed level of $35 million for FY'92. These levels of funding would enable TDP to meet anticipated requests for pre-investment feasibility studies, engineering design services, and training.

The higher funding levels will be critical to meet the increased demand for TDP funds and to support export growth needed to lead the recovery of the U.S. economy. As this Committee will remember, the business community has been on record for a number of years recommending the higher authorizations for TDP. There are few

Government/industry partnerships that work well together -- TDP is one that works very well.

With proliferation of market economies, the increasing efforts by developing countries to reduce debt, and the move to privatize many government parastatal activities, the United States exporter has an opportunity to contribute to the success of these initiatives. With the help of TDP, we can assure that a key ingredient of economic growth -- prudent capital investment -- is made with solid U.S. know-how. TDP's programs can provide the means to add more credibility to a developing country's decision making process while directly improving U.S. export opportunities. Eastern Europe, Central and South America, Africa, and Asia all have examples of sound ideas that, with rational development, could provide wise capital investment that in turn could accelerate the development of their economies. TDP's capabilities provide the cornerstone of capital project development that if adequately resourced will assist U.S. firms increase exports. I thank you for the opportunity to testify and would be happy to take your questions.

Mr. GEJDENSON. Thank you. Mr. Trammell.

STATEMENT OF WILLIAM TRAMMELL, VICE PRESIDENT, PROJECT FINANCE, FLUOR CORPORATION

Mr. TRAMMELL. Mr. Chairman, my name is Bill Trammell. I am Vice President of Project Financing for Fluor Daniel, Inc. That is the engineering construction subsidiary for Fluor Corporation and the major profit earner of the corporation.

Fluor Daniel provides a very broad range of services on a broad scale and world wide. We do everything from airports to electric power plants to the——

Mr. GEJDENSON. Are you in Kuwait, yet?

Mr. TRAMMELL. I suspect that if we are not there, we are about one step over the border. As it happens, I believe there are some people here in town working on that this week.

In the interest of time I am going to deviate from written remarks and first of all agree in principle with everything Mr. Andrews has said. There is no point in repeating it. Let me just summarize, though, by saying TDP does a heck of a job for a small organization with a limited budget. One of the best things that could happen to our trade program is to give these people a little more money and a little more scope.

I would like to focus on some questions that have already been raised this afternoon and use some experience to shed some light on them.

Mr. Miller asked how do we know what is the multiplier effect? TDP's goal is to get $75 of exports for every dollar of grant. At the CAPPRI conference, which TDP sponsored out of their 1990 budget, we were able to come together with TDP and a potential client, the national oil company of Indonesia, define a study and with the help of a $350,000 grant move that study into an award of a project that will generate over $200 million of U.S. exports, and we know what those exports——

Mr. GEJDENSON. How much was the study?

Mr. TRAMMELL. The study was $350,000. The U.S. content will be over 200 million. It is a lump sum job and we know where we are buying what.

Mr. GEJDENSON. And how much of that is to your company?

Mr. TRAMMELL. A significant portion of it. All of it, of course; it is a lump sum job.

Mr. GEJDENSON. Right. Because you are buying, but I mean how much are you actually—I guess what the challengers and what Mr. Miller would have asked you if he was here is, well, if you are going to get $200 million worth of work, why do you not just spend $350,000 yourself?

Mr. TRAMMELL. It is an interesting question, Mr. Chairman. We have a hard-headed manager of proposal expenses, and we could not convince him to spend that first $350,000. As it happens, we have spent that much or more perfecting the lump sum bid so that we could win the job. But that initial amount of money, when nobody was sure whether there was really a project here or not, was critical. It was very, very important to us to receive that grant.

Mr. GEJDENSON. Continue, please.

Mr. TRAMMELL. By the way, I just looked at a list of vendors, potential vendors for that project and I am chagrined to notice there are none from Connecticut.

Mr. GEJDENSON. Well, as I was sitting here listening to you, I was thinking of a list of people who might be helpful to you and we will send them along. [Laughter.]

Mr. TRAMMELL. I am sure that there is room for discussion here.

Mr. GEJDENSON. As a matter of fact I just took your name off this list so I could send it to some of my people who are interested in doing business in Kuwait, but go ahead.

Mr. TRAMMELL. Please do. We will be glad to have them.

Anyway, that was a heck of a return for a $350,000 grant. Two hundred million, $250 million, whatever it comes out to be, because we will be awarding some work to non-U.S. vendors. That is exactly what TDP was created to do.

Mr. Orton asked the question about achieving success by being able to do more than feasibility studies. In TDP's 1990 budget, there was a grant to the government of Thailand for a study, which we were successful in winning, that plans the production, transportation and utilization of all of Thailand's gas reserves for the next 10 years. We have successfully completed that study and could have gone right on to win the conceptual engineering of the first piece of work to be done, a particular undersea gas pipeline.

Because we had no grant funding for that work, it has now been lost to a Canadian competitor. Had we been able to go on and do the conceptual engineering, which would have taken us through specifying U.S. equipment, we would have been able to not only avoid a slowdown in the Thai program, but we would have captured a great deal of export value for the United States.

We have not given up hope. There are a number of additional projects to be awarded in this program, and I promise you we are going to more than accomplish TDP's goals. I simply use this as an illustration of why conceptual engineering is a follow-on that is so important.

Mr. GEJDENSON. Do you agree with that?

Mr. ANDREWS. Yes, I do, and I would like to go back to one of the questions about the grant and why you would not spend the $350,000 to win the $200 million worth of work.

The TDP offers the full faith and credit of the United States, and the initial arrangement is backed by the United States Government, and it is really not contractor-specific right at the beginning. A country that is going to embark on a major capital investment do not want to be married up with one contractor right at the beginning. So the grant enables, if you will, the matchmaking process to take place in a better environment.

So that the grant itself is the seed money for us to begin to establish that commercial and technical relationship which then carries us forward to win the work. And if we were able to have more of the engineering done under the aegis of the TDP, we could get closer to the spec that my colleague here has said that is the endgame.

Mr. TRAMMELL. To continue, the size of TDP's grants is a little limiting in our business. Feasibility studies in our business often run to a million dollars, and TDP's restriction of $350 to $400,000

in general often requires additional sources of funding from somewhere else, either a co-grant from somewhere else or a bit of head-scratching and fundraising, which is my job and I guess I should be happy about it or maybe I would not be so well employed. If they had more budget, I would like to see them able to support slightly larger studies.

Mr. GEJDENSON. How high would you go?

Mr. TRAMMELL. A million, in general. Not every study needs to be that.

The question also came up about the relative size of conceptual engineering. And by the way, I would like to stop here and for definitional purposes tell you what we consider to be conceptual engineering and what we consider to be detailed engineering. There seems to be a little confusion about these terms and there probably are, company to company, different definitions.

Conceptual engineering to us is the first six months or so of work, which identifies the major parts of the project and selects those vendors to be approached for procurement. It is at that point where we have done the specification of what the equipment is and what vendors are on the procurement list. That costs probably about 2 percent as Director Ayres mentioned, and it is money very, very well spent, because then you have the vendor list.

To get into detailed engineering is very expensive and time-consuming. That could take a year and a half. It could take—I think Director Ayres mentioned 6 percent. It could go up to 10 percent of a job. Often, we might want to do some of that work in the client's host country. These countries like to have detailed engineering, drafting board time if you will, done with their own people, to sponsor both employment and technology transfer.

So following those examples, I would be much more in favor of giving TDP some slack on conceptual design; less inclined to support detail design.

Mr. GEJDENSON. Do you agree with that?

Mr. ANDREWS. In general, I agree. Specific strategic markets where we are in real need of making a penetration for strategic market purpose, telecommunications or power sector——

Mr. GEJDENSON. You would go further?

Mr. ANDREWS. I would go further. And the first application might give us the opportunity for replication that we want by virtue of the initial market penetration.

Mr. GEJDENSON. Do our competitors generally go further? This is not just once in a while that you are generally faced with?

Mr. TRAMMELL. Yes, quite often. On the question of who are your competitors, how are they funded, how do they behave came up, I would point out to you that in the United Kingdom the Aid to Trade Program, which is budgeted about $500 million a year, goes in with a complete package of engineering and equipment, and it's completely closed. The team has already been pre-selected. This size grant is given and then export credits modified.

Mr. GEJDENSON. And TDP, there is no connection necessarily with any other Ex-Im Bank loan. But if you walk up to the Ex/Im window and you say, this is a TDP project, do they say, well, come up here a little closer? I mean, do you get any advantage in the process here?

Mr. TRAMMELL. Not as much as I would like.

Mr. ANDREWS. No. As a matter of fact, there are some instances where there is disconnect between TDP being on cover in a particular place and the Ex-Im being off cover long term to match——

Mr. GEJDENSON. What do you mean "off cover"? They just do not want to go in that country?

Mr. ANDREWS. Well, take, for example, Poland. It is my understanding that as of this morning the Ex-Im Bank was on for a limited medium and short-term cover, but not long-term cover, and that is not Ex-Im's fault because of the debt problem that Poland has that prohibits the Ex/Im Bank from making a long-term cover decision.

But the TDP program is operating in Poland. If I were to go and try to match a feasibility study with a lending commitment from Ex-Im, I do not think I could get one in Poland today.

Mr. TRAMMELL. To elaborate on that——

Mr. GEJDENSON. And our competitors offer detailed design?

Mr. TRAMMELL. Yes.

Mr. ANDREWS. Yes.

Mr. GEJDENSON. Go ahead, Mr. Trammell.

Mr. TRAMMELL. To elaborate on the point of TDP and Ex-Im, and I guess we are not here to talk about Ex/Im today, but in the case of the refinery expansion in Indonesia, we brought Ex/Im into the picture and they are trying very hard to find it in their capability to support the project. But since it is not government guaranteed, it is a privatization project owned by the national oil company of the government, it is not business as usual and they are having to strain to find a way to continue the good work TDP has already done.

Mr. GEJDENSON. Any additional comments?

Mr. TRAMMELL. I have virtually no additional comments.

On the question of staff, however, I think these people are doing an excellent job, but they have to be overachievers to get as much done with as few people as they have. If you were to substantially increase their budget, I think you should expect some small increase in staff, but certainly not one for one.

[The statement of Mr. Trammell follows:]

TESTIMONY OF

WILLIAM D. TRAMMELL

VICE PRESIDENT, PROJECT FINANCE
FLUOR DANIEL INCORPORATED

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, GOOD AFTERNOON. MY NAME IS WILLIAM D.TRAMMELL. I SERVE AS VICE PRESIDENT FOR PROJECT FINANCE OF FLUOR DANIEL, THE PRINCIPAL OPERATING ENGINEERING AND CONSTRUCTION BUSINESS OF FLUOR CORPORATION.

FOR THE PAST THREE CONSECUTIVE YEARS, ENGINEERING NEWS RECORD HAS NAMED FLUOR DANIEL THE NUMBER ONE U.S. ENGINEERING AND CONSTRUCTION COMPANY.

FLUOR DANIEL PROVIDES A BROADER RANGE OF TECHNICAL SERVICES TO MORE CLIENTS AND MORE INDUSTRIES AND GEOGRAPHIC LOCATIONS THAN ANY GLOBAL COMPETITOR. OUR DIVERSIFICATION IS DEEP AND WIDE. WE HAVE BUILT INDUSTRIAL PLANTS, ELECTRIC POWER AND HYDROCARBON FACILITIES, CHEMICAL PLANTS, AIRPORTS, TELECOMMUNICATIONS FACILITIES, AND MANY OTHER TYPES OF PROJECTS WORLDWIDE FOR GOVERNMENTS AND PRIVATE SECTOR CLIENTS.

IT IS INDEED A PLEASURE TO APPEAR BEFORE YOU TO SUPPORT THE REAUTHORIZATION OF A PIVOTAL U.S. COMPETITIVE TOOL ON THE GLOBAL MARKETPLACE, THE TRADE AND DEVELOPMENT PROGRAM.

ALLOW ME TO SAY AT THE OUTSET, MR. CHAIRMAN, THAT FLUOR DANIEL HAS ENJOYED A SIGNIFICANT LONG TERM PROFESSIONAL RELATIONSHIP WITH TDP. DIRECTOR PRISCILLA RABB-AYRES AND HER ABLE STAFF DESERVE NUMEROUS ACCOLADES FOR THEIR INVALUABLE SERVICE TO U.S. COMPANIES WHILE CREATING JOBS HERE AT HOME.

OUR OWN EXPERIENCE WITH TDP DATES BACK TO THE EARLY 1980'S WHEN WE CONDUCTED TWO TDP FINANCED STUDIES ON THE GASIFICATION OF LOW VALUE COAL TO PROVIDE CLEAN ENERGY FUEL FOR THE GOVERNMENT OF BRAZIL. ALSO DURING THIS PERIOD, WE WORKED ON A JOINT TDP/ EXPORT IMPORT BANK PROPOSAL TO THE ALGERIAN GOVERNMENT FOR THE PLANNING AND CONCEPTUAL DESIGN OF ITS PETROLEUM PRODUCTION FACILITIES. WHILE WE COULDN'T MATCH THE FINANCIAL PACKAGE OFFERED BY A JAPANESE COMPETITOR, IT WAS AN INVALUABLE EXPERIENCE. IN 1989, THANKS TO TDP'S HELP, FLUOR DANIEL WAS ABLE TO OVERCOME STIFF COMPETITION FROM BOTH JAPAN AND THE UNITED KINGDOM AND WAS AWARDED THE INITIAL STUDY FOR A SIMILAR NEED IN THAILAND.

DURING FISCAL 1990, FLUOR DANIEL RECEIVED THREE STUDY CONTRACTS FUNDED BY TDP GRANTS. I AM PLEASED TO REPORT TO THE SUBCOMMITTEE THAT ONE OF THESE STUDIES HAS ALREADY BEEN CONVERTED INTO AN OIL REFINERY MODERNIZATION PROJECT IN INDONESIA. THIS MODERNIZATION WILL LIKELY GENERATE OVER $200 MILLION IN U.S GOODS

AND SERVICES EXPORTS.

NOT BAD FOR A $350,000 GRANT INVESTMENT!

THE OTHER TWO STUDIES, WHICH ARE BEING CONDUCTED FOR AGENCIES OF THE VENEZUELAN GOVERNMENT, ARE OF SIMILAR SIZE AND WILL LIKELY LEAD TO EVEN LARGER U.S. EXPORTS FOR THE BUILDING OF A NEW OIL REFINERY AND A NEW PETROCHEMICAL CENTER.

A BRIEF EXAMINATION OF OUR OWN EXPERIENCE DEMONSTRATES THE MULTIPLIER EFFECT OF TDP GRANTS ON THE U.S.ECONOMY.

IN ADDITION TO THE UTILIZATION OF OUR ENGINEERING, PROCUREMENT AND PROJECT MANAGEMENT SERVICES, FLUOR DANIEL'S CONCEPTUAL ENGINEERING WORK GENERALLY SPECIFIES U.S. EQUIPMENT TO BE USED IN PROJECT CONSTRUCTION. THE SALE OF THIS EQUIPMENT, IN TURN, GENERATES ADDITIONAL U.S. SERVICES INCLUDING INSURANCE AND SHIPPING. FOR EXAMPLE, THE INDONESIAN REFINERY PROJECT I PREVIOUSLY MENTIONED, MR. CHAIRMAN, WILL LIKELY GENERATE OVER $100 MILLION OF U.S. ORIGIN EQUIPMENT ALONE.

BASED UPON MY NEARLY THIRTY YEARS OF EXPERIENCE IN THE FIELD OF INTERNATIONAL FINANCE, MR. CHAIRMAN, I CAN STATE UNEQUIVOCALLY THAT TDP HAS BEEN AND CONTINUES TO BE AN INVALUABLE TOOL FOR U.S.

COMPANIES WORKING TO GAIN AN INTERNATIONAL COMPETITIVE EDGE.

AS DEMONSTRATED BY FLUOR DANIEL'S INDONESIAN PROJECT, U.S. CONTRACTORS THAT RECEIVE STUDY WORK FUNDED BY TDP GRANTS HAVE AN ENORMOUS ADVANTAGE IN SECURING ONGOING CONCEPTUAL DESIGN AND DESIGN LEADS. WITH TDP'S HELP, WE ARE NOW DEMONSTRATING THAT THE U.S. CAN EFFECTIVELY MEET THE INTERNATIONAL COMPETITIVE CHALLENGE. HOWEVER, THIS DOES NOT MEAN WE HAVE ALL THE HELP WE CAN USE.

MR. CHAIRMAN, STUDIES IN OUR INDUSTRY OFTEN COST OVER $1 MILLION . HOWEVER, TDP'S USUAL GRANTS FALLS WITHIN THE $350,000 TO $400,000 RANGE. AN INCREASE IN TDP'S BUDGET WOULD ALLOW THE AGENCY TO SUPPORT LARGER STUDIES WHICH, IN TURN, WOULD PROVIDE MORE OPPORTUNITIES TO INCREASE U.S. EXPORTS. MOREOVER, TDP FUNDING OF CONCEPTUAL ENGINEERING STUDIES WILL REALLY "LOCK IN" U.S. EXPORTS. SUCH ENGINEERING TYPICALLY COST TWO TO THREE PER CENT OF TOTAL PROJECT VALUE AND REQUIRES SIX MONTHS TO COMPLETE. THIS SINLE EXPANSION OF TDP'S MANDATE WILL DO MORE TO MEET AND BEAT FOREIGN COMPETITION THAN ANY OTHER INITIATIVE.

A CASE IN POINT IS THE STUDY FOR THE GOVERNMENT OF THAILAND I MENTIONED EARLIER. IF TDP'S SUPPORT HAD BEEN AVAILABLE, IT WOULD HAVE CONTINUED INTO CONCEPTUAL DESIGN WITHOUT INTERRUPTION.

IN THE ABSENCE OF THIS SUPPORT, THE IMPLEMENTATION OF THAILAND'S NATURAL GAS GATHERING, TRANSPORTATION AND UTILIZATION PROGRAM IS NOW ON HOLD. OUR INTERNATIONAL COMPETITORS NOW HAVE A CHANCE TO BREAK INTO THIS PROGRAM WITH MIXED CREDITS AND OTHER INDUCEMENTS TO LURE EXPORTS AWAY FROM THE UNITED STATES.

CONVERSELY, A DECREASE IN THE TDP BUDGET WILL DIMINISH THE ABILITY OF U.S. INDUSTRY TO COMPETE WORLDWIDE. TDP TECHNICAL CONFERENCES, FOR INSTANCE, PROVIDE INVALUABLE CONTACTS. A TDP CONFERENCE HELD IN HOUSTON PROVIDED AN OPPORTUNITY FOR FLUOR DANIEL AND OUR INDONESIAN CLIENT, PERTAMINA, TO SIT DOWN AND AGREE TO A SCOPE AND BUDGET FOR A TDP STUDY WHICH SET THE STAGE FOR OUR ONGOING PROJECT.

IN CONCLUSION, MR. CHAIRMAN, ALLOW ME TO JUST ADD A WORD ABOUT TDP'S STAFF. THESE DEDICATED PUBLIC SERVANTS ARE OUTSTANDING EXAMPLES OF A LEAN ORGANIZATION DOING A GREAT JOB. BUT, IT IS CLEAR TO ME THAT THEY CERTAINLY COULD USE SOME HELP. SHOULD THE SUBCOMMITTEE APPROVE AN INCREASE IN THE TDP BUDGET FOR FISCAL YEAR, 1992, I WOULD ALSO URGE THE SUBCOMMITTEE TO APPROVE A CORRESPONDING INCREASE IN TDP PROFESSIONAL STAFF.

AGAIN, MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE TO SHARE MY VIEWS ON THE TRADE AND DEVELOPMENT PROGRAM.

Mr. GEJDENSON. Why, Mr. Trammell, are you not as committed, it seems, to the detail design stage if our competitors are for it? I mean, you seem to be more, well, once in awhile.

Mr. TRAMMELL. Mr. Chairman, it is a question of utilization of budget. I think we can get the most bang for the buck carrying it through conceptual design and not have to use up tremendous amounts of money to carry it through detail design.

Mr. GEJDENSON. And are our major industrial competitors just cleaning up the situation out there with the systems they have in place? I mean, do they beat you most of the time?

Mr. TRAMMELL. With respect, they are often beating the pants off of us.

Mr. GEJDENSON. And places that you are bidding, not just places you have looked at and said, well, we are not going to do that?

Mr. TRAMMELL. That is correct.

Mr. GEJDENSON. And is there any quantification in that? Is there any place I can get how often these kinds of proposals—I do not know, you probably do not want to give away private individual companies, but do you have an association that has any review of how we are doing in these kinds of programs worldwide?

Mr. ANDREWS. There was a fairly comprehensive study on mixed credits which Ambassador Preeg updated. I do not know whether it was for this committee. But in the area of mixed credits there were some 4 to $6 billion worth of U.S. exports lost a year by virtue of tied aid mixed credit offerings. We are trying to match that program, but certainly not doing a very good job so far.

Mr. TRAMMELL. There are numerous studies available around town, Mr. Chairman. The U.S.-China Business Council did an excellent study on what has happened in China. Now, that may not be the most——

Mr. GEJDENSON. Popular——

Mr. TRAMMELL [continuing]. Popular country, but the results of the study are valid.

Mr. GEJDENSON. Yes.

Mr. TRAMMELL. Coalition for Employment Through Exports could also furnish you data.

Mr. GEJDENSON. We thank both of you for coming, and we may ask you additional questions by mail after the hearing. You have both been very helpful in your formal statements and in your presentation.

Without objection, at this point we will include a statement by Mr. Roth in the record.

[The statement of Mr. Roth follows:]

OPENING STATEMENT - Toby Roth
HEARING ON TRADE AND DEVELOPMENT PROGRAM
March 5, 1991

I join in welcoming our witnesses this afternoon.

The concept behind the Trade and Development Program -- to plant the seeds for American exports -- is one that I strongly support.

TDP contends that some $3.2 billion in U.S. exports have flowed from its work.

If that is true, then this agency is certainly doing a good job in leveraging their appropriated funds into benefits for our economy.

Exports are crucial for our future economic growth.

While exports now account for one-third of our GNP, in the last year or so they have provided up to 80 percent of the new growth.

That means it is absolutely crucial that our trade policies assist American exporters in competing in the real world.

Other nations have programs with the same purpose as TDP

And not surprisingly, the Japanese in recent years have put 8 to 10

times more than our funding levels into their project development assistance -- to give their exporters a leg up. I look forward to Director Ayres' [redacted] testimony, but I especially want to hear from Mr. Andrews and Mr. Trammell about their assessment of this program.

Mr. GEJDENSON. We thank you gentlemen for your testimony. The hearing is adjourned.

Mr. TRAMMELL. Thank you.

[Whereupon, at 2:45 p.m., the subcommittee was adjourned.]

46-816 O - 91 - 5

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992-93

Reauthorization of Programs Within AID'S Bureau of Asia and Private Enterprise and Oversight of OPIC'S Programs

TUESDAY, MARCH 19, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE,
Washington, DC.

The subcommittee met at 1:47 p.m., in room 2255, Rayburn House Office Building, Hon. Sam Gejdenson, presiding.

Mr. GEJDENSON. The Subcommittee on International Economic Policy and Trade meets today to review the programs of two offices which seek to promote development in lesser developed countries.

With our operating budgets continually shrinking, it is the responsibility of Congress to review all government programs to see where we can get the most bank for the buck. Nowhere is that more important than in our foreign assistance accounts. Although Americans have always extended their hearts and pocket books to the truly destitute, it is difficult to rationale additional spending overseas when we have a rising number of homeless and unemployed citizens at home.

The purpose of todays's hearing is to assess the efficiency and effectiveness of the programs within the Foreign Assistance Act which fall under this subcommittee's jurisdiction.

Our first witness, Henrietta Holsman Fore, is the Assistant Administrator for the Bureau for Asia and Private Enterprise within the Agency for International Development. Ms. Fore has already testified twice before this subcommittee on the microenterprise development program.

Today we will focus on other programs within her Bureau's portfolio which include the private sector revolving fund, the housing and urban development program, the private enterprise development support program, and the International Executive Service Corps, which just happens to be based in Connecticut.

The subcommittee also welcomes Mr. James Berg, Executive Vice President of the Overseas Private Investment Corporation or OPIC. OPIC also operates under a development mandate. OPIC facilitates the economic development of lesser and middle income

Previous Page Blank

countries through the provision of insurance and financing for U.S. private investment. Although OPIC is not headquartered in Connecticut, it remains a popular program with this subcommittee as it has been self-sustaining since 1981.

I look forward to hearing our witnesses today. But before that, if Mr. Roth has an opening statement.

Mr. ROTH. Thank you, Mr. Chairman.

If it is not located in Connecticut, is it located in Wisconsin?

Mr. GEJDENSON. No, I do not think it is there either.

Mr. ROTH. That goes to show you how broad minded we really are.

Mr. Chairman, I want to compliment you for not only the work here this afternoon, but also the markup this morning in full committee. I want you to know that I appreciate what you did this morning. And it again shows me that you are a real diplomat. And I want to thank you.

I come to this hearing again with a lot of questions. This Bureau of Private Enterprise reminds me of one of those South Seas Islands. You know it is enveloped in constant fog. You know it is there, but you cannot really see it clearly.

The AID congressional presentation sometimes does not help too much. It is long on rhetoric about helping the private sector, but woefully short on specifics. Certainly, no one can argue with the goal of helping the private sector to develop, and therefore strengthen the indigenous economy. But before we move ahead to authorize another $234 million in guarantees, loans, grants, and contracts, I think that we need more detailed specific information on who is getting this assistance, what it is used for, and exactly how these programs are fulfilling the goal of privatization.

For instance, we have some $2 billion guaranteeing housing overseas. Why are we guaranteeing small business loans abroad when we have a credit crunch here at home? These are some of the questions that come up to us. Why are we providing grants and contracts for technical assistance in other countries when this assistance is not available to our own citizens?

We have to ask ourselves these questions before we move ahead and reauthorize this program I feel. And even if we get satisfactory answers to those questions, then we have to ask whether the programs here at hand have any effectiveness in meeting the goal of the private sector development.

So we have a lot of work to do before we can move ahead on this legislation. And I appreciate the Chairman having this hearing. So maybe we can get all of these questions answered and move ahead in a positive way.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

Mr. Miller.

Mr. MILLER. I am eager to hear the responses of the witness to all of those questions posed by my colleague, Mr. Chairman.

Mr. GEJDENSON. Mr. Orton, do you have an opening statement?

Mr. ORTON. Thank you, Mr. Chairman.

I would just like to echo the thanks of the committee for your attendance, and I am looking forward to hearing your testimony.

I would also like to echo the Chairman's statement with regard to the fiscal problems that we are having here in our own country, as well as the credit problems, and the massive budget deficit spending.

We are concerned that we spend only appropriate amounts of money in our projects overseas. I appreciate the opportunity and look forward to the testimony.

Mr. GEJDENSON. Thank you.

Well, can you answer Mr. Roth?

Ms. FORE. Yes. We will try to clear away some of that fog that Mr. Roth sees.

STATEMENT OF HENRIETTA HOLSMAN FORE, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. FORE. Let me turn to our program's investment in housing and in private enterprise. I will not include microenterprise at this hearing but if there are any questions, we would be glad to answer them. Let me describe how these programs work as well as the actual impact that the programs have.

A real understanding has emerged that it is people seeking their own economic and social improvement that drives the most successful and sustainable development. It is true of Eastern Europe, South America, Africa, and Asia.

Appreciation and respect for the role of everyday people in the development process and an understanding of the need to set government policy and intervention in its proper place in the developing world is the focus of the private enterprise programs.

We are requesting $214 million in guaranty authority and $22.3 million in development assistance to support programs which we believe will help developing countries create an environment which supports private sectorled economic growth.

$114 million of the guaranty authority is to continue operation of the Private Sector Revolving Fund, which makes credit available primarily to small businesses in developing countries, a market often overlooked by traditional financial institutions. This is the same level as provided in 1991.

The remaining $100 million in guaranty authority is to continue support of shelter and urban infrastructure programs in developing countries under Housing Guarantee program. The $22.3 million we are requesting in development assistance, $2 million of which is for microenterprise, will be used for technical support to developing countries to help them create the environment in which dynamic private sectors can flourish.

The Private Sector Revolving Fund—which we are renaming Private Sector Investment Program—focuses on financing private enterprise development. Entrepreneurial drive and ideas are in abundance in the developing world. But the key constraint to putting these ideas into action is the shortage of available credit and training. Our programs help overcome this market shortcoming.

The Private Sector Investment Program makes credit available primarily through the use of loan guarantees to local financial institutions that lend to small enterprises. Over the past year, in a

few cases for environmental projects, the program has also made direct project loans. We know from our experience the value of small businesses in creating and sustaining employment. The original objective of the program was to encourage access and participation by small and medium sized businesses in building free market economies in their countries.

I am pleased to say that we are meeting that objective, and the results are encouraging. Here is a sampling. Our loan guarantee program has leveraged A.I.D. funds almost four times with funds from the local credit market. In seventeen evaluated projects, the result was 5252 jobs being created with almost 40 percent going to women. Sales of borrowers increased by an average of almost 36 percent as a result of the loans made from our facilities.

The investment program has also proved to be exceptionally cost effective. Costs from the program are almost entirely offset by transaction fees generated on the facilities. And when interest income is added, the program generates a substantial profit of 14 percent on utilized facilities.

Our evaluation system also informs us that local financial institutions have benefited from our program in the following ways increased lending to small and medium sized enterprises, increased lending in rural areas, reduced collateral requirements, and technical training in cash flow versus collateral based lending.

Sub-borrowers, the local small business people, have benefited by increased gross revenue and new income, increased export earnings, increased employment, increased female employment, increased salaries, and reduced collateral requirements.

We are excited about the role that the Private Sector Revolving Fund has played in the 1980s. And in the 1990s, Eastern Europe, Panama, Nicaragua, Sri Lanka, and Nepal are all countries which will need the type of help that this program can provide. We are positioned to meet these challenges by building on our experience and developing new financing strategies.

Now let me turn to our Housing Guarantee program for which we are requesting $100 million in guaranty authority. In FY 1991, A.I.D. plans to authorize $550 million in housing guarantee loans to finance new shelter initiatives for the urban poor in Israel, Chile, Portugal, Morocco, Tunisia, the Philippines, Indonesia, and India. $400 million will go to assist Israel in provding housing for Soviet emigres. The Israelis estimate that refugees will arrive at an annual rate of 100,000 people, and that approximately 30,000 new units will be needed every year for the next three years.

Through this program, the U.S. private sector provides long term financing for low income shelter and neighborhood upgrading programs in developing countries. The U.S. government provides a guarantee of repayment of the loans, and lenders charge interest at favorable commercial rates.

Addressing the shelter and urbanization needs of developing countries, this program deals with a broad spectrum of urban issues including municipal management and finance, water and sanitation, infrastructure and services, and land tenure and employment generation. In recent years, we have emphasized urban environmental protection, disaster planning, and public participation through local governments.

Let me now turn to a third group of programs, our private sector activities for which we are requesting $22.3 million. A.I.D.'s field missions use these projects to access the kind of help that is needed as countries open their economies and begin to turn to market systems as an alternative to centrally controlled economic management.

Included in this portfolio are programs such as the International Executive Service Corps, based in Connecticut, which provides hands-on help to more than one thousand private businesses each year by sending retired U.S. businessmen to developing countries to share what they have learned throughout their careers. These shirt sleeved ambassadors have become a mainstay of our help for private enterprise development.

Similarly, the Financial Services Volunteer Corps provides top-notch volunteers from banks and law firms to advise developing countries on economic and free market policies. In May of 1990, former Secretary of State Cyrus Vance led an eight-day Financial Services Volunteer Corps mission to Poland to examine the issues, regulations, and laws related to banking, capital markets, and privatization. Subsequent missions have gone to Hungary, Yugoslavia, and Czechoslovakia.

Our Private Enterprise Development Support or PEDS program provides broad assistance to our missions in country assessments and strategy development, trade and investment missions, training programs, and evaluation and design. Also in this program is the Institutional Reform in the Informal Sector project, which promotes improved laws, regulations, and decision-making processes in developing countries and Eastern Europe. It was motivated by the path-breaking work of Hernando de Soto, who documented how inadequate laws restricted growth and opportunities in Peru.

We have just completed a session in Mongolia where more than a hundred newly elected government officials participated in a three-day work shop on private property, price deregulation, capital markets, taxation, foreign investment, and privatization.

Taken together, A.I.D.'s investments in housing and private sector programs are dealing with key development problems of the 1990s. All of these facilities strive to help people and governments improve their environments and forge free market economies in their countries.

At this moment in history, there is a perfect match between American ideas, enterprise, and expertise with the needs of developing countries. Thank you, Mr. Chairman.

[The statement of Ms. Fore follows:]

HENRIETTA HOLSMAN FORE

Mr. Chairman, I am pleased to have this opportunity to present to the subcommittee an overview of the programs managed by the Private Enterprise and Housing portions of A.I.D.'s Bureau for Asia and Private Enterprise. I have not included our very successful Microenterprise program in this presentation because that was the subject of my last appearance before this subcommittee. Today let me return to our Private Enterprise, Investment and Housing Program.

While I will spend some time describing how each of these programs work, I will concentrate on their results, so that you can see what effect we are having.

What Drives Good Development?

One of our startling rediscoveries over the last fifteen years is that real development is a bottom up process. Central planned economies, top down elitist systems just do not work. In the place of directed development has emerged a real understanding that it is people seeking their own economic and social improvement that drives the most successful and sustainable development. It's true of Eastern Europe, South America, Africa and Asia.

Keith Marsden of the Wall Street Journal put it in clear perspective in his article "Why Asia Boomed and Africa Busted" when he wrote:

> "Why has Africa stagnated while East Asia has boomed over the past two decades? This question is at the heart of the current development debate. Some argue that the private sector is a more efficient engine of growth than the government. East Asian countries have few resources other than the enterprise of their people. But through low taxes and free markets they have stimulated private saving and personal initiative. In contrast, African governments have overextended themselves, especially by direct management of industry and agricultural marketing. The consequent inefficiencies and excessive demand for credit have been principal causes of the present crisis."

The 1992 Request

A renewed appreciation for the role of the everyday people in the development process and an understanding of the need to set government policy and intervention in its proper place in the developing world is the reason we are here today. We are requesting from the Congress $22.310 million in development assistance and $214 million in Guaranty Authority to support programs which we believe will help developing countries create an enabling environment which supports private sector led economic growth.

$114.0 million of the Guaranty Authority is to continue the operation of the Private Sector Revolving Fund, which makes credit available to small business, entrepreneurs and people in developing countries -- a market often overlooked by traditional financial institutions.

The remaining $100.0 million is Guaranty Authority to continue support of shelter and urban infrastructure programs in developing countries.

Of the $22.310 million we are requesting in development assistance, $2 million will be part of our worldwide support for Microenterprise and is not dealt with here. Today I will concentrate on programs and projects which total $20.310 million. These programs and projects provide technical support through our field missions to developing countries to help them create the environment in which dynamic private sectors flourish.

The Private Sector Revolving Fund

We have operated a very successful Investment program that focuses on financing private enterprise development.

We know that many business people in the countries where we work lack access to adequate financial resources. Their difficulty in obtaining financing is often due to excessively conservative practices of lending institutions and the lack of alternative sources of credit in the financial markets. Entrepreneurial drive and ideas are often in abundance. One of the primary obstacles to putting these ideas to work, however, is the lack of available credit and training. Our programs help overcome this market shortcoming. The development of local lending institutions and the mobilization of credit for small and medium enterprises have a strong multiplier effect on employment, income, education and related socio-economic benefits.

To help meet this need, A.I.D. has operated the Private Sector Revolving Fund (or PSRF). This fund was created by

Congress in 1983 to promote private sector development in Less Developed Countries primarily through the strengthening of small private sector enterprises.

The Fund aims to facilitate development that is sustainable over the long-term and does not require continuous reliance on outside assistance. It is designed to:

- o stimulate growth and expansion of private enterprises in LDC's by facilitating access to credit;
- o create innovative financing mechanisms to serve as models for the private sector development efforts of local USAID Missions;
- o strengthen local, private financial institutions by helping them develop new markets and learn new lending techniques; and
- o involve the United States private sector in Third World development.

Due to the Fund's operating and developmental success and the growing need for the services that it provides, Congress, under the Omnibus Trade and Competitiveness Act of 1988, added Loan Guarantee Authority to the dollar lending authority of the Fund. The Fund now provides Loan Guarantees and Direct Project Loans which are supported by an outstanding Training program for bank lending officers and small business owners. These loans and guarantees:

- o strengthen existing credit institutions, and expand credit to small and medium sized enterprises; and
- o develop new financial entities such as venture capital firms, equipment leasing companies, and other targeted developmental projects.

A review of the Financial Profile of the Fund shows the basic soundness of its operations. (See enclosed table.)

The Fund makes credit available primarily through the use of Loan Guarantees and participating loans to intermediate financial institutions (IFI's) that on-lend to target enterprises. In select cases involving projects with the potential to produce exceptional development benefits, the Fund has morale direct project loans to individual firms.

APRE/I
Private Sector Investment Program
Operational Results/
Summary of Cumulative Portfolio (a)

As of December 31, 1991

Financial Profile

	No. of Projects	Amount (b)	Utilized (c)	% Utilized	Principal Repaid (d)	Interest* Received (e)	Fees Received (f)	Net Claims/ Write-offs (g)
Guarantees:								
• Guarantees (Loans)	64	$102,161,250	$33,924,581	33%	$14,679,352	$5,285,799	$699,705	$828,872
• Guarantees (Leases)	6	$6,500,000	$0	0%	N/A	N/A	$2,500	$0
• Guarantees (Forfait)	3	$6,916,725	$221,298	3%	N/A	N/A	$2,219	$0
Sub-total:	73	$115,577,975	$34,145,879	30%	$14,679,352	$5,285,799	$704,424	$828,872
Project Loans	8	$11,282,000	$7,145,983	63%	$8,955,486	$2,238,386	$318,711	$626,514
Grants	6	$337,000	$134,430	40%	N/A	N/A	N/A	N/A
Total	87	$127,196,975	$41,426,292	33%	$23,634,838	$7,524,185	$1,023,135	$1,455,386

Regional Distribution (Obligations/Commitments)

	Asia	Latin America	Africa/N. East	World-wide	Total	% of Total
Guarantees	$46,100,000	$24,061,250	$38,500,000	$6,916,725	$115,577,975	91%
Direct Loans	$2,500,000	$1,646,000	$4,236,000	$2,900,000	$11,282,000	9%
Grants	$120,000	$167,000	$50,000	$0	$337,000	0.26%
Total Amount	$48,720,000	$25,874,250	$42,786,000	$9,816,725	$127,196,975	
% of Portfolio	38%	20%	34%	8%		
Number of Projects	30	23	29	5	87	

Summary Risk Profile

	Utilized	Claims/ Write-offs	Claims/ Utilization (h)	Fee Income	Net Gain/ Loss (i)	% Gain/ Loss (j)
Guarantees	$34,145,879	$828,872	2%	$704,424	($124,448)	-0.36%
Project Loans	$7,145,983	$626,514	9%	$318,711	($307,803)	-4%
Sub-total	$41,291,862	$1,455,386	4%	$1,023,135	($432,251)	-1%
Combined Portfolio Investment Income [Fees & Interest*] (k)	$41,291,862	$1,455,386	4%	$8,547,320	$7,091,934	17%

% of Rated Projects (by $)	
Low	24%
Medium	46%
High	30%

* Interest income does not reflect any cost of funds to APRE from U.S. Treasury.

Revised 3/6/91

APRE/I

Private Sector Investment Program
Operational Results/
Summary of Cumulative Portfolio (a)

As of December 31, 1991

Notes to Summary Page

(a) Cumulative portfolio authorizations/ obligations (active Portfolio plus completed facilities).

(b) Amount of authorized amount actually obligated/committed to:
Borrower Bank (i.e., for loan-backed guarantees), IFIs (i.e., for "full faith & credit" guarantees), and projects (i.e., grants and direct loans).

(c) Amount of obligated funds actually disbursed under:
- loan-backed guarantees (A.I.D.'s funds held by intermediary Borrower);
- grants and loans (to Projects); and
- amount of committed funds under "full-faith and credit" guarantees actually utilized by IFI for covering sub-loans to borrowers.

(d) Amount repaid to A.I.D. in US$ from Project Loans and loan-backed guarantees (prior to the 1988 Guarantee Authority A.I.D. loaned funds to intermediary U.S. banks funds to issue L/C-backed guarantees to LDC financial institutions for on-lending; since 1988 this structure has been simplified by the issuance of "full faith and credit" U.S. Government guarantees.

(e) Interest income from Project Loans (does not reflect any cost of funds to APRE from the U.S. Treasury).

(f) Initial front-end commitment fees and annual utilization fees received to date (does not include payments outstanding or $26,384 in fees from de-obligated facilities).

(g) 1) Amount of unperforming project loans written off less subsequent recoveries, and/or 2) amount paid by A.I.D. on claims made against its contingent liability in amounts disbursed or guarantees utilized less subsequent recoveries (includes $679,264 in write-offs currently pending final legal disposition).

(h) The percentage of amount utilized against which claims have been paid or non-performing loans written off.

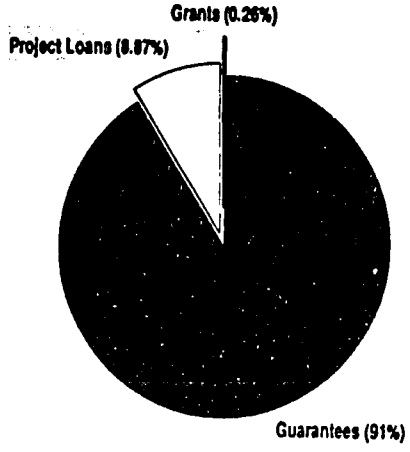
(i) Fee income less net claims/write-offs (g).

(j) The percent of net gain/loss to amount utilized.

(k) Total portfolio income from accrued interest on project loans and transaction/utilization fees on individual facilities in cumulative portfolio; also includes interest income from loan-backed guarantees (issued from 1984 to 1988; replaced in 1988 with "full faith and credit" guarantees).

Revised 3/6/91

CUMULATIVE PORTFOLIO DISTRIBUTION % BY AMOUNT OBLIGATED



We know from our experience the value of small businesses in creating and sustaining employment. The original objective of the Fund was to encourage access and participation by small and medium sized businesses in building free market economies in the countries we serve. I am pleased to say that we have done so and the results are encouraging.

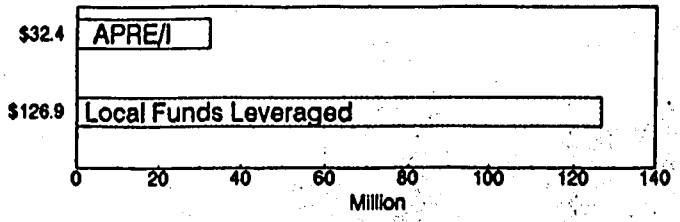
As part of our on-going evaluation of this program, we recently completed a review of 17 of the Fund's Loan Guarantee projects. The results give you a good picture of the impact a program like this can have when it is carefully and creatively managed. The Fund has obligated in excess of $32 million for these 17 projects and has stimulated over $125 million in local private sector financing to this target business community. Our Loan Guarantee program has leveraged A.I.D.'s inputs almost four times with funds from the local credit market. This initial leveraging process has been recycled, in some cases through IFI turnover of applicable loans up to four times.

Employment: The 17 projects evaluated have resulted in over 5,500 jobs being created, with many -- 1,764, or 37% -- going to women.

We estimate that, on average, the program created one job for every $5,800 of Loan Guarantee provided.

Sales: Sales of borrowers increased by an average of almost 36% as a result of the loans made from our facilities.

ESTIMATED DEVELOPMENT IMPACTS OF APRE/I PRIVATE SECTOR REVOLVING FUND LOAN GUARANTEES AND DIRECT LOANS



LOAN GUARANTEES AND DIRECT LOANS:	
APRE/I Loan Guarantees and Direct Loans	$32.4 million[1]
Funds Leveraged by Loan Guarantees	$126.9 million[2]
Leverage Ratio	3.9 [redacted]:1
Average Turnover of Funds	4.2-5.7 times[3]
EMPLOYMENT GENERATION:	
1 Job created for every $5,862 of AID resources[4]	
Jobs Created	5,521[5]
Jobs Created for Women	1,764[6]
SALES INCREASE:	
Average Increase in Sales of Borrowers	35.8%[7]

[1]Source: APRE/I Revolving Fund Portfolio, Summary of Action Facilities as of December 31, 1990 (dated 1/14/91).

[2]Based on nine projects.

[3]4.2 represents overall average of nine projects, 5.7 is the weighted average based on the size of these guaranty facilities.

[4]Based on 13 projects → (AID's contingent liability associated with total job creation) ÷ Σ total jobs generated.

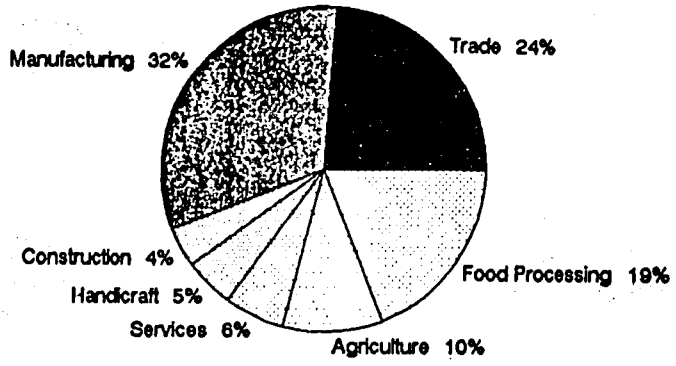
[5]Value of active loan guarantees and direct loans ÷ $5,862.

[6](Value of active loan guarantees and direct loans) ÷ (AID's contingent liability associated with female job creation) ÷ Σ female jobs generated.

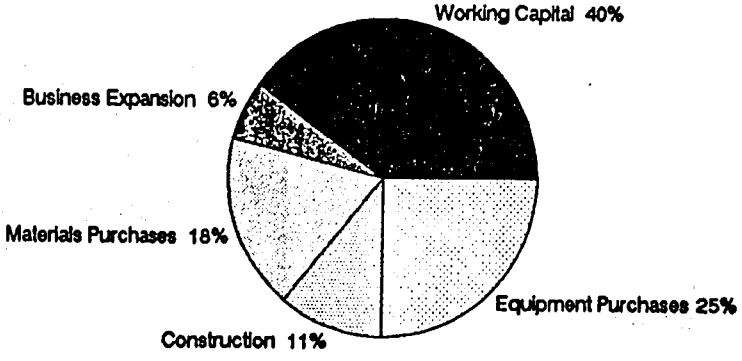
[7]Weighted average based on 60 observations of sales change in four projects.

The following chart shows the sectors in which subborrowers are engage, as well as, the production uses for which loans were made.

Borrowers By Sector



Use of Funds By Borrowers*



* Based on 606 Loans.

Through our on-going evaluation program and by using special evaluations, we have learned that intermediary financial institutions have benefited in the following ways:

- increased lending to small and medium-size enterprises;
- increased lending in rural areas;
- reduced collateral requirements; and
- training in "cash flow" vs. "collateral-based" lending.

Sub-borrowers, the local small buisness people, have also experienced significant developmental benefits, such as:

- increased gross revenue and new income;
- increased export earnings;
- increased employment;
- increased female employment;
- increased salaries; and
- reduced collateral requirements.

While achieving significant developmental impact, the investment program has also proved to be exceptionally cost effective. Costs of the program are almost entirely offset by transaction fees generated on the facilities. When interest income is added, the program generates a substantial profit. Such results clearly establish that over its seven year history, the Fund has been essentially financially self-supporting.

In terms of operational results, Fiscal Year 1990 was another record year for the Private Sector Revolving Fund. Fund management committed $45.9 million in Guarantee Authority (contingent liability) and obligated $3.4 million in direct project lending.

By December 31, 1990, the total value of the cumulative (active and completed) portfolio equaled $127 million in obligations and commitments. From the $41 million in projects utilized to date, A.I.D. has made over $8.5 million in fee and interest income against $1.4 million in claims and write-offs, representing a net gain of $7.1 million, or 17% profit on utilized facilities.

By December 31, 1990, the cumulative (active and completed) portfolio consisted of 87 projects distributed on a regional basis around the world in A.I.D. assisted countries. The Fund's cumulative portfolio consists of 64 Loan Guaratees (Loan-Backed Guarantees and Loan Portfolio Guarantees), 6 Lease Guarantee projects, 3 Forfait Guarantee projects, 8 Project Loan projects, and 6 Grants.

We are excited about the role the Private Sector Revolving Fund has played in the 1980's. It is strategically poised to quickly and effectively meet the challenges and take advantage of the opportunities that have sprung up with global political and economic changes. Eastern Europe, Panama, Nicaragua, Sri Lanka and Nepal are countries which will need the type of help the Fund can provide. We are positioned to meet these challenges by building on our experience, developing new programs and refining existing ones. Moreover, we remain committed to helping small businesses, strengthening local capital markets, and creating private enterprises that are economicaly pro-active and commercially viable. For these reasons, we are requesting $114 million in Guarantee Authority for 1992.

The Housing Guaranty Program

Urbanization has clearly emerged as a key development issue for the 1990's. All major studies of foreign assistance point to the need to consider urbanization in the design of new development programs in all sectors. Cities in the developing world are expected to grow by 140,000 people a day for the foreseeable future, and by the year 2000, approximately 2 billion people or one half of the world's population will be living in urban areas. If A.I.D. is to respond effectively to the challenges of urbanization, we must balance our understanding of its adverse impacts with an equally good understanding of how urbanization can contribute to economic and social progress in developing countries. Although rapid urban growth in developing countries creates problems due to lack of infrastructure, insufficient revenue-generating capacity and a general lack of urban management skills, these very same cities and towns contain the potential for strong economic growth and social development. Cities are the loci of off-farm employment opportunities; they provide markets for agricultural goods and inputs for increased agricultural production. Economic specialization and diversification in manufacturing and commerce, the forces that fuel economic growth, occur most efficiently in cities. Half of the gross domestic product in developing countries is generated in cities, and this proportion is expected to rise over the next decade.

Part of my request today is for $100 million in housing guaranty authority. Through this program, A.I.D.'s primary capital resource for implementing shelter programs and related urban support activities, the U.S. private sector provides long-term financing for low-income shelter and neighborhood upgrading programs in developing countries. The U.S. Government provides a guaranty of repayment of the loans, and lenders charge interest at fav rable commercial rates reflecting the security of the U.S. guaranty commitment.

In addressing the shelter and urbanization needs of developing countries, this program deals with a broad spectrum of urban issues, including municipal management and finance, water and sanitation infrastructure and services, and land tenure and employment generation. In recent years we have emphasized urban environmental protection, disaster planning and assistance and Public Participation through assistance to local government.

In FY 1991 A.I.D. plans to authorize $550 million in Housing Guaranty loans to finance new shelter initiatives for the urban poor in about eight countries.

Four hundred million dollars ($400 million) will go to assist Israel in providing housing for Soviet emigres. The Israelis estimate that refugees will arrive at an annual rate of 100,000 and that approximately 30,000 new units will be needed every year for the next three years. Our current project design and monitoring plans are based largely on our prior experience in Israel. A series of Housing Guaranty loans were made to Israel in the 1970's, totalling $200 million. A.I.D. became knowledgeable about both the overall housing sector in Israel and the specific uses to which the Housing Guaranty funds were applied. A.I.D. review, comments and discussions became a positive element of the program; the Israelis made important changes in the sector based at least in part on these discussions. Our monitoring should now be designed to assure that construction proceeds in an orderly fashion, that policy constraints in the sector are identified and that we provide our best advice to the GOI on how to minimize these distortions. We do not expect to establish policy conditions under the program, but we do expect to evaluate GOI policy and program performance and to establish a forum to exchange opinions with them. No A.I.D. guarantied funds will be used outside of the 1967 borders (green line).

We are working on programs for the remaining $150 million in the following countries: Chile, Portugal, Morocco, Tunisia, Philippines, Indonesia, and India. All Housing Guaranty programs are designed with a policy-based lending approach. This approach calls for tangible progress in policy reforms

which facilitate access by low-income families to shelter and related urban services like water, sewerage, roads in addition to the actual construction of these services with the financing provided. A.I.D. operates with the conviction that adequate, if minimal, shelter for all can be produced if the right policies are pursued. The key is to rely on individual initiative, market forces, and the private sector to produce housing. The public sector needs to establish the policy framework and serve as a facilitator of shelter delivery. Governments can stimulate and enhance the efficiency of private initiative by supporting the energy of the private sector, both formal and informal.

A.I.D. and the State Department have also concluded that the housing sector should be one of the priority areas for assistance in Eastern Europe. Stimulating production of housing and urban infrastructure will contribute significantly to the economic restructuring of Eastern European economies. The role of housing in the economy is so great that it can help control inflation, free up resources currently used as subsidies, stimulate private sector activity in construction, increase the amount of savings which flow through financial institutions, and allow workers to move where there are jobs. A.I.D. can mobilize expertise in the following areas:

- legal and regulatory framework for housing;
- municipal management focused on infrastructure planning and revenue generation;
- incentives for private sector production of housing;
- short and long-term housing finance;
- construction management;
- conversion of public sector housing to private ownership.

The Worldwide Support Programs

For the last 10 years, A.I.D. has been at the forefront of promoting fundamental change in the way developing countries and other donors view economic development. This change is clearly seen through the results of the Private Enterprise and Urban Development portfolio, for which we are requesting $20.310 million.

Title	$ (Thousands)
International Executive Service Corps	5,000
Financial Sector Development	1,000
Privatization and Development	2,000
Financial Services Volunteer Corps	200
Private Enterprise Development Support	800
Institutional Reform and the Informal Sector	2,546
Market and Technology Access	1,154
Trade and Investment Services	1,400
Project Development and Support	1,210
Investment and Guarantee Services	1,500
Housing and Urban Programs	3,500
	$20,310

These projects and programs principally provide technical assistance to developing countries. Our field missions use these projects to access the kind of help that is needed as countries open their economies and begin to turn to market systems as an alternative to centrally controlled economic management. This process encourages economic production and growth. It leads to development for the country and its people. The correlation between sustainable, private sector productive activity and the achievement of economic development for individuals is clear and indisbutable. Sustainable productivity generates employment: jobs that workers can count upon -- jobs that generate the dignity and responsibility that comes from making a useful contribution to society. Workers with such jobs also acquire a steady income -- one that allows them save and plan for their own future. As disposble income, such savings are available to workers and their families to address personal priorities for improvements in their own standards of living. Through the democratic process conferred by economic freedom, they are able to realize their own basic human needs.

Now, let me briefly describe each of the individual project activities to help you understand how they relate to one another, as a coherent program.

The International Executive Service Corps (IESC)

IESC provides hands-on shop floor help to more than one thousand private businesses each year through this exciting volunteer program. It sends retired U.S. businessmen to developing countries to share what they have learned throughout their careers. While each individual volunteer's program is different, the cost is shared by the volunteer (his or her time), IESC, AID and the business people who use the service in the developing countries. These shirt-sleeve ambassadors have become a mainstay of our help for private enterprise development.

-- Mr. V. J. Parks is a good example of the type of help and lasting relationship that results from IESC programs. Following his return home from an assignment with an Egyptian industrial chemicals manufacturer, his client told him he needed help with upgrading his plant. Mr. Parks designed the configuration, researched price and models of several U.S. suppliers, and assisted his client in reviewing suppliers' bids. The client felt assured of top quality at the most reasonable price, IESC successfully promoted an export, and an Egyptian businessman made a real investment in his and Egypt's future.

Financial Sector Development

This program provides active support throughout the developing world for the development of capital markets, and promotes reform in the financial sector. The program:

- provides technical help to central banks and other financial institutions in developing countries;
- conducts financial sector assessments and develops strategies for implementing changes;
- supports research on reform issues; and
- undertakes conferences and seminars which put developing country financial managers in touch with U.S. experts.
- In mid-December, a team supported by this program conducted a review and made recommendations on the issuance of Treasury bills in Egypt. They studied methods for developing a secondary market. The Central Bank of Egypt launched its first auction of Treasury bills on January 3, 1991. The issue was very successful and was oversubscribed, with both public and private financial institutions.

This is the type of assistance that occurs about 25 times each year through this program.

Privatization and Development

Here, with a new contractor and modified program, we are continuing an effort which started in 1985 to help developing countries transfer state-owned and state-controlled enterprises to the private sector. Again, like many of our programs, this one provides technical help about 25 times a year to our Missions and the countries they serve. The type of help provided includes:

- educating decision makers in developing countries about the economic, social and political benefits of privatization;
- helping to formulate policy which will encourage the transfer of state-owned enterprises to private hands;
- doing feasibility studies on specific enterprises;
- helping countries to implement broad programs of privatization in a sustainable way.

A.I.D. was one of the first and remains one of the leading donors that provides this kind of help.

-- The highly successful Tunisian privatization program has received support from A.I.D. since 1987. Experts, funded by A.I.D., participated in the first and second Tunis Conference on Privatization, which addressed the political, economic and technical issues inherent in implementing a privatization program.
In December 1988, two consultants arrived in Tunis to take up long-term assignments in the Prime Ministry and the Bourse/Stock exchange as the principal advisors to the GOT in its program of privatizing SOEs. The two member team carried out a diversified program of technical assistance in privatization. The team made signifcant progress in its first one year of operation.

In 1989, 19 state enterprises worth over $62 million had been sold to the private sector.

The Financial Services Volunteer Corps

This Corps provided top notch financial volunteers from banks and law firms to advise developing countries on economic and free market policies. It is helping transform economies and societies from centralized planning markets to economic democracies. Broad-based economic growth is the goal of every emerging democracy. Transforming their economic systems to ones that are privately owned, free and open is the highest priority. The Financial Services Volunteer Corps is providing this type of help.

-- In May of 1990, former Secretary of State, Cyrus Vance, led an eight-day FSVC mission to Poland to examine issues, regulation and laws related to banking, capital markets, and privatization. The teams presented the Government with a draft securities

law. Specific recommendations and offers of assistance, from the U.S. private sector particularly in the area of training, were formally conveyed to Deputy Premier and Minister of Finance, Leszek Balcerowicz. Subsequent Missions have gone to Hungary, Yugoslavia and Czechoslovakia.

Private Enterprise Development and Support

This program provides broad support to our Missions as they seek to promote local private initiative in their countries. Helping to make private enterprise an important force for growth in developing countries is an important part of what A.I.D. is doing today through:

- assessments and strategy development;
- trade and investment promotion missions;
- training programs;
- evaluation and design studies.

This project is pushing the frontiers of what we know about making the private sector work in developing countries.

-- Indonesia Commercial Law and Procurement Reform: While Indonesia has experienced rapid private sector growth during the past two years, a major impediment to current and future growth is it's antiquated commercial laws. They have seriously constrained further growth of commercial agriculture, industry and services. With assistance from this project, USAID/Jakarta is developing a major project to reform Indonesia's commercial law and government procurement system.

Institutional Reform and the Informal Sector

This program promotes improved laws, regulations, organizational structure, and decision-making process as in developing countries and Eastern Europe. It was motivated by the pathbreaking work of Hernando de Soto, who documented how inadequate laws restricted opportunities for growth in Peru. Through this program, we provide technical help to strengthen overseas institutions by:

- o helping them identify constraints to growth and developing growth-promoting development strategies;
- o training people to build the capacity to undertake legal and regulatory reform;

- o undertaking research on institutional structures that advance or constrain economic development; and

- o disseminating information on these topics.

While new, the program has already had some remarkable success.

-- More than 100 officials from the newly-elected Mongolian Government and Parliament participated in a three-day workshop on the transition to a market economy in Ulan Bataar. The workshop is one part of the assistance committed by Secretary Baker during his August visit to Mongolia.
Mongolia has a new government which is in the midst of drafting a new constitution and dozens of new laws to effect a transition from a centrally planned economic system to a free market. While there is significant commitment to accomplishing the transition, Mongolian policymakers have little experience with the institutions which support free private markets. Questions for the technical assistance team covered a wide range of economic and legal issues and indicated intense interest in learning about specific laws and policies.
Workshop sessions covered macroeconomic concerns during the transition, development of private property, price deregulation, capital markets, taxation, foreign investment and privatization.

Market and Technology Access Project

The Market and Technology Access Project identifes mutually beneficial trade and investment opportunities between developing countries and U.S. businesses. It works through our Missions to promote the growth of private enterprise and supports trade, investment, technology development and commercialization projects.

-- The program's "governor/ambassador business development initiative" mobilizes U.S. Ambassadors, federal agencies and private organizations to support governors and state development agencies by providing services for U.S. firms interested in doing business in developing countries. Recently, trade missions from Iowa and Mississippi to Southeast Asia resulted in immediate sales of $3 million, with projected sales of $30 million to $50 million in the coming months.

Trade and Investment Services Program

This program is a collaborative effort between A.I.D. and the International Executive Service Corps. It was established to respond to growing trade and investment opportunities -- linking

firms in developing countries with companies in the U.S. to improve the competitiveness of both. It utilizes the resources of IESC's network of more than 12,000 volunteer industry experts, supporting companies and foundations, business advisory councils and its professional staff to operate targeted trade and investment promotion programs to develop joint ventures between U.S. and host country firms.

-- An investment promotion group from the Union of Chambers and Commodity Exchanges of Turkey visited the Bridgeport, Connecticut Foreign Trade Zone (FTZ) earlier this month. They will organize a delegation of Turkish businessmen who are interested in using the FTZ for import/export and joint venture operations.
We have been working with the Bridgeport FTZ to develop business linkages between Turkish firms and Connecticut enterprises. The FTZ will act as a one-stop center for import/export, warehousing, and manufacturing operations, identifying Connecticut firms that have an interest in linking up with Turkish counterparts.

Project Development and Support are the funds we use to design new programs for our worldwide support effort.

Investment and Guarantee Services is an activity through which we provide technical help to our Missions, developing countries and their financial institutions as they prepare projects for implementing through the Private Sector Revolving Fund, which is described later in this presentation.

Housing and Urban Programs is a project that funds our worldwide efforts to support the development of urban infrastructure and shelter programs which receive support from the Housing Guarantee program. We also work with our Missions and local institutions on urban programs and their role in achieving broad-based sustainable economic growth.

It is through these programs that we communiate with the developing countries about the vital role that private enterprise plays in broad-based sustainable economic growth.

In every core, we deliver high quality assistance, technical advice, training and general support. With this request of $20.310 million, we will continue this support.

In conclusion, I would like to reiterate our request. We are seeking $20.310 million to support our worldwide programs, $114 million in Guaranty Authority to continue to expand the operation of the Private Sector Revolving Fund.

Taken together, these programs will be dealing with the

main development problems of the 90's. If the U.S. is to remain an important donor, we must continue to take on this challenge. Widely spread sustainable economic growth will not occur without the active driving participation of private individuals and businesses in developing countries. Starting with individuals, and small business, these people can be a strong force to affect what happens in the society as a whole. As the character of the developing world becomes increasingly urban, we must address the needs of the urban poor as well as the rural poor. All these facilities try to help people and governments improved their environments and well being to join the free, developed world.

Thank you.

Ms. FORE. I would be happy to take any questions. And with me today is Mr. Peter Kimm from our Office of Housing and Steve Eastham from our Office of Investments.

Mr. GEJDENSON. Bring both of them up. So if we have any questions, we can get them to respond.

Your know, the frustrating thing is I like basically most if not all of what you do, and I think that you do a great job at it. But I think that my friend Mr. Roth, who is on a somewhat different spot on the political spectrum than I am, agrees that what is incongruous here is that these programs do not exist in the United States. People in my district cannot get credit, and there seems to be no response from the Federal Government. We have virtually no federal housing program.

This is not really the hearing that can really resolve those. We probably ought to be at the Budget Committee or at the Appropriations Committee to resolve those. But I think that as people who are involved in foreign assistance who are not isolationists, you have got to bring the message back to the Administration that it is going to become increasingly more difficult to convince the American people and the Congress to support these kinds of programs when they themselves feel abandoned.

What I get in eastern Connecticut is that the Administration is ready to help revive and convert the economies of Eastern Europe, but that the Administration does not give a damn about the economy in eastern Connecticut. The businesses in eastern Connecticut that need money cannot get loans. People who want housing do not have any federal housing programs, as the last ten years have ravaged those.

I think that we will get it through the Foreign Affairs Committee, because the people here recognize it is a small portion of the budget and does all of these wonderful things. And it is easier than sending 500,000 troops to every spot in the world which has trouble. But Mr. Roth is not alone in the frustration when we have to continuously turn to our constituents and say there is no housing program here, there is no educational assistance program, and there is no loan program here, and the Administration fights us in Congress every time that we try to do that.

I have got $200 million bottled up in the Administration for conversion. And rather than trying to get that paltry amount of money out to the United States and its citizens who are going through significant economic disruption, the Administration seems to be putting blockades in the way of getting the money to the people here.

So I think that you better get ready for what will be. This committee is going to be light. Because in this committee, there has been years of education of the need for these programs and the benefit. And you do a great job in presenting yourself on these programs. But the frustration is building in our constituency and in the Congress. And this is a democracy. It is going to come home to roost here in spades very quickly.

Mr. Roth does not speak just for a small group of dairy farmers in his state. He speaks in this sense for all of us who feel very frustrated about the inability to get the Administration to focus on some of the domestic needs of the country.

Let me ask a few questions in my remaining time now that I have finished lecturing.

What is the unobligated balance of funds in the private sector revolving fund?

Ms. FORE. As of December 30th of 1990, the unobligated balance was $46.1 million. And that represents unobligated balances in all accounts including Treasury bills.

Mr. GEJDENSON. And does that figure include reflows and the amount appropriated to the fund by the Congress for 1991?

Ms. FORE. It does.

[The information follows:]

APPROPRIATIONS VERSUS GUARANTEE AUTHORITY

It is important to distinguish between "appropriations" by Congress and Guarantee Authority approved by Congress for the Private Sector Revolving Fund. For Fiscal Year 1991 there were no new budget appropriations for the Fund but Congress approved $114 million in Guarantee Authority. The unobligated balance of $46.1 million is the resource we use to fund the reserve set aside for the guarantees we issue. The unobligated galance is made up of cumulative reflows to date and unobligated balances in our account with Treasury from prior years.

Mr. GEDJDENSON. So you have $46 million on hand.

How much of that is reflows?

Ms. FORE. For fiscal year 1989 and 1990, it was $16,851,000.

Mr. GEJDENSON. And how much of the money was appropriated for 1991 by the Congress?

Ms. FORE. There was no money appropriated in 1991.

Mr. GEJDENSON. You do not have any of the money for 1991 yet.

How much additional funding is A.I.D. requesting for 1992, is that $114 million?

Ms. FORE. It is $114 million for FY 1992.

Mr. GEJDENSON. And there was no money for 1991? Maybe I am in the wrong fiscal year here.

Ms. FORE. The $114 is Guaranty Authority. It is not the balance in this account. And the $114 million is actually the capital mobilized for the small business sector. One half of that $114 million, or $57 million, is the amount of our contingent liability.

Mr. GEJDENSON. The purpose of the private sector revolving fund has provided loans and guarantees to those individuals in businesses that would normally not qualify, and therefore receive a loan from a formal sector bank. It is also supposed to eventually reduce the high level of collateral 150 percent or higher, is that correct?

Ms. FORE. That is correct.

Mr. GEJDENSON. Any intermediary financial institution using your guarantee is not required to provide a loan to a new recipient however, is that correct; that the loan can end up going to somebody that they are already giving loans to?

Ms. FORE. It could.

Mr. GEJDENSON. And what is the average direct loan under this program?

Ms. FORE. You mean under the direct loan program or under the guarantee program?

Mr. GEJDENSON. Under the direct loan program.

Ms. FORE. Under our primary financial assistance facility, the Loan Guarantee Program, the average loan size that we guarantee

is $75,000. Under the direct loan program average project loans $1.8 million for a typical project. We do very few direct project loans, and reserve those funds to support environmentally oriented projects, or other projects where the potential development benefit is particularly high.

Mr. GEJDENSON. Most of these have been environmental rescue programs, is that it?

Ms. FORE. No. In the last year, we felt that the area where we could best utilize our direct loan funds was to support environmental projects. And so we used the direct loan facility for three of these projects in the past year.

Mr. GEJDENSON. But your average is about $1.8 million, not just these last three?

Ms. FORE. That is correct.

Mr. GEJDENSON. So if the bank does not have to provide a loan or a guarantee to a new borrower, and we agree that the average loan is about $1.8 million, and that borrowers have to show up to 150 percent collateral, those that were already getting loans, the recipients of loans would be people who have at least $2.5 million or more to qualify for the loan.

Ms. FORE. No. There are two parts to this program. One is direct loans, and the other one is loan guarantees. The guarantees go to the intermediate financial institutions, who then in turn on-lend their own funds to the small business borrower. That on-lending does not average $1.8 million. The average loan size there is closer to $75,000. And the loans go to small businesses, typically with 15 to 50 employees. So they are very small.

Mr. GEJDENSON. So the $1.8 figure.

Ms. FORE. Is only for direct project loans, not for our primary Loan Guarantee Program.

Mr. GEJDENSON. Goes to the bank.

Ms. FORE. Well, that might go to——

Mr. GEJDENSON. Wait. Am I wrong? I am wrong. So explain it to me again.

The $1.8 million actually gets lent to individual companies?

Ms. FORE. Correct.

Mr. GEJDENSON. And most of these were doing business with the banks beforehand?

Ms. FORE. You can either have a private bank involved in that transaction for the direct loan or not. There may not even be a private bank involved, because they may have been unable to get credit.

Mr. GEJDENSON. But you cannot tell me today, we had this problem before I think, what percentage of these loans go to people who could not get credit, and what percentage go to people who already had credit?

Ms. FORE. Well, almost all of them go to people who could not get credit.

Mr. GEJDENSON. You could quantify that somehow, they are not existing customers of the bank?

Mr. EASTHAM. That is right. Congressman, under our guarantee program, the loan guarantee program, we have a policy that the loans go primarily to new customers of the bank. For existing clients, it must be for an expansion of credit beyond the level the

bank has previously been willing to provide. The direct loans are different.

Mr. GEJDENSON. Do you have data that we can see on that?

Mr. EASTHAM. Yes, we do.

Mr. GEJDENSON. And explain the difference of the direct loan to me again.

Mr. EASTHAM. To put it in perspective, we have about 87 active facilities right now, and only eight of those are direct project loans. Seventy-three are guarantee facilities. The remainder are grants. The project loans are the exception to what we do. Again, to see this in perspective, we have $15 million of direct loan authority this year, and we have $114 million of guaranty authority. If fully utilized, that would create $57 million of contingent liability.

The direct loan program is a relatively small part of our program. They are usually projects that we finance perhaps with one other private sector participant. But the guarantee program is the major part of the program. And those loans average $75,000 or so.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

According to this chart, to this financial profile, under utilized we have 33 percent. We have 33 percent utilized.

What is the justification for asking for another $114 million?

Mr. EASTHAM. I will be glad to answer that. First, let me note that each year we have successfully obligated all of the guarantee and direct loan authority approved by Congress. This program has grown fairly fast in the last couple of years. Out of the total issued here of about $127 million, $46 million were completed and placed on the books during last September of 1990, near the end of the last fiscal year. So it takes awhile once these are issued, for the client banks to translate that into new loans to small businesses. Frequently, such participating banks have to develop new training manuals and organizational structures, because these represent new major programs for them.

Often it takes a year or so sometimes for the banks to start issuing loans to small business customers. Before the most recent batch of guarantees were completed in September, the utilization was about 60 percent. But it is true that we do not have full utilization. However, we have to get annual re-authorization, because all of our Guaranty Authority for FY 1990 was committed. All of the Guaranty Authority we have received in the past has been committed. It is just that in some cases the banks do not fully utilize it. We are working closely with these banks to encourage their increased utilization and expansion of credit to the small business sector.

Mr. ROTH. How do you make sure that these funds are used for the program that it is intended for?

Mr. EASTHAM. We regularly do project evaluations. Also, our investment officers are out in the field on a fairly regular basis, two to three times a year at each institution. We do evaluations after the program has been in place a year or so. Additionally, we do an annual financial review or audit, not a full-fledged audit but a good financial review to determine compliance. In such audits, we have somebody out there looking at their financial records and talking

to borrowers in certain cases and reviewing the performance. I believe we have established a fairly active ongoing program.

We also have a training program which I think you would be interested in. Such training is a major part that complements the loan guarantee facility. The training is a very important factor, and many of the banks sign up for the program almost as much to receive training for their bank officers as they do to have available the financial guarantee for risk sharing, which covers only fifty percent and is not always the biggest attraction.

Mr. ROTH. Suppose we had one of these in Indonesia or someplace like this, what percentage of the bank's money would go into this loan?

Mr. EASTHAM. The banks lend 100 percent of the money. Since A.I.D. provides only a guarantee facility, we give them no money for the actual loans. In fact, as I am sure you realize, we charge them a fee for our guarantee. We charge anywhere from one to one and a half percent fee to provide the guarantee coverage. And those fees so far have almost offset our losses from claims on the program.

Mr. ROTH. The next question, of course, is what is the default rate?

Mr. EASTHAM. We noted that in the exhibit included in our written testimony. On the guarantee program, it has averaged about two percent. We have provided a reserve for that each year, and it has been two percent. When you offset fees against it——

Mr. GEJDENSON. You said fees are about two percent?

Mr. EASTHAM. Fees are one to two percent, yes. But the defaults have also been one to two percent. So the fees have basically offset our claims. It has been essentially self-sustaining.

Mr. ROTH. Except in direct loans it is nine percent, why is that difference?

Mr. EASTHAM. That is right, Mr. Roth. The direct loans, are inherently more risky. They are for larger projects, and in areas where we are looking for a greater development impact, but they are more risky. So when you have a loss, it can be a big one. It could be $500,000 or more. Most of the direct loans themselves are larger.

In the guarantee program, we are fairly diversified, and the lender base is spread out. So even if we have a number of losses, it is a portfolio of loans that we guarantee and those individual loans average about $75,000.

Mr. ROTH. How long have we had these programs going?

Mr. EASTHAM. Since 1983.

Mr. ROTH. Since 1983. I serve on the banking committee and we had problems with our S&Ls and banks and everything here. So since 1983, you cannot get too much of a case study from that, because of the ugly head that is only going to start rearing in a few years possibly.

Do you have people out there with these direct loans who are appraising properties or businesses? What I am really asking is how are you regulating this, so that we do not have the problems overseas that we have here at home? If we have problems here at home, my God what would happen overseas.

Mr. EASTHAM. I think that it is an important area, and we are constantly looking at that. We have an active program of due diligence prior to Committing these guarantee facilities, Generally, the intermediate financial institutions that we deal with are among the better banks in the country. We have independent evaluations prior to signing up a bank. We evaluate them prior to committing our resources, and then we monitor its use during the life of the program.

It is not perfect. We are going to have losses. We are a development institution. But we think that the steps that we take internally to manage this program are very sound. And so far, I think that the results speak for themselves.

Mr. GEJDENSON. If I could just ask the gentleman to yield on that.

Mr. ROTH. Yes.

Mr. GEJDENSON. In 1988, GAO said that you needed a substantial data base to be able to review your program. You do not have that yet.

Mr. EASTHAM. I think that it has been much improved. I have only been in this office for two years, but during much of that time I have seen the changes that have come about. A lot more emphasis has been placed on collecting data. I think that the reports that I provided to some of your staff are head and shoulders above what they were a year ago. And we now have an active program both in operational data tracking and in results tracking on the developmental impact side. So both are much improved, and again we have shared that information with your staff.

Mr. GEJDENSON. But you are a long way from where GAO wanted you to be as far as data?

Mr. EASTHAM. I think in operational accounting, no. In managing the accounts of the operating funds, I would say that we are where we need to be. In terms of assessing the development impact of this program, there is more work that could be done.

Mr. GEJDENSON. I thought that we were told that it would take two more years to get hard data on the program.

Mr. EASTHAM. I think that may refer to collecting data on the developmental impact side—that is, collecting information indicating what the beneficial results have been. That process, however, is also much improved since the GAO review. We certainly need more time. This is still a relatively new program.

Mr. ROTH. In fact, it is just getting off the ground when you start considering 1983 on loans and so on.

Mr. EASTHAM. That is right.

Mr. ROTH. You do not have a track record.

Mr. EASTHAM. Congressman Roth, in terms of the project loans, you are correct. Many are five- or seven-year loans. These are not long term loans like some of the programs that I am sure you have looked at. But in the small business area, most of the loans, many of them are 90 days loans or 180 day loans. Very few of them are much over a year.

So there has been a history. We have had a lot of facilities turn over. So I believe there actually is a fairly good track record on the guarantee program.

Mr. ROTH. Well, my time is up. I just want to say this, Mr. Chairman. I commend you for holding these hearings. Because there is going to be trouble in this area, there is no doubt about it. I mean a blind man in my opinion can see that there is going to be trouble. Because this program now has about a ten percent default rate. And we have to ask ourselves who defaulted.

And it is another case of the Government, the U.S. Government not knowing what one agency is doing. For example, we have had some defaults because of debt restructuring by our own government. And there has got to be something wrong when that happens. There is no coordination here.

Mr. GEJDENSON. Do you want to answer that?

Ms. FORE. Well, I might just mention that these are guarantees that are going through private banks. They are not official debts. So the default rate that we are showing of one to two percent is on the sub-borrowers, and the default goes half on to the local bank, the private bank, and then half on to the U.S. Government.

Mr. ROTH. Thank you, Mr. Chairman. I appreciate it.

Mr. GEJDENSON. Thank you.

Mr. Orton.

Mr. ORTON. Thank you.

In order to follow up on the line of questioning that our Chairman began with, I want to talk first about direct loans and then the guarantee program second. Under the direct loan program, apparently those eligible to receive loans are individuals or entities which supposedly cannot receive credit from a private bank, correct?

The collateral that is typically required is 150 percent of the loan, and the banks do not have to issue loans to someone without a credit history. So, the chairman was making the point that if you are requiring someone to have a credit history and show 150 percent collateral for the loan, and the average amount of the loan is $1.8 million, then what you are doing is you are loaning money to individuals or entities who have $3 million of assets, have a past credit history, but cannot get a loan from a commercial bank. There is a problem there somewhere.

How are we encouraging development through these direct loans if we are going into foreign countries and providing this money to loan to individuals or entities who have at least $3 million in assets? That is the average if you are talking about $1.8 million in loan. What is happening?

Mr. EASTHAM. Congressman, I think there is some what of a misunderstanding between the project loans and the guarantees. I know you are referring to the project loans. But specifically, the project loans many times do not involve a bank, or they might involve a bank as an investor, or as a co-investor. So, if you'll permit, let me provide you a specific example.

Mr. ORTON. Okay, leave the bank out of it.

Mr. EASTHAM. Okay.

Mr. ORTON. Let us say we are making a direct loan to them.

Mr. EASTHAM. Okay.

Mr. ORTON. But we are putting up all this money to loan to individuals or entities who already have at least $3 million in assets.

Mr. EASTHAM. No, not necessarily.

Mr. ORTON. No?

Mr. EASTHAM. Not necessarily, no.

Mr. ORTON. Okay, the average.

Mr. GEJDENSON. But it does happen.

Mr. EASTHAM. I am not aware of it in our program.

If I could give you a couple of examples. There are only eight direct loans in the facilities that are active. One of these loans represents a project for which A.I.D. and the United States have received significant positive credit for helping to start the first venture capital fund in Thailand. This was started with a $3 million direct loan from A.I.D. A group of six banks, which we recruited, and put up an additional $3 million themselves, this work helped to create a new venture capital entity in Thailand, which was the first one in that country and was followed by eight more within the next three years. We were successful in being a catalyst to getting the venture capital industry started there.

But there was no additional collateral or there was not anyone else in it. The banks certainly had deep pockets, but they put their own money into this as a more risky financial institution than they had been used to doing.

Mr. ORTON. Okay.

Mr. EASTHAM. It has been relatively successful particularly in terms of demonstration effect.

Mr. ORTON. All right. Let me just indicate that if we are trying to create a venture capital industry, I have some concerns over what happened as a result of our own venture capital industry in the 1980s and the S&L crisis right now. All of which gets us to the next part of the program, the guarantee program.

Are we funding the guarantees right now, or are we just backing up loans with future credit? I mean, you are asking for $114 million this year, but only eight direct loans are made. Apparently the bulk of the money is for guarantees.

Where does the money go? To whom does this $114 million go? Is it 100 percent guaranteed, or are we sending it to banks? What is happening?

Mr. EASTHAM. If I could explain that. The $114 million is the authority that you give this office, to extend guarantees.

Now, the contingent liability to the United States is $57 million, one-half of that. Our rules require us under the Presidential budget process to state in our request the total amount of loans, any part of which are guaranteed. So, our actual contingent liability or guarantee program that we are working with is $57 million. Again, we guarantee only 50% of the Loan.

Under our internal policies internally, only can constitutes one-half of loans that are made by a group of banks. So we are mobilizing at least $114 million of credit. We are doing it with $57 million of contingent liability and that is funded by a reserve account out of the "unobligated balance" that we went through earlier. We put aside 25 percent or roughly $15 million, against potential losses—even though right now we are only incurring losses in the 2 to 4 percent range. Hopefully, you will see that as a fairly conservative approach.

Mr. ORTON. Okay, but where is the money going? Are we actually transferring money out of the treasury and sending it somewhere?

Mr. EASTHAM. No.

Mr. ORTON. Or is it just an amount of guarantees which we can subject the treasury to in the future?

Mr. EASTHAM. It is the latter. It is exactly as you stated it.

Mr. ORTON. And the total amount of guarantees is the $114 million or that is 25 percent of the total amount?

Mr. EASTHAM. The total guarantee that we could ever potentially be liable for under this year's program is $57 million. The $114 million of Guarantee Authority represents the loans that are actually mobilized collectively by the group of banks that actually make the loans to the small business borrowers.

Mr. GEJDENSON. So, our liability is $57 million.

Mr. EASTHAM. Worst case.

Ms. FORE. Yes. That is if all of them defaulted, and what we presently have is a 25 percent set aside as a reserve.

Mr. ORTON. That is one branch of a small bank in Texas. [Laughter.]

Mr. ORTON. I have other questions on housing, but go ahead. We will come back.

Mr. GEJDENSON. Mr. Miller.

Mr. MILLER. Yes, I would like to turn to the housing guarantee program in Israel. This is a chance for some of us who have not gone through the question and answer with you to learn about the program. Let me go through some of the basics.

We now have this guarantee program that has just been announced this year in Israel. Four hundred million?

Ms. FORE. Right.

Mr. MILLER. And then you are expecting 400 million next year and 400 million the year after?

Ms. FORE. No, it is just a one time 400 million this year.

Mr. MILLER. It is a one time 400 million.

Well, where did I get the idea that this was a billion, multi-billion dollar guarantee program.

Mr. KIMM. Well, we have not received a request for anything more than the 400 million. We read in the papers that there might be more.

Mr. MILLER. I have been reading in the papers too. I assumed it was billions and billions.

Mr. KIMM. So far 400 million.

Mr. MILLER. It is 400 million of guarantees, but you are expecting next—you know, given the amount of Soviet Jews immigrating to Israel, you are expecting it is going to be continued next year and the year after.

Mr. KIMM. It is hard to tell what to expect, Congressmen. Whether they would ask for additional housing guarantee authority, or whether they will ask the U.S. Government to give them money with no strings attached, it is likely that there will be additional requests from Israel but we do not know.

Mr. MILLER. But this is right now 400 million in guarantees.

Mr. KIMM. Yes.

Mr. MILLER. No money.

Mr. KIMM. It's a guarantee.

Mr. MILLER. But you have guaranteed the loans so that what? So that the Israeli government can borrow the money?

Mr. KIMM. Yes, with our guarantees, the Israelis will soon borrow $400 million on the U.S. capital market.

Mr. MILLER. It will borrow from U.S. banks to put up housing for Jews fleeing the Soviet Union?

Mr. KIMM. Right.

Mr. MILLER. Well, now, this was asked of me by a constituent the other day, and I did not have an answer for it as one who is sympathetic to this program.

I understand the virtue of the guarantee. He asked why could not the Israeli government guarantee. I mean, why do we have to guarantee?

Mr. KIMM. Because this type of credit, a 30-year credit, is not available to the Government of Israel for a private lender. A private lender would not make such a loan to the Government of Israel.

Mr. MILLER. So a private lender would make that loan to the United States. Therefore, we can guarantee it, but the private lender would not make it to the government of Israel?

Mr. KIMM. That is right.

Mr. MILLER. Is this common in other countries, private lenders will not make 30-year loans to governments?

Mr. KIMM. Yes, the whole basis of the housing guarantee program is it is a way of making loans available to countries which would not otherwise be able to get the loan.

Mr. MILLER. So just speaking generally, looking around the world, how many countries have sufficiently good financial standing that they can make guarantees, or they can get 30-year loans from the private sector?

Mr. KIMM. By and large, they are not A.I.D. recipients. By and large, the countries who could do so are not the countries that A.I.D. does business with.

Mr. MILLER. But I assume countries like Britain, France, Germany, Japan can borrow money——

Mr. KIMM. Can lend money and borrow money on those terms.

Mr. MILLER. Okay. But that is one of the criteria you look at, whether the government of the recipient country needs a guarantee.

Mr. KIMM. Yes.

Mr. MILLER. Okay. Thank you, Mr. Chairman.

Ms. FORE. I might add, Mr. Congressman, virtually all of the 65 countries that we deal with in A.I.D., it is very difficult to get that kind of credit.

Mr. MILLER. It is unusual.

Mr. GEJDENSON. We may find ourselves in that position shortly if we are not careful. People may not want to make long-term loans to this country.

With your reflows, what do you anticipate your balance of the fund to be on December 1991, December 30, 1991?

Ms. FORE. Well, we are anticipating the unobligated fund balance as of December 31st to be approximately $40 million.

[The information follows:]

1991 UNOBLIGATED BALANCE

Under credit reform, the unobligated balance at the start of FY 1992 for the FY 1992 portfolio account will be zero. This is the result of the required isolation of all cash flows associated with the "old" (pre FY 1992) pre-credit reform, portfolio from the new portfolio for FY 1992 and beyond.

Mr. GEJDENSON. 1991?

Ms. FORE. 1991.

Mr. GEJDENSON. All right. And how are you reducing the collateral requirements for loans? Do you know or does A.I.D. know, now have an accurate data system that shows you are getting money to places where it would not go before?

Ms. FORE. Well, we have got a couple of ways to get at that. One is by the type of borrower, and in many of these banks they had never opened a window to small business, or they had not opened up a window for rural lending, or they had not looked at cash flow lending. So that we know it is new in all of those areas.

Mr. GEJDENSON. So you do not know that those are new customers.

Ms. FORE. We know they are primarily new customers.

Mr. EASTHAM. Or expansion of existing customers lines, either one.

Mr. GEJDENSON. Yes, the concern that people may have is that are you really just giving more credit to the same people, because now the person who got the collateralized loan from the bank gets that loan for part of his business, and then comes over to this other window and gets a loan based on his cash flow, and that that is where all the money ends up going and you are really not getting it to new people.

Mr. EASTHAM. That type of abuse is certainly possible, but from my experience, having been out to a lot of these banks, particularly in the Asia region which I used to handle, that is not really happening. Most of the banks are really very responsible, have high integrity, and we select them on that basis.

Generally, we are seeing good results and many of the borrowers are new customers for a bank. But we also allow the guarantee to be used for expansion of credit to existing customers.

Mr. GEJDENSON. In A.I.D.'s congressional presentation for fiscal year 1992, on page 101 under operating expense allocations, $96 million spent on direct hires, full-time A.I.D. staff for salaries and benefits. And A.I.D. spent $52 million, or more than half of that, on contractors.

In the material the subcommittee received from your staff, the description of PEDs reads as follows:

"PEDs offers high quality technical expertise in many aspects of the private sector, development through the services of 13 separate firms."

Is this program entirely staffed by contractors?

Ms. FORE. The work done overseas is primarily done by contractors.

[The information follows:]

A.I.D'S USE OF CONTRACTORS

We have two U.S. direct hires who manage the PEDs project here in the APRE Bureau. Experience has shown that it is less expensive to use contractors for overseas assignments than to pay all the ancillary support costs associated with having

direct hire personnel overseas. Examples of such costs are housing and education allowances. There are two other major benefits to using contractors for overseas tasks. The response time, which is critical to much of the business we do, is much reduced by the contracting mechanisms. It is a great deal faster to send a contractor to do a specific job that it would be to put direct hire staff in place. Secondly, a single contractor with specific expertise can address similar problems in a number of countries which is more efficient than placing direct hire employees in each of a number of countries.

Mr. GEJDENSON. And how did these 13 firms get selected?

Ms. FORE. It is all competitively bid.

Mr. GEJDENSON. Is it 13 because you have 13 programs going on, or is that just an accident of time?

Ms. FORE. That was an accident of time.

Mr. GEJDENSON. Can we get a list of those firms and the projects that they have been involved in over the last five years, what they have been doing?

Ms. FORE. Yes.

[The information follows:]

PRIVATE ENTERPRISE DEVELOPMENT SUPPORT PROJECT

The Private Enterprise Development Support Project (PEDS) was designed to help A.I.D.'s overseas missions integrate private enterprise development into their programs. Since the technical assistance needed to do this is multi-faceted, it requires access to expertise in a number of different areas. The current PEDS contract was awarded to a consortium of firms that could provide the broad range of expertise needed by developing countries. Each of the firms was selected on the basis of its expertise in a particular niche of private sector development.

ERNST & YOUNG is the prime contractor for the PEDS Project, and as such is responsible for overall management and implementation of the project. In addition, Ernst & Young provides substantive technical assistance to A.I.D. missions and developing countries to promote private sector development in certain fields. Some of the types of assistance Ernst & Young has provided include the following:

-- The development of a major trade and investment project design for ASEAN.

-- Assessments of the training needs of private enterprise in Tunisia, Morocco, and Thailand.

-- An analysis of the opportunities for agribusiness development in Poland from a private sector perspective.

-- Development of an agribusiness project design for the A.I.D. mission in Morocco.

-- The development of a manual to assist A.I.D. officers address gender issues in private sector development.

-- A major conference to launch the private sector component of the PL-480 program.

SRI INTERNATIONAL specializes in addressing policy issues related to private sector development. At the request of many missions, particularly in Asia, SRI has provided assistance to examine trade and investment policies in developing countries. To synthesize expertise developed under the project, SRI recently completed a guidebook on trade and investment promotion initiatives in developing countries.

THE SERVICES GROUP was selected as a member of the PEDS team because of its expertise in free trade zone development and

management. The Services Group has prepared strategies for free trade zones in numerous developing countries through the PEDS Project. Some of the countries include El Salvador, Togo, Cameroon, Mauritius, Uruguay, Cape Verde, and Zimbabwe.

MANAGEMENT SYSTEMS INTERNATIONAL specializes in entrepreneur-ship training and in private sector impact assessments. MSI has recently completed workshops on entrepreneurship in Chile and Mauritius. It also has undertaken impact assessments in the Dominican Republic and Kenya.

J.E. AUSTIN ASSOCIATES was selected to participate on the PEDS Project because of its expertise in developing the "MAPS methodology." MAPS (Manual for Action in the Private Sector) is a five-step process for analyzing private sector opportunities and constraints in a particular country and developing private sector strategies for the USAID mission. Through PEDS, MAPS has been applied in Kenya, the Dominican Republic, Cameroon, South Africa, and Ghana.

RONCO specializes in agribusiness promotion under the PEDS project. For example, RONCO assessed the opportunities for private sector involvement in a Food Technology Institute in Senegal.

TRADE AND DEVELOPMENT INTERNATIONAL has provided assistance in enterprise development to a number of A.I.D. Missions, including Haiti and Botswana, through the PEDS Project.

ROBERT CARLSON ASSOCIATES, INC. is an industrial engineering firm; the company provided assistance to USAID/Guatemala to conduct an assessment of the local manufacturing industry.

The firms described above have provided most of the technical assistance under the project. The PEDS project also has access to several other firms, which provide expertise on select projects. For example, Ferris, Baker & Watts provided assistance in the establishment of a stock market in Kenya. Multinational Strategies provided assistance to examine opportunities to promote environmental protection via the private sector. MetaMetrics analyzed the small and medium-enterprise sector in Liberia.

The services of three of the original set of the PEDS contractors have not been accessed. Reilly, Curtis is a law firm; thus far, no legal assistance of the type it has available has been requested under PEDS. Elliot Berg Associates was selected as a PEDS team member firm because of its expertise in policy issues in Africa; the firm has since joined a larger firm. Lastly, Dimpex, a small firm with expertise in private sector development in Africa, is no longer in business.

Mr. GEJDENSON. Now, are we in the danger—you know, it seems to me we did this domestically. We got rid of the marines at the military bases and we hired contract security guards who were paid $5.57 an hour. I am not sure we got the same level or quality of security as we did when we had a marine. It seems to me one of the things we have done here is that as we have squeezed the A.I.D. budgets and the rest of the State Department budget, we have tried to find ways to do more with less, and that is nice if it works but sometimes I am fearful that we have pushed these things out of shop and then we lose control. And when you rely so heavily on contractors, you lose your ability to have a consistent policy and get the message to the host countries, that it is one more enterprise that has got profit, as it should, at the bottom line rather than development and all the other things that we have.

How do you get adequate control, and why not just bring this back into A.I.D. and have A.I.D. officials do the work instead of contractors?

We have got to do what you have done with your people and just add 20 percent for profit, plus taxes. You know, the government ends up paying maybe more for less.

Ms. FORE. Well, I share your concern about it. With the budgets that we have in our operating expenses for travel as well as for direct hires, we just do not have enough in there for traveling adequately to look after the programs if we are to do it with our own direct hires. There just is not enough funding.

[The information follows:]

We are, however, able to maintain a high degree of quality control over our contractors. Field mission personnel are always actively involved in on-site oversight. In addition, centrally located Washington D.C. direct hire staff provide worldwide contract guidance and management.

Mr. GEJDENSON. So isn't there a danger that we are not getting done what we want, that the programs do not achieve the goals that we set out?

Ms. FORE. There is a danger, but one of the assets we have is our missions. We really have good, strong missions in the countries, so that any contractor who goes out is overseen by the mission, and the missions really know everything that is going on in their country.

Mr. GEJDENSON. But how is it cheaper to send a contractor out there rather than an A.I.D. professional foreign service person?

You know, a young lady used to work for me. Her husband worked for the Defense Department. They contracted out his section. He never moved from his desk. They just raised his salary and he went to work for this private company that now did everything he used to do as a government employee.

A couple of years later he figured out this was a pretty good deal, and he bid against the company he was working for. He never left his desk, made a lot more money, which I was happy to see him make, and provided the same service for the Federal Government. We lost control. It cost us more money. After a couple of years, there was no government comparison. If you are going to provide the same service, if they have to put people in the field, if they have to fly people over, the products, the cost is the same, is it

not, and maybe more? Because somebody wants to profit at the end of the day. So what is the advantage to this system?

Ms. FORE. Well, I mean it is a reality of just where our budgets are coming from. There are other costs overseas with direct hire people, with education and children and travel allowances and housing. So putting someone overseas is also expensive, and you want to be sure that they can travel from country to country because there might not just be one country that they need to do work in.

We are mindful of the fact that it must be cost-effective. So I think the best insurance that we have is our good project managers.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Well, Mr. Chairman, I hope I am not getting too cynical as I am getting older, but I just do not feel that you can police these programs. After my experience with the S&Ls, and we have that right here and we were close to them and we had all those problems, I do not know how we are going to be able to police these programs.

Mr. GEJDENSON. If I did not have Ms. Holsman here watching.

Mr. ROTH. Well, I have all the faith in the three people that are in front of us, Ms. Holsman. But I do not care. They can be Solomon. There is no way they are going to be able to, I think, police these programs.

You have 11 programs now for technical assistance, about $20 million, right?

Ms. FORE. That is correct.

Mr. ROTH. The chairman asked about the contractors and so on, and you are going to provide the subcommittee with who the recipients are, the contractors, and amount?

Ms. FORE. And what they do, yes.

Mr. ROTH. Great.

Ms. FORE. I have some examples.

Mr. ROTH. I think that would be one way before we markup that we could take a look at this and see, you know, try to get some objectivity into this to see how effective these programs are, and I guess that is about the best we can do on that.

Ms. FORE. We would also be glad to go through our programs thoroughly with any of your staff that would like to.

Mr. ROTH. Okay, good. Thank you.

Mr. GEJDENSON. Mr. Orton.

Mr. ORTON. Thank you again.

Let us return to the housing guarantee program for a second. On page 9 of your written testimony, in the middle of the page, it says, "In fiscal year 1991, A.I.D. plans to authorize $550 million in guarantee loans to finance new shelter initiatives for the urban poor in about eight countries."

This may be an unfair question, but do you have any idea how much the Federal Government is providing to guarantee shelter for the urban poor in the United States?

Ms. FORE. I do not know that number.

Mr. ORTON. Okay. Of this 550 million, 400 million of it is going to Israel and 150 million to seven other countries. Is that right?

Ms. FORE. That is correct.

Mr. ORTON. Again, these are guarantee amounts, right?

Ms. FORE. Correct.

Mr. ORTON. Now, this money must be going somewhere. I am a tax attorney. I used to work for the IRS. I like to trace the dollar, you know.

Whose pocket is it coming out of? Whose pocket is it going into?

Obviously, there is money generated at some level, because that money is being paid to build housing. All right, let us track back through. Where does the money actually come from? Is it local banks in that country who are going to be providing the capital to build the shelters? Is it governments? Where does the physical money come from?

Mr. KIMM. Okay. We started to answer the question in the case of Israel, and where Israel is non-typical in that it is so large and was not something that the Executive Branch requested, but rather, something that somehow or another got through the Congress without such a request.

First of all, A.I.D. works with a client, a developing country, and we identify an activity that they would like financed and we would like to finance. The statute requires that the products produced be affordable by people who are below the median income in the country, and in most of our countries the median income is very low.

Much of the financing does not provide a completed house, but rather, provides water connections into a slum neighborhood, or the line of credit with which someone could add a room to a house, very low-cost stuff.

Anyway, once we have identified a project we would like to finance and the client would like us to finance, we give them a letter which says that the U.S. Government will guarantee repayment to any U.S. lender who will finance that project. And with that letter, the borrower enters the U.S. capital market and borrows the money from whatever lender will offer that borrower the best terms and conditions.

That loan then is made to the developing country.

Mr. ORTON. Okay. Now, we have identified the lender.

Mr. KIMM. Right.

Mr. ORTON. Is the loan made to the developing country or to developers in the developing country, or the individuals?

Mr. KIMM. It varies from loan to loan, but most typically it is made to the government, to the central government.

Mr. GEJDENSON. If the gentleman would yield.

What happens here is that the Israeli government owes the U.S. lender the money.

Mr. KIMM. Right.

Mr. GEJDENSON. And the American government says that it will guarantee that the Israeli government will pay it back over the 30 years or the taxpayers will pick up the tab.

Mr. KIMM. That is right.

Mr. GEJDENSON. But it is not as if we are lending money to a company in Israel that could disappear and we would get stuck with the tab.

Mr. KIMM. That is right. And to continue to use the Israel example, what the Government of Israel will do, it will agree to discount mortgages made by the privately-owned mortgage banks in Israel.

The privately-owned mortgage banks in Israel will make loans for housing that will be occupied by Jewish immigrants from the Soviet Union.

Those mortgages can then be brought to the central bank and the central bank will replenish——

Mr. GEJDENSON. Dole them out. Just like B. F. Saul.

Mr. KIMM. That is your flow of funds in the Israel deal, and that is one of several models.

Mr. GEJDENSON. The same way that a bank discount house operates here basically.

Mr. KIMM. That is right.

Mr. GEJDENSON. They do the mortgage, then they pass it off some place else.

Mr. KIMM. The mortgage is sold to another party. In this case it is the central bank of the country, and it is using proceeds that come.

Mr. GEJDENSON. Now, if the gentleman would yield for one moment?

In the history of this, how old is this program?

Mr. KIMM. Twenty-five years.

Mr. GEJDENSON. And how much money have we lost in 25 years?

Mr. KIMM. Well, we have paid claims. We have made loans of about $2 billion. We have paid claims for $172 million.

Mr. GEJDENSON. And how did we get stuck with $172 million?

Mr. KIMM. Those claims stem almost entirely, not from any problem related to the housing project itself or from the person living in the housing project refusing or failing to make the payment, but rather, due to the international debt problem. That is, where the country in question is not paying its dollar debt or not paying its dollar debt in a timely fashion.

Mr. GEJDENSON. Any examples of countries?

Mr. KIMM. Well, the worst—there are a group of countries which have rescheduled their debt. The example just quoted by Congressman Roth. That is where all of the donor nations meeting in what is called the Paris Club agree that a country can reschedule its debt, that it does not have to pay its official debt or does not have to pay all of its official debt on time.

Mr. GEJDENSON. Most of those countries are in Latin America at this point?

Mr. KIMM. Many of them are in Latin America.

Mr. GEJDENSON. I yield back to the gentleman.

Mr. ORTON. You are doing very well.

Mr. GEJDENSON. Thank you. It's very nice of you to say that.

Mr. ORTON. You are asking all the right questions.

I do not have much more. I have been sitting in banking committee meetings ever since I got to this Congress, and we have been going over the RTC funding of $30 billion and we are talking about restructuring the FDIC and many other federal guarantee programs. I just have to tell you that the people in my district are starting to cringe every time we talk about federal guarantee programs, whether it is guaranteeing depositors in our own country or whether it is guaranteeing lenders in foreign countries.

I do not know if it is accurate, but I read one report indicating the total sum of United States Government guarantee programs is

reaching $8 trillion. That is a staggering amount for the United States taxpayer to be holding the bill for. I guess we are all afraid of the house of cards. I am seeking some kind of assurance that continuing to fund these types of guarantee programs, even inside our own country let alone outside the country, is good public policy.

Mr. ROTH. Will the gentleman yield?

Mr. ORTON. Yes.

Mr. ROTH. I want to join and say that the gentleman has eloquently stated my feelings also. I would add this. If we had total control, which we did over our regulators and we had all the reins in our hands and we have this huge problem with S&Ls and who knows what is going to be staring us in the face with the banks and so on, can you imagine what kind of problem this is going to be at some point?

Mr. ORTON. We may as well call it foreign aid and give it to them, I think, rather than fooling the taxpayers and say we are guaranteeing loans.

Ms. FORE. Well, there are two comments here. I think that is one of the points about these programs that are a bit different. Ninety percent of our foreign aid does go out in grants. We have here some loans and some guarantees for small businesses and a different type of guarantee for shelter and housing. So that if they were to all completely default, it would be as if they had been grants. But the repayment ratios have really been very good. I mean a default rate of 1 or 2 percent to my left, and default rate to my right of maybe 12 percent. That is very low when you think that we are getting a lot more money back, bang for our buck than we would if it was just straight grant programs. So, I think that is one thing to keep in mind.

And, Peter, I think you wanted to add.

Mr. ORTON. Of course, the default rate in S&Ls and banks historically was fairly low too.

Mr. GEJDENSON. So we deregulated.

Mr. ROTH. It is only when the roof caves in when you see how bad the problem is. And as I see it, if the gentleman would yield.

Mr. ORTON. Actually, I am out of time.

Mr. GEJDENSON. Go right ahead.

Mr. ROTH. Thank you.

As I see it, you know, in some of these countries there is so much corruption. I mean, I have been to the Philippines. I love the Philippine people. They are wonderful. You cannot find nicer people that the Filipinos. But the government, it is so damn corrupt, and if we are going to have problems with our own financial institutions on our loans here, can you imagine what we are going to be facing over there?

Ms. FORE. That makes one prefer to have more of the loans going out to the private sector.

Mr. GEJDENSON. One of the other obvious things that comes into play here is that there is a cost to no action. We just spent tens of billions of dollars in the Persian Gulf. They were not in housing loan programs and they were not in economic development programs, and they will not be paid back most likely for most of it.

So, sitting back and watching the world disintegrate does not lend to help a great power either. But I bring you back to where we started and I just have a couple of quick questions left.

When you go back there and sit with your folks in the administration, the frustration developing here, and this is just a mild reflection of the country. The country is much more intense about this. They see a government where the President of the United States is ready to help Central Europe, Central America, the Middle East, and some people say, well, that is not terrible. We are not against all of that. But when it comes to helping people in this country, there are no programs anymore. They want to pass the responsibilities back to the states and not the dough to take care of the job.

If that continues, we are going to find it impossible to sustain these programs that you operate, that I think have been very effective in achieving their goals.

I have a few questions and then we will submit some in writing to you, if you get back to us in 10 or 12 days. I always feel like I do not ask you though enough questions over there, that you have got a wealth of information. If I could get the right key to get out of one of these hearings, we will get you.

Mr. ORTON. Perhaps we ought to ask is there anything we need to know. [Laughter.]

Mr. GEJDENSON. Yes, but the problem is he will say no.

How will credit reform affect the housing investment guarantee program?

Ms. FORE. Of these programs we have been talking about today, it is the only one that really will be affected, and for the first time it will go on budget and there will be a 2.5 percent subsidy calculation.

Mr. GEJDENSON. Which goes to our friend, Mr. Orton's question that up to now these things have not been calculated, but the reform in the housing guarantee program states that from now on at least the estimated budget impact will be considered as part of the cost of the program. In a sense, reducing the surprise. If Mr. Orton had only been with us in earlier Congresses, we might have had less surprises.

Are you seeking any changes to the authorization for HIG this year?

Mr. KIMM. We will need an increase in the ceiling.

Mr. GEJDENSON. How big?

Mr. KIMM. One hundred million, the amount that is being requested.

Mr. GEJDENSON. Understanding that you chair one of the three task forces for A.I.D. as it undertakes a thorough reorganization. When did A.I.D. first hire the firm, what is it, Deloitte, Touche to conduct the study of A.I.D.'s programs?

Ms. FORE. Since our committees were set up after that report came out, I am not sure of the exact date. I would presume that it was some time in the early fall.

Mr. GEJDENSON. The study cost about $140,000?

Ms. FORE. I do not know.

Mr. GEJDENSON. Yes, I think that is it.

Last year the Appropriations Committee expressed its concern regarding the lack of focus, duplication of effort and overall management of A.I.D. In Section 557 of P.L. 101-513, the Appropriation Act of 1991, the commission calls for the establishment of a commission on management for A.I.D. The commission is to be composed of the members of the private sector, representatives from this committee and other relevant committees within Congress. The Appropriation Committee provides $500,000 for this purpose.

Does A.I.D. plan to comply with the law?

Ms. FORE. Yes, and the nominees for that committee, I think, have mostly gone in and we hope to have them appointed soon.

Mr. GEJDENSON. And the $140,000 spent for this other firm, was that a waste of money? I mean, is it duplicative of this task?

Ms. FORE. Well, their report is already out, and it is a very interesting and thoughtful report.

The advisory committee, to my understanding, was to advise A.I.D. on its management. So, I presume it will do so and we will look forward to being sure that it is very effective.

Mr. GEJDENSON. Can you get us a copy of that report?

Thank you.

Well, we thank you for coming. The crack staff here will get you some more questions, and we will see if we can pry out some more information from you. We think you are generally doing a great job, and we are going to try to convince Mr. Roth to go easy on you.

Ms. FORE. Thank you.

Mr. GEJDENSON. Thank you.

Our next witness is Mr. James Berg, Executive Vice President, Overseas Private Investment Program.

Mr. GEJDENSON. I don't know if we will get to these people, Mr. Berg, but they are all leaving. Your entire statement will be placed in the record, after which we will try to abuse you as possible. Please proceed as you are most comfortable.

STATEMENT OF JAMES BERG, EXECUTIVE VICE PRESIDENT, OVERSEAS PRIVATE INVESTMENT PROGRAM

Mr. BERG. Thank you, Mr. Chairman, I will just read four or five paragraphs in summary of the statement, things that I think deserve some special attention and then we can proceed to questions.

We at OPIC are very interested in participating in what we feel to be a new era of American assistance to less developed countries, one that is based in private sector activity and which is founded on the idea that the non-governmental links that American citizens and American companies can make with persons and companies in less developed countries will be the best and longest term way to serve our foreign policy interests.

We have developed a set of performance criteria and accomplishments in OPIC that we are trying to use to serve this new era of foreign assistance. 1990 was probably OPIC's very best year in its 20 years of existence as a separate agency.

During that period we led investment missions of American business persons to Benin, Bolivia, Cameroon, Guyana, Hungary, Jamaica, Morocco, Nicaragua, Panama, Poland and Togo. This is the

largest number of investment missions that we have ever taken out in one period.

Mr. GEJDENSON. What did you do in Bolivia?

Mr. BERG. In Bolivia, that was in October of last year and we took some 13 companies to Bolivia and as a result of that particular mission, I believe 11 of them—it was a very high come-back rate—11 of them have either proceeded with investments or are working on investments. We also have a couple of large projects coming forward in Bolivia that got their start with that mission, including a large gas project. 1990 was also a record year for us in terms of the amount of overseas private investment that OPIC in one manner or other participated in. Over $7 billion of overseas private investment across 127 different investment projects.

This will lead to the creation of nearly 17,000 jobs within the host countries and over 18,000 person years of employment here in the U.S. during the first five years of the existence of those projects.

Although OPIC is not by statute an export promotion agency, it is in fact a development agency, a great amount of U.S. exports, in fact, about a third of U.S. exports traditionally have gone from parent companies here in the United States to their foreign subsidiaries. So the amount of private investment done by American companies overseas has a direct link with the amount of exports that we provide and, thus, the amount of jobs that we have in this country.

I would go on by way of summary to mention that the areas where our activities have been very large are in the least developed countries, the LLDCs or poorest countries. We operate under a per capita definition of countries in that regard who have $984 or less in per capita income in 1986 dollars. And in fiscal year 1990, 48 percent of the projects that we did were in less, the less developed countries, the ones in the lowest income category.

That is an area that requires I think special attention from OPIC because the investment climates in those countries and the business infrastructure in those countries is rudimentary in many cases at best. Although I think in 1990 we saw the first full program year where OPIC activities also expanded into countries of a different development regime, but which were for the first time moving into the democratic form of government and particularly Eastern Europe. Central Europe would be involved here.

During the period of fiscal year 1990, OPIC supported some $270 million worth of investment in the Eastern European countries. And here, too, the challenges were great because of the lack of an investment climate or a business infrastructure typical of the kinds that American businesses like to operate in.

My final point, Mr. Chairman, by way of summary is to mention the importance to OPIC and we believe to the country of President Bush's initiative, the Enterprise for America's initiative. It is tied in, of course, as you know, with the number of hemispheric foreign policy initiatives. It is based primarily on trade, investment and debt management. There will be a major role that we anticipate for OPIC to play in this regard as we marshal additional resources to bring U.S. private investment into the Caribbean, Central America and South America, which have traditionally been the largest

areas for OPIC business, both in dollar terms and by way of numbers of projects. And even with the dramatic changes that are taking place in Eastern Europe, improved investment climates in Africa, great economic development in Asia, we expect that our largest business by volume will continue to be in this hemisphere.

So with that, I would simply thank you for printing the statement in full and be available to answer any questions that you may have.

[The statement of Mr. Berg follows:]

JAMES D. BERG

EXECUTIVE VICE PRESIDENT

OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. Chairman and Members of the Subcommittee:

I am honored to appear before this Subcommittee on behalf of the Overseas Private Investment Corporation ("OPIC"), to review with you OPIC's activities and the prominent role we have been privileged to play during the past year.

By any measure, 1990 was an extraordinary time in the history of the world. Perhaps in no other period has OPIC's mission been more vital.

Based on OPIC's record for leveraging private capital into developing nations, the President and Congress, with the leadership of this Subcommittee, reached a bipartisan consensus in 1989 that OPIC should play an important role in promoting market-based economic reforms in former Eastern Bloc countries eligible for assistance under the SEED Act. In fiscal year 1990 we produced over $270 million of investment in the SEED countries, and that was in just the last three fiscal quarters subsequent to receiving authorization. Even more remarkable is the fact that these investments went forward with OPIC support at a time when foreign investment, privatization and tax laws

were still being debated in the new democratic legislatures! 1991 and 1992 promise even better results, and we at OPIC do not share the view that U.S. investor interest in the SEED countries is diminishing. Some of the euphoria is over, but there is business to be done there, and OPIC will be providing risk-management assistance to those with the entrepreneurial sense to find good investments.

In keeping with the assurances we gave to Congress last year, OPIC has not allowed our mission under the SEED Act to detract from our commitment to Latin America, the CBI countries, Asia and Africa. If anything, the confidence and trust placed in OPIC by the President and Congress in the SEED program inspired OPIC's work force to make even greater contributions in each of the 118 countries where we now assist U.S. investment in support of economic development.

Now OPIC faces a further challenge -- to assist in the economic revitalization of the war torn Persian Gulf region. This task evokes memories of the period following World War II, when political risk programs later incorporated in OPIC's charter were initiated as part of the Marshall Plan. Now, as then, American business, with appropriate support from relevant U.S. government agencies, will be called upon to help rebuild an economic infrastructure destroyed by war.

OPIC is up to the challenge. Faced with the demands of a continually evolving world political and economic order, OPIC

is responding rapidly and creatively to fulfill more effectively its basic mission to promote economic growth, create jobs, and thereby to foster democracy, through U.S. private investment. I would like to describe these initiatives, and review for the Subcommittee the range of OPIC's investment program. I will also summarize OPIC's accomplishments of the past year.

I. OVERVIEW

For the benefit of the new members of the Subcommittee, let me review briefly OPIC's history and purpose. OPIC began operations in 1971 as a self-sustaining agency charged with a statutory mandate to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed, friendly countries. To this end, OPIC provides political risk insurance and project financing in 118 countries worldwide.

Each private investment project must meet strict qualifying criteria before it receives OPIC support. In line with statutory restrictions and the longstanding policy of its Board of Directors, OPIC supports only those projects that will have no significant adverse effect on U.S. employment, and only projects that promise to benefit the social and economic development of the host country. OPIC is also very sensitive to host country concerns and other project impacts. For

example, OPIC will not support any project which will pose an unreasonable or major environmental, health, or safety hazard, or will result in the significant degradation of tropical forests, national parks, or similar protected areas.

New Era of Assistance

The notion of development assistance has changed significantly in recent years. The era when U.S. foreign assistance consisted primarily of foreign aid loans to the governments of developing nations is giving way to a new era of emphasis on privatization and private sector-led development. In addition to the traditional focus on the less developed countries of the world, there is now an equally urgent and deserving need for foreign assistance -- namely, to help rebuild the weakened economies of countries ravaged by excessive centralization of political and economic decision-making. Not just in formerly Marxist nations, but all over Latin America, Africa and Asia there is a consensus emerging that market-based economies go hand-in-hand with democracy, and that a new balance between private sector market forces and government policy must be established.

For example, in Central and South America, a continuing and unmistakable trend toward privatization is emerging as new, democratic governments have announced programs to stimulate private enterprise, reduce government involvement in the

economy, and eliminate protectionist policies. In Asia, increased U.S. private investment can be a positive force in those industrialized, rapidly developing economies. And in sub-Saharan Africa, a region that has historically experienced serious problems attracting investment capital, a number of events set the stage for OPIC to become even more active in encouraging investment.

OPIC's Sound Financial Condition

OPIC carries out its programs as a government corporation, prudently managed as a sound business. Begun in 1971 with seed funding of $106 million, all of which has been returned to the Treasury, our capital and reserves now stand at more than $1.6 billion, representing an excellent return on the taxpayers' original investment while providing OPIC with a strong financial base from which to expand its activities.

OPIC's stable financial position is consistently impressive. Its gross revenues for fiscal year 1990 grew over ten percent to reach a record $167.7 million. Similarly, net income increased by 17 percent, or $21 million, to an all-time high of $143 million. Please refer to Charts 1 and 2 on the following pages.

Finally, by way of introduction, let me share with you that Ambassador Zeder has made innovation, growth and teamwork the

CHART 1

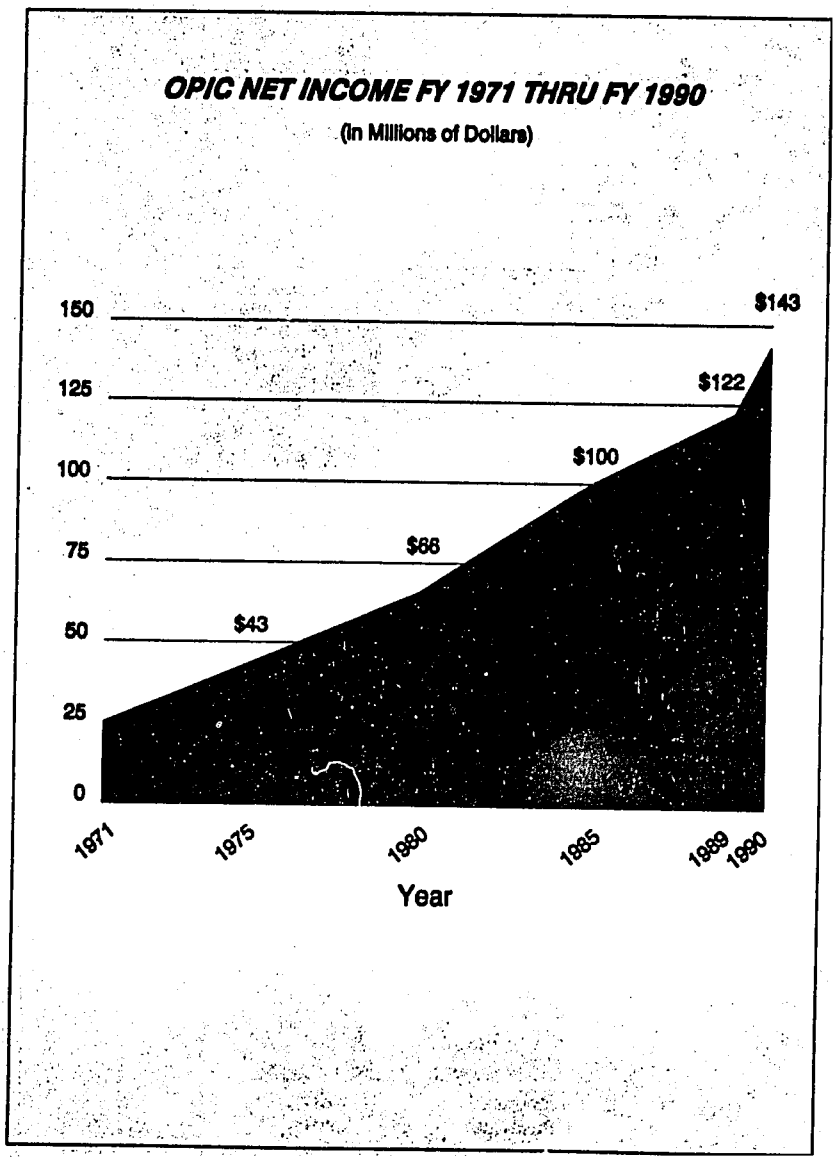
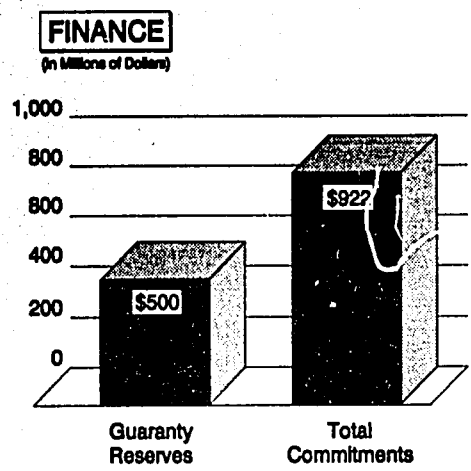
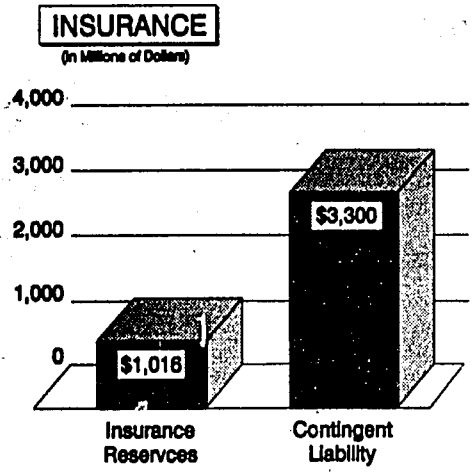

OPIC NET INCOME FY 1971 THRU FY 1990
(In Millions of Dollars)
150
125
100
75
50
25
0
$143
$122
$100
$66
$43
1971
1975
1980
1985
1989
1990
Year

CHART 2

FINANCIAL CONDITION AS OF SEPTEMBER 30, 1990





three complementary themes for OPIC in 1991. I will explain later some of the new programs which will make OPIC an even more effective instrument of U.S. development policy in the years ahead.

II. FY 1990 PERFORMANCE/ACCOMPLISHMENTS

By every measure, 1990 was one of OPIC's best years. I have already cited the financial successes of the past year. In addition, a record eleven OPIC-led investment missions were conducted: to Benin, Bolivia, Cameroon, Guyana, Hungary, Jamaica, Morocco, Nicaragua, Panama, Poland and Togo.

A record volume of investment supported by OPIC in FY 1990 -- over $7 billion in 127 projects worldwide -- will lead to the creation of nearly 17,000 jobs within host countries and over 18,000 person-years of U.S. employment (during the first five years of project operations). Small U.S. businesses participated in 28 percent of OPIC-supported projects during the year.

One of the primary reasons for our success today is that OPIC has responded quickly to the revolutionary changes that have taken place around the world. Let me briefly summarize highlights of OPIC programs and initiatives for you on a regional basis.

Central and Eastern Europe

In April 1989, President Bush announced a new framework for American foreign policy towards the emerging democracies of Central and Eastern Europe. He stressed that the U.S. must do its utmost to encourage these governments in their evolution toward democracy, free enterprise, and market economies. After decades of communism, the economies of Central and Eastern Europe were near collapse, with stifling government control of production and distribution, a lack of commercial and financial infrastructure, primitive communications systems, and an agricultural system rich in promise but undermined by state control.

President Bush believed that OPIC, with its focus on the role of private enterprise, was ideally suited to play an important role in the U.S. Government's efforts to assist in the reconstruction of Central and Eastern Europe. OPIC promptly took up the challenge and in the fall of 1989 signed the necessary agreements with the governments of Poland and Hungary. During the year, it led four investment missions to Central and Eastern Europe (two to Poland, one to Hungary, and one to eastern Germany). Representatives from more than 100 U.S. companies participated in the missions, demonstrating the intense interest on the part of U.S. business in these emerging democracies. In addition, representatives from organized labor participated and actively contributed to OPIC's mission to

Poland. In the summer of 1990, OPIC signed a similar agreement with the government of the German Democratic Republic, and in the fall it signed an agreement with the government of Czechoslovakia.

In fiscal year 1990, OPIC supported 20 projects in Central and Eastern Europe, and facilitated $100 million of new project investment in Poland alone by committing $16.5 million in direct loans and loan guaranties. In addition, OPIC backed $240 million of investment in Poland, Hungary and Yugoslavia with investment insurance.

One of the most significant financings in the region was OPIC's $50 million loan guaranty to the privately owned and managed Central and Eastern European Growth Fund, which will invest in productive business enterprises in the region. The Fund will acquire securities of new and established companies that plan to expand, as well as state-owned enterprises that are being acquired by private investors. The Fund's investments will generate vital new economic activity in Central and Eastern Europe by encouraging private sector growth and generating employment.

Northern Ireland

In fiscal year 1990, OPIC supported its first project in Northern Ireland by providing a $6.5 million loan guaranty, as

well as investment insurance, to Lummus Mackie Ltd., the newly acquired subsidiary of a small business in Georgia, to revitalize its production facilities for flax and wool processing machinery in West Belfast. This will generate considerable exports for Northern Ireland and, in an area which has an unemployment rate of 40 percent, secure existing jobs. This project also represents OPIC's first cooperative financing effort with the Industrial Development Board ("IDB") for Northern Ireland, which hosted OPIC's 1988 investment mission to that country. Initial disbursement under this project, to support the construction of expanded manufacturing facilities, occurred in February 1991.

The Americas

The past few years have seen dramatic changes in many Caribbean, Central and South American countries as new, democratic governments have announced programs to stimulate economic reforms. These changes provided the regional framework for President Bush's "Enterprise for the Americas Initiative." The three pillars which define this vision of regional economic cooperation are private investment, increased trade, and reduction of debt.

OPIC has played an important role in many of these nations' economies through its finance, insurance and investment promotion programs. In fiscal year 1990, OPIC provided over

$137 million in direct loans and loan guaranties to projects in the region and issued over $1.6 billion of insurance. In addition, OPIC concluded a new agreement with the government of Venezuela allowing the operation of OPIC programs in that country, and in October OPIC programs were reinstated in Chile following restoration of GSP there.

In response to Bush Administration initiatives, during fiscal year 1990 OPIC organized "rapid deployment" investment missions to Panama and Nicaragua, each within weeks of those countries' return to democratic rule. Investment missions to Guyana and Bolivia were also conducted during the year.

Among the projects which OPIC supported in fiscal year 1990 were several hotel projects in Jamaica, a major liquid natural gas facility in Trinidad, and a fruit processing plant in the Dominican Republic.

Africa

As one of OPIC's most urgent development priorities, the Corporation has consistently sought to increase U.S. private investment in Africa, despite the difficulties inherent in doing business in the region. During fiscal year 1990 significant progress was made toward this goal. OPIC agreements were signed with the governments of Algeria, Namibia and Zimbabwe, allowing the commencement of OPIC operations in those countries.

OPIC is now actively involved in the establishment of privately owned or operated export processing zones ("EPZ's") in the sub-Saharan countries of Togo and Cameroon. EPZ's are areas designated by host governments to provide tax incentives and other benefits to export manufacturers. Across the world these zones account for more than 1.2 million jobs and have contributed substantially to the success of export industries in Asia and the Caribbean. As a result of the pre-feasibility work jointly funded by OPIC and the Agency for International Development (A.I.D.), a major U.S. private industrial park developer is now in the process of conducting a feasibility study for the proposed privately owned EPZ in Togo, which will be the first ever established in sub-Saharan Africa. A similar project is also proceeding in Cameroon.

From a development policy perspective, OPIC and A.I.D. are especially interested in these projects because of their implications for the process of investment policy reform in both the nations involved. In order to make the zones competitive on the world market, the Government of Togo and Cameroon, with technical assistance provided by OPIC and A.I.D., have had to reexamine carefully the existing investment constraints prevailing in both countries, and enact laws and resolutions (as well as change administrative procedures) which hindered foreign investment.

The Africa Growth Fund ("the Fund"), a privately owned and managed investment company that was initiated by OPIC in 1987 to take equity positions in new and expanding businesses in sub-Saharan Africa, also made significant progress during fiscal year 1990. The Fund contributed a portion of the equity capital for the construction of an international class hotel in Botswana. This OPIC-insured project will also be financed by OPIC and a consortium of international development institutions including the U.K. Commonwealth Development Corporation, the European Investment Bank, and the Netherlands' FMO. In fiscal year 1991, the Fund expects to invest in several other projects that are currently under review.

To assist in these projects, and as evidence of OPIC's intention to utilize all of its existing resources (including scarce personnel resources) to promote and facilitate investment in the region, the Corporation for the first time in its history assigned two OPIC officers to Africa to assist in carrying out these projects. An OPIC insurance department officer was detailed to Togo to set up an investment promotion agency and administrative office for the zone, and an OPIC finance department officer is now on temporary assignment to the Fund's branch office in Nairobi, Kenya, to assist in identifying and preparing investment projects for Fund financing.

Asia and the Pacific Islands

New horizons opened in Asia and the Pacific Islands as OPIC finalized agreements with the governments of Mongolia and Kiribati allowing the commencement of OPIC programs in those countries.

In much of Asia, the tremendous pressure of population growth demands the creation of new jobs to employ the growing numbers of new entrants into the labor force. Young people with hopes for a brighter economic future are looking to the private sector as the route to economic security. Foreign investment, which brings with it new technologies, training, and the prospect of better wages, is often the key to creating desperately needed employment opportunities. During fiscal year 1990, OPIC-supported investments will create significant numbers of new jobs in areas with critical population pressures, including Bangladesh and the remote Indonesian province of Irian Java.

Another investment vehicle currently being developed by OPIC for the region is the Asia Pacific Growth Fund, which is designed to provide much-needed equity capital to new and growing companies there. It will rekindle U.S. financial and business involvement in this increasingly important market, and will support the region's continuing economic development.

III. DEVELOPMENT AND U.S. EFFECTS

Of special concern to OPIC and the Congress are the developmental and U.S. economic effects of OPIC-assisted projects. In fiscal year 1990, OPIC-assisted projects, and private investment in general, made significant contributions to growth in developing countries at a time when overall economic growth rates have been declining. According to the International Finance Corporation, the growth rate in 1989 for the developing countries as a group was 3.5 percent, down from 5.5 percent in 1988 and the lowest rate of growth since 1983. Most of the slowdown occurred in Asia -- often considered the most dynamic region of the world -- but growth rates also declined in the emerging democracies of Central and Eastern Europe, due to the commencement of a painful but necessary economic transformation. Latin American growth remained steady but at a low level, while sub-Saharan Africa showed some improvement over previous years. Many developing countries continue to struggle with inflation, public sector deficits and other factors which discourage foreign investment.

In those countries, however, where the investment climate is strong enough to attract new capital, a shift to private sector growth is occurring, often through the privatization of government-owned businesses. Reflecting this greater private sector involvement, OPIC insurance and finance were involved in a record $7.1 billion of total project investment in fiscal

year 1990. Of this total, the largest amount ($2.9 billion) represented investment by U.S. companies, followed by investment of $2.3 billion from third countries and $1.5 billion from developing host countries. Another $300 million was financed by multilateral development institutions (see Figure 1, Appendix A).

OPIC's statutory charter requires the Corporation to give "preferential consideration" to the least developed countries. As Figure 2 of Appendix A illustrates, forty-eight percent of the projects OPIC assisted in fiscal year 1990, I am pleased to report, are located in these nations, which are defined as having per capita incomes of $984 or less in terms of 1986 dollars.

Most OPIC-supported investments were located in Latin America and the Caribbean (51 projects), followed by the Near East and Asia (35), Central and Eastern Europe and Northern Ireland (27), and Africa (13) (see Figure 3, Appendix A).

Banking and finance emerged as the leading sector for OPIC-assisted investment in fiscal year 1990, accounting for 37 projects. The manufacturing sector occupied the second largest category (29), followed by services (28), agribusiness (18), tourism (11), and minerals and energy (4) (see Figure 4 of Appendix A).

Host Country Developmental Effects

In addition to a record volume of investment, the 127 projects assisted by OPIC in fiscal year 1990 will provide, in the aggregate, significant economic and social benefits for developing host countries. These projects will directly generate an estimated 16,903 jobs in the developing host countries. Initial expenditure of more than $4.6 billion on local goods and services will result in many additional jobs and opportunities for host country entrepreneurs. More than $1.1 billion in annual exports from the host countries will result from these projects, and host governments will obtain $219 million in annual revenues.

The following project example, taken from OPIC's fiscal year 1990 portfolio, illustrates such benefits to the host country:

Project: Insulated Refrigeration Panels
Country: Poland

OPIC insured an investment in, and provided a $1.5 million direct loan to, a joint venture in Poland which will produce insulated refrigeration panels. The panels will significantly increase the efficiency of Poland's food processing infrastructure by helping to preserve the fresh produce supply, which historically had a high spoilage rate due to a lack of refrigerated transportation. The venture will create approximately 50 new jobs and transfer modern technology to the region. Initial disbursement of $1.2 million was effected in February 1991.

U.S. Economic Effects

The U.S. economic effects of the projects assisted by OPIC in fiscal year 1990 are also expected to be quite favorable. Initial procurement of U.S. goods and services valued at $961 million, plus operational procurement from U.S. sources valued at $1.2 billion during the first five years of project operations, is expected to result in $2.1 billion in U.S. exports over a five-year period. Taking into account $1.1 billion in U.S. imports from the projects, as well as $12.9 million in U.S. exports potentially displaced by the projects, the U.S. will show a net five-year trade benefit of $1.5 billion. This net U.S. trade benefit will directly support 18,434 person-years of U.S. employment during this period. When all financial flows are taken into account, the projects will, we estimate, result in a net favorable U.S. balance of payments effect of more than $1.5 billion. Please refer to Chart 3 on the following page.

The following example of a fiscal year 1990 investment guaranty illustrates the positive U.S. effects of OPIC projects:

CHART 3

ESTIMATED U.S. ECONOMIC BENEFITS OF PROJECTS ASSISTED BY OPIC IN FISCAL YEAR 1990

Total project investment	$	7,082	million
U.S. investment in projects	$	2,916	million
U.S. percent of total		41	percent
Total direct U.S. project exports	$	2,145	million
Initial procurement from U.S.	$	961	million
Operational procurement	$	1,184	million
Estimated U.S. employment generated		18,434	person-years

Project: Establishment of mobile cellular telephone system
Country: Uruguay

In OPIC's first finance project in Uruguay, a $5 million investment guaranty will assist in the construction of a full-service cellular telephone system along the coastal region. A strong project management team includes two U.S. telecommunications companies. The project supports their efforts to compete globally, and strengthens their positions as leading suppliers of cellular infrastructure equipment. Approximately $10 million in goods and services will be purchased from the U.S., and over the first five years of operation the project will generate a positive U.S. balance of payment effect of nearly $9 million.

Of course, not all foreign direct investment has a favorable impact on the U.S. economy. OPIC, following statutory directives, is very selective about the investments it assists, consistently rejecting those having potentially significant detrimental impacts on the U.S. economy or U.S. employment.

IV. NEW INITIATIVES

In addition to its traditional programs, OPIC is developing several new initiatives which respond to current global priorities.

Growth Funds

OPIC's concept of a "family" of privately financed and managed investment funds has become a reality. This programestablishes a series of regional or sectoral funds

designed to complement OPIC's finance programs by attracting supplemental U.S. venture capital for targeted fund investments. Growth funds are a valuable tool in leveraging OPIC's resources for development, while at the same time helping to fill a void in the availability of capital caused by the withdrawal of U.S. commercial banks. To date, OPIC has committed guaranties for a portion of the financing of three funds. The Africa Growth Fund, begun with OPIC seed money of $20 million in 1987, is the first such investment vehicle.

Last year, two important additions were made to this "family" of funds. The Central and East European Growth Fund will provide up to $200 million to stimulate vital new economic activity in the region by encouraging private sector growth. The fund will acquire securities of new and established companies that plan to expand, as well as state-owned enterprises that are being acquired by private investors. This initiative has been lauded by President Bush, who called the fund "a magnet for...self-sustaining growth and responsible development."

The Environmental Investment Fund was also launched in fiscal year 1990. Through this fund, which is worldwide in scope, up to $100 million in equity financing will be provided to support a wide range of business enterprises in developing countries and emerging economies that use natural resources on a sustainable basis. The fund will invest in five broadly

defined sectors: sustainable agriculture, forest management, ecotourism, renewable and alternative energy, and pollution prevention and abatement technologies.

Two new growth funds are expected to be committed by OPIC in fiscal year 1991. The Asia Pacific Growth Fund will be a newly organized investment company with a target capitalization of $150 million. The fund's principal objective will be to provide equity capital to a wide range of business ventures in the Asia Pacific region. Several of the countries within this region -- Malaysia and Indonesia, for example -- are characterized by rapidly growing, industrialized economies and consumer-driven markets. By making equity investments in innovative and growing companies in the region, this fund will further encourage these developments.

Also being developed by OPIC at this time is the Americas Growth Fund, which will be a privately owned and managed company with an estimated target capitalization of $250 million. With its focus on the developing countries of Central and South America, the fund will offer a source of capital for new U.S. investment, expansions, and entrepreneurial activity in throughout the region.

[Information about these funds is provided solely for the purpose of informing the Subcommittee with regard to OPIC's operations, and is not intended to assist in any solicitations of investments in the funds.]

Post-Gulf Conflict Activity

In the aftermath of the war to liberate Kuwait, OPIC has already begun to formulate its response to the critical need for economic revitalization in that region. Drawing on its strengths, OPIC currently envisions a "rapid deployment" mission of high-level government and business representatives, a contractor's mission, the provision of insurance for contractors and exporters, direct and guaranteed loans for investment-related U.S. procurement, financing and insurance for natural resources and energy projects, and feasibility studies and small business counseling. We are already handling hundreds of inquiries for information on OPIC's programs in Kuwait and standy ready to assist U.S. business rebuild this war-torn country.

Equity Program

Although not a new program, I am pleased to report to you the Administration's FY 1992 budget includes a $5 million allocation to the OPIC Equity Investment Program.

The equity program was authorized as a four-year pilot program in 1988 to help facilitate private investment in two areas most in need of productive economic and social development projects: sub-Saharan Africa and the Caribbean Basin. The program was to be funded by a $10 million transfer

from OPIC's income and revenues, later made subject to advance approval in appropriations acts. While to date, due to budget constraints, no such transfer has been approved for the pilot equity program, the need to provide seed money to projects sponsored by small businesses in these two regions remains compelling.

Given the continuing retrenchment by U.S. commercial banks and the generally tight credit conditions in Third World markets, small business firms continue to experience difficulty in mobilizing adequate amounts of equity capital. We urge your support for favorable consideration in the appropriation process of a transfer of funding for the pilot equity program.

V. OTHER ISSUES

In your invitation letter of March 7, 1991, Mr. Chairman, you asked for OPIC's comments on credit reform. Because of its own strong financial record as a self-sustaining agency, which I mentioned earlier, OPIC welcomes the new credit reform measures. The "pay as you go" concept is not new to OPIC, which has, since its inception, operated responsibly and profitably under the framework of accountability embodied in our enabling statute.

The Credit Reform Act of 1990 mandates certain changes in OPIC's budget request for FY 1992, to ensure a consistent and comparable basis of measuring the costs of credit programs to

the federal government. We believe this provides an opportunity to demonstrate OPIC's prudent lending record and the overall strength of its portfolio. Credit reform measures also require, however, that Congress act on more than just a limitation on the credit activities traditionally funded out of OPIC's well-capitalized revolving fund. Consequently, OPIC seeks Congressional approval through the appropriations process not only on its traditional lending limitations, but also on its relevant subsidy budget authority and credit-related administrative expenses.

The overall high quality of OPIC's credit portfolio is evidenced by the zero subsidy cost computed for OPIC's investment guaranty program. This did not happen by chance. Over the years OPIC has initiated and implemented sound credit management procedures, and the success of these efforts is reflected in remarkably low losses and delinquencies. Specifically, as of September 30, 1990, OPIC's total finance portfolio was more than $1 billion, of which $534 million was outstanding. Less than two percent of the principal was past due. Few government or private lending sources possess such an enviable record for conscientious and prudent money management. When coupled with the effective development role we are playing, the OPIC story is one of which we can all be proud.

In fact, to support the increasing momentum of its investment guaranty program as OPIC implements new financing

techniques in response to the foreign assistance needs of the developing world, the Administration has requested for FY 1992 a $375 million limitation for this program, with zero subsidy budget authority. In addition to providing OPIC additional capacity to operate in Eastern Europe, this significant increase in IG authority for FY 1992 will also allow OPIC to take an active role in the Enterprise for the Americas Initiative ("EAI"). The EAI will promote alternative investments in Andean nations affected by the drug trade and will help address the economic burden resulting from the debt crisis in Latin America. OPIC will devote a significant portion of its increased authority to support this important new initiative, thereby providing a new source of capital to U.S. investors undertaking commercially sound ventures in this region.

Getting back to credit reform, for its small business direct loan program, OPIC requests a limitation in FY 1992 of $25 million and subsidy budget authority of $2,399,000. Although the inherent risks in DIF and IG projects are comparable, the resources available to small businesses are sometimes insufficient to weather the extremely difficult environments in which OPIC-supported projects operate. A subsidy is required for this program because though still very respectable when compared with commercial institutions, particularly given the difficult economic environments involved, OPIC's DIF portfolio is less favorable than the IG.

Finally, the FY 1992 budget contains a request for OPIC's credit-related administrative expenses for the first time. As required by the credit reform legislation, OPIC seeks $8.25 million to support the requested level of credit activity. This figure is 50 percent of OPIC's total administrative budget for FY 1992, and represents a modest increase over historical budget levels despite the tremendous growth in OPIC's finance program.

Also, Mr. Chairman, you asked in your invitation letter for this hearing that we address new authorizing language which OPIC may be requesting in FY 1992. We appreciate your interest in this regard.

We would welcome consideration of proposals which would simplify administration of our program and make OPIC a more effective instrument of U.S. foreign policy. Revision of OPIC's statute to implement credit reform and extension of OPIC's pilot equity program to Central and Eastern European countries are among such issues.

In accordance with established procedure, OPIC is actively involved within the Administration in the process of developing a legislative proposal which would amend the Foreign Assistance Act of 1961 in its entirety. While this process is being expedited, the Administration has not yet completed its review. As soon as it is completed we would hope to have the opportunity to review it with you.

VI. CONCLUSION

The United States is basking in the euphoria of a world described by President Bush as "blessed by the promise of peace" following the war in the Persian Gulf. We are mindful that OPIC has perhaps never had a more vital role to play than at the present time.

As OPIC begins its third decade of operations, it must continue to broaden its focus in response to the evolving developmental imperatives of this changing world. OPIC's activities of the past year prove that we are capable of doing this, and we look forward to continuing success as a key ingredient in the U.S. effort to foster economic development for the sake of worldwide peace and progress.

Thank you, Mr. Chairman. I would be pleased to respond to your questions.

APPENDIX A

OVERSEAS PRIVATE INVESTMENT CORPORATION *FISCAL YEAR 1990 PROJECT OVERVIEW*

SOURCES OF PROJECT INVESTMENT

(In millions of dollars)

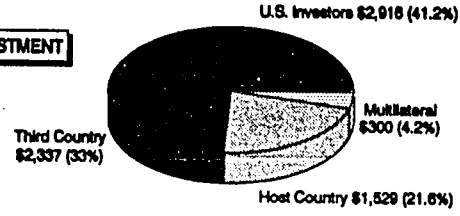


Figure 1

PROJECTS BY PER-CAPITA INCOME

(In millions of dollars)

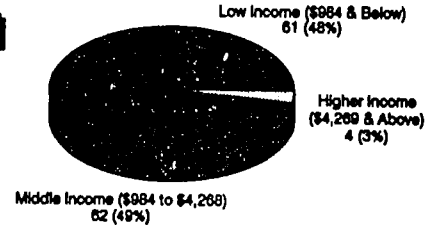


Figure 2

PROJECTS BY REGION

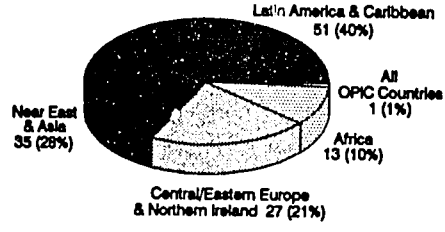


Figure 3

PROJECTS BY INDUSTRY

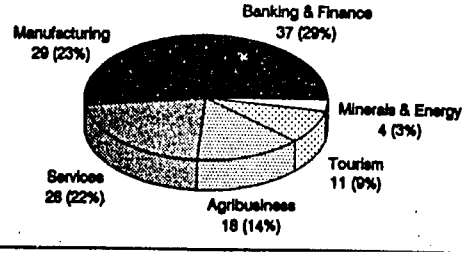


Figure 4

Mr. GEJDENSON. Thank you. How will credit reform affect OPIC?

Mr. BERG. Credit reform will affect OPIC in a number of ways. Most primarily, it will bring about a situation where for the first time at least a portion of OPIC's administrative expenses will be appropriated by Congress. Up to this point, we have operated on the basis of using funding from our own reserves and operated on an apportionment schedule with OMB. But the credit-related administrative expenses of OPIC will not be appropriated.

Mr. GEJDENSON. This will leave you more money for actually doing the job, will it not?

Mr. BERG. I do not think so. It will just simply mean that Congress will be involved of the Appropriations Committee, that is, in the appropriation of that portion of it. Secondly, there will need to be a subsidy calculated with regard to OPIC's loan and loan guarantee programs. And that subsidy, if a positive number, will need to be also appropriated by Congress.

Mr. GEJDENSON. How much did you spend on your missions last year like the one you took to Bolivia?

Mr. BERG. OPIC missions run about—I think the best way to say it is approximately $2,000 a person. And we took 13 persons and that covers all the costs attributable to the care and feeding of the mission people while they are in the country.

Mr. GEJDENSON. That is per each trip?

Mr. BERG. Yes. We in other words charge the mission participants. OPIC does not subsidize these missions.

Mr. GEJDENSON. So there is no cost to OPIC for these missions?

Mr. BERG. That is correct. We have a zero operating budget in OPIC for the running of missions.

Mr. GEJDENSON. Their own staff and what have you——

Mr. BERG. We have staff who go along and who do reconnaissance work, but the proportional amount of their——

Mr. GEJDENSON. Comes out of the 2000?

Mr. BERG. That is right. That is right. It is a self-supporting program.

Mr. GEJDENSON. Not a bad deal. In your annual report, you state that OPIC has created 16,903 jobs, a very precise number, in host countries; 18,434 jobs in the United States.

Mr. BERG. Right.

Mr. GEJDENSON. Where do you get the data? We could not get Ms. Holsman to give us even rough data. You have gone on some of her programs. You have got the exact number of jobs created in this country.

Mr. BERG. We do and we get the data primarily from the analysis that we do for each project before we do the project. We look at the size of the project, the anticipated employment levels, the kind of product that is being created, where it is going to be sold. We do what would normally be the due diligence that a bank might do or should do when it is making a loan or providing a guarantee. And then we aggregate that data with respect to what we think the employment effects will be in the United States as well as overseas.

Mr. GEJDENSON. And then do you count at the end of the game to see if it actually happened?

Mr. BERG. We have a double monitoring program. It is a very large expense to OPIC that we pay for, but it is, we think, absolute-

ly necessary. We monitor projects not only from their financial performance—are they making money, are they accomplishing the business and commercial ends that they were anticipated to accomplish, but are they also meeting the developmental goals, including the employment creation and employment maintenance goals overseas and in the U.S. So, the monitoring we do might well be to a project in Nicaragua, but also to the parent company in Texas or Connecticut or whatever other state hosts the parent company to see that the information that we have received at the beginning is in fact borne out in truth. We do not do projects that at the beginning we believe will delete jobs——

Mr. GEJDENSON. How do you make sure you do not displace American workers with what you are doing? If that company moves to Bolivia, how do you figure out in advance that they are not just going to be moving American jobs to a country where the annual wage is under $1000?

Mr. BERG. Essentially the same way that I just described for the other, that I just answered for the other question. We work with the company at the beginning and analyze the project in detail. We determine, ourselves, by making project site visits before we approve a project to the plant in question in the United States. We talk to the workers. We talk to the management. We understand what their plans are and then if we assume, if we can conclude that they are not going to displace jobs, that is one positive check mark we can put on our grid. Then we monitor afterwards. As I said, both in the U.S. as well as overseas.

Mr. GEJDENSON. You have got two people in Africa, one in Nairobi and one in Togo.

Mr. BERG. Right.

Mr. GEJDENSON. Is that working out? Are you planning to put similar staff people around the globe?

Mr. BERG. It has worked out very well. The individual who was in Togo has since returned to the United States and he is with us back in OPIC now and our finance officer in Nairobi is still there. It has worked out well for us, although their missions were different. We were able to provide a great amount of technical assistance to the Togolese Government in establishing an investment promotion center there.

Mr. GEJDENSON. What did the FCS's offices do? Why could they not do the job?

Mr. BERG. In the case of Togo, the reason that FCS was not involved is because OPIC has entered into a program with Togo and Cameroon to provide technical assistance and ultimately support for American companies to settle in export processing zones which we are working on building up there. And the assignment of this individual to his position on Lome for the period was part of that program.

I want to say that we similarly with regard to Nairobi, a great part of what our finance officer is doing there is working on project identification and business development for our Africa growth fund and whenever possible, with FCS people. I think that as much as State Department officers and embassies or A.I.D. missions, the Foreign Commercial Service people who we deal with in the coun-

tries where they are assigned are our very best and most productive counterparts.

Mr. GEJDENSON. The subcommittee authorized a four-year pilot equity program in 1988. Where does that stand now?

Mr. BERG. It remains authorized and it is within our current authorization cycle which needs to be re-upped starting in 1992.

Mr. GEJDENSON. Do you plan to implement it?

Mr. BERG. We have not received any ability to fund it, but this year's appropriation request, that is for fiscal year 1992, asks for $5 million.

Mr. GEJDENSON. In your written testimony, you describe OPIC's growth funds which consist of a $20 million fund in Africa, a $200 million fund in Eastern Europe, a $100 million fund for the environment, a $150 million fund for Asia and a new fund at $250 million for the Americas. Since you also state in your testimony that Africa was the only region that showed an increase in economic activity, does it make sense to keep africa at 20 million.

Mr. BERG. That 20 million is the amount of investment guarantee authority that OPIC itself provided. There has been another 5 million raised in limited partnership private sector shares. That fund is making investments now and is drawing down this capital. If there is a necessity for increased capital, the company that we are working with has every ability to raise additional shares.

Mr. GEJDENSON. What company are you working with?

Mr. BERG. The name of the company who is working with us now is Prior McLennon & Counts. It is a U.S. company out of Philadelphia that is working with us on raising the limited partnership share funds for the Africa Growth Fund.

Mr. GEJDENSON. Mr. Roth?

Mr. ROTH. Thank you, Mr. Chairman.

The question I would pose is this. A number of years ago I remember people at OPIC were not very happy because I had an amendment to deny OPIC to Hungary, but we have changed since that time, about four years ago, I believe. Something like that.

Mr. BERG. Right.

Mr. ROTH. What is the rationale for building Schwinn bicycles in Hungary rather than, say, inner core of D.C. where we have so much unemployment and where we have such economic hard times? Why not build the Schwinns right here in D.C.?

Mr. BERG. Congressman, I do not think there is any problem at all with building Schwinns in D.C.

Mr. ROTH. The question I am getting at is we are giving incentives. We are asking businesses to build here in this country and that country. We have got people like right here in D.C. where we have so many unemployed and where we have all kinds of other problems. Why should someone like myself be working and voting with OPIC when we have the problems right here in our own Nation's Capital, I guess, is what I am asking.

Mr. BERG. Well, I think if you are talking about OPIC's support for American companies who might go overseas versus invest here in the United States, perhaps generally that is the question there. I would say that you can accomplish the goals that you are presumably in favor of for the growth in domestic jobs and in our domestic economy by many means. And one means is through overseas pri-

vate investment by U.S. firms. That overseas private investment creates opportunities for sales of American goods and for creation and support of jobs here in this country as well as overseas. Additionally, overseas private investment from the U.S. we believe at least that's supported by OPIC has strong developmental effects.

Part of our foreign policy in this country is created out of our democratic system is to have a foreign policy and a foreign economic policy for growth of jobs and economic development in some of these countries.

Mr. GEJDENSON. Would the gentleman yield?

Mr. ROTH. Yes.

Mr. GEJDENSON. I think what Mr. Roth is trying to get across to you is not that he thinks it is a bad idea to help Hungary or Czechoslovakia, that that does not have some down the line benefit, it is the frustration that every program that has provided SEED capital, education, training, housing, that has affected the citizens of this country has been cut and eliminated. And that if you are in Hartford, Connecticut and try to get money for a small business, there is no program like the ones we have discussed for foreign countries to help countries—people in my area cannot get loans from the banks. The banks do not have any money. The regulators have frightened them away from doing it and maybe they are frightened on their own; but what is frustrating people and where good programs like yours and the ones we talked about previously are going to get in trouble and it is going to cover the political spectrum is that you cannot keep going back to the folks back home and saying, "Oh, no, you do not need a senior program. You do not need education. You do not need health care. You do not need job enhancing programs. We want to get rid of EDA." And then say, "Oh, but these are good programs for overseas." Because what happens is people say, "You know, overseas is great. You know, we would love to help overseas; but first you have got to help here." And you are going to have a harder and harder time selling programs that everybody supports because we have had 10 years now of an administration that sent Secretary Shultz and Haig up here to ask me and Roth to help out on all these good programs and sent your budget chiefs up to destroy the domestic equivalent.

I yield back.

Mr. ROTH. Thank you. I think that is eloquently stated. I think there is another problem here that dovetails into that. You know for people like yourself and other people here in Washington, it is one thing because you are well educated, you can use high technology and so on. There are a lot of people in this country who are high school graduates. You know, a fourth of the people in our country do not even graduate from high school. What kind of jobs are they going to have? It comes under the theory of what I call, "Make something."

See, people like yourself, people in Washington and people who are well educated do not have to make anything, because they are in this new information age. But you still have to make something. Some people still have to make something. That is why I brought up the example of Schwinn bicycle. You know, people here in inner core are not going to take computers and work with computers for

information, but they can build Schwinn bicycles and so on. So I think that is the problem we have with this fast track with Mexico. I mean the untold story basically is that we are looking for jobs for people who are high school graduates or who have not graduated from high school. You have got to give them some sort of employment and it comes under "make something". And OPIC, as I see it, is a real competitor for these "make something" jobs because it gives incentive for people to make these overseas.

Mr. BERG. May I?

Mr. GEJDENSON. Sure. We give you not an equal chance here, but we will give you a chance. [Laughter.]

Mr. BERG. Okay. Just light up the light.

Last week, one of our senior officers from OPIC was in fact in Hartford with the TPCC group headed by Commerce Secretary Mosbacher and a number of other people. And I think the message that you gentlemen are talking about is valid and I also think it is getting through because the greatest amount of travel and, shall we say business promotion, that OPIC does is not in Africa or South America or the other places. It is here. There are American companies who even, no matter how many programs our government might have to help create jobs or maintain jobs here, there are American companies who are at a stage in their own development that they need to expand to overseas markets and invest. We have to admit the existence of those companies.

Mr. GEJDENSON. Nobody argues that.

Mr. BERG. And what we are trying to do is—our programs are provided to Americans. They are not provided to others. To American companies and American citizens. And when we go to a place like Hartford or Cincinnati or St. Louis or Milwaukee or Louisville or whatever city it might be in this country, what we are talking about is in fact making loans to American companies, particularly those who have come to a point where they can invest overseas. That is not all of them, but it is in fact some of them. And we believe that we can run our programs in a way that their activities beyond our shores also helps us and certainly does not help us at the margin inside our country. But I do not offer those statements to either one of you as a way to deny the validity or the importance of what you are saying, it is just that in the matrix——

Mr. ROTH. It is another viewpoint.

Mr. BERG. Right.

Mr. GEJDENSON. When you have got Gejdenson and Roth together on an issue, you know there is a broad base out there.

Mr. BERG. It is awesome.

Mr. GEJDENSON. We thank you for your testimony. We will get additional questions to you and hope you can get answers to us within the week. We will leave the record open for five days.

The hearing is adjourned.

[Whereupon, at 3:15 p.m., the subcommittee adjourned.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1992-93

Markup of Selected Portions of Foreign Aid Reauthorization

THURSDAY, APRIL 18, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE,
Washington, DC.

The subcommittee met in open markup session at 1:00 p.m., in room 2255, Rayburn House Office Building, Hon. Sam Gejdenson, presiding.

Mr. GEJDENSON. The subcommittee will come to order.

We meet today to consider three pieces of legislation: the Microenterprise Development Act, the trade and aid recommendations to the Foreign Assistance Act, and the Enterprise for the Americas bill.

We will first consider 1608, the Microenterprise Development Act of 1991. This bill, crafted by Mr. Feighan, formally authorizes the implementation of the Agency for International Development's microenterprise program. It is the result of extensive consultation with AID and the PVO community. The subcommittee has held two hearings in the last year on the subject, one of which was based on Mr. Feighan's draft.

Mr. Feighan is on his way. Why don't we go to the next provision until Mr. Feighan comes. We will consider our foreign aid assistance recommendations to the full committee. The subcommittee had held hearings at which all affected agencies have testified.

Will the staff director please read the bill.

Mr. BRADY. Section 661 of the Foreign Assistance Act of 1961 is amended and to read as follows.

Mr. GEJDENSON. Without objection, we will suspend the reading of the bill. The bill will be considered as read.[1]

Mr. GEJDENSON. The subcommittee makes a number of legislative changes in the so-called trade and aid portions of the Foreign Assistance Act. The legislation would rename the Trade and Development Program the Trade and Development Agency, which would be an independent agency under the foreign policy guidance of the

---

[1] See appendix 1.

State Department. It would also expand the agency's mandate to cover preliminary stages of engineering design. We would propose an authorization of $58 million for fiscal year 1992, and $70 million for fiscal year 1993.

Despite the fact that TDP now generates $70 of exports for every dollar it spends on feasibility studies, the administration had proposed only $35 million for fiscal 1992. The House Budget Committee has authorized $58 million for this program for 1991.

With respect to the private sector, the subcommittee has yet to find a development mandate with an AID program. And we propose to terminate its authority to furnish assistance, loans or guarantees, as of September 30, 1991. This will result in a saving within the foreign assistance account of the same portion of the $57 million which AID requested in the testimony before the committee.

The administration has requested $100 million in guarantee authority for the Housing Investment Guarantee Program. The subcommittee proposes to keep HIG at its current $150 million level, and to broaden its mandate to include assistance in urban infrastructure where possible. We have used the language from H.R. 2655, which was passed by the House in 1989. And any other changes are reflections of credit for them.

We propose to make a number of changes to the Overseas Private Investment Corp. First, we would keep the language passed by the House in H.R. 2655, which essentially updates OPIC's original legislation and eliminates outdated programs. We would also eliminate the language restricting OPIC's programs in the PRC, since there is already language in the bill restricting OPIC's activities in human and/or labor rights violations where they exist in Public Law 101-246, the PRC Sanctions Act.

The remaining changes reflect compliance with the Credit Reform Act. The Credit Reform Act requires OPIC to place its credit programs on budget. And it separates OPIC's assets into two accounts, credit and non-credit. The credit accounts are controlled by the Treasury, while the non-credit accounts remain under OPIC's control. Both accounts are physically held in Treasury, since there is over one billion dollars in assets in the non-credit account.

The subcommittee has authorized OPIC to use funds in the non-credit account revolving fund to cover all of its programs and administrative costs, approximately $18.3 million. The interest alone on this account will more than pay for these programs in 1990. The interest on the reserve account totaled $149.4 million, eight times the amount that we would utilize.

Legislation enables OPIC to continue to operate without appropriated funds, and therefore frees up funds in the Foreign Assistance Act of about $18.3 million for other purposes. This would also enable OPIC to maintain its status as a self-sustaining agency within the government.

Are there any amendments?

[No response.]

Mr. GEJDENSON. There are no amendments.

Mr. ROTH. Mr. Chairman, I would just like to add to that, if I may. First, I appreciate the spirit of cooperation that you and your

staff have shown in this mark-up. It has been a delight to work with you.

I want to say that there are a couple of areas where I have strong philosophical differences, such as the housing guarantees and the microenterprise loans. After I have seen what happened with FSLIC and FDIC, for us in these housing guarantees is something that is going to come back and bite this Congress, I feel.

In 1993, Mr. Chairman, we are going to have housing guarantees to Chile. Now I know we are great friends of the Chileans, I realize that. But when we start having housing guarantees all over the world, this is something that I must in all candor say, Mr. Chairman, you and I have to take a look at this.

On the microenterprise loans, for our people to walk around the world throwing $300 to everyone who starts a small business, I mean, this is bordering on the unconscionable.

So these are two areas where I have strong philosophical differences. But I think that we have developed some good provisions which will improve our export and save our taxpayers millions, Mr. Chairman. And you are responsible for saving those millions, and I want to say thank you. These provisions have resulted from our working together I think in a bipartisan manner.

And particularly expanding the trade and development program will strengthen our ability to penetrate emerging export markets, and to win more contracts for U.S. companies. And increasingly, our competitors are moving in this direction. And Mr. Chairman, I want to say that I congratulate you in taking a page out of their book.

On OPIC, we have a workable solution to the problem of how to protect the strengths of a well run agency. OPIC generates a surplus. It is self-sustaining, and it has not needed any appropriated funds for years. I wish other agencies would have a record of this type.

If we do not adopt our provision on OPIC, then last year's credit reform law will cause OPIC to fall into the category of just another appropriated program for no good reason. And our provisions resolve this particular problem.

And this package also marks the first time in my memory that we have actually shut down a foreign aid program. This should make the wire service, Mr. Chairman.

The private sector revolving fund has not made a case that it should be continued. There is simply no public support for foreign aid. And I doubt if any of my constituents would support making these small business type loans overseas when our own small businesses are struggling with today's economic problems. And for me and the people that I represent, it is a matter of priorities.

Let me make one final point. Preparation for this mark-up has been underway for many weeks. The administration's bill which runs 182 pages single spaced was received by the subcommittee on Monday. Let me say to the administration's representatives that I agree with many of your proposals, particularly in the area of eliminating inappropriate micromanagement. I want to explore ways to incorporate as many of your bill's provisions as possible.

And with that again, Mr. Chairman, I say thank you very much for your spirit of cooperation. Really I think that we have done a remarkable job here thanks to your leadership.

Mr. GEJDENSON. I thank the gentleman from Wisconsin. And frankly, all of our colleagues on both sides of the aisle for the effort and the time that they all put into these issues, and particularly of course the ranking member for the work that he has done, and the ease with which the two sides can work together on so many issues.

Without any further comments on this bill, all those in favor say aye.

[Chorus of ayes.]

Mr. GEJDENSON. Opposed, nay.

[No response.]

Mr. GEJDENSON. The ayes have it. The bill is carried, and reported to the full committee.

The chief of staff would read the bill.

Mr. BRADY. "Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. This Act may be cited as the Microenterprise Development Act of 1991."

Mr. GEJDENSON. Without objection, the reading will be suspended, and the bill will be considered as read.[1]

Mr. GEJDENSON. Mr. Feighan, would you like to go over the provisions of the bill, to which you have made such an extensive contribution.

Mr. FEIGHAN. Thank you very much, Mr. Chairman. And let me thank you for bringing this legislation to the subcommittee for expediting its consideration. I also want to thank very much my colleague who is not here right now, Congressman Gilman, who was of tremendous help in formulating the legislation before us.

And as a matter of fact, what I am hoping that we can do if we move this out of the subcommittee would be to have the measure adopted by the full committee in the form of a Gilman amendment to whatever foreign aid vehicle that the committee might eventually settle on. Let me just make a few comments if I can, Mr. Chairman, about the bill before us. The bill essentially does three things.

First, it lays out goals for AID's microenterprise program to continue and to expand its emphasis on microenterprise. It calls for AID to increase its effort to reach the poor and particularly women.

Secondly, it creates a permanent general authority for the President through AID to carry out this program. And it recognizes the need for an umbrella approach that addresses the full range of needs faced by microenterprises. That umbrella approach would include credit programs, institutional development, training, technical assistance, and policy reform.

And then finally, it establishes an overall earmark of $85 million for each of the next two fiscal years with a sub-earmark for special attention on reaching the poorest sections of the developing world. That lower tier would receive $20 million in 1992, and $30 million in 1993. Our effort there is simply to try and direct a reasonable

[1] See Appendix 1.

amount of money into microenterprise programs for the genuinely poor, the poorest of the poor, and particularly women.

The bill is really a culmination of about four years of discussion and debate that this committee has had with AID about how we can best promote the potential of microenterprise as a successful development strategy. The bill includes provisions to ensure a poverty lending element. But it does so in a way that maintains AID's broader programs, so that the agency will be able to respond with flexibility to different circumstances and different economies in different countries.

Over the past eight months, we have intensified our discussions in regular meetings with AID, with PVO officials, and with members of the Advisory Committee on Microenterprise. Prior to those discussions, we had a GAO report which has been prepared and presented to members of the subcommittee.

In addition, we have held two hearings on the microenterprise program including one on the legislation that is before us. The final version was introduced last month. And I was pleased to have nearly unanimous cosponsorship of the legislation by members of the subcommittee.

I hope that we can pass the legislation today, and clear the way for my colleague, Mr. Gilman, to offer it as an amendment to the full foreign aid bill.

Thank you, Mr. Chairman. I appreciate it.

Mr. GEJDENSON. Thank you.

Are there any further comments?

Mr. ROTH. Mr. Chairman.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. I am constrained just to reply and to give my viewpoint. In 1992, according to this bill, we will be giving $20 million in the form of this type of $300 loans, and $30 million in 1993. Golly, we are suffering right here at home with our small business. And how does this serve our foreign policy goals? I do not know. April 15th was tax day when everybody last Monday were paying their taxes. And that means that many of the people, for example in my district, were paying their taxes. And $20 million in 1992 and $30 million in 1993 would be going to this sort of an initiative.s

I have got the greatest respect for the authors of this legislation, Mr. Feighan, and Mr. Gilman, and the rest. But to me, this is like a relic of the past, when America went all over the world just throwing money here and there. This is money that we have to borrow, money that our children will have to pay interest on. If we had surplus money, I would say well, let us do it. But when we are facing a $320 billion deficit, we are going to be throwing millions overseas in the form of $300 to this guy, or $300 to this other guy who wants to set up a fruit stand and so on.

I do not know. This is in my opinion not a wise step for us to take. And if the President has any control over this, I think that the President would be well-advised to take a look at a program like this. This is neither fish nor fowl, neither rhyme or reason.

I do not know. Again, I think that this is a relic of the past. I admire very much the people who introduced this legislation. But this is 1991 and not 1946. We have 1992 dollars here. Again, I am

going to have to vote against this legislation. This is in my opinion not the best of policy.

Mr. GEJDENSON. Mr. Bereuter from Nebraska.

Mr. BEREUTER. Mr. Chairman, I would just like to comment on one aspect of the earmarking of the $85 million. As mentioned by the gentleman from Ohio I believe, $20 million is earmarked for loans of $300 or less for fiscal year 1992 and $30 million for fiscal year 1993.

I know that based upon information that we received from hearings and from field trips that this is an important element. In my judgment, it is an important element. There has been I think a reluctance or a lack of understanding about the importance of focusing on the truly microenterprise, on the families and the one person who needs just a very small amount of operating capital to get underway.

I have seen how it has worked on the NGOs' efforts in parts of Latin America. I think that there is just a failure to scale down one's thought about the size of the operations that we are trying to help. We really do need to focus on the micro very small kind of loans that are necessary. I think that has not come across, and the earmark is to ensure that indeed a very significant part of this money does go for these very small loans.

It can have a real impact. It gets to the people who really need it. The repayment of these loans often comes in the first six months. So I think that this is an appropriate earmark, and I just wanted to say this in terms of legislative intent.

Mr. GEJDENSON. The gentleman from New York.

Mr. HOUGHTON. I understand what you say about your people paying the taxes, and the question of whether this is another lay-on program. I guess that I have the same situation. I come from a rural part of the country. Here many times people question the whole foreign affairs and foreign relations type of expenditure when there are so many problems at home.

But I think that that can be worked out. I tell you, I just had an experience in Zimbabwe in which the Ambassador was giving out these small micro bits to small enterprises. And I will tell you something, it made more sense and it showed more character for the United States than any of the huge mega loans that we have given to countries directly or indirectly.

To me, if you have a budget for foreign affairs, this is a very interesting new development, not something that is a relic of the past.

Mr. FEIGHAN. Mr. Chairman, if I could just take a moment. I appreciate the comments of all of my colleagues on the legislation. We have spent last year $83 million in microenterprise, and I think that it is likely that we would be spending about that amount this year and in the next fiscal year. So the purpose of having the sub-earmark is to make sure that we are taking at least a realistic portion of that and putting it into a credit program that is really targeted to the poorest of the poor.

Most of our development dollars have always operated really on a trickle down theory that if we invested in large massive economic development projects in various countries, particularly the Third

World, the benefits of that would eventually trickle down to the others. Well, there is some truth to that clearly.

But what the credit programs of microenterprise attempt to do is to provide credit access to those who historically have been completely denied any credit opportunity of the smallest amounts. And to improve the economy at that level in the hopes that eventually it will trickle up.

I think that it is a natural blend with the other development projects that this committee has aggressively supported over the recent years. And I would hope that members would vote favorably for the legislation. Thank you.

Mr. GEJDENSON. Without any further discussion, all those in favor will say aye.

[Chorus of ayes.]

Mr. GEJDENSON. Opposed will say nay.

[Chorus of nays.]

Mr. GEJDENSON. The ayes have it. The provisions are passed.

Next, Mr. Miller has a proposal that he will present to the committee. Mr. Miller.

[The amendment of Mr. Miller follows:]

CHINA

AMENDMENT TO _____
OFFERED BY MR. MILLER OF WASHINGTON

Insert in the appropriate place the following:

1 TITLE __--INDUSTRIAL COOPERATION PROJECTS IN CHINA AND TIBET
2 SECTION _01. STATEMENT OF PRINCIPLES.
3 (a) PURPOSE.--It is the purpose of this title to create
4 principles governing the conduct of industrial cooperation
5 projects of United States nationals in the People's Republic
6 of China and Tibet.
7 (b) PRINCIPLES.--It is the sense of the Congress that any
8 United States national conducting an industrial cooperation
9 project in the People's Republic of China or Tibet should
10 adhere to the following principles:
11 (1) Suspend the use of all goods, wares, articles,
12 and merchandise that are mined, produced, or
13 manufactured, in whole or in part, by convict labor or
14 forced labor if there is reason to believe that the
15 material or product is produced or manufactured by forced
16 labor, and refuse to use forced labor in the industrial
17 cooperation project.
18 (2) Seek to ensure that political or religious views,
19 sex, ethnic or national background, involvement in
20 political activities or nonviolent demonstrations, or

1 association with suspected or known dissidents will not
2 prohibit hiring, lead to harassment, demotion, or
3 dismissal, or in any way affect the status or terms of
4 employment in the industrial cooperation project. The
5 United States national should not discriminate in terms
6 or conditions of employment in the industrial cooperation
7 project against persons with past records of arrests or
8 internal exile for nonviolent protest or membership in
9 unofficial organizations committed to nonviolence.
10 (3) Ensure that methods of production used in the
11 industrial cooperation project do not pose an unnecessary
12 physical danger to workers and neighboring populations
13 and property and that the industrial cooperation project
14 does not unnecessarily risk harm to the surrounding
15 environment, and consult with community leaders regarding
16 environmental protection with respect to the industrial
17 cooperation project.
18 (4) Strive to use business enterprises that are not
19 controlled by the People's Republic of China or its
20 authorized agents and departments as potential partners
21 in the industrial cooperation project.
22 (5) Prohibit any military presence on the premises of
23 the industrial cooperation project.
24 (6) Undertake to promote freedom of association and
25 assembly among the employees of the United States.

1 national. The United States national should protest any
2 infringement by the Chinese Government of these freedoms
3 to the appropriate authorities of that government and to
4 the International Labor Organization, which has an office
5 in Beijing.
6 (7) Use every possible channel of communication with
7 the Chinese Government to urge that government to
8 disclose publicly a complete list of all those
9 individuals arrested since March 1989, to end
10 incommunicado detention and torture, and to provide
11 international observers access to all places of detention
12 in the People's Republic of China and Tibet and to trials
13 of prisoners arrested in connection with the
14 pro-democracy events of April through June of 1989 and
15 the pro-democracy demonstrations which have taken place
16 in Tibet since 1987.
17 (8) Discourage or undertake to prevent compulsory
18 political indoctrination programs from taking place on
19 the premises of the operations of the industrial
20 cooperation project.
21 (9) Promote freedom of expression, including the
22 freedom to seek, receive, and impart information and
23 ideas of all kinds, regardless of frontiers, either
24 orally, in writing or in print, in the form of art, or
25 through any media. To this end, the United States

1 national should raise with appropriate authorities of the
2 Chinese Government concerns about restrictions on
3 importation of foreign publications.
4 (c) PROMOTION OF PRINCIPLES BY OTHER NATIONS.--The
5 Secretary of State shall forward a copy of the principles set
6 forth in subsection (b) to the member nations of the
7 Organization for Economic Cooperation and Development and
8 encourage them to promote principles similar to these
9 principles.
10 SEC. _02. REGISTRATION REQUIREMENT.
11 (a) IN GENERAL.--Each United States national conducting
12 an industrial cooperation project in the People's Republic of
13 China or Tibet shall register with the Secretary of State and
14 indicate whether the United States national agrees to
15 implement the principles set forth in section _01(b). No fee
16 shall be required for registration under this subsection.
17 (b) EFFECTIVE DATE.--The registration requirement of
18 subsection (a) shall take effect 6 months after the date of
19 the enactment of this Act.
20 SEC. _03. REPORTING REQUIREMENTS.
21 (a) REPORT.--Each United States national conducting an
22 industrial cooperation project in the People's Republic of
23 China or Tibet shall report to the Department of State
24 describing the United States national's adherence to the
25 principles set forth in section _01(b). Such national shall

1 submit a completed reporting form furnished by the Department
2 of State. The first report shall be submitted not later than
3 1 year after the date on which the United States national
4 registers under section _02 and not later than the end of
5 each 1-year period occurring thereafter.
6 (b) REVIEW OF REPORT.--The Secretary of State shall
7 review each report submitted under subsection (a) and
8 determine whether the United States national submitting the
9 report is adhering to the principles. The Secretary may
10 request additional information from the United States
11 national and other sources to verify the information
12 submitted.
13 (c) ANNUAL REPORT.--The Secretary of State shall submit a
14 report to the Congress and to the Secretariat of the
15 Organization for Economic Cooperation and Development
16 describing the level of adherence to the principles by United
17 States nationals subject to the reporting requirement of
18 subsection (a). Such report shall be submitted not later than
19 2 years after the date of the enactment of this Act and not
20 later than the end of each 1-year period occurring
21 thereafter.
22 SEC. _04. EXPORT MARKETING SUPPORT.
23 (a) SUPPORT.--Departments and agencies of the United
24 States may only intercede with a foreign government or
25 foreign national regarding export marketing activity in the

1 People's Republic of China or Tibet on behalf of a United
2 States national subject to the reporting requirements of
3 section _03(a) if that United States national adheres to the
4 principles set forth in section _01(b).
5 (b) TYPE OF CONTACT.--For purposes of this section, the
6 term ``intercede with a foreign government or foreign
7 national'' includes any contact by an officer or employee of
8 the United States with officials of any foreign government or
9 foreign national involving or contemplating any effort to
10 assist in selling a good, service, or technology in the
11 People's Republic of China or Tibet. Such term does not
12 include multilateral or bilateral government-to-government
13 trade negotiations intended to resolve trade issues which may
14 affect United States nationals who do not adhere to the
15 principles set forth in section _01(b).
16 (c) EFFECTIVE DATE.--Subsection (a) shall take effect 2
17 years after the date of the enactment of this Act.
18 SEC. _05. DEFINITIONS.
19 For purposes of this title--
20 (1) the terms ``adhere to the principles ,
21 ``adhering to the principles'' and ``adherence to the
22 principles'' mean--
23 (A) agreeing to implement the principles set
24 forth in section _01(b);
25 (B) implementing those principles by taking good

1 faith measures with respect to each such principle;
2 and
3 (C) reporting accurately to the Department of
4 State on the measures taken to implement those
5 principles;
6 (2) the term ``industrial cooperation project''
7 refers to a for-profit activity the business operations
8 of which employ more than 25 individuals or have assets
9 greater than $25,000 in value; and
10 (3) the term ``United States national'' means--
11 (A) a citizen or national of the United States or
12 a permanent resident of the United States; and
13 (B) a corporation, partnership, and other
14 business association organized under the laws of the
15 United States, any State of the United States, the
16 District of Columbia, the Commonwealth of Puerto
17 Rico, the Commonwealth of the Northern Mariana
18 Islands, or any other territory or possession of the
19 United States.

Mr. MILLER. I do not know if the amendment has been passed out. But this is basically an amendment that incorporates what the House passed by an overwhelming vote last year, when we were taking up the issue of MFN to China. The amendment is a sense of Congress resolution encouraging American businesses to follow certain human rights principles when doing business in China, not firing people for political reasons, not allowing political indoctrination classes, encouraging them to take up human rights cases, and requiring a State Department report, and things of that nature.

As I said, it was passed overwhelmingly by the House. Everybody on this committee voted for it. I think that in a small way that it would send a signal to our businesses doing business in China that they can play a positive role in promoting human rights.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you. The gentleman puts forward a provision that makes a lot of sense. I think that this side has had a look at it. I certainly commend him for his actions.

Without any further discussion, all those in favor say aye.

[Chorus of ayes.]

Mr. GEJDENSON. Those opposed say nay.

[No response.]

Mr. GEJDENSON. The ayes have it. The provision is passed to the full committee. That was excellent work, Mr. Miller. You are getting briefer.

The Enterprise Initiative as proposed by the President last September seeks to provide relief of official bilateral debt owed to the United States by Latin American and Caribbean countries. To qualify for debt relief under the Enterprise Initiative, countries have to meet certain eligibility criteria, and have to agree to apply interest payments to environmental projects in their country.

Four types of debt are addressed in the initiative, Public Law 480, foreign aid, CCC, and the Exim Bank loans. Congress approved legislation to implement the Public Law 480 provisions of the Enterprise Initiative last year during the consideration of the 1990 farm bill.

The House last year also passed legislation implementing the foreign aid provisions of the Enterprise Initiative. That legislation was identical in structure to the Public Law 480 debt relief language in the farm bill. The bill died in conference, but it has been reintroduced in the Congress as H.R. 964.

Before we begin marking up H.R. 964, let me give a brief title by title explanation. Title I establishes the purpose of the initiative. Title I establishes the eligibility criteria for countries participating in this program. And countries must have or be making significant progress towards an IMF agreement, a World Bank loan, investment reform, and a commercial bank financing program.

Title II authorizes the President to reduce debt. Principal on the loan is to be paid in U.S. dollars. Interest on the remaining debt is to be paid in local currency at a concessional rate, and deposited into an environmental fund.

Title III authorizes the Secretary of State to enter into environmental framework agreements. Title III also establishes local administering bodies to be responsible for the management of the environmental funds. Title III sets up the Environment for the Amer-

icas Board to be composed of U.S. government and non-governmental agencies. Title IV requires an annual report be submitted to Congress.

I will be offering amendments to make some minor changes to H.R. 964. But let me first recognize the ranking minority of the subcommittee, Mr. Roth, for any statements that he may have. Mr. Roth.

Mr. ROTH. I do not have any statements at this time, Mr. Chairman.

Mr. GEJDENSON. Are there other statements before we get to amendments?

[No response.]

Mr. GEJDENSON. The staff director will read the bill.

Mr. BRADY. "This Act may be cited as the Enterprise for the Americas Initiative Act of 1991."

Mr. GEJDENSON. I move that the bill be considered as read and suspend the reading.[1]

Mr. GEJDENSON. I have an amendment. Would the Clerk please distribute the amendment. And the staff director will report the amendment.

Mr. BRADY. An amendment to H.R. 964, page 3, line 6——

Mr. GEJDENSON. Without objection, any further reading of the amendment will be dispensed with, and it will be printed in the record.

[The amendment of Mr. Gejdenson follows:]

[1] See appendix 1.

HR964A07

[April 17, 1991]

AMENDMENT TO H.R. 964 OFFERED BY MR. GEJDENSON

Page 4, strike out lines 9 through 11 and insert in lieu thereof the following:

1 (2) FEDERAL CREDIT REFORM ACT AND AUTHORIZATION
2 REQUIREMENTS.--(A) The authority of this section may be
3 exercised only to the extent that the budget authority
4 for the resulting additional cost (within the meaning of
5 the Federal Credit Reform Act of 1990) has been provided
6 in advance in appropriations Acts, except that any such
7 budget authority so provided shall be available for
8 payment from the appropriate credit program account into
9 the financing account only to the extent that the
10 enactment of such budget authority has been authorized in
11 an authorization Act.
12 (B) The enactment of the following amounts of budget
13 authority described in subparagraph (A) is hereby
14 authorized: $285,000,000 for fiscal year 1992 and
15 $ 182,000,000 for fiscal year 1993.

HR964A06

[April 16, 1991: PM]

AMENDMENTS TO H.R. 964

Page 3, line 6, after ``equivalent'' insert the following:

1 , unless the President determines (after consultation
2 with the Environment for the Americas Board) that
3 such an arrangement or program (or its equivalent)
4 could reasonably be expected to have significant
5 adverse social or environmental effects

Page 3, line 10, after ``Association'' insert the following:

6 , unless the President determines (after consultation
7 with the Environment for the Americas Board) that the
8 resulting adjustment requirements could reasonably be
9 expected to have significant adverse social or
10 environmental effects

Page 10, strike out lines 6 and 7 and insert in lieu thereof the following:

(C) shall be subject, on an annual basis, to an

audit of financial statements conducted in accordance with generally accepted auditing standards by an independent auditor;

Page 10, strike out the comma in line 19 and all that follows through ``1989)'' in line 22.

Page 11, line 15, strike out ``9'' and insert in lieu thereof ``11''; line 17, strike out ``5'' and insert in lieu thereof ``6''; and line 19, strike out ``4'' and insert in lieu thereof ``5''.

Page 12, after line 18, add the following:

1 (d) SUPPLEMENTAL VIEWS IN ANNUAL REPORT ON THE
2 FACILITY.--Each member of the Board shall be entitled to
3 receive a copy of any report to be transmitted to the
4 Congress pursuant to section 401 at least 14 days before the
5 report is to be so transmitted, to have 14 days within which
6 to prepare and submit supplemental views for inclusion in
7 such report, and to have those views included in the report
8 when it is so transmitted.

Mr. GEJDENSON. Let me briefly explain my amendment. It modifies the IMF and World Bank eligibility criteria to state that they shall not apply in cases in which the President determines that they would have a detrimental social and environmental impact. It expands the membership of the Enterprise for the Americas Board to eleven from nine. It allows the members of the Environment for the Americas Board to offer supplementing views to the annual report. It also places a spending cap of $285 million in fiscal year 1992, and $182 million in fiscal year 1993.

I offer this modest amendment out of concern that IMF programs, in particular, have a negative social and environmental impact on countries that we are trying to assist. The President has said that the Enterprise for the Americas is an environmental program. It does not make sense, then, to compel countries to accept IMF loans that have a negative environmental impact as a criterion for participating in this program.

The amendment presumes that the participation in IMF and World Bank programs are requirements unless the President in consultation with the Board determines that such programs would have a negative environmental consequence. The Board would be consulted only on whether IMF programs have a negative environmental impact, not on whether or which eligibility criteria should be applied. That authority remains with the President of the United States.

I intended to modify the eligibility criteria to permit the Treasury to accept macroeconomic reforms and eligibility requirement in lieu of IMF or World Bank programs. Treasury, however, says that it does not want this flexibility, which is somewhat surprising to me. Such flexibility is already provided in H.R. 964's wording that countries can be making significant progress towards an IMF program or its equivalent to be eligible for debt relief.

The Treasury says that it interprets that language to mean that a country does not necessarily need an IMF or World Bank program, and that it may have an economic reform program equivalent to an IMF or World Bank program to be eligible.

Perhaps I could call Treasury to the table to confirm this part of their position. Please identify yourself for the record.

Mr. FOLSOM. Thank you, Mr. Chairman. My name is George Folsom, and I am the Deputy Secretary for International Development and Debt Policy at the Treasury Department.

Mr. GEJDENSON. Let me ask you some questions now.

Does Treasury's interpretation of the law implementing the Public Law 480 provisions of EAI allow it to consider countries' eligibility if they do not have an IMF or World Bank program if they do have economic reform programs that are equivalent to IMF or World Bank programs?

Mr. FOLSOM. Yes, it does, Mr. Chairman, for countries which are pursuing macroeconomic reforms consistent with the types of programs that are equivalent to the IMF program. This could include countries who have successfully completed a series of IMF programs, and are continuing sound economic policy. It would also include countries which are pursuing sound economic policies which have not experienced the balance of payments difficulties which might otherwise necessitate assistance from the IMF.

Mr. BEREUTER. Mr. Chairman, may I ask a question on this point?

Mr. GEJDENSON. Sure.

Mr. BEREUTER. Thank you.

Are you saying that the Chairman's amendment, the first amendment, provides the President the flexibility to consider other macroeconomic programs that would be the beneficial equivalent of the IMF or the World Bank?

Mr. GEJDENSON. We dropped that provision, the reference to macroeconomic because of objections.

Mr. BEREUTER. But your first amendment is to give the President the flexibility?

Mr. GEJDENSON. The flexibility, but we do not reference macroeconomic. That is just on environmental impact. We dropped it, if you have got the right provision before you. Although we wanted what you are talking about, they are arguing that they already have that flexibility.

Is that correct?

Mr. FOLSOM. I think that answer is yes, if they are making significant progress.

Mr. GEJDENSON. That is in the original language though. They say that they have got the flexibility, and they do not want what I was going to give them.

Mr. BEREUTER. So the first part of yours——

Mr. GEJDENSON. Only the environmental, that they could use that.

Mr. BEREUTER. Thank you.

Mr. GEJDENSON. Can you give us an example of a country that has a very good economic reform program, but does not have and has never had a IMF program?

Mr. FOLSOM. Colombia would be an example in this regard.

Mr. GEJDENSON. Are you willing to entertain the notion of making such a country eligible for EAI debt relief?

Mr. FOLSOM. Yes, we are.

Mr. GEJDENSON. And tell us in specific terms what an IMF equivalent program is?

Mr. FOLSOM. Well, I will give you an example. Colombia is really the example. Their policy has been constrained on their fiscal deficits.

Mr. GEJDENSON. Who will make the determination that a country's economic reform program is equivalent?

Mr. FOLSOM. Generally, it would be the National Advisory Council.

Mr. GEJDENSON. Thank you.

The staff will prepare report language on this issue which should make clear Congress' intent in this regard. I, along with the Chairman of the Western Hemisphere Subcommittee had also intended to offer language to provide debt relief to the extent that it will result in real reductions of the total payment made by the indebted countries.

In testimony before our two subcommittees, Under Secretary Mulford was unclear as to whether such an up front debt relief is possible on the Treasury scenario for the Enterprise for the Americas. According to Secretary Mulford, countries would actually end

paying more under the Enterprise Initiative, since they would have to continue to pay the principal. To date they have been paying for principal and interest.

Interest on the outstanding debt would still be charged, resulting in a net increase in the country's outlays. Treasury has said, informally, to staff that real reductions in debt payments are possible, and that it is Treasury's intention to stretch out the payments of some countries to allow each payment to be smaller.

I would like to ask a representative of Treasury who is still at the table, to confirm that for the record.

Mr. FOLSOM. Yes, Mr. Chairman, we are willing to consider that on a case by case basis.

Mr. GEJDENSON. Given the structure that has been developed for the implementation of Public Law 480 and foreign aid provisions of the Enterprise for the Americas Initiative, does Treasury intend to provide up front debt relief? Do you intend to provide actual cash flow relief to all countries?

Mr. FOLSOM. Depending on the circumstances of the countries.

Mr. GEJDENSON. Does the present structure for the Enterprise permit you to stretch out debt relief so as to reduce each year's payment?

Mr. FOLSOM. Yes, Mr. Chairman, it does.

Mr. GEJDENSON. Are there any questions or comments from my colleagues?

Mr. BEREUTER. Yes, Mr. Chairman.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I would ask the gentleman from Treasury, do you have a copy of the Chairman's amendments to H.R. 964 in front of you?

Mr. FOLSOM. Yes, Mr. Bereuter, I do.

Mr. BEREUTER. Could you comment, if you have any comments from Treasury, on the first two items. Could you address the amendments to line 6 and line 10, and what the views of Treasury are on those two items?

Mr. FOLSOM. It is the view of Treasury that the Enterprise for the Americas Initiative program is not only an environmental program, but it is also an investment program. And we would that the rationale for the requirement for an IMF program is that they should achieve the economic reforms of the program. Therefore, the amendment would undermine the purposes of the IMF program. It would be examining whether or not an IMF program would have significant adverse social and environmental effects.

Mr. BEREUTER. Thank you.

Mr. Chairman, I must say to my colleagues that is something of a disadvantage, in that points of opposition by the administration to various parts of the EAI are raised, but only at this moment. I really am not prepared to cope with them. I may have to abstain on it, and do it at full committee.

But I would have one question of the Chairman at this point does the legislation as now amended, or do you have any knowledge of amendments that will today cap the funding for the Enterprise over the next two years?

Mr. GEJDENSON. We capped it to $285 million in 1992, and $182 million in 1993.

Mr. BEREUTER. Would this require the administration to seek new authorization for the Enterprise Initiative in two years?

Mr. GEJDENSON. After two years, there would be new authorization.

Mr. BEREUTER. Here is a question that is raised by the administration. The concern that Latin countries that might become eligible in two year's time such as Brazil and Argentina might be dissuaded from taking the necessary economic adjustment measures by their assumption that the program that we are authorizing today will be terminated in two years.

How would you react to that?

Mr. GEJDENSON. Well, I guess basically what we are saying is one, it is a sunset provision without any question. And it is a program that we have got a lot of questions on how it is going to be implemented. And we want to have Congress get another bite at this apple. I do not think that you are going to find countries with a real opportunity for debt relief saying no, you have made it somewhat inconvenient by reauthorizing it in two years, so we are not going to take advantage of any kind of debt relief.

Mr. BEREUTER. It is a little hard to believe.

But is there some way of providing greater assurance?

Mr. GEJDENSON. I would just say to my friend that it is something that maybe we ought to talk about between now and full committee. And if there is a way that we can raise my friend's comfort level, I would be happy to try to do it.

Mr. BEREUTER. It is not just mine. I am seeing this question for the first time. Two years is hardly a long enough time to see if this program is going to work. I am in favor of a longer authorization if we are going to do this.

Mr. GEJDENSON. Let us sit down and talk between now and full committee.

The gentleman from New York.

Mr. HOUGHTON. Yes. I do not know who to address this question to, Mr. Chairman, whether it is to you or to the gentleman from the Treasury. But let me just sort of throw it out. Obviously we're concerned about the environment within the country in which the investment is made.

So therefore, I assume that those countries have requested the amendment as suggested by the Chairman, is that right?

Mr. FOLSOM. No, I am not aware of that.

Mr. HOUGHTON. Are the customers demanding this?

Mr. GEJDENSON. Our basic goal is to try to write good legislation from the perspective of the American citizens interest and the country's interest, and what we think makes sense for the region as well. I am not sure that we solicited the people with debt. I guess that if we gave them their preference, that they would just want to get rid of it all all at once without any strings.

We tried to do something to achieve several goals simultaneously. We all sit up here as North Americans hoping that they do not burn down the Amazon and other important environmental resources, and this is some way just to help leverage saving some of that, and helping their economies in doing debt relief.

I am not sure that our goal ought to be simply just to figure out what they want. It is a combination of what they want and what we want. And we represent the American citizens and taxpayers.

Mr. HOUGHTON. I understand that. And obviously, this is the United States Congress and not the Congress of the World. Yet at the same time, I guess that I have always been a little bit reluctant to try to superimpose our own views on others, unless it coexists with some of the demands which they have in their society. Clearly, if you do not have an environmental hurdle to overcome, then it is easier to get the money and to compete elsewhere in the world.

However, the thrust of this is to help those countries. And therefore, there has to be some animus there. There has to be some feeling that this is what is needed by the countries in which the investment will be made.

Mr. FOLSOM. Clearly, the environmental aspect of the program is something that almost every state in the region has especially endorsed. And I think that the President spoke to that last fall.

Mr. HOUGHTON. Let me just ask one other question. The monies that go someplace, to the XYZ country, will come partly from this government, partly from IMF, and partly from the World Bank. We do not necessarily have any control over the policies of the World Bank and the IMF.

How is that going to work through this legislative process here?

Mr. FOLSOM. The specific issue of the environment?

Mr. HOUGHTON. Yes.

Mr. FOLSOM. Well, we will be working with the institutions on the EAT- as to the concerns of the individual countries.

Mr. HOUGHTON. Well, Mr. Chairman, just a final word. I do not want to get sort of tangled up in my sort of quasi-legalistic scabbard, because I am not sure of the language here. And again I feel a little bit in the position of Mr. Bereuter.

Is this something that you want to have a vote on today?

Mr. GEJDENSON. We need to get it out today to the full committee. And maybe between now and then, we can sit down with staff and go over some of these things with you.

Without any further objection, all those in favor of the amendment say aye?

[Chorus of ayes.]

Mr. GEJDENSON. Those opposed say nay.

[No response.]

Mr. GEJDENSON. The ayes have it.

All those in support of the bill as amended will say aye.

Mr. JOHNSTON. I have another amendment.

Mr. GEJDENSON. I am sorry. The gentleman from Florida has an amendment. The Chief of Staff will read the amendment.

Mr. HOUGHTON. Mr. Chairman, can I make another comment.

Mr. GEJDENSON. Anything you like.

Mr. HOUGHTON. You are so gracious. I think that I would like to be recorded as no on the other vote. Not that I disagree with the thrust of it, but in order to keep my options open.

Mr. GEJDENSON. I suggest that maybe tomorrow or Monday that we sit down with staff and go over some of those details.

Mr. HOUGHTON. Yes.

Mr. BEREUTER. Mr. Chairman, may I be recorded as abstaining?

Mr. GEJDENSON. All right. The staff has got that.

The Chief of Staff will read the amendment.

Mr. BRADY. Page 13, line 6——

Mr. GEJDENSON. I move that the amendment be considered as read and printed in the record.

[The amendment of Mr. Johnston follows:]

HR964A05

[April 15, 1991]

AMENDMENT TO H.R. 964

OFFERED BY MR. JOHNSTON OF FLORIDA

Page 13, line 6, strike out ``REPORTS'' and insert in lieu thereof ``OTHER PROVISIONS''; and after line 11, add the following:

1 SEC. 402. AUTHORITY TO FORGIVE ECONOMIC ASSISTANCE DEBT OWED
2 BY NONGOVERNMENTAL ORGANIZATIONS.
3 (a) AUTHORIZATION.--If the President determines that to
4 do so would further the development assistance policies of
5 chapter 1 of part I of the Foreign Assistance Act of 1961,
6 the President may, on a case-by-case basis, release any
7 nongovernmental organization from its obligation to make such
8 payments to the United States Government as the President may
9 determine on account of loans made to that organization under
10 part I of that Act (22 U.S.C. 2151 and following) or
11 predecessor economic assistance legislation, subject to
12 subsection (b) of this section.
13 (b) FEDERAL CREDIT REFORM ACT REQUIREMENTS.--The
14 authority of subsection (a) may be exercised only to the
15 extent that the budget authority for the resulting additional
16 cost (within the meaning of the Federal Credit Reform Act of
17 1990) has been provided in advance in appropriations Acts.

Mr. GEJDENSON. The gentleman from Florida is recognized to explain his amendment.

Mr. JOHNSTON. Mr. Chairman, the provisions of this amendment were passed under the AID bill last year. It was cosponsored myself, Congressman Goss, and Congressman Houghton. I hope that he remembers it.

Mr. HOUGHTON. I hope so, too.

Mr. GEJDENSON. Just because he has got white hair, do not pick on him. I think that ad hominem that this sounds like a good amendment.

Mr. JOHNSTON. Just very quickly. This class of loans made back in the 1960s under the Alliance for Progress went to non-governmental units, to a lot of universities and colleges in Central America. And all this does, if you read it very closely, under the authorization is if the President determines that this serves the same purpose as under Part 1, Chapter 1 of the principal bill, then he can forgive these debts.

And they are principally universities, one of which that I have personal knowledge is called INCAE. It is in Costa Rica and Nicaragua. It has produced a lot of the leaders for the Central American countries, and several of chamarro's cabinet members are graduates.

Mr. GEJDENSON. If the gentleman would yield.

Mr. JOHNSTON. Certainly.

Mr. GEJDENSON. We have reviewed the amendment, and it seems to make a lot of sense. And especially when you look at the two authors who are members of the committee. It is obviously a good amendment.

And if there is no further discussion, all of those in favor of the amendment say aye.

[Chorus of ayes.]

Mr. GEJDENSON. All those opposed say nay.

[No response.]

Mr. GEJDENSON. The ayes have it.

Now are there any further amendments?

[No response.]

Mr. GEJDENSON. Without any further amendments, it is on final passage.

All those in favor say aye.

[Chorus of ayes.]

Mr. GEJDENSON. All those opposed say nay.

[Chorus of nays.]

Mr. GEJDENSON. The ayes have it.

Mr. BEREUTER. Mr. Chairman, if I could be recorded as abstaining.

Mr. GEJDENSON. We have one abstention. And one no, Mr. Houghton. The amendment is agreed to.

I would just like to say before we close this hearing that I am still left with concerns about this program, as I think others here are. Treasury has only indicated that two or three countries are on the verge of becoming eligible for debt relief in 1991, and that is not good. And it certainly falls far short of expectations.

Whether the problem lies with eligibility criteria, or the country's economic performance, or Treasury's own difficulties in get-

ting the program started, I am not sure yet at this point. Because Treasury has been slow to provide the appropriate information to the committee and its staff. Treasury tells us that maybe four additional countries will become eligible for foreign aid debt relief in 1992.

They have requested $285 million for this purpose. $285 million is a lot of money for this committee to set aside and hope that a few countries will become eligible for modest debt relief.

We have many other more pressing concerns. And at this time, we have difficulty justifying that expenditure. Unfortunately, I cannot ask Treasury to justify the numbers for us, because they have classified the information.

The amendment that we just passed did alter the eligibility criteria in the interest of moving this legislation on to the full committee. I have to say, however, that while we are giving Treasury the benefit of the doubt one more time, I and the Chairman of the Western Hemisphere Committee remain extremely concerned about the restrictive nature of the eligibility criteria.

The administration requested this program, and it is up to the administration to defend it and justify why we should spend almost $300 million for a program that to date has produced almost nothing but a vague hope of debt relief for two countries.

Before the full committee mark-up, Treasury should tell the committee in very specific terms why only two countries may be eligible for debt relief in fiscal year 1991, what specifically prevents other countries from being judged eligible by Treasury, and what countries are being considered for fiscal year 1992 that enables the President to request $285 million. In addition, what IMF equivalent program means to Treasury, and whether Treasury interprets that language to mean that a country that does not have an IMF or World Bank program can become eligible for debt relief.

So a lot of us are going to be looking at this before now and full committee, and I hope that we can get some more answers. And I thank the members for their time.

Mr. BEREUTER. Mr. Chairman.

Mr. GEJDENSON. And Mr. Feighan cannot change his vote, but Mr. Bereuter is recognized.

Mr. BEREUTER. Mr. Chairman, on the list of information that we need, would it not be possible for us to receive the information on the countries that might be considered for debt next year as a private communication to the members? That is information that we would not want to share in public. It would be disadvantageous for the results that would come. And the rest of it, it seems could come.

Mr. GEJDENSON. That, I think is helpful, without any question. But also, we have got to justify this before the American taxpayers who are sitting there watching defense plants and bases closed around their own states to save money, and yet there are no programs to help those defense workers.

Mr. BEREUTER. I think that the members should have it.

Mr. GEJDENSON. I agree with that completely. But I think that we need to go that extra step to convince the American people why we are involved in these programs and not a lot of programs to affect people at home.

With that, the committee is adjourned. We thank the members for their time.

[Whereupon, at 1:47 p.m., the subcommittee was adjourned.]

APPENDIX 1

On April 18, 1991, the House Foreign Affairs Subcommittee on International Economic Policy and Trade marked up and ordered to be reported the Subcommittee's recommendations for amendments to the Foreign Assistance Act. The following is the report language to accompany those amendments.

Private Sector Revolving Fund

Section 108(j) states that A.I.D. is prohibited from issuing new loans or guarantees through the Private Sector Revolving Fund after September 30, 1991. This provision reflects the conclusion of the Subcommittee on International Economic Policy and Trade that A.I.D. has failed, despite repeated expressions of concern by the Subcommittee, to substantially address the issues presented to this subcommittee in a 1988 General Accounting Office Report. That report concluded the following: the Fund (1) did not have a data base that accurately projected cash flows; (2) lacked adequate financial statements; (3) lacked a loss reserve account; and (4) had inadequate procedures for converting loan reflows into U.S. securities. While A.I.D. has made some improvements in these areas, the Agency has not implemented an accurate data base, thereby making any assessment of this program all the more difficult. A.I.D. estimated that it would take another two years to obtain hard data.

In addition, the G.A.O. made a number of suggestions to improve the program including, (1) increasing the involvement of field missions; (2) establishing a policy of maximum collateral requirements as a condition for PSRF loans and guarantees; and (3) identifying options for encouraging bank lending based on project performance (vs. collateral). Currently, none of these suggestions have been adopted by A.I.D. In addition, participating banks are not required to provide a loan or guarantee to a new client.

The Subcommittee fails to see how this program, as it is currently administered, enhances development. The Subcommittee, therefore, recommends that the authority to distribute future loans, guarantees or technical assistance be terminated.

Previous Page Blank

Housing and Urban Development Guarantee Program

Section 221(a), which sets forth findings and policy, is virtually identical to section 221 in current law, except that the concept of "shelter" has been broadened to "urban services". This language reflects the Subcommittee's awareness that human settlements may require urban services such as sewage and irrigation systems for safe habitation.

Section 221(b) authorizes the President to issue guarantees, and section 221(c) authorizes the issuance of regulations related to eligible lenders and terms of the guarantees. These two sections repeat the language of 222(a) of current law, with the addition of the codification of the current practise that guarantees shall cover one hundred percent of principal and interest.

Section 221(d) outlines the specific types of shelter and urban services authorized to be provided under this legislation. This language is virtually identical to 222(b) of current law, except that the focus on "shelter" has been expanded to include "urban services." Again, this language reflects the Subcommittee's awareness that human settlements may require urban services such as sewage and irrigation systems for safe habitation.

Section 221(e) instructs the President to prescribe the maximum interest rate to the eligible investor. This section is similar to 223(f) of current law.

Section 221(f) raises to $50 million the face value of guarantees issued in any fiscal year to any one country. This is an increase from $25 million set in section 223(j) of current law.

Section 221(g) raises the average face value of guarantees issued under this section in any fiscal year to $25 million. This is an increase from $15 million set in section 223(j) of current law.

Section 221(h) raises to $3.4 billion the maximum total principal of guarantees outstanding at any one time from the $2.558 billion set in section 222(a) of current law.

Section 221(i) states that the total principal amount of guarantees issued for any fiscal year shall be comparable to the amount issued in 1984 ($150 million). This language is similar to 222(k) of current law.

Section 221(j) states that new guarantees shall be issued only to the amount covered by an appropriation act.

Section 221(k) prohibits the payment of any claim arising due to fraud or misrepresentation. This language is virtually identical to section 223(h) of current law.

Section 221(l) authorizes the Administrator to charge fees for guarantees. This language is similar to section 223(a) of current law.

Section 221(m) permits the administering agency to use the fees collected under this section to be used to partially offset the cost of guarantee obligations. Fees were formally used to offset the cost of administering the guarantee program.

Section 221(n) directs that fees collected, earnings on those fees, and other income be placed in a finance account to be maintained by the Treasury, which may be used for the purposes specified in section 221(m). The finance account replaces the revolving fund in section 223(b) in current law. This reflects compliance with the Federal Credit Reform Act of 1990 which eliminates all revolving funds maintained by the Treasury.

Section 221(o) establishes the order to draw upon funds to discharge liabilities under this section. This language is similar to section 223(c) of current law.

Section 221(p) pledges the full faith and credit of the United States for guarantees issued under this section and is virtually identical to section 223(d) of current law.

Section 221(q)(1) authorizes the appropriation of $2 million in fiscal year 1992 and $8.1 million in fiscal year 1993 to pay for the cost of guarantee obligations under this section with a face value of $150 million for each fiscal year. The rather large increase to $8.1 million for fiscal year 1993 reflects the fact that the Agency will be operating in countries which are a greater credit risk. Through consultations with A.I.D., it is expected that the Agency shall distribute guarantees as follows: for fiscal year 1992, $10 million for Portugal, $1 million for Morocco, $9 million for Tunisia, $25 million for Pakistan, $25 million for Indonesia, $25 million for India, $5 million for Paraguay, $25 million for Czechoslovakia and $25 million for Turkey; for fiscal year 1993, $10 million for Portugal, $10 million for Morocco, $10 million for Tunisia, $25 million for India, $10 million for Paraguay, $10 million for Chile, $25 million for Hungary, $25 million for Thailand and an additional $25 million for either India or Indonesia.

Section 221(q)(2) authorizes the appropriation of administration expenses of $8.5 million for each fiscal year 1992 and 1993.

Section 221(r) states that the term eligible investor has the same meaning that term is given in section 238 of current law.

Section 221(s) extends the operating authority of this section to September 30, 1993.

Section 221(t) states that guarantees issued under previous guarantee authority shall continue subject to the provisions of law applicable to those guarantees. This language is similar to 223 (g) of current law.

The Overseas Private Investment Corporation

Although in a new, reorganized format, the policy provisions for the Overseas Private Investment Corporation (OPIC) are left largely unchanged.

To comply with the Federal Credit Reform Act, the Overseas Private Investment Corporation must receive appropriated funds to cover the estimated subsidy cost of its credit programs. This legislation reflects the Subcommittee's concern that the integrity of the Overseas Private Investment Corporation as a self-sustaining agency would be unnecessarily undermined had it placed OPIC on budget. Further, the Subcommittee does not believe that the Congress should appropriate scarce foreign assistance resources to an Agency with over $1.4 billion in assets. Therefore, wherever appropriate, the Subcommittee has authorized OPIC to use funds available in its non-credit revolving fund account to cover estimated subsidy costs of its credit programs and its administrative expenses.

Section 231, which establishes the Overseas Private Investment Corporation and outlines the general administrative guidelines for OPIC operations, is virtually identical to this section in current law. These guidelines include provisions which require that OPIC consider the development impact of each project; give preferential treatment to investment in countries with per capita income of $1091 or less in 1989; and restrict its activities in countries with per capita incomes of $4,734 or more in 1989.

Section 232(a) states that the Treasury will hold OPIC's stock. This language updates language in this section of current law by striking the reference to OPIC's start-up capital and initial issuance of stock.

Section 232(b),(c),(d) and (e) establishes the structure of the organization including a Board of Directors, a President, an Executive Vice President and the hiring of staff. The language is similar to section 233 of current law.

Section 233(a) authorizes OPIC to issue investment insurance against inconvertibility, expropriation, civil strife, and business interruption; authorizes OPIC to share liabilities with foreign governments and multilateral organizations; prohibits OPIC from issuing insurance to a single investor for more than 10% of its maximum contingent liability; and requires OPIC to submit a report to Congress each time it proposes to expand the type of risk insured under "civil strife" or "business interruption" coverage. This section is virtually identical to section 234 (a) of current law.

Section 233(b) authorizes OPIC to issue investment guarantees and sets criteria under which the guarantees can be issued. It is virtually identical to section 234(b) of current law.

Section 233(c) authorizes OPIC's direct loan program and eliminates some language referring to restrictions on loans for mineral extraction. This section is similar to language found in section 234(c) of current law.

Section 233(d) authorizes OPIC to engage in various investment encouragement activities and eliminates some language limiting expenditures financed by OPIC during any fiscal year on surveys for nonfuel mineral resources. The section retains language restricting OPIC in the financing of surveys to ascertain the existence, location, quality or quantity of oil or gas resources. The language is similar to section 234(d) of current law.

Section 233(e) authorizes OPIC to administer special assistance programs. It is virtually identical to section 234(e) of current law.

Section 233(f) authorizes the Corporation to contract with insurance companies or financial institutions, to enter into risk sharing agreements, and to issue reinsurance. This section is virtually identical to section 234(f) of current law.

Section 233(g) authorizes OPIC to administer an equity finance program under which the Corporation may invest in or otherwise acquire up to 30% equity in an entity for the purpose of providing capital for any project which is consistent with the provisions of this title. OPIC must dispose of any equity interest it may acquire within a 10 year period. This section eliminates the language in section 234(g) of current law labeling this program a "pilot" program, and also deletes language restricting the Corporation to acquiring equity in only Sub-Saharan Africa and the Caribbean.

Section 233A(a) authorizes OPIC to enter into cooperative programs with the private political risk industry and is virtually identical to section 234A(a) of current law. Section 233A(b) mandates the establishment of a private sector advisory group to provide assistance in implementing the cooperative programs under this section. This provision is similar to language found in section 234A(b) of current law.

Section 234(a), directing the Corporation to prepare a development impact profile for each project it insures, finances or reinsures, is virtually identical to section 239(h) of current law.

Section 234(b) directs OPIC to give preferential treatment to projects involving U.S. small business. This section is virtually identical to section 240 and section 231(e) of current law.

Section 234(c) prohibits the Corporation from insuring, reinsuring or financing any project deemed to pose an environmental health or safety hazard, or to threaten a national park or other environmentally protected areas. It also requires that OPIC's projects be consistent with the objective of resource sustainable development outlined in sections 117, 118 and 119 of the Act, that OPIC prepare environmental impact statements for each project, and that OPIC notify foreign government officials of applicable World Bank and U.S. standards and guidelines relating to any project. This section is virtually identical to sections 231(n), 237(m) and 239(g) of current law.

Section 234(d) restricts OPIC's activities to countries taking steps to adopt laws protecting the rights of workers. This language is similar to section 231A of current law. The Subcommittee eliminates language restricting OPIC's activities in the People's Republic of China since there is similar language already in the Act and in P.L. 101-246 (Title IX, sections 901 and 902 of the Foreign Relations Authorization Act, Fiscal Years 1990 and 1991) restricting OPIC's activities if human and/or labor rights violations exist.

Section 234(e) retains section 231(i) of current law which prohibits OPIC from involvement in a country deemed to be a gross violator of human rights, unless the President determines that such involvement is in the national interest.

Section 234(f) prohibits OPIC from insuring, reinsuring or financing an investment that would cause an investor to reduce his workforce in the United States or that would cause a reduction in overall U.S. employment. This section is virtually identical to section 231(k) and (l) of current law.

Section 234(g) prohibits OPIC from involvement in any investment subject to performance requirements. This language is identical to section 231(m) of current law.

Section 234(h) prohibits the payment of any claims to, and bars from OPIC eligibility for 5 years, any investor found guilty under the Securities Exchange Act or the Foreign Corrupt Practices Act in connection with an OPIC-supported investment. This language is similar to language found in section 237(l) of current law.

Section 234(i) prohibits OPIC from making any payment for losses incurred due to fraud or misrepresentation. The language is identical to section 237(g) of current law.

Section 234(j) mandates that OPIC will hold an annual public hearing to for individuals to present views as to whether or not the Corporation is carrying out its activities in accordance to this Act. It is identical to section 231A(b) of current law.

Section 235(a) sets a maximum contingent liability of $7.5 billion for insurance and of $2.5 billion for guarantees. This section also authorizes OPIC to draw up to $1.5 million from its non-credit account revolving fund to pay for the estimated subsidy cost of a $375 loan program for fiscal year 1992. This enables OPIC to retain its integrity as a self-sustaining entity while at the same time freeing up funds in the foreign assistance account.

Section 235(b) authorizes OPIC to draw up to $4.8 million from its non-credit revolving fund to pay for the estimated subsidy cost for a $50 million direct loan program. This enables OPIC to retain its integrity as a self-sustaining entity while at the same time freeing up funds in the foreign assistance account.

Section 235(c) establishes a revolving fund for the equity finance program authorized by section 233(g) and allows a one time transfer of funds from the Corporations's non credit revolving fund account of $35 million to finance this program.

Section 235(d) directs OPIC to maintain appropriate reserves against possible insurance liabilities. This language eliminates the language in section 235(c) of current law which directs OPIC to maintain guarantee reserves. The guarantee reserves are maintained by the Treasury pursuant to the Federal Credit Reform Act of 1990.

Section 235(e) outlines the payments of funds to discharge liabilities and is similar to section 235(d) of current law. This section adds new language that states that any payments made to cover liabilities from the guarantee program shall be drawn from the Treasury, pursuant to the Federal Credit Reform Act of 1990.

Section 235(f) authorizes the appropriation of funds to replenish the insurance reserves. This language eliminates the language authorizing appropriations to replenish the guarantee reserves in section 235(f) of current law. This section reflects compliance with the Federal Credit Reform Act of 1990.

Section 235(g) authorizes OPIC to issue obligations for purchase by the Secretary of the Treasury to discharge its liabilities when necessary. This language is similar to language in section 235(f) of current law.

Section 235(h) authorizes OPIC to draw up to $12 million from its non-credit account revolving fund to cover its administrative costs of its direct loan and loan guarantee program for fiscal year 1992.

Section 236 amends the section in current law to reflect compliance with the Federal Credit Reform Act of 1990. This new language authorizes OPIC to maintain revenues and income transferred to OPIC from its non-credit activities only.

Section 237(a) authorizes OPIC to support projects in any less developed friendly country which has signed a bilateral trade agreement with respect to OPIC activity. It is virtually identical this same section in current law.

Section 237(b) directs OPIC to ensure that the interests of the Corporation are adequately protected. This language is virtually identical to the same section in current law.

Section 237(c) pledges the full faith and credit of the United States for OPIC guarantees and is virtually identical to the same section in current law.

Section 237(d)(1) permits the charging of fees for OPIC services. This language is identical to language contained in this same section in current law.

Section 237(d)(2) states that fees paid for project specific transactions relating to credit programs shall be paid out of the appropriate financing account maintained by the Treasury pursuant to the Federal Credit Reform Act of 1990.

Section 237(d)(3) states that fees paid for project specific transactions associated with non-credit programs shall be available for obligation for the purposes for which they were collected.

Section 237(e) limits OPIC insurance, reinsurance and guarantees to 20 years and is virtually identical to the language contained in this same section of current law.

Section 237(f) outlines the amount of compensation OPIC may pay on its insurance, reinsurance or guarantees. This language is virtually identical to language contained in this same section of current law.

Section 237(g) limits the extent of OPIC insurance, reinsurance or guarantees of investments in foreign banks or financial institutions. This language is identical to the language contained in section 237(h) of current law.

Section 237(h) authorizes the Corporation to arbitrate claims arising from its programs and is virtually identical to section 237(i) of current law.

Section 237(i) states that each OPIC contract shall be presumed to be in compliance with statue and is virtually identical to section 237(j) of current law.

Section 237(j) permits OPIC to support projects in Yugoslavia, Poland and Hungary. This provision eliminates language in section 239(f) of current law permitting OPIC to operate in the People's Republic of China notwithstanding any other legislation.

Section 238(a) establishes the Corporation in the District of Columbia and is virtually identical to section 239(a) of current law.

Section 238(b) provides for an annual independent audit of OPIC and for audits by the Comptroller General when necessary or by Congressional request. This language is similar to language contained in section 239(c) of current law.

Section 238(c) delineates OPIC's corporate powers and is virtually identical to section 239(d) of current law.

Section 238(d) authorizes investigations by the Inspector General and is similar to section 239(e) of current law.

Section 238(e) extends tax exempt status to OPIC and is virtually identical to section 239(j) of current law.

Section 238(f) directs OPIC to publish its guidelines and is similar to section 239(k) of current law.

Section 239(a) directs OPIC to submit an annual report to Congress and is similar to section 240A(a) of current law.

Section 239(b) mandates that each annual report (pursuant to section 239(a)) shall contain a projection of the aggregate U.S. employment effects of all OPIC projects. This language is similar to language found in section 240A(b) of current law.

Section 239(c) requires OPIC to maintain information on its projects and their employment and development effects. This section is virtually identical to section 240A(d) of current law.

Section 239(d) directs OPIC to include in each annual report a review of its cooperative programs with the private political risk insurance industry and is virtually identical to language contained in section 240A(e) of current law.

Section 239(e) protects certain information from pubic disclosure and is virtually identical to section 240A(f) of current law.

Section 240 defines certain terms used in this Act and is similar to section 238 of current law.

Trade and Development Agency

The Subcommittee makes a number of changes to the Trade and Development Program. The Subcommittee recommends changing the name of the entity to the Trade and Development Agency which will act as an independent agency under the foreign policy guidance of the Department of State. The Subcommittee also expands the mandate of the Trade and Development Agency to include preliminary engineering design studies.

The Subcommittee recommends increasing the funding for the Agency to $58 million in fiscal year 1992 (the Budget Committee provides $58 million for fiscal year 1992) and a modest increase of $12 million for fiscal year 1993. The Trade and Development Agency estimates a $70 return for every one dollar expended. By increasing the funding, the Subcommittee is demonstrating its continued strong support for this program.

Section 661(a) establishes the Trade and Development Agency as an independent agency under the foreign policy guidance of the Secretary of State. This section also states the purpose of the Trade and Development Agency is to promote United States private sector participation in development projects in friendly developing and middle-income countries. The language establishing the Agency is virtually identical to section 661(b)(1) of current law. The statement of purpose is new.

Section 661(b)(1) authorizes the Director of the Trade and Development Agency to work with friendly countries, by supporting feasibility studies, engineering design and other activities related to development projects which provide opportunities to promote U.S. exports.

Section 661(b)(2) authorizes the use of funds to support feasibility studies, engineering design, and training activities for bilateral and multilateral projects in order to promote U.S. goods and services for export. This section is similar to section 661(a) of current law, except that it has been expanded to include engineering design. Grants for engineering design studies are already offered by our major competitors.

Section 661(b)(3) directs the Trade and Development Agency to work with other Federal departments in an effort to disseminate information on Agency projects to the private sector. This section is virtually identical to the language in section 661(b)(3) of current law.

Section 661(b)(4) authorizes the use of funds under this section notwithstanding any other provision of law. This language is based on language in section 661(a) of current law.

Section 661(c) establishes at the head of the Trade and Development Agency, a Director to be appointed by the President, by and with the advice and consent of the Senate. This provision is virtually identical to section 661(b)(2) of current law. This section also authorizes the hiring of four employees without regard to civil services regulations. This provision is new.

Section 661(d) retains section 661(b)(4) of current law which requires the Trade and Development Agency to submit an annual report to Congress concerning its activities.

Section 661(e) directs the Director to establish an advisory board, to include representatives of the private sector, which will make recommendations to the Trade and Development Agency. This section is virtually identical to section 661(c) of current law.

Section 661(f) directs the Inspector General of the Agency for International Development to conduct a thorough investigation of the Trade and Development Agency to promote efficiency and prevent fraud or abuse. The Inspector General is to be under the general supervision of the Director of the Trade and Development Agency with respect to review of that Agency's programs. This section is not in current law.

Section 661(g) authorizes to be appropriated $58 million in fiscal year 1992, and $70 million in fiscal year 1993. Of the amounts to appropriated for fiscal years 1992 and 1993, $10 million shall remain available until expended.

Industrial Cooperation Projects in China and Tibet

This new title, offered by Mr. Miller as an amendment to the Foreign Assistance Act in Subcommittee mark up, establishes a set of principles for businesses to voluntarily abide by when conducting business in China and Tibet. These principles include the creation of a working environment which permits free speech, association, and press and the establishment of a safe, environmentally sound workplace which prohibits the use of goods make by forced labor in the manufacturing process. The State Department will submit an annual report on whether or not U.S. companies are in compliance with the principles. Those companies not in compliance would be ineligible for export marketing support from the U.S. government.

Section 1. Statement of Principles

Section 1(a) Purpose: This newly created title establishes principles to govern the conduct of industrial cooperation projects of United States nationals in the People's Republic of China (PRC) and Tibet.

Section 1(b) Principles: It is the sense of Congress that United States nationals operating in the PRC or Tibet should adhere to the following principles:(1) Suspend the use of all goods mined, produced or manufactured by convict labor or forced labor and refuse to use forced labor in the industrial cooperation project. (2) Seek to ensure that political views or activities, religious views, sex, ethnic or national background, will not prohibit hiring nor affect the status or terms of employment in the industrial cooperation project. (3) Ensure safe methods of production in industrial cooperation projects that do not harm workers, the neighboring populations or the surrounding environment. (4) Strive to use business enterprises that are not controlled by the PRC or its agents as partners in the industrial cooperation project. (5) Prohibit any military presence on the premises of the industrial cooperation project. (6) Undertake to promote freedom of association and assembly among employees and protest any infringement by the Chinese government of those freedoms to the appropriate authorities and the International Labor Organization. (7) Urge the Chinese government to release a list of all individuals arrested since March 1989, end detention and torture, and provide international observers access to places of detention in the PRC and Tibet and to trials of prisoners arrested in connection with pro-democracy events of April through June 1989 in the PRC and demonstrations which have taken place in Tibet since 1987. (8) Discourage political indoctrination programs from taking place on the premises of the operation. (9) Promote freedom of expression orally, in writing or in print, in the form of art, or through any media.

Section 1(c) Promotion of Principles by Other Nations: The Secretary of State shall forward a copy of the principles to members of the Organization for Economic Cooperation and Development and encourage them to promote similar principles.

Section 2. Registration Requirement

Section 2(a) U.S. nationals conducting industrial cooperation projects in the PRC or Tibet will register with the Secretary of State and indicate whether the principles listed in Section 1 will be adhered to.

Section 2(b) The registration requirement takes effect six months after enactment of this Act.

Section 3. Reporting Requirements

Section 3(a) Report: A U.S. national conducting an industrial cooperation project in the PRC or Tibet will report to the Sate Department describing their adherence to the principles listed in Section 1. The report will be submitted 1 year after the date the national registers under Section 2 and annually thereafter.

Section 3(b) Review of Report: The Secretary of State shall review the report submitted under subsection (a) and determine whether the U.S. national submitting the report is adhering to the principles set forth in Section 1.

Section 3(c) Annual Report: The Secretary of State will submit a report to the Congress and the Secretariat of the Organization for Cooperation and Development describing the level of adherence to the principles by U.S. nationals. The report will be submitted two years after the date of the enactment of this Act and annually thereafter.

Section 4. Export Marketing Support

Section 4(a) Support: Departments and agencies of the U.S. may only intercede with a foreign government or foreign national regarding export marketing activity in the PRC or Tibet on behalf of a U.S. national if the U.S. national adheres to the principles set forth in Section 1.

Section 4(b) Type of Contact: "Intercede with a foreign government or foreign national" includes any contact by an officer or employee of the U.S. with officials of any foreign government or foreign national involving sales of a good, service, or technology to the PRC or Tibet. The term does not include government-to-government trade negotiations intended to resolve trade issues which may affect U.S. nationals who do not adhere to the principles set forth in Section 1.

Section 5. Definitions

(1) The term "adhere to principles" refers to agreeing to implement the principles set forth in Section 1, implementing those principles in good faith, and reporting accurately to the Department of State.

(2) An "industrial cooperation project" refers to for-profit activity of a business operation which employs more than 25 individuals or has assets greater than $25,000 in value.

(3) "United States national" means (a) a citizen, national, or permanent resident of the U.S. and (b) a corporation, partnership, or other business association organized under the laws of the U.S., any State, the District of Columbia, the Commonwealth of the Northern Mariana Islands, or any other territory or possession of the U.S.

Report to Accompany H.R. 964
Enterprise for the Americas Initiative

BACKGROUND

The Subcommittee on International Economic Policy and Trade together with the Western Hemisphere Subcommittee held hearings on the President's Enterprise for the Americas initiative on July 18, 1990, September 27, 1990 and February 27, 1991. Witnesses representing the departments of Treasury and State, the Environmental Protection Agency, the General Accounting Office, the Smithsonian Institution, the private sector and outside experts testified at these hearings.

On April 17 and 18, 1991 the Subcommittees on International Economic Policy and Trade and on Western Hemisphere Affairs met in open session to mark up H.R. 964, a bill to implement the foreign aid provisions of the Enterprise for the Americas initiative. The subcommittees unanimously reported, by voice vote, a quorum being present, H.R. 964 as amended.

SUBCOMMITTEE VIEWS

The Subcommittees did not significantly alter the criteria for eligibility for foreign aid debt relief under the Enterprise initiative in order that the bill move on to the full Foreign Affairs Committee.

The Subcommittees reviewed the implementation of the PL 480 provisions of the Enterprise initiative, signed into law last year as part of the 1990 Farm bill (S.2830 / P.L. 101-624). The Subcommittees were extremely disappointed to learn that to date, nearly six months into the fiscal year, no country has yet been deemed eligible by the Treasury Department for PL 480 debt relief. Moreover, according to the Treasury, only two or three countries may ever receive debt relief in fiscal year 1991.

The text of H.R. 964 is nearly identical to the language in the 1990 Farm bill implementing the PL 480 provisions of the Enterprise initiative. Given the disappointing performance of that legislation, the Subcommittees have grave doubts about using the same language for foreign aid debt relief in FY 92 and 93, particularly with respect to the eligibility criteria.

The Subcommittees are concerned that the Treasury Department is interpreting the eligibility criteria in the current Enterprise law for PL 480 debt relief too narrowly, despite the Congress's explicit instruction in the report accompanying S.2830 not to do so. With respect to H.R. 964, it is the Subcommittees' intention that countries that do not have, and may never have had, I.M.F. or World Bank programs be considered for debt relief if they have an economic program equivalent to an I.M.F. or World Bank program.

The Subcommittees also have questions about the President's request of $285 million in authorization for FY 92 and $182 million for FY 93 to implement the foreign aid provisions of the Enterprise initiative. It is the Subcommittees' view that it is the Administration's obligation to justify this expenditure over other, perhaps more pressing foreign aid requests that the Committee has under consideration. The Subcommittees expects this justification to include information on how many and which countries are being actively considered for Enterprise debt relief in FY 92 and FY 93 to the extent that the Administration was able to arrive at its authorization requests.

Additional information that has been requested by the Subcommittees on International Economic Policy and Trade and on Western Hemisphere Affairs

46-816 O - 91 - 9

includes the following:

a) why only two countries may be eligible for debt relief under the Enterprise initiative in fiscal year 1991;

b) what, specifically, prevented other countries from being judged eligible by Treasury;

c) what countries are being considered for Enterprise debt relief in fiscal year 1992 enabling the President to request $285 million; and

d) what the term "IMF equivalent" means to Treasury and whether Treasury interprets that language to mean that a country that does not have, and may never have had, an I.M.F. or World Bank program can become eligible for debt relief.

It is the Subcommittees' view that it is essential that the Treasury provide this information prior to the Foreign Affairs Committee consideration of H.R. 964 in order that the Committee be able to make a reasoned judgement on the merits of this program.

Report to Accompany H.R. 1608
The Microenterprise Development Act of 1991

INTRODUCTION

On April 18, 1991 the Subcommittee on International Economic Policy and Trade marked up and ordered to be reported a bill, the Microenterprise Development Act of 1991. This bill formally authorizes a microenterprise development program within the Agency for International Development.

BACKGROUND

More than one billion people in the developing world are living in poverty, with incomes of less than $370 per year. According to the World Bank. mortality for children under age 5 averages 121 per 1000 for developing countries, with nearly 40,000 children dying each day from malnutrition and disease.

The Subcommittee believes that the poor, and especially women, can lead the fight against hunger and poverty through the development of self-sustaining microenterprise projects. It is an unfortunate fact that women in poverty generally are less educated and have less access to economic opportunity than their male counterparts. Therefore, directly aiding women in the developing world has a positive effect on family incomes, child nutrition, and health and education.

Microenterprise development offers the opportunity for the poor to play a central role in undertaking strategies for small scale, self-sustaining businesses that can bring them out of poverty. The World Bank estimates that there are over 400 million self-employed poor in the developing world and projects that, by the year 2020, 95 percent of African workers will be employed in the informal sector. For many people, the lack of credit creates an obstacle to the development of self-sustaining enterprises. Projects like the Grameen Bank of Bangladesh, the Badan Kredit Kecamatan (BKK) in Indonesia, and ADEMI in the Dominican Republic have been successful in promoting credit programs that have lent money directly to the poor. Repayment rates in these programs are often 95 percent or higher indicating that it is possible to "bank on the poor."

The Subcommittee recognizes that the Agency for International Development (A.I.D.) has been a leader in small and microenterprise development for the past 20 years. The House Foreign Affairs Committee and the Agency for International Development first engaged in a dialogue regarding microenterprise in 1987. At that time, Congressmen Edward Feighan (D-OH) and Benjamin Gilman (R-NY) led an effort to amend section 313 of the Foreign Assistance Act to authorize the provision of credit for the poor in the developing world. (Both Members had introduced free standing bills that same year.) This language was placed in the 1988-89 Foreign Assistance Authorization which was never

enacted into law. Through subsequent appropriation acts, however, the Congress earmarked $50 million for fiscal year 1988 and $75 million in fiscal years 1989, 1990 and 1991 for microenterprise development. The Congress, through the Appropriations Committees' report language, also called upon the Agency for International Development to take steps to ensure that its microenterprise development activities included a credit component designed to reach the poorest sector of the developing world.

In 1989, the Agency for International Development created the Office of Small and Microenterprise Development within the Bureau for Private Enterprise (now the Bureau for Asia and Private Enterprise or A-PRE) to lead and coordinate the Agency's microenterprise efforts. Because of a growing debate on the effectiveness of A.I.D.'s implementation of its microenterprise program, in October of 1989, Congressmen Gilman, Feighan, and Senator DeConcini requested the General Accounting Office to conduct an independent review of the microenterprise program.

The debate on A.I.D.'s microenterprise program centered on three issues. First, poverty advocates and Private Voluntary Organizations (P.V.O.s) argued that A.I.D. was targeting its microenterprise program to the poor, but not the very poorest.

Secondly, it was charge that A.I.D. had not collected adequate data on its microenterprise program. Because of this, it was difficult to determine the population receiving credit, therefore making it impossible to ascertain whether or not the Agency was complying with congressional intent. In response to congressional inquiries regarding compliance, A.I.D agreed to investigate the development of a reporting system.

Third, the Congress, through report language in appropriation acts, intended for A.I.D.'s average loan size to be less than $300. The Agency's average loan size was above this target. Generally speaking, small-dollar lending is seen as an indirect yet effective way to reach the very poor as only the poorest sector would be interested in such small dollar loans.

In March 1990, the Agency for International Development reported that new spending for microenterprise development was $58,800,000 for 1988 and $83,3000,00 for 1989 and that the average loan size for the credit component of the program averaged $329 for 1988 and $387 for 1989. However, less than 10 percent of the spending for the 1989 program was for loans under $300.

In September of 1990, Congressman Gejdenson, Chairman of the House Foreign Affairs Subcommittee on International Economic Policy and Trade, held a hearing to review the implementation of A.I.D.'s microenterprise program.

The General Accounting Office's (G.A.O.) interim report was presented in the form of testimony at the Subcommittee's September 1990 hearing. (The final report, released in February, 1991, did

not differ substantially from the interim report.) The G.A.O. indicated that data in A.I.D.'s March 1990 report was of "questionable validity" and that the Agency for International Development did not have a system to track detailed information concerning its microenterprise credit activities. Furthermore, the General Accounting Office found that none of the three missions that it visited targeted their microenterprise projects specifically to women or to the poorest 20 percent of the population, as recommended by Congress.

At the close of the September, 1990 hearing, Congressman Feighan, noting the convergence of opinion between A.I.D. and the P.V.O. community on the broad objectives of microenterprise programs, called upon A.I.D and the P.V.O. community to engage in a dialogue with the Subcommittee on how to move the debate on microenterprise forward.

The draft legislation, now H.R. 1608, was the focus of a second hearing in February, 1991. H.R. 1608 is the result of extensive cooperation and consultation between the Congress, the Agency for International Development, and the many private organizations that implement microenterprise and poverty lending programs. H.R. 1608 reflects the efforts of the Subcommittee to understand the constraints facing A.I.D. in reaching the poorest sector. The Subcommittee recognizes that access to credit alone may not be appropri..te or sufficient for generating opportunities for successful microenterprise development. The Subcommittee embraces A.I.D.'s current four-pronged approach aimed at providing credit, institutional strengthening, training and technical assistance and policy reform. However, the Subcommittee believes that "poverty-lending" should be an essential component of A.I.D.'s overall microenterprise activities. Poverty lending is an approach based on the idea that poor people themselves, when provided with credit, can establish sustainable, income-generating enterprises.

Within its general authority to conduct microenterprise activities, the legislation calls upon A.I.D. to devote a portion of its work to poverty lending activities. The legislation lays out reasonable benchmarks for funding poverty lending activities over the next two fiscal years. In Section 6(b)(1) of the bill, A.I.D. is directed to disburse $20 million for loans of $300 or less in fiscal year 1992 and $30 million in 1993. That leaves $65 million in fiscal year 1992 and $55 million in fiscal year 1993 for other microenterprise activities including loans greater than $300.

The Subcommittee also agrees with A.I.D. and the poverty lending community that reviewing the aggregate of loans of $300 or less is an imperfect mechanism to ascertain whether or not A.I.D. is able to address the microenterprise needs of the poorest of the poor. However, in the absence of a more precise measurement, it was agreed among the organizations that implement this program (financial intermediaries) that this measurement was a workable

alternative for accomplishing the objectives of the legislation. The two-tiered credit component in the legislation should be viewed as a compromise between A.I.D. and those who implement poverty lending programs.

The Subcommittee is also pleased that the Agency for International Development has indicated its willingness to explore the idea of holding a series of regional workshops on microenterprise development. The Subcommittee encourages the Agency to include in these workshops opportunities for training Agency personnel and United States and indigenous private and voluntary organizations in activities designed to reach the poorest of the poor.

The Subcommittee is aware that A.I.D. did not want a formal, congressional authorization for its microenterprise development program. The Administrator of A-PRE, Henrietta Holsman Fore, note at the February 1991 hearing that "given A.I.D.'s strong microenterprise program and continued commitment to microenterprise, I question the need for any legislation on microenterprise." That comment left the Subcommittee hopeful that A.I.D.'s upcoming Action Plan would incorporate the many agreed upon goals from the above-referenced consultations.

The Subcommittee regrets to report that the Action Plan does not specifically address the needs of the poorest of the poor, contributing to concerns by Members of the Subcommittee and poverty advocates as to A.I.D.'s commitment to work with and for the poorest among us. The Subcommittee believes, therefore, that this legislation is not only useful, but necessary to achieve the goal of delivering the potential of economic empowerment through microenterprise.

In the future, the Subcommittee hopes that discussions regarding microenterprise will move away from the debate on loan size and move ahead to a discussion of the global economic policies of a growing informal sector.

Following is a summary of the provisions of the bill reported by the House Foreign Affairs Subcommittee on International Economic Policy and Trade.

Section 1. Short Title

Section one states that the title be cited as the "Microenterprise Development Act of 1991."

Section 2. Findings

This section provides the findings of the Subcommittee which support the need for a microenterprise development program.

Section 3. Purposes.

This section outlines the three essential purposes of this bill. (1) to provide for the continuation and expansion of the commitment of the Agency for International Development to microenterprise Development; (2) to increase the amount of assistance going to credit activities designed to reach the poorest sector in developing countries; and (3) to increase the percentage of credit assistance to women beneficiaries.

Section 4. Assistance for Microenterprise Development.

Section 4 (a) formally authorizes a Microenterprise Development Program within the Agency for International Development and outlines the four components which should be included in such a program: (1) building institutional capacity, (2) providing credit, (3) furnishing training and technical assistance, and (4) policy reform.

Section 4 (b) outlines the criteria by which the Agency for International Development shall determine the financial intermediaries that will receive assistance from A.I.D. to implement the Agency's microenterprise program.

Section 4 (c) directs the Agency to target a significant portion of its funding to intermediaries which are most able to address the credit requirements of the poorest of the poor and women.

Section 4 (d) requires the Agency to include in its annual report its strategy for increasing access of women in developing countries to microenterprise activities. The Agency is required to consult with the Office of Women in Development within A.I.D. in developing this strategy.

Section 5. Funding Sources.

Section five enumerates the possible sources of funds for the

Agency's microenterprise program. The provisions regarding local currency comport with the legislation within P.L. 480.

Section 6. Funding Levels for Fiscal Years 1992 and 1993.

Section 6 (a) authorizes $85 million for each fiscal year 1992 and 1993 for the Agency for International Development to carry out its microenterprise development program.

Section 6 (b) directs the Agency to provide at least $20 million in fiscal year 1992 and at least $30 million in fiscal year 1993 for loans of $300 or less, or for institutions that, in turn, provide loans in this range. The Subcommittee believes that reviewing the aggregate of loans of $300 or less is an imperfect mechanism to ascertain whether or not A.I.D. is able to address the microenterprise needs of the poorest of the poor. However, in the absence of a more precise measurement, it was agreed among the organizations that implement this program (financial intermediaries) that this measurement was a workable alternative for accomplishing the objectives of the legislation.

Section 6 (c) states that local currency may be used in place of an equivalent amount of dollars.

Section 7. Monitoring of Microenterprise Assistance Activities.

Requires the Agency for International Development to develop a monitoring system to evaluate the Agency's effectiveness in achieving the goals of the legislation outlined in section 3.

Section 8. Reports to Congress.

Directs the Administrator of the Agency for International Development to report to the Congress annually on the Agency's microenterprise activities and on the Agency's strategy to provide credit to the poorest of the poor.

4/29/91

RECOMMENDATIONS OF THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE FOR THE FOREIGN AID BILL

1 SEC. . PRIVATE SECTOR REVOLVING FUND.

2 Section 108 of the Foreign Assistance Act of 1961 is
3 amended by adding at the end the following:

4 ``(j) The authority under this section to furnish
5 assistance or issue loans or guarantees terminates on
6 September 30, 1991.''.

HIG

1 SEC. _____. HOUSING GUARANTEES.

2 Title III of chapter 2 of part I of the Foreign
3 Assistance Act of 1961 is amended by striking sections 221,
4 222, 222A, and 223 and inserting the following:

5 ``SEC. 221. HOUSING AND URBAN DEVELOPMENT GUARANTEE PROGRAM.

6 ``(a) FINDINGS AND POLICY.--The Congress finds that--

7 ``(1) shelter and other essential urban development
8 services are among the most fundamental of human needs;

9 ``(2) while most financing for urban services must
10 come from domestic resources, carefully designed programs
11 involving United States capital and expertise can
12 increase the availability of domestic financing for
13 improved shelter and related services for low-income
14 people by demonstrating to local entrepreneurs and
15 institutions that providing urban services can be
16 financially viable;

17 ``(3) particular attention should be given to
18 programs which will support pilot projects for low-cost
19 shelter and other urban services or which will have a
20 maximum demonstration impact on local institutions and
21 national policy; and

22 ``(4) the long run goal of all such programs should
23 be to develop domestic capabilities and to stimulate
24 local credit institutions to make available domestic
25 capital and other management and technological resources

1 required for effective programs and policies relating to
2 low-cost shelter and other urban services.
3 ``(b) GUARANTEE AUTHORITY.--To carry out the policies
4 expressed in subsection (a), the President is authorized to
5 issue guarantees to eligible investors assuring against
6 losses incurred in connection with loans made for projects
7 that meet the criteria set forth in subsection (a) and that
8 promote the policy set forth in in section 102. Each
9 guarantee issued under this subsection shall guarantee 100
10 percent of the principal and interest payable on such loans.
11 ``(c) TERMS AND CONDITIONS.--The President may issue
12 regulations from time to time with regard to--
13 ``(1) the terms and conditions on which guarantees
14 will be issued under this section; and
15 ``(2) the eligibility of lenders.
16 ``(d) FOCUS OF ACTIVITIES.--Activities carried out under
17 this section shall be directed to the shelter and urban
18 services needs of the poor, including--
19 ``(1) projects which provide--
20 ``(A) improved home sites to poor families on
21 which to build shelter, and
22 ``(B) related services;
23 ``(2) projects comprised of expandable core shelter
24 units on serviced sites;
25 ``(3) slum upgrading projects designed to conserve

1 and improve existing shelter;

2 ``(4) shelter projects for low income people designed

3 for demonstration or institution building purposes;

4 ``(5) community facilities and services in support of

5 projects authorized under this section to improve urban

6 services; and

7 ``(6) other urban services of particular importance

8 to the needs of the poor.

9 ``(e) INTEREST RATE ON GUARANTEED INVESTMENTS.--In the

10 case of any loan investment guaranteed under this section,

11 the President shall prescribe the maximum rate of interest

12 allowable to the eligible investor. The maximum allowable

13 rate of interest under this subsection shall be prescribed by

14 the President as of the date the project covered by the

15 investment is officially authorized and, prior to the

16 execution of the contract, the President may amend such rate

17 at his discretion, consistent with the provisions of this

18 subsection.

19 ``(f) LIMITATION ON GUARANTEES FOR EACH COUNTRY.--The

20 face value of guarantees issued under this section in any

21 fiscal year with respect to any country may not exceed

22 $50,000,000.

23 ``(g) CEILING ON AVERAGE FACE VALUE.--The average face

24 value of guarantees issued under this section in any fiscal

25 year may not exceed $25,000,000.

1 ``(h) GUARANTEE CEILING.--The total principal amount of
2 guarantees issued under this section (or under the former
3 guarantee authority of section 222 of this Act or predecessor
4 housing guarantee authorities) which are outstanding at any
5 one time may not exceed $3,400,000,000.
6 ``(i) MAINTENANCE OF PROGRAM LEVEL.--The principal amount
7 of guarantees issued under this section for each fiscal year
8 shall be comparable to the total principal amount of such
9 guarantees issued for fiscal year 1984, subject to dollar
10 limitations on the issuance of guarantees under this section
11 which are contained in subsection (h) and subject to
12 subsection (j).
13 ``(j) APPROPRIATIONS ACTION REQUIRED.--New credit
14 authority provided for in this section may be exercised only
15 to such extent or in such amount as is provided in advance in
16 an appropriation Act.
17 ``(k) CERTAIN LOSSES NOT COVERED BY GUARANTEES.--No
18 payment may be made under any guarantee issued under this
19 section (or the former guarantee authorities of section 222
20 or 222A of this Act or predecessor guarantee authorities) for
21 any loss arising out of fraud or misrepresentation for which
22 the party seeking payment is responsible.
23 ``(l) FEES TO BE CHARGED.--A fee shall be charged for
24 each guarantee issued under this section in an amount to be
25 determined by the Administrator, In the event the fee to be

1 charged for such type guarantee is reduced, fees to be paid
2 under existing contracts for the same type of guarantee may
3 be similarly reduced.
4 ``(m) USE OF FEES.--All fees collected in connection with
5 guarantees issued under this section (or under the former
6 guarantee authorities of section 222 or 222A of this Act or
7 predecessor guarantee authorities) shall be available to
8 offset the cost of guarantee obligations under this section.
9 ``(n) FINANCING ACCOUNT.--All of the fees referred to in
10 this section, together with earnings on those fees and other
11 income arising from guarantee operations under this section
12 (or under the former guarantee authorities of section 222 or
13 222A of this Act or predecessor guarantee authorities), shall
14 be held in a financing account maintained in the Treasury of
15 the United States. All funds in such account may be invested
16 in obligations of the United States. Any interest or other
17 receipts derived from such investments shall be credited to
18 such account and may be used for the purposes specified in
19 subsection (m).
20 ``(o) DISCHARGE OF LIABILITIES.--Any payments made to
21 discharge liabilities under guarantees issued under this
22 section (or under the former guarantee authorities of section
23 222 or 222A of this Act or predecessor guarantee authorities)
24 shall be paid--
25 ``(1) first, out of fees referred to in subsection

1 (m); and

2 ``(2) then, out of funds made available pursuant to

3 subsection (q).

4 ``(p) FULL FAITH AND CREDIT.--All guarantees issued under

5 this section (or under the former guarantee authorities of

6 section 222 or 222A of this Act or predecessor guarantee

7 authorities) shall constitute obligations, in accordance with

8 the terms of such guarantees, of the United States of America

9 and the full faith and credit of the United States of America

10 is hereby pledged for the full payment and performance of

11 such obligations.

12 ``(q) AUTHORIZATION OF APPROPRIATIONS.--

13 ``(1) FOR GUARANTEE OBLIGATIONS.--There are

14 authorized to be appropriated to the President not more

15 than $2,000,000 for fiscal year 1992 and not more than

16 $8,100,000 for fiscal year 1993 to pay the cost of

17 guarantee obligations under this section with a face

18 value of $150,000,000 for each such fiscal year. Funds

19 made available under this paragraph may be used only

20 after all fees referred to in subsection (m) have been

21 used.

22 ``(2) FOR ADMINISTRATIVE EXPENSES.--There are

23 authorized to be appropriated to the President not more

24 than $8,500,000 for each of the fiscal years 1992 and

25 1993 for administrative expenses necessary to carry out

1 this section.

2 ``(r) ELIGIBLE INVESTORS.--As used in this section, the
3 term `eligible investor' has the same meaning that term is
4 given in section 240.

5 `(s) EXPIRATION OF AUTHORITY.--The authority of this
6 section shall continue through September 30, 1993.

7 `(t) GUARANTEES UNDER FORMER AUTHORITIES.--Guarantees
8 committed, authorized, or outstanding under the guarantee
9 authorities formerly contained in section 222 or 222A of this
10 Act (or predecessor guarantee authorities) shall continue
11 subject to provisions of law originally applicable to those
12 guarantees.

1 SEC. ____. OVERSEAS PRIVATE INVESTMENT CORPORATION.

2 Title IV of chapter 2 of part I of the Foreign Assistance
3 Act of 1961 is amended to read as follows:

4 ``TITLE IV--OVERSEAS PRIVATE INVESTMENT CORPORATION

5 ``SEC. 231. PURPOSE AND POLICY.

6 ``(a) PURPOSE.--The Overseas Private Investment
7 Corporation shall be an agency of the United States under the
8 foreign policy guidance of the Secretary of State. The
9 purpose of the Corporation is to mobilize and facilitate the
10 participation of United States private capital and skills in
11 the economic and social development of less developed
12 friendly countries and areas, thereby complementing the
13 development assistance objectives of the United States.

14 ``(b) DEVELOPMENT AND PER CAPITA INCOME CRITERIA.--The
15 Corporation, in determining whether to provide insurance,
16 reinsurance, guarantees, or financing for a project, shall
17 especially--

18 ``(1) be guided by the economic and social
19 development impact and benefits of such a project and the
20 ways in which such a project complements, or is
21 compatible with, other development assistance programs or

1 projects of the United States or other donors; and
2 ``(2) give preferential consideration to investment
3 projects in less developed countries that have per capita
4 incomes of $1,091 or less in 1989 United States dollars,
5 and restrict its activities with respect to investment
6 projects in less developed countries that have per capita
7 incomes of $4,734 or more in 1989 United States dollars
8 (other than countries designated as beneficiary countries
9 under section 212 of the Caribbean Basin Economic
10 Recovery Act (19 U.S.C. 2702) and eligible East European
11 countries (within the meaning of the Support for East
12 European Democracy (SEED) Act of 1989).
13 ``(c) GUIDELINES FOR ACTIVITIES OF OPIC.--In carrying out
14 its purpose, the Corporation, utilizing broad criteria, shall
15 undertake--
16 ``(1) to conduct insurance, reinsurance, guarantee,
17 and financing operations on a self-sustaining basis,
18 taking into account in its guarantee and financing
19 operations the economic and financial soundness of
20 projects;
21 ``(2) to utilize private credit and investment
22 institutions and the Corporation's guarantee authority as
23 the principal means of mobilizing capital investment
24 funds;
25 ``(3) to broaden private participation and revolve

1 its funds through selling its direct investments to
2 private investors whenever it can appropriately do so on
3 satisfactory terms;
4 ``(4) to conduct its insurance operations with due
5 regard to principles of risk management, including
6 efforts to share its insurance risks and reinsurance
7 risks;
8 ``(5) to consider in the conduct of its operations
9 the extent to which the governments of less developed
10 countries are receptive to private enterprise, domestic
11 and foreign, and their willingness and ability to
12 maintain conditions which enable private enterprise to
13 make its full contribution to the development process;
14 ``(6) to foster private initiative and competition
15 and discourage monopolistic practices;
16 ``(7) to further to the greatest degree possible, in
17 a manner consistent with its goals, the
18 balance-of-payments and employment objectives of the
19 United States;
20 ``(8) to conduct its activities in consonance with
21 the activities of the administering agency and the
22 international trade, investment, and financial policies
23 of the United States Government, and to seek to support
24 those developmental projects having positive trade
25 benefits for the United States; and

1 ``(9) to advise and assist, within its field of
2 competence, interested agencies of the United States and
3 other organizations, both public and private, national
4 and international, with respect to projects and programs
5 relating to the development of private enterprise in less
6 developed countries and areas.
7 ``SEC. 232. STOCK OF THE CORPORATION; ORGANIZATION AND
8 MANAGEMENT.
9 ``(a) STOCK.--The Secretary of the Treasury shall hold
10 the capital stock of the Corporation.
11 ``(b) STRUCTURE OF THE CORPORATION.--The Corporation
12 shall have a Board of Directors, a President, an Executive
13 Vice President, and such other officers and staff as the
14 Board of Directors may determine.
15 ``(c) BOARD OF DIRECTORS.--
16 ``(1) IN GENERAL.--All powers of the Corporation
17 shall vest in and be exercised by or under the authority
18 of its Board of Directors (hereinafter in this title
19 referred to as `the Board') which shall consist of 15
20 Directors (including the Chair, Vice Chair, and the
21 President of the Corporation), with 8 Directors
22 constituting a quorum for the transaction of business.
23 ``(2) COMPOSITION OF THE BOARD.--
24 ``(A) CHAIR.--The Chair of the Board shall be the
25 Administrator, ex officio.

1 (B) VICE CHAIR.--The Vice Chair of the Board
2 shall be the United States Trade Representative, ex
3 officio, or, if so designated by the United States
4 Trade Representative, the Deputy United States Trade
5 Representative.
6 ``(C) PRESIDENT OF THE CORPORATION.--The
7 President of the Corporation shall serve as a
8 Director, ex officio.
9 ``(D) PUBLIC SECTOR DIRECTORS.--(i) In addition
10 to the directors provided for in subparagraphs (A),
11 (B), and (C), four Directors who are officers or
12 employees of the Government of the United States,
13 including an officer or employee of the Department of
14 Labor, shall be designated by and shall serve at the
15 pleasure of the President of the United States.
16 ``(ii) The Directors designated under this
17 subparagraph shall receive no additional compensation
18 by virtue of their service as such a Director.
19 ``(E) PRIVATE SECTOR DIRECTORS.--(i) Eight
20 Directors who are not officers or employees of the
21 Government of the United States shall be appointed by
22 the President of the United States, by and with the
23 advice and consent of the Senate.
24 Of these, at least--
25 ``(I) two shall be experienced in small

1 business
2 (II) one shall be experienced in organized
3 labor, and
4 (III) one shall be experienced in
5 cooperatives.
6 (ii) Each Director appointed under this
7 subparagraph shall be appointed for a term of not
8 more than 3 years. The terms of not more than 3 such
9 Directors shall expire in any 1 year. Such Directors
10 shall serve until their successors are appointed and
11 qualified and may be reappointed to subsequent terms.
12 (iii) Each Director appointed under this
13 subparagraph shall be compensated at the daily
14 equivalent of the annual rate of pay in effect for
15 level IV of the Executive Schedule under section 5315
16 of title 5, United States Code, for each day
17 (including travel time) during which such Director is
18 actually engaged in the business of the Corporation,
19 and may be paid travel or transportation expenses to
20 the extent authorized for employees serving
21 intermittently in the Government service under
22 section 5703 of title 5, United States Code. Any such
23 Director may waive any such compensation.
24 (d) APPOINTMENT OF THE PRESIDENT.--The President of the
25 Corporation shall be appointed by the President of the United

1 States, by and with the advice and consent of the Senate, and
2 shall serve at the pleasure of the President. In making such
3 appointment, the President shall take into account the
4 private business experience of the appointee. The President
5 of the Corporation shall be its Chief Executive Officer and
6 shall be responsible for the operations and management of the
7 Corporation, subject to bylaws and policies established by
8 the Board.

9 ``(e) OFFICERS AND STAFF.--

10 ``(1) EXECUTIVE VICE PRESIDENT.--The Executive Vice
11 President of the Corporation shall be appointed by the
12 President of the United States, by and with the advice
13 and consent of the Senate, and shall serve at the
14 pleasure of the President.

15 ``(2) OTHER OFFICERS AND STAFF.--(A) The Corporation
16 may appoint such other officers and such employees
17 (including attorneys) and agents as the Corporation
18 considers appropriate.

19 ``(B) The officers, employees, and agents appointed
20 under this subsection shall have such functions as the
21 Corporation may determine.

22 ``(C) Of the officers, employees, and agents
23 appointed under this paragraph, 20 may be appointed
24 without regard to the provisions of title 5, United
25 States Code, governing appointments in the competitive

1 service, and may be compensated without regard to the
2 provisions of chapter 51 or subchapter III of chapter 53
3 of such title.
4 (D) Under such regulations as the President may
5 prescribe, any individual appointed under subparagraph
6 (C) may be entitled, upon removal (except for cause) from
7 the position to which the appointment was made, to
8 reinstatement to the position occupied by that individual
9 at the time of appointment or to a position of comparable
10 grade and pay.
11 SEC. 233. INVESTMENT INSURANCE, GUARANTEES, FINANCING, AND
12 OTHER PROGRAMS.
13 ``(a) INVESTMENT INSURANCE.--
14 ``(1) RISKS FOR WHICH INSURANCE ISSUED.--The
15 Corporation is authorized to issue insurance, upon such
16 terms and conditions as the Corporation may determine, to
17 eligible investors assuring protection in whole or in
18 part against any or all of the following risks with
19 respect to projects which the Corporation has approved:
20 ``(A) Inability to convert into United States
21 dollars other currencies, or credits in such
22 currencies, received as earnings or profits from the
23 approved project, as repayment or return of the
24 investment in the project, in whole or in part, or as
25 compensation for the sale or disposition of all or

1 any part of the investment.

2 (B) Loss of investment, in whole or in part, in

3 the approved project due to expropriation or

4 confiscation by action of a foreign government.

5 (C) Loss due to war, revolution, insurrection,

6 or civil strife.

7 (D) Loss due to business interruption caused by

8 any of the risks set forth in subparagraphs (A), (B),

9 and (C).

10 ``(2) RISK SHARING ARRANGEMENTS WITH FOREIGN

11 GOVERNMENTS AND MULTILATERAL ORGANIZATIONS.--Recognizing

12 that major private investments in less developed friendly

13 countries or areas are often made by enterprises in which

14 there is multinational participation, including

15 significant United States private participation, the

16 Corporation may make arrangements with foreign

17 governments (including agencies, instrumentalities, and

18 political subdivisions thereof) and with multilateral

19 organizations and institutions for sharing liabilities

20 assumed under investment insurance for such investments

21 and may, in connection with such arrangements, issue

22 insurance to investors not otherwise eligible for

23 insurance under this title, except that--

24 ``(A) liabilities assumed by the Corporation

25 under the authority of this paragraph shall be

1 consistent with the purposes of this title, and
2 `(B) the maximum share of liabilities so assumed
3 shall not exceed the proportionate participation by
4 eligible investors in the project.
5 ``(3) MAXIMUM CONTINGENT LIABILITY WITH RESPECT TO
6 SINGLE INVESTOR.--Not more than 10 percent of the maximum
7 contingent liability of investment insurance which the
8 Corporation is permitted to have outstanding under
9 section 235(a)(1) shall be issued to a single investor.
10 ``(4) REPORTS ON INSURANCE ISSUED FOR BUSINESS
11 INTERRUPTION OR CIVIL STRIFE.--(A) In each instance in
12 which a significant expansion is proposed in the type of
13 risk to be insured under the definition of `civil strife'
14 or `business interruption', the Corporation shall, at
15 least 60 days before such insurance is issued, submit to
16 the Committee on Foreign Relations of the Senate and the
17 Committee on Foreign Affairs of the House of
18 Representatives a report with respect to such insurance.
19 ``(B) Each such report shall include a thorough
20 analysis of the risks to be covered, anticipated losses,
21 and proposed rates and reserves and, in the case of
22 insurance for loss due to business interruption, an
23 explanation of the underwriting basis upon which the
24 insurance is to be offered.
25 (C) Any such report with respect to insurance for

1 loss due to business interruption shall be considered in
2 accordance with the procedures applicable to
3 reprogramming notifications pursuant to section 634A.
4 ``(b) INVESTMENT GUARANTEES.--
5 ``(1) AUTHORITY.--The Corporation is authorized to
6 issue to eligible investors guarantees of loans and other
7 investments made by such investors assuring against loss
8 due to such risks and upon such terms and conditions as
9 the Corporation may determine, subject to paragraphs (2),
10 (3), and (4).
11 ``(2) GUARANTEES ON OTHER THAN LOAN INVESTMENTS.--A
12 guarantee issued under paragraph (1) on other than a loan
13 investment may not exceed 75 percent of such investment.
14 ``(3) LIMIT ON AMOUNT OF INVESTMENT
15 GUARANTEED.--Except for loan investments for credit
16 unions made by eligible credit unions or credit union
17 associations, the aggregate amount of investment
18 (exclusive of interest and earnings) for which guarantees
19 are issued under paragraph (1) with respect to any
20 project shall not exceed, at the time of issuance of any
21 such guarantee, 75 percent of the total investment
22 committed to any such project as determined by the
23 Corporation. Such determination by the Corporation shall
24 be conclusive for purposes of the Corporation's authority
25 to issue any such guarantee.

1 (4) MAXIMUM CONTINGENT LIABILITY WITH RESPECT TO
2 SINGLE INVESTOR.--Not more than 15 percent of the maximum
3 contingent liability of investment guarantees which the
4 Corporation is permitted to have outstanding under
5 section 235(a)(2) may be issued to a single investor.
6 ``(c) DIRECT INVESTMENT.--
7 ``(1) IN GENERAL.--The Corporation is authorized to
8 make loans in United States dollars, repayable in
9 dollars, and to make loans in foreign currencies, to
10 firms privately owned or of mixed private and public
11 ownership, upon such terms and conditions as the
12 Corporation may determine. Loans may be made under this
13 subsection only for projects that are sponsored by or
14 significantly involve United States small business or
15 cooperatives.
16 ``(2) USE OF LOAN FOR NEW TECHNOLOGIES, PRODUCTS, OR
17 SERVICES.--The Corporation may designate up to 25 percent
18 of any loan under this subsection for use in the
19 development or adaptation in the United States of new
20 technologies or new products or services that are to be
21 used in the project for which the loan is made and are
22 likely to contribute to the economic or social
23 development of less developed countries.
24 ``(d) INVESTMENT ENCOURAGEMENT.--The Corporation is
25 authorized to initiate and support through financial

1 participation, incentive grant, or otherwise, and on such
2 terms and conditions as the Corporation may determine, the
3 identification, assessment, surveying, and promotion of
4 private investment opportunities, using wherever feasible and
5 effective the facilities of private investors, except that
6 the Corporation shall not finance any survey to ascertain the
7 existence, location, extent, or quality of oil or gas
8 resources.

9 ``(e) SPECIAL ACTIVITIES.--The Corporation is authorized
10 to administer and manage special projects and programs,
11 including programs of financial and advisory support, which
12 provide private technical, professional, or managerial
13 assistance in the development of human resources, skills,
14 technology, capital savings, intermediate financial and
15 investment institutions, and cooperatives. The funds for
16 these projects and programs may, with the Corporation's
17 concurrence, be transferred to it for such purposes under the
18 authority of section 632(a) or from other sources, public or
19 private.

20 ``(f) OTHER INSURANCE FUNCTIONS.--

21 ``(1) IN GENERAL.--The Corporation is authorized--

22 ``(A) to make and carry out contracts of
23 insurance or reinsurance, or agreements to associate
24 or share risks, with insurance companies, financial
25 institutions, any other persons, or groups thereof,

1 and

2 `(B) to employ such insurance companies,

3 financial institutions, other persons, or groups,

4 where appropriate, as its agent, or to act as their

5 agent, in the issuance and servicing of insurance,

6 the adjustment of claims, the exercise of subrogation

7 rights, the ceding and accepting of reinsurance, and

8 in any other matter incident to an insurance

9 business,

10 except that such agreements and contracts shall be

11 consistent with the purposes of the Corporation set forth

12 in section 231 and shall be on equitable terms.

13 ``(2) RISK-SHARING AGREEMENTS.--The Corporation is

14 authorized to enter into pooling or other risk-sharing

15 agreements with multinational insurance or financing

16 agencies or groups of such agencies.

17 ``(3) OWNERSHIP INTEREST IN RISK-SHARING

18 ENTITIES.--The Corporation is authorized to hold an

19 ownership interest in any association or other entity

20 established for the purposes of sharing risks under

21 investment insurance.

22 ``(4) REINSURANCE OF CERTAIN LIABILITIES.--The

23 Corporation is authorized to issue, upon such terms and

24 conditions as it may determine, reinsurance of

25 liabilities assumed by other insurers or groups thereof

1 with respect to risks referred to in subsection (a)(1).
2 ``(5) LIMITATION ON REINSURANCE.--The amount of
3 reinsurance of liabilities under this title which the
4 Corporation may issue shall not in the aggregate exceed
5 at any one time an amount equal to the amount authorized
6 for the maximum contingent liability outstanding at any
7 one time under section 235(a)(1). All reinsurance issued
8 by the Corporation under this subsection shall require
9 that the reinsured party retain for his or her own
10 account specified portions of liability, whether first
11 loss or otherwise.
12 ``(g) EQUITY FINANCE PROGRAM.--
13 ``(1) AUTHORITY FOR EQUITY FINANCE PROGRAM.--The
14 Corporation is authorized to establish an equity finance
15 program under which it may, on the limited basis
16 prescribed in paragraphs (2) through (4), purchase,
17 invest in, or otherwise acquire equity or quasi-equity
18 securities of any firm or entity, upon such terms and
19 conditions as the Corporation may determine, for the
20 purpose of providing capital for any project which is
21 consistent with the provisions of this title, except
22 that--
23 ``(A) the aggregate amount of the Corporation's
24 equity investment with respect to any project shall
25 not exceed 30 percent of the aggregate amount of all

1 equity investment made with respect to such project
2 at the time that the Corporation's equity investment
3 is made, except for securities acquired through the
4 enforcement of any lien, pledge, or contractual
5 arrangement as a result of a default by any party
6 under any agreement relating to the terms of the
7 Corporation's investment; and
8 (B) the Corporation's equity investment under
9 this subsection with respect to any project, when
10 added to any other investments made or guaranteed by
11 the Corporation under subsection (b) or (c) with
12 respect to such project, shall not cause the
13 aggregate amount of all such investment to exceed, at
14 the time any such investment is made or guaranteed by
15 the Corporation, 75 percent of the total investment
16 committed to such project as determined by the
17 Corporation.
18 The determination of the Corporation under subparagraph
19 (B) shall be conclusive for purposes of the Corporation's
20 authority to make or guarantee any such investment.
21 "(2) ADDITIONAL CRITERIA.--In making investment
22 decisions under this subsection, the Corporation shall
23 give preferential consideration to projects sponsored by
24 or significantly involving United States small business
25 or cooperatives. The Corporation shall also consider the

1 extent to which the Corporation's equity investment will
2 assist in obtaining the financing required for the
3 project.
4 ``(3) DISPOSITION OF EQUITY INTEREST.--Taking into
5 consideration, among other things, the Corporation's
6 financial interests and the desirability of fostering the
7 development of local capital markets in less developed
8 countries, the Corporation shall endeavor to dispose of
9 any equity interest it may acquire under this subsection
10 within a period of 10 years from the date of acquisition
11 of such interest.
12 ``(4) CONSULTATIONS WITH CONGRESS.--The Corporation
13 shall consult annually with the Committee on Foreign
14 Affairs of the House of Representatives and the Committee
15 on Foreign Relations of the Senate on the implementation
16 of the equity finance program established under this
17 subsection.
18 ``SEC. 233A. ENHANCING PRIVATE POLITICAL RISK INSURANCE
19 INDUSTRY.
20 ``(a) COOPERATIVE PROGRAMS.--In order to encourage
21 greater availability of political risk insurance for eligible
22 investors by enhancing the private political risk insurance
23 industry in the United States, and to the extent consistent
24 with this title, the Corporation shall undertake programs of
25 cooperation with such industry, and in connection with such

1 programs may engage in the following activities:
2 ``(1) Utilizing its statutory authorities, encourage
3 the development of associations, pools, or consortia of
4 United States private political risk insurers.
5 ``(2) Share insurance risks (through coinsurance,
6 contingent insurance, or other means) in a manner that is
7 conducive to the growth and development of the private
8 political risk insurance industry in the United States.
9 ``(3) Notwithstanding section 237(e), upon the
10 expiration of insurance provided by the Corporation for
11 an investment, enter into risk-sharing agreements with
12 United States private political risk insurers to insure
13 any such investment; except that, in cooperating in the
14 offering of insurance under this paragraph, the
15 Corporation shall not assume responsibility for more than
16 50 percent of the insurance being offered in each
17 separate transaction.
18 ``(b) ADVISORY GROUP.--
19 ``(1) ESTABLISHMENT AND MEMBERSHIP.--The Corporation
20 shall establish a group to advise the Corporation on the
21 development and implementation of the cooperative
22 programs under this section. The group shall be appointed
23 by the Board and shall be composed of up to 12 members,
24 including the following:
25 ``(A) Up to 7 persons from the private political

1 risk insurance industry, of whom no fewer than 2
2 shall represent private political risk insurers, 1
3 shall represent private political risk reinsurers,
4 and 1 shall represent insurance or reinsurance
5 brokerage firms.
6 ``(B) Up to 4 persons, other than persons
7 described in subparagraph (A), who are purchasers of
8 political risk insurance.
9 ``(2) FUNCTIONS.--The Corporation shall call upon
10 members of the advisory group, either collectively or
11 individually, to advise it regarding the capability of
12 the private political risk insurance industry to meet the
13 political risk insurance needs of United States
14 investors, and regarding the development of cooperative
15 programs to enhance such capability.
16 ``(3) MEETINGS.--The advisory group shall meet at
17 least annually. The Corporation may from time to time
18 convene meetings of selected members of the advisory
19 group to address particular questions requiring their
20 specialized knowledge.
21 ``(4) FEDERAL ADVISORY COMMITTEE ACT.--The advisory
22 group shall not be subject to the Federal Advisory
23 Committee Act (5 U.S.C. App.).
24 `SEC. 234. GUIDELINES AND REQUIREMENTS FOR OPIC SUPPORT.
25 `(a) DEVELOPMENT IMPACT PROFILE.--In order to carry out

1 the policy set forth in section 231(b)(1), the Corporation
2 shall prepare and maintain for each investment project it
3 insures, finances, or reinsures, a development impact profile
4 consisting of data appropriate to measure the projected and
5 actual effects of such project on development. Criteria for
6 evaluating projects shall be developed in consultation with
7 the administering agency.
8 (b) SMALL BUSINESS DEVELOPMENT.--
9 ``(1) BROADENED PARTICIPATION BY SMALL
10 BUSINESSES.--The Corporation shall undertake, in
11 cooperation with appropriate departments, agencies, and
12 instrumentalities of the United States as well as private
13 entities and others, to broaden the participation of
14 United States small business, cooperatives, and other
15 small United States investors in the development of small
16 private enterprise in less developed friendly countries
17 or areas.
18 ``(2) PREFERENTIAL CONSIDERATION.--The Corporation
19 shall undertake, to the maximum degree possible
20 consistent with its purposes--
21 ``(A) to give preferential consideration in its
22 investment insurance, reinsurance, and guarantee
23 activities to investment projects sponsored by or
24 involving United States small business; and
25 ``(B) to maintain the proportion of projects

1 sponsored by or significantly involving United States
2 small business at not less than 30 percent of all
3 projects insured, reinsured, or guaranteed by the
4 Corporation.
5 ``(3) ALLOCATION OF INCOME.--The Corporation shall
6 allocate up to 50 percent of its annual net income, after
7 making suitable provision for transfers and additions to
8 reserves, to assist and facilitate the development of
9 projects consistent with the provisions of this
10 subsection. Such funds may be expended notwithstanding
11 the requirements of section 231(c)(1), on such terms and
12 conditions as the Corporation may determine through
13 loans, grants, or other programs authorized by sections
14 233 and 233A.
15 ``(c) ENVIRONMENTAL CONSIDERATIONS.--
16 ``(1) ENVIRONMENTAL, HEALTH, OR SAFETY HAZARD.--The
17 Corporation shall refuse to insure, reinsure, guarantee,
18 or finance any investment in connection with a project
19 which the Corporation determines will pose an
20 unreasonable or major environmental, health, or safety
21 hazard, or will result in the significant degradation of
22 national parks or similar protected areas.
23 ``(2) RESOURCE SUSTAINABLE DEVELOPMENT.--The
24 Corporation, in determining whether to provide insurance,
25 reinsurance, guarantees, or financing for a project,

1 shall ensure that the project is consistent with the
2 objectives set forth in sections 117 (relating to
3 environmental and natural resources), 118 (relating to
4 tropical forests), and 119 (relating to endangered
5 species).
6 ``(3) ENVIRONMENTAL IMPACT STATEMENTS AND
7 ASSESSMENTS.--The requirements of section 117(c) relating
8 to environmental impact statements and environmental
9 assessments shall apply to any investment which the
10 Corporation insures, reinsures, guarantees, or finances
11 under this title in connection with a project in a
12 country.
13 ``(4) NOTIFICATION OF FOREIGN GOVERNMENTS.--Before
14 finally providing insurance, reinsurance, guarantees, or
15 financing under this title for any environmentally
16 sensitive investment in connection with a project in a
17 country, the Corporation shall notify appropriate
18 government officials of that country of--
19 ``(A) all guidelines and other standards adopted
20 by the International Bank for Reconstruction and
21 Development and any other international organization
22 that relate to the public health or safety or the
23 environment and are applicable to the project; and
24 ``(B) to the maximum extent practicable, any
25 restriction, under any law of the United States, that

1 relates to public health or safety or the environment
2 and would apply to the project if the project were
3 undertaken in the United States.
4 The notification under the preceding sentence shall
5 include a summary of the guidelines, standards, and
6 restrictions referred to in subparagraphs (A) and (B)
7 and may include any environmental impact statement,
8 assessment, review, or study prepared with respect to the
9 investment pursuant to paragraph (3).
10 ``(5) CONSIDERATION OF COMMENTS RECEIVED.--Before
11 finally providing insurance, reinsurance, guarantees, or
12 financing for any investment subject to paragraph (4),
13 the Corporation shall take into account any comments it
14 receives on the project involved.
15 ``(d) WORKER RIGHTS.--.
16 ``(1) LIMITATION ON OPIC ACTIVITIES.--The Corporation
17 may insure, reinsure, guarantee, or finance a project
18 only if the country in which the project is to be
19 undertaken is taking steps to adopt and implement laws
20 that extend internationally recognized worker rights, as
21 defined in section 502(a)(4) of the Trade Act of 1974 (19
22 U.S.C. 2462(a)(4)), to workers in that country (including
23 any designated zone in that country).
24 ``(2) USE OF ANNUAL REPORTS ON WORKERS RIGHTS.--The
25 Corporation shall, in making its determinations under

1 paragraph (1), use the reports submitted to the Congress
2 pursuant to section 505(c) of the Trade Act of 1974 (19
3 U.S.C. 2465(c)).
4 ``(3) WAIVER.--Paragraph (1) shall not prohibit the
5 Corporation from providing any insurance, reinsurance,
6 guarantee, or financing with respect to a country if the
7 President determines that such activities by the
8 Corporation would be in the national economic interests
9 of the United States. Any such determination shall be
10 reported in writing to the Congress, together with the
11 reasons for the determination.
12 ``(e) HUMAN RIGHTS.--The Corporation shall take into
13 account in the conduct of its programs in a country, in
14 consultation with the Secretary of State, all available
15 information about observance of and respect for human rights
16 and fundamental freedoms in such country and the effect the
17 operation of such programs will have on human rights and
18 fundamental freedoms in such country. The provisions of
19 section 116 shall apply to any insurance, reinsurance,
20 guarantee, or financing provided by the Corporation for
21 projects in a country, except that in addition to the
22 exception (with respect to benefiting needy people) set forth
23 in subsection (a) of such section, the Corporation may
24 support a project if the national security interest so
25 requires.

1 (f) HARM TO EMPLOYMENT IN THE UNITED STATES.--
2 `(1) REPLACEMENT OF UNITED STATES PRODUCTION.--(A)
3 The Corporation shall refuse to insure, reinsure,
4 guarantee, or finance an investment if the Corporation
5 determines that such investment is likely to cause such
6 investor (or the sponsor of an investment project in
7 which such investor is involved) significantly to reduce
8 the number of the investor's or sponsor's employees in
9 the United States because the investor or sponsor is
10 replacing his or her United States production with
11 production from such investment, and the production from
12 such investment 'nvolves substantially the same product
13 for substantially the same market as the investor's or
14 sponsor's United States production.
15 ``(B) If the Corporation determines that an
16 investment is not likely to have the effects described in
17 subparagraph (A), the Corporation shall monitor
18 conformance with the representations made by the investor
19 on which the Corporation relied in making that
20 determination.
21 ``(2) REDUCTION OF EMPLOYEES IN THE UNITED
22 STATES.--The Corporation shall refuse to insure,
23 reinsure, guarantee, or finance an investment if the
24 Corporation determines that such investment is likely to
25 cause a significant reduction in the number of employees

1 in the United States.

2 ``(g) PERFORMANCE REQUIREMENTS.--The Corporation shall
3 refuse to insure, reinsure, guarantee, or finance an
4 investment which is subject to performance requirements which
5 would reduce substantially the positive trade benefits likely
6 to accrue to the United States from the investment.

7 ``(h) PROHIBITED TRADE PRACTICES.--

8 `(1) PAYMENTS TO VIOLATORS BARRED.--No payment may
9 be made under any insurance or reinsurance which is
10 issued under this title on or after April 24, 1978, for
11 any loss occurring with respect to a project, if the
12 preponderant cause of such loss was an act by the
13 investor seeking payment under this title, by a person
14 possessing majority ownership and control of the investor
15 at the time of the act, or by any agent of such investor
16 or controlling person, and a court of the United States
17 has entered a final judgment that such act constituted a
18 violation of section 30A of the Securities Exchange Act
19 of 1934 or section 104 of the Foreign Corrupt Practices
20 Act of 1977.

21 ``(2) REGULATIONS.--The Corporation shall have in
22 effect regulations setting forth appropriate conditions
23 under which any person who has been finally determined by
24 a court of the United States to have violated section 30A
25 of the Securities Exchange Act of 1934 or section 104 of

1 the Foreign Corrupt Practices Act of 1977 shall be
2 suspended, for a period of not more than 5 years, from
3 eligibility to receive any insurance, reinsurance,
4 guarantee, financing, or other financial support
5 authorized by this title, if that violation related to a
6 project insured, reinsured, guaranteed, financed, or
7 otherwise supported by the Corporation under this title.
8 ``(i) FRAUD OR MISREPRESENTATION.--No payment may be made
9 under any guarantee, insurance, or reinsurance issued under
10 this title for any loss arising out of fraud or
11 misrepresentation for which the party seeking payment is
12 responsible.
13 ``(j) PUBLIC HEARINGS.--The Board shall hold at least 1
14 public hearing each year in order to afford an opportunity
15 for any person to present views as to whether the Corporation
16 is carrying out its activities in accordance with section 231
17 and this section or whether any investment in a particular
18 country should have been or should be extended insurance,
19 reinsurance, guarantees, or financing under this title.
20 ``SEC. 235. ISSUING AUTHORITY, DIRECT INVESTMENT FUND, EQUITY
21 FUND, AND RESERVES.
22 ``(a) ISSUING AUTHORITY.--
23 ``(1) INSURANCE.--The maximum contingent liability
24 outstanding at any one time pursuant to insurance issued
25 under section 233(a) shall not exceed in the aggregate

1 $7,500,000,000.

2 (2) GUARANTEES.--(A) The maximum contingent

3 liability outstanding at any one time pursuant to

4 guarantees issued under section 233(b) shall not exceed

5 in the aggregate $2,500,000,000.

6 (B) Notwithstanding section 504(b) of the Federal

7 Credit Reform Act of 1990, the Corporation is authorized

8 to draw up to $1,500,000 from its noncredit account

9 revolving fund to pay for the estimated subsidy cost of a

10 program level for the loan guarantee program under

11 section 233(b) of $375,000,000 for fiscal year 1992. Such

12 funds shall remain available in fiscal year 1993.

13 ``(3) TERMINATION OF AUTHORITY.--The authority of

14 subsections (a) and (b) of section 233 shall continue

15 until September 30, 1992.

16 ``(b) DIRECT LOAN PROGRAM.--Notwithstanding section

17 504(b) of the Federal Credit Reform Act of 1990, the

18 Corporation is authorized to draw up to $4,800,000 from its

19 noncredit account revolving fund to pay for the estimated

20 subsidy cost of a program level for its direct loan program

21 under section 233(c) of $50,000,000 for fiscal year 1992.

22 Such amounts shall remain available for fiscal year 1993.

23 (c) CREATION OF FUND FOR ACQUISITION OF EQUITY.--The

24 Corporation is authorized to establish a revolving fund to be

25 available solely for the purposes specified in section 233(g)

1 and to make a one-time transfer to the fund of $35,000,000
2 (less amounts transferred to the fund before the effective
3 date of the [International Corporation Act of 1991]) from its
4 noncredit account revolving fund. The Corporation shall
5 transfer to the fund in each fiscal year all amounts received
6 by the Corporation during the preceding fiscal year as income
7 on securities acquired under section 233(g), and from the
8 proceeds on the disposition of such securities. Purchases of,
9 investments in, and other acquisitions of equity from the
10 fund are authorized for any fiscal year only to the extent or
11 in such amounts as are provided in advance in appropriations
12 Acts.
13 ``(d) INSURANCE RESERVES.--
14 ``(1) MAINTENANCE AND PURPOSES.--The Corporation
15 shall maintain insurance reserves. Such reserves shall be
16 available for the discharge of liabilities, as provided
17 in subsection (e), until such time as all such
18 liabilities have been discharged or have expired or until
19 all such reserves have been expended in accordance with
20 the provisions of this section.
21 ``(2) FUNDING.--The insurance reserves shall consist
22 of--
23 (A) any funds in the insurance reserves of the
24 Corporation on the effective date of the
25 [International Cooperation Act of 1991],

1 (B) amounts transferred to the reserves
2 pursuant to this title, and
3 (C) such sums as are appropriated pursuant to
4 subsection (f) of this section for such purposes.
5 (e) ORDER OF PAYMENTS TO DISCHARGE LIABILITIES.--Any
6 payment made to discharge liabilities under investment
7 insurance or reinsurance issued under section 233, under
8 similar predecessor guarantee authority, or under section
9 233A, shall be paid first out of the insurance reserve, as
10 long as such reserve remains available, and thereafter out of
11 funds made available pursuant to subsection (f) of this
12 section. Any payments made to discharge liabilities under
13 guarantees issued under section 233(b) shall be paid in
14 accordance with the Federal Credit Reform Act of 1990.
15 ``(f) AUTHORIZATION OF APPROPRIATIONS.--
16 ``(1) AUTHORIZATION.--Subject to paragraph (2), there
17 are authorized to be appropriated to the Corporation, to
18 remain available until expended, such amounts as may be
19 necessary from time to time to replenish or increase the
20 insurance reserves, to discharge the liabilities under
21 insurance or reinsurance, issued by the Corporation or
22 issued under predecessor guarantee authority, or to
23 discharge obligations of the Corporation purchased by the
24 Secretary of the Treasury pursuant to subsection (g).
25 ``(2) LIMITATION ON APPROPRIATIONS.--No appropriation

1 shall be made under paragraph (1) to augment the
2 insurance reserve until the amount of funds in the
3 insurance reserve is less than $25,000,000. Any
4 appropriations to augment the insurance reserve shall
5 then only be made either pursuant to specific
6 authorization enacted after the date of enactment of the
7 Overseas Private Investment Corporation Amendments Act of
8 1974, or to satisfy the full faith and credit provision
9 of section 237(c).
10 ``(g) ISSUANCE OF OBLIGATIONS.--In order to discharge
11 liabilities under investment insurance or reinsurance, the
12 Corporation is authorized to issue from time to time for
13 purchase by the Secretary of the Treasury its notes,
14 debentures, bonds, or other obligations; except that the
15 aggregate amount of such obligations outstanding at any one
16 time may not exceed $100,000,000. Any such obligation shall
17 be repaid to the Treasury within 1 year after the date of
18 issue of such obligation. Any such obligation shall bear
19 interest at a rate determined by the Secretary of the
20 Treasury, taking into consideration the current average
21 market yield on outstanding marketable obligations of the
22 United States of comparable maturities during the month
23 preceding the issuance of any obligation authorized by this
24 subsection. The Secretary of the Treasury shall purchase any
25 obligation of the Corporation issued under this subsection,

1 and for such purchase the Secretary may use as a public debt
2 transaction the proceeds of the sale of any securities issued
3 under chapter 31 of title 31, United States Code. The purpose
4 for which securities may be issued under chapter 31 of title
5 31, United States Code, shall include any such purchase.
6 ``(h) ADMINISTRATIVE EXPENSES.--The Corporation is
7 authorized to draw up to $12,000,000 from its noncredit
8 account revolving fund for the administrative costs of its
9 direct loan and loan guarantee programs for fiscal year 1992.
10 Such funds shall remain available in fiscal year 1993.
11 ``SEC. 236. INCOME AND REVENUES.
12 ``In order to carry out the purposes of the Corporation,
13 all revenues and income transferred to or earned by the
14 Corporation, from its noncredit activities, shall be held by
15 the Corporation and shall be available to carry out its
16 purposes, including without limitation--
17 ``(1) payment of all expenses of the Corporation,
18 including investment promotion expenses;
19 ``(2) transfers and additions to the insurance
20 reserves maintained under section 235(d), and such other
21 funds or reserves as the Corporation may establish, at
22 such time and in such amounts as the Board may determine;
23 and
24 ``(3) payment of dividends, on capital stock, which
25 shall consist of and be paid from net earnings of the

1 Corporation after payments, transfers, and additions
2 under paragraphs (1) and (2).
3 SEC. 237. GENERAL PROVISIONS RELATING TO INSURANCE,
4 GUARANTY, AND FINANCING PROGRAM.
5 ``(a) AGREEMENTS WITH COUNTRIES.--Insurance, guarantees,
6 and reinsurance issued under this title shall cover
7 investment made in connection with projects in any less
8 developed friendly country or area with the government of
9 which the President of the United States has agreed to
10 institute a program for such insurance, guarantees, or
11 reinsurance.
12 ``(b) PROTECTION OF INTERESTS OF THE CORPORATION.--The
13 Corporation shall determine that suitable arrangements exist
14 for protecting the interest of the Corporation in connection
15 with any insurance, reinsurance, or guarantee issued under
16 this title, including arrangements concerning ownership, use,
17 and disposition of the currency, credits, assets, or
18 investments on account of which payment under such insurance,
19 guarantee, or reinsurance is to be made, and any right,
20 title, claim, or cause of action existing in connection
21 therewith.
22 ``(c) FULL FAITH AND CREDIT PLEDGED.--All guarantees
23 issued under predecessor guarantee authority, and all
24 insurance, reinsurance, and guarantees issued under this
25 title shall constitute obligations, in accordance with the

1 terms of such insurance, reinsurance, or guarantees, of the
2 United States of America, and the full faith and credit of
3 the United States of America is hereby pledged for the full
4 payment and performance of such obligations.
5 ``(d) FEES.--(1) Fees may be charged for providing
6 insurance, reinsurance, guarantees, financing, and other
7 services under this title in amounts to be determined by the
8 Corporation. In the event fees charged for insurance,
9 reinsurance, guarantees, financing, or other services are
10 reduced, fees to be paid under existing contracts for the
11 same type of insurance, reinsurance, guarantees, financing,
12 or services and for similar guarantees issued under
13 predecessor guarantee authority may be reduced.
14 ``(2) CREDIT TRANSACTION COSTS.--Fees paid for project-
15 specific transaction costs relating to loan obligations or
16 loan guarantee commitments covered by the provisions of the
17 Federal Credit Reform Act of 1990,, including project-related
18 travel and expenses for legal representation provided by
19 persons outside the Corporation, shall be considered cash
20 flows from the Government resulting from direct loan
21 obligations or loan guarantee commitments and shall be paid
22 out of the appropriate financing account established pursuant
23 to section 505(b) of such Act.
24 ``(3) NON-CREDIT TRANSACTION COSTS.--Fees paid for the
25 project-specific transaction costs and other direct costs

1 associated with services provided to specific investors or
2 potential investors pursuant to section 233 (other than those
3 covered in paragraph (2)), including financing, insurance,
4 reinsurance, missions, seminars, conferences, and other pre-
5 investment services, shall be available for obligation for
6 the purposes for which they were collected, notwithstanding
7 any other provision of law.
8 ``(e) INSURANCE, GUARANTEES, AND REINSURANCE LIMITED TO
9 20 YEARS.--No insurance, reinsurance, or guarantee of any
10 equity investment under this title shall extend beyond 20
11 years from the date on which such insurance, reinsurance, or
12 guarantee is issued.
13 ``(f) AMOUNT OF COMPENSATION PAID ON
14 CLAIMS.--Compensation for any insurance, reinsurance, or
15 guarantee issued under this title shall not exceed the dollar
16 value, as of the date of the investment, of the investment
17 made in the project with the approval of the Corporation plus
18 interest, earnings, or profits actually accrued on such
19 investment to the extent provided by such insurance,
20 reinsurance, or guarantee, except that the Corporation may
21 provide that--
22 ``(1) appropriate adjustments in the insured dollar
23 value be made to reflect the replacement cost of project
24 assets;
25 ``(2) compensation for a claim of loss under

1 insurance of an equity investment may be computed on the
2 basis of the net book value attributable to such equity
3 investment on the date of loss; and
4 ``(3) compensation for loss due to business
5 interruption may be computed on a basis to be determined
6 by the Corporation which reflects amounts lost.
7 Notwithstanding the preceding sentence, the Corporation shall
8 limit the amount of direct insurance and reinsurance issued
9 under section 233 or 233A so that risk of loss as to at least
10 10 percent of the total investment of the insured and its
11 affiliates in the project is borne by the insured and such
12 affiliates, except that this limitation shall not apply to
13 direct insurance or reinsurance of loans by banks or other
14 financial institutions to unrelated parties.
15 ``(g) LIMITATION WITH RESPECT TO FOREIGN CREDIT
16 INSTITUTIONS.--Insurance, guarantees, or reinsurance of a
17 loan or equity investment of an eligible investor in a
18 foreign bank, finance company, or other credit institution
19 shall extend only to such loan or equity investment and not
20 to any individual loan or equity investment made by such
21 foreign bank, finance company, or other credit institution.
22 ``(h) SETTLEMENT AND ARBITRATION OF CLAIMS.--Claims
23 arising as a result of insurance, reinsurance, or guarantee
24 operations under this title or under predecessor guarantee
25 authority may be settled, and disputes arising as a result

1 thereof may be arbitrated with the consent of the parties, on
2 such terms and conditions as the Corporation may determine.
3 Payment made pursuant to any such settlement, or as a result
4 of an arbitration award, shall be final and conclusive
5 notwithstanding any other provision of law.
6 ``(i) CONTRACTS PRESUMED TO COMPLY WITH ACT.--Each
7 guarantee contract executed by such officer or officers as
8 may be designated by the Board shall be conclusively presumed
9 to be issued in compliance with the requirements of this Act.
10 ``(j) OPERATIONS IN CERTAIN COUNTRIES.--Except for the
11 provisions of this title, no other provision of this or any
12 other law shall be construed to prohibit the operation in
13 Yugoslavia, Poland, Hungary, or any eligible East European
14 country (within the meaning of the Support for East European
15 Democracy (SEED) Act of 1989) of any program authorized by
16 this title, if the President determines that the operation of
17 such program in such country is important to the national
18 interest.
19 ``SEC. 238. GENERAL PROVISIONS AND POWERS.
20 `(a) PRINCIPAL OFFICE.--The Corporation shall have its
21 principal office in the District of Columbia and shall be
22 deemed, for purposes of venue in civil actions, to be a
23 resident of the District of Columbia.
24 (b) AUDITS.--
25 ``(1) IN GENERAL.--The Corporation shall be subject

1 to the applicable provisions of chapter 91 of title 31,
2 United States Code, except as otherwise provided in this
3 title.
4 (2) INDEPENDENT AUDIT.--An independent certified
5 public accountant shall perform a financial and
6 compliance audit of the financial statements of the
7 Corporation each year, in accordance with generally
8 accepted Government auditing standards for a financial
9 and compliance audit, taking into consideration any
10 standards recommended by the Comptroller General. The
11 independent certified public accountant shall report the
12 results of such audit to the Board. The financial
13 statements of the Corporation shall be presented in
14 accordance with generally accepted accounting principles.
15 These financial statements and the report of the
16 accountant shall be included in a report which contains,
17 to the extent applicable, the information identified in
18 section 9106 of title 31, United States Code, and which
19 the Corporation shall submit to the Congress not later
20 than 6 1/2 months after the end of the last fiscal year
21 covered by the audit. The Comptroller General may review
22 the audit conducted by the accountant and the report to
23 the Congress in the manner and at such times as the
24 Comptroller General considers necessary.
25 ``(3) AUDIT BY COMPTROLLER GENERAL.--In lieu of the

1 financial and compliance audit required by paragraph (2),
2 the Comptroller General shall, if the Comptroller General
3 considers it necessary or upon the request of the
4 Congress, audit the financial statements of the
5 Corporation in the manner provided in paragraph (2). The
6 Corporation shall reimburse the General Accounting Office
7 for the full cost of any audit conducted under this
8 paragraph.
9 ``(4) AVAILABILITY OF INFORMATION.--All books,
10 accounts, financial records, reports, files, workpapers,
11 and property belonging to or in use by the Corporation
12 and the accountant who conducts the audit under paragraph
13 (2), which are necessary for purposes of this subsection,
14 shall be made available to the representatives of the
15 General Accounting Office designated by the Comptroller
16 General.
17 ``(c) POWERS.--To carry out the purposes of this title,
18 the Corporation is authorized--
19 ``(1) to adopt and use a corporate seal, which shall
20 be judicially noticed;
21 ``(2) to sue and be sued in its corporate name;
22 ``(3) to adopt, amend, and repeal bylaws governing
23 the conduct of its business and the performance of the
24 powers and duties granted to or imposed upon it by law;
25 (4) to acquire, hold, or dispose of, upon such

1 terms and conditions as the Corporation may determine,
2 any property, real, personal, or mixed, tangible or
3 intangible, or any interest therein;
4 ``(5) to invest funds derived from fees and other
5 revenues in obligations of the United States and to use
6 the proceeds therefrom, including earnings and profits,
7 as it considers appropriate;
8 ``(6) to indemnify directors, officers, employees,
9 and agents of the Corporation for liabilities and
10 expenses incurred in connection with their Corporation
11 activities;
12 ``(7) to require bonds of officers, employees, and
13 agents and to pay the premiums therefor;
14 ``(8) notwithstanding any other provision of law, to
15 represent itself or to contract for representation in all
16 legal and arbitral proceedings;
17 ``(9) to purchase, discount, rediscount, sell, and
18 negotiate, with or without its endorsement or guarantee,
19 and guarantee notes, participation certificates, and
20 other evidence of indebtedness (except that the
21 Corporation shall not issue its own securities, except
22 participation certificates for the purpose of carrying
23 out section 231(c)(3) or participation certificates as
24 evidence of indebtedness held by the Corporation in
25 connection with settlement of claims under section

1 237(h));

2 ``(10) to make and carry out such contracts and

3 agreements as are necessary and advisable in the conduct

4 of its business;

5 ``(11) to exercise any priority of the Government of

6 the United States in collecting debts from the estates of

7 bankrupt, insolvent, or decedent parties;

8 ``(12) to determine the character of and the

9 necessity for its obligations and expenditures, and the

10 manner in which they shall be incurred, allowed, and

11 paid, subject to provisions of law specifically

12 applicable to Government corporations;

13 ``(13) to collect or compromise any obligations

14 assigned to or held by the Corporation, including any

15 legal or equitable rights accruing to the Corporation;

16 and

17 ``(14) to take such actions as may be necessary or

18 appropriate to carry out the powers of the Corporation.

19 ``(d) INSPECTOR GENERAL.--

20 ``(1) AUTHORITY.--The Inspector General of the

21 administering agency--

22 ``(A) shall have full and independent authority

23 to conduct audits, investigations, and inspections of

24 all phases of the Corporation's programs and

25 operations for the purpose of promoting economy,

1 efficiency, and effectiveness, and detecting and
2 preventing fraud and abuse; and
3 `(B) shall conduct all security activities of
4 the Corporation relating to personnel and the control
5 of classified material.
6 (2) RELATION TO PRESIDENT OF CORPORATION.--The
7 Inspector General shall report to and be under the
8 general supervision of the President of the Corporation
9 with respect to activities undertaken pursuant to this
10 subsection, except that the President of the Corporation
11 shall not prevent or prohibit the Inspector General from
12 initiating, carrying out, or completing any such activity
13 in accordance with the duties, authorities, and
14 responsibilities contained in the Inspector General Act
15 of 1978 and any other applicable law or regulation.
16 ``(3) INSPECTOR GENERAL ACT.--For purposes of the
17 Inspector General Act of 1978, the Corporation shall
18 continue to be considered a Federal entity and the
19 President of the Corporation shall be considered the head
20 of the Federal entity.
21 ``(4) SEMIANNUAL REPORT.--The semiannual report
22 required under section 5 of the Inspector General Act of
23 1978 shall include information relating to activities of
24 the Inspector General undertaken pursuant to this
25 subsection.

1 (e) EXEMPTION FROM STATE AND LOCAL TAXATION.--The
2 Corporation (including its franchise, capital, reserves,
3 surplus, advances, intangible property, and income) shall be
4 exempt from all taxation at any time imposed by any State,
5 the District of Columbia, or any county, municipality, or
6 local taxing authority.
7 (f) CORPORATE OPERATIONAL GUIDELINES.--The
8 Corporation--
9 ``(1) shall establish and publish guidelines for its
10 programs and operations consistent with the provisions of
11 this title, and
12 ``(2) shall make such guidelines available to
13 applicants for insurance, reinsurance, guarantees,
14 financing, or other assistance provided by the
15 Corporation.
16 The provisions of this title shall be controlling with
17 respect to the Corporation's programs and operations.
18 ``SEC. 239. ANNUAL REPORT; MAINTENANCE OF INFORMATION.
19 ``(a) ANNUAL REPORT.--After the end of each fiscal year,
20 the Corporation shall submit to the Congress a complete and
21 detailed report of its operations during such fiscal year.
22 Such report shall include--
23 ``(1) an assessment, based upon the development
24 impact profiles required by section 234(a), of the
25 economic and social development impact and benefits or

1 the projects with respect to which such profiles are
2 prepared, and of the extent to which the operations of
3 the Corporation complement or are compatible with the
4 development assistance programs of the United States and
5 other donors; and
6 ``(2) a description of any project for which the
7 Corporation--
8 ``(A) refused to provide any insurance,
9 reinsurance, guarantee, financing, or other financial
10 support, on account of violations of human rights
11 referred to in section 234(e); or
12 ``(B) notwithstanding such violations, provided
13 such insurance, reinsurance, guarantee, financing, or
14 financial support, on the basis of a determination
15 that--
16 ``(i) the project will directly benefit the
17 needy people in the country in which the project
18 is located, or
19 ``(ii) the national security interest so
20 requires.
21 (b) PROJECTIONS OF EFFECTS ON EMPLOYMENT.--
22 ``(1) IN GENERAL.--Each annual report required by
23 subsection (a) shall contain projections of the effects
24 on employment in the United States of all projects for
25 which, during the fiscal year covered by the report, the

1 Corporation initially issued any insurance, reinsurance,
2 or guarantee or provided financing. Each such report
3 shall include projections of--
4 ``(A) the amount of United States exports to be
5 generated by those projects, both during the start-up
6 phase and over a period of years;
7 ``(B) the final destination of the products to be
8 produced as a result of those projects; and
9 ``(C) the impact such production will have on the
10 production of similar products in the United States
11 with regard to both domestic sales and exports.
12 ``(2) INFORMATION IN AGGREGATE FORM.--The projections
13 required by this subsection shall be based on an analysis
14 of each of the projects described in paragraph (1). Such
15 projections may, however, present information and
16 analysis in aggregate form, but only if--
17 ``(A) those projects which are projected to have
18 a positive effect on employment in the United States
19 and those projects which are projected to have a
20 negative effect on employment in the United States
21 are grouped separately; and
22 ``(B) there is set forth for each such grouping
23 the key characteristics of the projects within that
24 grouping, including the number of projects in each
25 economic sector, the countries in which the projects

1 in each economic sector are located, and the
2 projected level of the impact of the projects in each
3 economic sector on employment in the United States
4 and on United States trade.
5 (c) MAINTENANCE OF INFORMATION.--The Corporation shall
6 maintain as part of its records--
7 ``(1) all information collected in preparing the
8 report required by section 240A(c) of the Foreign
9 Assistance Act of 1961 (as in effect before the enactment
10 of the Overseas Private Investment Corporation Amendments
11 Act of 1988), whether the information was collected by
12 the Corporation itself or by a contractor; and
13 ``(2) a copy of the analysis of each project analyzed
14 in preparing the projections required by subsection (b)
15 of this section or the report required by section 240A(c)
16 of this Act (as in effect before the enactment of the
17 Overseas Private Investment Corporation Amendments Act of
18 1988).
19 (d) PROGRAMS OF COOPERATION WITH PRIVATE
20 INDUSTRY.--Each annual report required by subsection (a)
21 shall include an assessment of programs implemented by the
22 Corporation under section 233A(a), including the following
23 information, to the extent such information is available to
24 the Corporation:
25 ``(1) The nature and dollar value of political risk

1 insurance provided by private insurers in conjunction
2 with the Corporation, which the Corporation was not
3 permitted to provide under this title.
4 (2) The nature and dollar value of political risk
5 insurance provided by private insurers in conjunction
6 with the Corporation, which the Corporation was permitted
7 to provide under this title.
8 ``(3) The manner in which such private insurers and
9 the Corporation cooperated in recovery efforts and claims
10 management.
11 ``(e) PROTECTION OF CERTAIN INFORMATION.--Subsections (b)
12 and (d) do not require the inclusion in any information
13 submitted pursuant to those subsections of any information
14 which would not be required to be made available to the
15 public pursuant to section 552 of title 5, United States Code
16 (relating to freedom of information).
17 ``SEC. 240. DEFINITIONS.
18 ``As used in this title, the following terms have the
19 following meanings:
20 ``(1) ADMINISTERING AGENCY.--The term `administering
21 agency' means the agency primarily responsible for
22 administering this part.
23 ``(2) ADMINISTRATOR.--The term `Administrator' means
24 the head of the administering agency.
25 ``(3) BOARD.--The term `Board' means the Board of

1 Directors of the Overseas Private Investment Corporation.
2 ``(4) CORPORATION.--The term `Corporation' means the
3 Overseas Private Investment Corporation.
4 (5) ELIGIBLE INVESTOR.--(A) The term `eligible
5 investor' means--
6 `(i) a United States citizen;
7 `(ii) a corporation, partnership, or other
8 association, including a nonprofit association, which
9 is created under the laws of the United States, any
10 State, the District of Columbia, or any commonwealth,
11 territory, or possession of the United States, and
12 which is substantially beneficially owned by United
13 States citizens; and
14 ``(iii) a foreign corporation, partnership, or
15 other association which is wholly owned by one or
16 more United States citizens or corporations,
17 partnerships, or other associations described in
18 clause (ii), except that the eligibility of any such
19 foreign corporation shall be determined without
20 regard to any shares held by other than United States
21 citizens or corporations, partnerships, or other
22 associations described in clause (ii) if, in the
23 aggregate, such shares equal less than 5 percent of
24 the total issued and subscribed share capital of such
25 foreign corporation.

1 (B) For purposes of this title--

2 `(i) in the case of insurance or a guarantee for

3 any loan investment, a final determination of whether

4 a person is an eligible investor may be made at the

5 time the insurance or guarantee is issued; and

6 ``(ii) in the case of insurance or a guarantee

7 for any other investment, an investor must be an

8 eligible investor at the time a claim arises as well

9 as the time the insurance or guarantee is issued.

10 ``(6) EXPROPRIATION.--The term `expropriation'

11 includes any abrogation, repudiation, or impairment by a

12 foreign government of its own contract with an investor

13 with respect to a project, where such abrogation,

14 repudiation, or impairment is not caused by the

15 investor's own fault or misconduct, and materially

16 adversely affects the continued operation of the project.

17 ``(7) INVESTMENT.--The term `investment' includes any

18 contribution or commitment of funds, commodities,

19 services, patents, processes, or techniques, in the form

20 of--

21 ``(A) a loan or loans to an approved project,

22 ``(B) the purchase of a share of ownership in any

23 such project,

24 (C) participation in royalties, earnings, or

25 profits of any such project, and

1 (D) the furnishing of commodities or services
2 pursuant to a lease or other contract.
3 '(8) NONCREDIT ACCOUNT REVOLVING FUND.--The term
4 noncredit account revolving fund' means the account in
5 which funds under section 236 and all funds from
6 noncredit activities are held.
7 ''(9) NONCREDIT ACTIVITIES.--The term 'noncredit
8 activities' means all activities of the Corporation other
9 than its loan guarantee program under section 233(b) and
10 its direct loan program under section 233(c).
11 (10) PREDECESSOR GUARANTEE AUTHORITY.--The term
12 'predecessor guarantee authority' means prior guarantee
13 authorities (other than housing guarantee authorities)
14 repealed by the Foreign Assistance Act of 1969, section
15 202(b) and 413(b) of the Mutual Security Act of 1954, and
16 section 111(b)(3) of the Economic Cooperation Act of
17 1948, (exclusive of authority relating to informational
18 media guarantees).

SLS1521

1 SEC. ____. TRADE AND DEVELOPMENT AGENCY.
2 (a) IN GENERAL.--Section 661 of the Foreign Assistance
3 Act of 1961 is amended to read as follows:
4 ``SEC. 661. TRADE AND DEVELOPMENT AGENCY.
5 ``(a) PURPOSE.--The Trade and Development Agency shall be
6 an agency of the United States under the foreign policy
7 guidance of the Secretary of State. The purpose of the Trade
8 and Development Agency is to promote United States private
9 sector participation in development projects in friendly
10 developing and middle-income countries, in order to promote
11 the policies set forth in section 102.
12 ``(b) AUTHORITY TO PROVIDE ASSISTANCE.--
13 ``(1) AUTHORITY.--The Director of the Trade and
14 Development Agency is authorized to work with friendly
15 countries, including those in which the United States
16 development programs have been concluded or those not
17 receiving assistance under part I of this Act, to carry
18 out the purpose of this section by providing funds for
19 feasibility studies, engineering design, and other
20 activities related to development projects which provide
21 opportunities for the use of United States exports.
22 ``(2) USE OF FUNDS.--Funds under this section may be
23 used to provide support for feasibility studies for the
24 planning of, development of, management of, and
25 procurement for, bilateral and multilateral development

1 projects, including training activities undertaken in
2 connection with a project, for the purpose of promoting
3 the use of United States goods and services in such
4 projects. Funds under this section may also be used for
5 engineering design, including--
6 ``(A) concept design, which establishes the basic
7 technical and operational criteria for a project,
8 such as architectural drawings for a proposed
9 facility, evaluation of site constraints, procurement
10 requirements, and equipment specifications; and
11 ``(B) detail design, which sets forth specific
12 dimensions and criteria for structural, mechanical,
13 electrical, and architectural operations, and
14 identifies other resources required for project
15 operations.
16 ``(3) INFORMATION DISSEMINATION.--
17 ``(A) IN GENERAL.--The Trade and Development
18 Agency shall disseminate information about its
19 project activities to the private sector.
20 ``(B) OFFICE OF INTERNATIONAL MAJOR PROJECTS OF
21 THE DEPARTMENT OF COMMERCE.--The Trade and
22 Development Agency shall cooperate with the Office of
23 International Major Projects of the Department of
24 Commerce in order to provide information to persons
25 in the private sector concerning trade development

1 and export promotion related to multilateral
2 development projects.
3 (C) OTHER AGENCIES.--Other Federal department
4 and agencies shall cooperate with the Trade and
5 Development Agency in order for the Agency to more
6 effectively provide informational services in
7 accordance with this paragraph.
8 ``(4) NONAPPLICABILITY OF OTHER PROVISIONS.--Any
9 funds used for purposes of this section may be used
10 notwithstanding any other provision of law.
11 `(c) DIRECTOR AND PERSONNEL.--
12 ``(1) DIRECTOR.--The Director of the Trade and
13 Development Agency shall be the head of the agency. The
14 Director shall be appointed by the President, by and wi
15 the advice and consent of the Senate.
16 (2) OFFICERS AND EMPLOYEES.--
17 ``(A) APPOINTMENT.--The Director may appoint su
18 officers and employees as the Director considers
19 appropriate.
20 ``(B) FUNCTIONS.--The officers and employees
21 appointed under this paragraph shall have such
22 functions as the Director may determine.
23 (C) APPOINTMENTS WITHOUT REGARD TO CERTAIN
24 CIVIL SERVICE LAWS.--Of the officers and employees
25 appointed under this paragraph, 4 may be appointed

1 without regard to the provisions of title 5, United
2 States Code, governing appointments in the
3 competitive service, and may be compensated without
4 regard to the provisions of chapter 51 or subchapter
5 III of chapter 53 of such title.
6 ``(D) REINSTATEMENT RIGHTS.--Under such
7 regulations as the President may prescribe, any
8 individual appointed under subparagraph (C) may be
9 entitled, upon removal (except for cause) from the
10 position to which the appointment was made, to
11 reinstatement to the position occupied by that
12 individual at the time of appointment or to a
13 position of comparable grade and pay.
14 (d) ANNUAL REPORT.--The Director of the Trade and
15 Development Agency shall, not later than December 31 of each
16 year, submit to the Committee on Foreign Affairs of the House
17 of Representatives and the Committee on Foreign Relations of
18 the Senate a report on the activities of the Trade and
19 Development Agency in the preceding fiscal year.
20 ``(e) ADVISORY BOARD.--
21 ``(1) ESTABLISHMENT.--The Director of the Trade and
22 Development Agency shall, by regulation, establish an
23 advisory board which shall include representatives of the
24 private sector.
25 ``(2) PURPOSE.--The purpose of the advisory board

1 shall be to make recommendations to the Director with
2 respect to the Trade and Development Agency.
3 (f) INSPECTOR GENERAL.--
4 ``(1) AUTHORITY.--The Inspector General of the Agency
5 for International Development--
6 ``(A) shall have full and independent authority
7 to conduct audits, investigations, and inspections of
8 all phases of the program and operations of the Trade
9 and Development Agency for the purpose of promoting
10 economy, efficiency, and effectiveness, and detecting
11 and preventing fraud and abuse; and
12 ``(B) shall conduct all security activities of
13 the Trade and Development Agency relating to
14 personnel and the control of classified material.
15 ``(2) RELATION TO DIRECTOR OF THE TRADE AND
16 DEVELOPMENT AGENCY.--The Inspector General shall report
17 to and be under the general supervision of the Director
18 of the Trade and Development Agency with respect to
19 activities undertaken pursuant to this subsection, except
20 that the Director shall not prevent or prohibit the
21 Inspector General from initiating, carrying out, or
22 completing any such activity in accordance with the
23 duties, authorities, and responsibilities contained in
24 the Inspector General Act of 1978, and any other
25 applicable laws and regulations.

1 `(3) INSPECTOR GENERAL ACT.--For purposes of the
2 Inspector General Act of 1978, the Trade and Development
3 Agency shall continue to be considered a Federal entity
4 and the Director of the Trade and Development Agency
5 shall be considered the head of the Federal entity.
6 ``(4) SEMIANNUAL REPORT.--The semiannual report
7 required under section 5 of the Inspector General Act of
8 1978 shall include information relating to activities of
9 the Inspector General undertaken pursuant to this
10 subsection.
11 ``(g) FUNDING.--There are authorized to be appropriated
12 for purposes of this section, in addition to funds otherwise
13 available for such purposes, $58,000,000 for fiscal year 1992
14 and $70,000,000 for fiscal year 1993. Of the amounts made
15 available under the preceding sentence for fiscal years 1992
16 and 1993, $10,000,000, in the aggregate, may remain available
17 until expended.'
18 (b) CONFORMING AMENDMENTS.--(1) Sections 644, 645, and
19 646 of the Trade and Development Enhencement Act of 1983 (12
20 U.S.C. 635q, 635r, and 635s) are each amended by striking
21 ``Trade and Development Program'' each place it appears and
22 inserting ``Trade and Development Agency''.
23 (2) Section 5314 of title 5, United States Code, is
24 amended by striking
25 ``Director, Trade and Development Program

1 and inserting

2 Director, Trade and Development Agency

1 TITLE __--INDUSTRIAL COOPERATION PROJECTS IN CHINA AND TIBET
2 SECTION _01. STATEMENT OF PRINCIPLES.
3 (a) PURPOSE.--It is the purpose of this title to create
4 principles governing the conduct of industrial cooperation
5 projects of United States nationals in the People's Republic
6 of China and Tibet.
7 (b) PRINCIPLES.--It is the sense of the Congress that any
8 United States national conducting an industrial cooperation
9 project in the People's Republic of China or Tibet should
10 adhere to the following principles:
11 (1) Suspend the use of all goods, wares, articles,
12 and merchandise that are mined, produced, or
13 manufactured, in whole or in part, by convict labor or
14 forced labor if there is reason to believe that the
15 material or product is produced or manufactured by forced
16 labor, and refuse to use forced labor in the industrial
17 cooperation project.
18 (2) Seek to ensure that political or religious views,
19 sex, ethnic or national background, involvement in
20 political activities or nonviolent demonstrations, or
21 association with suspected or known dissidents will not
22 prohibit hiring, lead to harassment, demotion, or
23 dismissal, or in any way affect the status or terms of
24 employment in the industrial cooperation project. The
25 United States national should not discriminate in terms

1 or conditions of employment in the industrial cooperation
2 project against persons with past records of arrests or
3 internal exile for nonviolent protest or membership in
4 unofficial organizations committed to nonviolence.
5 (3) Ensure that methods of production used in the
6 industrial cooperation project do not pose an unnecessary
7 physical danger to workers and neighboring populations
8 and property and that the industrial cooperation project
9 does not unnecessarily risk harm to the surrounding
10 environment, and consult with community leaders regarding
11 environmental protection with respect to the industrial
12 cooperation project.
13 (4) Strive to use business enterprises that are not
14 controlled by the People's Republic of China or its
15 authorized agents and departments as potential partners
16 in the industrial cooperation project.
17 (5) Prohibit any military presence on the premises of
18 the industrial cooperation project.
19 (6) Undertake to promote freedom of association and
20 assembly among the employees of the United States
21 national. The United States national should protest any
22 infringement by the Chinese Government of these freedoms
23 to the appropriate authorities of that government and to
24 the International Labor Organization, which has an office
25 in Beijing.

1 (7) Use every possible channel of communication with
2 the Chinese Government to urge that government to
3 disclose publicly a complete list of all those
4 individuals arrested since March 1989, to end
5 incommunicado detention and torture, and to provide
6 international observers access to all places of detention
7 in the People's Republic of China and Tibet and to trials
8 of prisoners arrested in connection with the
9 pro-democracy events of April through June of 1989 and
10 the pro-democracy demonstrations which have taken place
11 in Tibet since 1987.
12 (8) Discourage or undertake to prevent compulsory
13 political indoctrination programs from taking place on
14 the premises of the operations of the industrial
15 cooperation project.
16 (9) Promote freedom of expression, including the
17 freedom to seek, receive, and impart information and
18 ideas of all kinds, regardless of frontiers, either
19 orally, in writing or in print, in the form of art, or
20 through any media. To this end, the United States
21 national should raise with appropriate authorities of the
22 Chinese Government concerns about restrictions on
23 importation of foreign publications.
24 (c) PROMOTION OF PRINCIPLES BY OTHER NATIONS.--The
25 Secretary of State shall forward a copy of the principles set

1 forth in subsection (b) to the member nations of the
2 Organization for Economic Cooperation and Development and
3 encourage them to promote principles similar to these
4 principles.
5 SEC. _02. REGISTRATION REQUIREMENT.
6 (a) IN GENERAL.--Each United States national conducting
7 an industrial cooperation project in the People's Republic of
8 China or Tibet shall register with the Secretary of State and
9 indicate whether the United States national agrees to
10 implement the principles set forth in section _01(b). No fee
11 shall be required for registration under this subsection.
12 (b) EFFECTIVE DATE.--The registration requirement of
13 subsection (a) shall take effect 6 months after the date of
14 the enactment of this Act.
15 SEC. _03. REPORTING REQUIREMENTS.
16 (a) REPORT.--Each United States national conducting an
17 industrial cooperation project in the People's Republic of
18 China or Tibet shall report to the Department of State
19 describing the United States national's adherence to the
20 principles set forth in section _01(b). Such national shall
21 submit a completed reporting form furnished by the Department
22 of State. The first report shall be submitted not later than
23 1 year after the date on which the United States national
24 registers under section _02 and not later than the end of
25 each 1-year period occurring thereafter.

1 (b) REVIEW OF REPORT.--The Secretary of State shall
2 review each report submitted under subsection (a) and
3 determine whether the United States national submitting the
4 report is adhering to the principles. The Secretary may
5 request additional information from the United States
6 national and other sources to verify the information
7 submitted.
8 (c) ANNUAL REPORT.--The Secretary of State shall submit a
9 report to the Congress and to the Secretariat of the
10 Organization for Economic Cooperation and Development,
11 describing the level of adherence to the principles by United
12 States nationals subject to the reporting requirement of
13 subsection (a). Such report shall be submitted not later than
14 2 years after the date of the enactment of this Act and not
15 later than the end of each 1-year period occurring
16 thereafter.
17 SEC. _04. EXPORT MARKETING SUPPORT.
18 (a) SUPPORT.--Departments and agencies of the United
19 States may only intercede with a foreign government or
20 foreign national regarding export marketing activity in the
21 People's Republic of China or Tibet on behalf of a United
22 States national subject to the reporting requirements of
23 section _03(a) if that United States national adheres to the
24 principles set forth in section _01(b).
25 (b) TYPE OF CONTACT.--For purposes of this section, the

1 term ``intercede with a foreign government or foreign
2 national'' includes any contact by an officer or employee of
3 the United States with officials of any foreign government or
4 foreign national involving or contemplating any effort to
5 assist in selling a good, service, or technology in the
6 People's Republic of China or Tibet. Such term does not
7 include multilateral or bilateral government-to-government
8 trade negotiations intended to resolve trade issues which may
9 affect United States nationals who do not adhere to the
10 principles set forth in section _01(b).
11 (c) EFFECTIVE DATE.--Subsection (a) shall take effect 2
12 years after the date of the enactment of this Act.
13 SEC. _05. DEFINITIONS.
14 For purposes of this title--
15 (1) the terms ``adhere to the principles'',
16 ``adhering to the principles'' and ``adherence to the
17 principles'' mean--
18 (A) agreeing to implement the principles set
19 forth in section _01(b);
20 (B) implementing those principles by taking goc
21 faith measures with respect to each such principle;
22 and
23 (C) reporting accurately to the Department of
24 State on the measures taken to implement those
25 principles;

1 (2) the term ''industrial cooperation project
2 refers to a for-profit activity the business operations
3 of which employ more than 25 individuals or have assets
4 greater than $25,000 in value; and
5 (3) the term ''United States national'' means--
6 (A) a citizen or national of the United States or
7 a permanent resident of the United States; and
8 (B) a corporation, partnership, and other
9 business association organized under the laws of the
10 United States, any State of the United States, the
11 District of Columbia, the Commonwealth of Puerto
12 Rico, the Commonwealth of the Northern Mariana
13 Islands, or any other territory or possession of the
14 United States.

WCH964

HLC

[COMMITTEE PRINT]

Showing H.R. 964 as amended by the Subcommittee on Western Hemisphere Affairs and the Subcommittee on International Economic Policy and Trade

[Text to be deleted shown ~~struck-through~~; text to be added shown in *italic*. The subcommittees adopted identical amendments except for the amendments on pages 4-5 and 14-15 which were adopted only by the IEPT Subcommittee.]

102D CONGRESS
1ST SESSION

H. R. 964

IN THE HOUSE OF REPRESENTATIVES

February 19, 1991

Mr. FASCELL (for himself and cosponsors) introduced the following bill; which was referred to the Committee on Foreign Affairs

A BILL

To provide for the implementation of the foreign assistance provisions of the Enterprise for the Americas Initiative, and for other purposes.

1 *Be it enacted by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 SECTION 1. SHORT TITLE.
4 This Act may be cited as the ``Enterprise for the
5 Americas Initiative Act of 1991''.
6 TITLE I--ENTERPRISE FOR THE AMERICAS FACILITY
7 SEC. 101. ESTABLISHMENT.
8 There is hereby established in the Department of the
9 Treasury the Enterprise for the Americas Facility
10 (hereinafter in this Act referred to as the ``Facility'').
11 SEC. 102. PURPOSE OF INITIATIVE AND THE FACILITY.
12 The purpose of the Enterprise for the Americas Initiative
13 is to encourage and support improvement in the lives of the
14 people of Latin America and the Caribbean through
15 market-oriented reforms and economic growth with interrelated
16 actions to promote debt reduction, investment reforms, and
17 community based conservation and sustainable use of the
18 environment. The Facility will support these objectives
19 through administration of debt reduction operations for those
20 countries that meet investment reforms and other policy
21 conditions.
22 SEC. 103. ELIGIBILITY FOR BENEFITS UNDER THE FACILITY.
23 (a) REQUIREMENTS.--To be eligible for benefits under the
24 Facility, a country must--
25 (1) be a Latin American or Caribbean country;

1 (2) have in effect, have received approval for, or,
2 as appropriate in exceptional circumstances, be making
3 significant progress toward--
4 (A) an International Monetary Fund standby
5 arrangement, extended Fund arrangement, or an
6 arrangement under the structural adjustment facility
7 or enhanced structural adjustment facility, or in
8 exceptional circumstances, a Fund monitored program
9 or its equivalent, *unless the President determines*
10 *(after consultation with the Environment for the*
11 *Americas Board) that such an arrangement or program*
12 *(or its equivalent) could reasonably be expected to*
13 *have significant adverse social or environmental*
14 *effects;* and
15 (B) as appropriate, structural or sectoral
16 adjustment loans from the International Bank for
17 Reconstruction and Development or the International
18 Development Association, *unless the President*
19 *determines (after consultation with the Environment*
20 *for the Americas Board) that the resulting adjustment*
21 *requirements could reasonably be expected to have*
22 *significant adverse social or environmental effects;*
23 (3) have put in place major investment reforms in
24 conjunction with an Inter-American Development Bank loan
25 or otherwise be implementing, or making significant

1 progress toward, an open investment regime; and

2 (4) if appropriate, have agreed with its commercial

3 bank lenders on a satisfactory financing program,

4 including, as appropriate, debt or debt service

5 reduction.

6 (b) ELIGIBILITY DETERMINATIONS.--The President shall

7 determine whether a country is an eligible country for

8 purposes of subsection (a).

9 TITLE II--DEBT REDUCTION

10 SEC. 201. REDUCTION OF CERTAIN DEBT.

11 (a) AUTHORITY TO REDUCE DEBT.--

12 (1) AUTHORITY.--The President may reduce the amount

13 owed to the United States (or any agency of the United

14 States) that is outstanding as of January 1, 1990, as a

15 result of concessional loans made by the United States

16 pursuant to the Foreign Assistance Act of 1961 (or

17 predecessor foreign economic assistance legislation) to a

18 country eligible for benefits under the Facility.

19 ~~(2) Limitation.--The authority of this section may be~~

20 ~~exercised only to such extent as is approved in advance~~

21 ~~in appropriation Acts.~~

22 *(2)* FEDERAL CREDIT REFORM ACT AND AUTHORIZATION

23 REQUIREMENTS.--*(A) The authority of this section may be*

24 *exercised only to the extent that the budget authority*

25 *for the resulting additional cost (within the meaning of*

1 *the Federal Credit Reform Act of 1990) has been provided*
2 *in advance in appropriations Acts, except that any such*
3 *budget authority so provided shall be available for*
4 *payment from the appropriate credit program account into*
5 *the financing account only to the extent that the*
6 *enactment of such budget authority has been authorized in*
7 *an authorization Act.*
8 *(B) The enactment of the following amounts of budget*
9 *authority described in subparagraph (A) is hereby*
10 *authorized: $285,000,000 for fiscal year 1992 and*
11 *$182,000,000 for fiscal year 1993.*
12 (3) CERTAIN PROHIBITIONS INAPPLICABLE.--(A) A
13 reduction of debt pursuant to this section shall not be
14 considered assistance for purposes of any provision of
15 law limiting assistance to a country.
16 (B) This section supersedes section 620(r) of the
17 Foreign Assistance Act of 1961 and section 321 of the
18 International Development and Food Assistance Act of
19 1975.
20 (4) DEFINITION.--Hereinafter in this Act, a country
21 with respect to which the authority of paragraph (1) is
22 exercised is referred to as the beneficiary country.
23 (b) IMPLEMENTATION OF DEBT REDUCTION.--
24 (1) IN GENERAL.--Any debt reduction pursuant to
25 subsection (a) shall be accomplished at the direction of

1 the Facility by the exchange of a new obligation for
2 obligations outstanding as of January 1, 1990.
3 (2) EXCHANGE OF OBLIGATIONS.--The Facility shall
4 notify the Agency for International Development of the
5 agreement with an eligible country to exchange a new
6 obligation for outstanding obligations pursuant to this
7 subsection; and at the direction of the Facility, the old
8 obligations shall be canceled and a new debt obligation
9 for the country shall be established, and the Agency for
10 International Development shall make an adjustment in its
11 accounts to reflect the debt reduction.
12 SEC. 202. REPAYMENT OF PRINCIPAL.
13 (a) CURRENCY OF PAYMENT.--The principal amount of each
14 new obligation issued pursuant to section 201(b) shall be
15 repaid in United States dollars.
16 (b) DEPOSIT OF PAYMENTS.--Principal repayments of new
17 obligations shall be deposited in the United States
18 Government account established for principal repayments of
19 the obligations for which those obligations were exchanged.
20 SEC. 203. INTEREST ON NEW OBLIGATIONS.
21 (a) RATE OF INTEREST.--New obligations issued by a
22 beneficiary country pursuant to section 201(b) shall bear
23 interest at a concessional rate.
24 (b) CURRENCY OF PAYMENT; DEPOSITS.--
25 (1) LOCAL CURRENCY.--If the beneficiary country has

1 entered into an Environmental Framework Agreement under
2 section 302, interest shall be paid in the local curren
3 of the beneficiary country and deposited in the
4 Environmental Fund provided for in section 301(a). Such
5 interest shall be the property of the beneficiary
6 country, until such time as it is disbursed pursuant to
7 section 301(d). Such local currencies shall be used for
8 the purposes specified in the Environmental Framework
9 Agreement.
10 (2) UNITED STATES DOLLARS.--If the beneficiary
11 country has not entered into an Environmental Framework
12 Agreement under section 302, interest shall be paid in
13 United States dollars and deposited in the United States
14 Government account established for interest payments of
15 the obligations for which the new obligations were
16 exchanged.
17 (c) INTEREST ALREADY PAID.--If a beneficiary country
18 enters into an Environmental Framework Agreement subsequent
19 to the date on which interest first became due on the newly
20 issued obligation, any interest already paid on such new
21 obligation shall not be redeposited into the Environmental
22 Fund established for that beneficiary country pursuant to
23 section 301(a).
24 TITLE III--ENTERPRISE FOR THE AMERICAS ENVIRONMENTAL FUNDS
25 SEC. 301. ESTABLISHMENT OF, DEPOSITS INTO, AND DISBURSEMENTS

1 FROM ENVIRONMENTAL FUNDS.

2 (a) ESTABLISHMENT.--Each beneficiary country that enters
3 into an Environmental Framework Agreement under section 302
4 shall be required to establish an Enterprise for the Americas
5 Environmental Fund (referred to in this Act as the
6 ``Environmental Fund'') to receive payments in local currency
7 pursuant to section 203(b)(1).

8 (b) DEPOSITS.--Local currencies deposited in an
9 Environmental Fund shall not be considered assistance for
10 purposes of any provision of law limiting assistance to a
11 country.

12 (c) INVESTMENT.--Deposits made in an Environmental Fund
13 shall be invested until disbursed. Any return on such
14 investment may be retained by the Environmental Fund, without
15 deposit in the Treasury of the United States and without
16 further appropriations by Congress.

17 (d) DISBURSEMENTS.--Funds in an Environmental Fund shall
18 be disbursed only pursuant to an Environmental Framework
19 Agreement under section 302.

20 SEC. 302. ENVIRONMENTAL FRAMEWORK AGREEMENTS.

21 (a) AUTHORITY.--The Secretary of State is authorized, in
22 consultation with other appropriate Government officials, to
23 enter into an agreement (referred to in this Act as an
24 ``Environmental Framework Agreement'') with any country
25 eligible for benefits under the Facility concerning the

1 operation and use of the Environmental Fund for that country.
2 In the negotiation of such agreements, the Secretary shall
3 consult with the Environment for the Americas Board in
4 accordance with section 303.
5 (b) CONTENTS OF AGREEMENTS.--An Environmental Framework
6 Agreement with an eligible country shall--
7 (1) require that country to establish an
8 Environmental Fund;
9 (2) require that country to make interest payments
10 under section 203(b)(1) into an Environmental Fund;
11 (3) require that country to make prompt disbursements
12 from the Environmental Fund to the administering body
13 described in subsection (c);
14 (4) when appropriate, seek to maintain the value of
15 the local currency resources of the Environmental Fund in
16 terms of United States dollars;
17 (5) specify, in accordance with subsection (d), the
18 purposes for which the fund may be used; and
19 (6) contain reasonable provisions for the enforcement
20 of the terms of the agreement.
21 (c) ADMINISTERING BODY.--
22 (1) IN GENERAL.--Funds disbursed from the
23 Environmental Fund in each beneficiary country shall be
24 administered by a body constituted under the laws of that
25 country (referred to in this Act as the ''administering

1 body'').

2 (2) COMPOSITION.--The administering body shall

3 consist of--

4 (A) one or more individuals nominated by the

5 United States Government,

6 (B) one or more individuals nominated by the

7 government of the beneficiary country, and

8 (C) individuals who represent a broad range of

9 environmental nongovernmental organizations of the

10 beneficiary country, local community development

11 nongovernmental organizations of the beneficiary

12 country, and scientific or academic organizations or

13 institutions of the beneficiary country.

14 A majority of the members of the administering body shall

15 be individuals described in subparagraph (C).

16 (3) RESPONSIBILITIES.--The administering body--

17 (A) shall receive proposals for grant assistance

18 from eligible grant recipients (as determined under

19 subsection (e)) and make grants to eligible grant

20 recipients in accordance with the priorities agreed

21 upon in the Environmental Framework Agreement,

22 consistent with subsection (d);

23 (B) shall be responsible for the management of

24 the program and oversight of grant activities funded

25 from resources of the Environmental Fund;

1 ~~(C) shall be subject to fiscal audits by an~~
2 ~~independent auditor on an annual basis;~~
3 *(C) shall be subject, on an annual basis, to an*
4 *audit of financial statements conducted in accordance*
5 *with generally accepted auditing standards by an*
6 *independent auditor;*
7 (D) shall present an annual program for review
8 each year by the Environment for the Americas Board;
9 and
10 (E) shall submit a report each year on the
11 activities that it undertook during the previous year
12 to the Chair of the Environment for the Americas
13 Board and to the government of the beneficiary
14 country.
15 (d) ELIGIBLE ACTIVITIES.--Grants from an Environmental
16 Fund shall be used for activities that link the conservation
17 and sustainable use of natural resources with local community
18 development~~, including activities described in section 463 of~~
19 ~~chapter 7 of part I of the Foreign Assistance Act of 1961 (as~~
20 ~~enacted by the Global Environmental Protection Assistance Act~~
21 ~~of 1989)~~.
22 (e) GRANT RECIPIENTS.--Grants made from an Environmental
23 Fund shall be made to--
24 (1) nongovernmental environmental, conservation,
25 development, and indigenous peoples organizations of the

1 beneficiary country;
2 (2) other appropriate local or regional entities; and
3 (3) in exceptional circumstances, the government of
4 the beneficiary country.
5 (f) REVIEW OF LARGER GRANTS.--Any grant of more than
6 $100,000 from an Environmental Fund shall be subject to veto
7 by the Government of the United States or the government of
8 the beneficiary country.
9 SEC. 303. ENVIRONMENT FOR THE AMERICAS BOARD.
10 (a) ESTABLISHMENT.--There is hereby established an
11 Environment for the Americas Board (hereinafter in this Act
12 referred to as the ``Board'').
13 (b) MEMBERSHIP.--The Board shall be composed of ~~9~~ *11*
14 members appointed by the President as follows:
15 (1) ~~5~~ *6* officers or employees of the United States
16 Government.
17 (2) ~~4~~ *5* individuals who are representatives of
18 private nongovernmental environmental, scientific, or
19 academic organizations that have experience and expertise
20 in Latin America and the Caribbean.
21 The chair of the Board shall be designated by the President
22 from among the members of the Board appointed pursuant to
23 paragraph (1).
24 (c) RESPONSIBILITIES.--The Board shall--
25 (1) advise the Secretary of State on the negotiations

1 of Environmental Framework Agreements;
2 (2) ensure, in consultation with--
3 (A) the government of the beneficiary country,
4 (B) nongovernmental organizations of the
5 beneficiary country,
6 (C) nongovernmental organizations of the region
7 (if appropriate),
8 (D) environmental, scientific, and academic
9 leaders of the beneficiary country, and
10 (E) environmental, scientific, and academic
11 leaders of the region (as appropriate),
12 that a suitable administering body is identified for each
13 Environmental Fund; and
14 (3) review the programs, operations, and fiscal
15 audits of each administering body.
16 *(d)* SUPPLEMENTAL VIEWS IN ANNUAL REPORT ON THE
17 FACILITY.--*Each member of the Board shall be entitled to*
18 *receive a copy of any report to be transmitted to the*
19 *Congress pursuant to section 401 at least 14 days before the*
20 *report is to be so transmitted, to have 14 days within which*
21 *to prepare and submit supplemental views for inclusion in*
22 *such report, and to have those views included in the report*
23 *when it is so transmitted.*
24 SEC. 304. ENCOURAGING MULTILATERAL DEBT DONATIONS.
25 (a) ENCOURAGING DONATIONS FROM OFFICIAL CREDITORS.--The

1 President should actively encourage other official creditors
2 of a beneficiary country whose debt is reduced under this Act
3 to provide debt reduction to such country.
4 (b) ENCOURAGING DONATIONS FROM PRIVATE CREDITORS.--The
5 President shall make every effort to ensure that
6 Environmental Funds established pursuant to section 301 are
7 able to receive donations from private and public entities
8 and from private creditors of the beneficiary country.
9 TITLE IV--~~REPORTS~~ *OTHER PROVISIONS*
10 SEC. 401. ANNUAL REPORT TO CONGRESS.
11 Not later than December 31 of each year, the President
12 shall transmit to the Speaker of the House of Representatives
13 and the President of the Senate an annual report on the
14 operation of the Facility for the prior fiscal year.
15 *SEC. 402. AUTHORITY TO FORGIVE ECONOMIC ASSISTANCE DEBT OWED*
16 *BY NONGOVERNMENTAL ORGANIZATIONS.*
17 *(a)* AUTHORIZATION.--*If the President determines that to*
18 *do so would further the development assistance policies of*
19 *chapter 1 of part I of the Foreign Assistance Act of 1961,*
20 *the President may, on a case-by-case basis, release any*
21 *nongovernmental organization from its obligation to make such*
22 *payments to the United States Government as the President may*
23 *determine on account of loans made to that organization under*
24 *part I of that Act (22 U.S.C. 2151 and following) or*
25 *predecessor economic assistance legislation, subject to*

1 *subsection (b) of this section.*

2 *(b)* FEDERAL CREDIT REFORM ACT REQUIREMENTS.--*The*

3 *authority of subsection (a) may be exercised only to the*

4 *extent that the budget authority for the resulting additional*

5 *cost (within the meaning of the Federal Credit Reform Act of*

6 *1990) has been provided in advance in appropriations Acts.*

102D CONGRESS
1ST SESSION

H. R. 1608

To promote the development of microenterprises in developing countries.

IN THE HOUSE OF REPRESENTATIVES

MARCH 22, 1991

Mr. FEIGHAN (for himself, Mr. GILMAN, Mr. GEJDENSON, Mr. WOLPE, Mr. JOHNSTON of Florida, Mr. MURPHY, Mr. BLAZ, Mr. LEVINE of California, Mr. MILLER of Washington, Mr. BEREUTER, Mr. ORTON, Mr. ENGEL, and Mr. HOUGHTON) introduced the following bill; which was referred to the Committee on Foreign Affairs

---

A BILL

To promote the development of microenterprises in developing countries.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE.**
4 This Act may be cited as the "Microenterprise Devel-
5 opment Act of 1991".
6 **SEC. 2. FINDINGS.**
7 The Congress makes the following findings and dec-
8 larations:

1 (1) More than a billion people in the developing
2 world are living in poverty, with incomes of less than
3 $370 a year.
4 (2) According to the World Bank, mortality for
5 children under 5 averaged 121 per thousand for all
6 developing countries.
7 (3) Nearly 40,000 children die each day from
8 malnutrition and disease.
9 (4) Poor people themselves can lead the fight
10 against hunger and poverty through the development
11 of self-sustaining microenterprise projects.
12 (5) Women in poverty generally are less edu-
13 cated, have a larger workload, and have less access
14 to economic opportunity than their male counter-
15 parts. Directly aiding women in the developing world
16 has a positive effect on family incomes, child nutri-
17 tion, and health and education.
18 (6) Microenterprise development offers the op-
19 portunity for the poor to play a central role in un-
20 dertaking strategies for small scale, self-sustaining
21 businesses that can bring them out of poverty.
22 (7) The World Bank estimates that there are
23 over 400,000,000 self-employed poor in the develop-
24 ing world and projects that, by the year 2020, 95

1 percent of African workers will be employed in the
2 informal sector.
3 (8) For many people, lack of credit creates an
4 obstacle to the development of self-sustaining enter-
5 prises.
6 (9) Projects like the Grameen Bank of Ban-
7 gladesh, the Badan Kredit Kecamatan in Indonesia,
8 and ADEMI in the Dominican Republic have been
9 successful in promoting credit programs that have
10 lent money directly to the poor. Repayment rates in
11 these programs are 95 percent or higher indicating
12 that it is possible to "bank on the poor".
13 (10) The Agency for International Development
14 has been a leader in small and microenterprise devel-
15 opment in the past 20 years.
16 (11) The Congress earmarked funds for fiscal
17 years 1988, 1989, 1990, and 1991 for
18 microenterprise development activities and has called
19 upon the Agency for International Development to
20 take steps to ensure that its microenterprise activi-
21 ties included a credit component designed to reach
22 the poorest sector of the developing world.
23 (12) In 1989, the Agency for International De-
24 velopment created the Office of Small and
25 Microenterprise Development within the Bureau for

1 Private Enterprise to lead and coordinate the Agen-
2 cy's microenterprise efforts.
3 (13) In March 1990, the Agency for Inter-
4 national Development reported that new spending
5 for microenterprise development was $58,800,000
6 for 1988 and $83,300,000 for 1989 and that the av-
7 erage loan size for the credit component of the pro-
8 gram averaged $329 for 1988 and $387 for 1989.
9 However, less than 10 percent of the spending for
10 the 1988 program, and less than 7 percent of the
11 spending for the 1989 program, was for loans of
12 under $300.
13 (14) A February 1991 report by the General
14 Accounting Office indicated that data in that March
15 1990 report was of "questionable validity" and that
16 the Agency for International Development did not
17 have a system to track detailed information concern-
18 ing its microenterprise credit activities. Fur-
19 thermore, the General Accounting Office found that
20 none of the three missions that it visited targeted
21 their microenterprise projects specifically to women
22 or to the poorest 20 percent of the population, as
23 recommended by the Congress.
24 (15) The Congress recognizes that provision of
25 credit alone may not be sufficient to generate oppor-

1 tunities for successful microenterprise development
2 and that assistance focused in the areas of institu-
3 tional development, technical assistance, training,
4 and policy reform may also be appropriate for assist-
5 ing microenterprise development.
6 (16) The Agency for International Development
7 has indicated its willingness to explore the idea of
8 holding a series of regional workshops on
9 microenterprise development. The Congress encour-
10 ages the Agency to include in these workshops op-
11 portunities for training Agency personnel and Unit-
12 ed States and indigenous private and voluntary or-
13 ganizations in activities designed to reach the poor-
14 est of the poor.
15 SEC. 3. PURPOSES.
16 The purposes of this Act are—
17 (1) to provide for the continuation and expan-
18 sion of the commitment of the Agency for Inter-
19 national Development to microenterprise develop-
20 ment;
21 (2) to increase the amount of assistance going
22 to credit activities designed to reach the poorest sec-
23 tor in developing countries; and
24 (3) to increase the percentage of such credit
25 that goes to women beneficiaries.

1 SEC. 4. ASSISTANCE FOR MICROENTERPRISE DEVELOP-
2 MENT.

3 (a) GENERAL AUTHORITY.—The President, acting
4 through the Administrator of the Agency for International
5 Development, is authorized to provide assistance for pro-
6 grams of credit and other assistance for microenterprises
7 in developing countries. In addition to providing financial
8 resources for direct credit activities of indigenous financial
9 intermediaries, assistance under this Act may include as-
10 sistance for institutional development of such
11 intermediaries (including assistance to enable private and
12 voluntary organizations to develop the capability to serve
13 as financial intermediaries), technical assistance, training,
14 and policy reform. Microenterprise credit and related ac-
15 tivities assisted under this Act shall be carried out pri-
16 marily through those indigenous financial intermediaries
17 and private and voluntary organizations that are oriented
18 toward working directly with the poor and women.

19 (b) ELIGIBILITY CRITERIA FOR FINANCIAL
20 INTERMEDIARIES.—The mission of the Agency for Inter-
21 national Development that is responsible for a country re-
22 ceiving assistance under this Act shall establish criteria
23 for determining the financial intermediaries that will re-
24 ceive assistance under this Act, taking into account the
25 following:

1 (1) The extent to which the recipients of credit
2 from the intermediary lack collateral.
3 (2) The extent to which the recipients of credit
4 from the intermediary do not have access to the
5 local formal financial sector.
6 (3) The extent to which the recipients of credit
7 from the intermediary have relatively limited
8 amounts of fixed assets.
9 (4) The extent to which the recipients of credit
10 from the intermediary are among the poorest people
11 in the country.
12 (5) The extent to which interest rates charged
13 by the intermediary on loans reflect the real cost
14 of lending.
15 (6) The extent to which the intermediary
16 reaches women as recipients of credit.
17 (7) The extent to which the intermediary is ori-
18 ented toward working directly with the poor and
19 women.
20 (c) LOWER TIER FOR POVERTY LENDING ACTIVI-
21 TIES.—A significant portion of the amount made available
22 each fiscal year to carry out this Act shall be used to sup-
23 port direct credit assistance by, and the institutional devel-
24 opment of, those financial intermediaries with a primary

1 emphasis on assisting those people living in absolute pov-
2 erty, especially women.

3 (d) FOCUS ON WOMEN.—The Office of Small and
4 Microenterprise Development in the Agency for Inter-
5 national Development shall include in its annual action
6 plans a strategy for increasing the access of women in de-
7 veloping countries to credit and other microenterprise de-
8 velopment activities, with the goal of increasing to at least
9 50 percent the percentage of microenterprise credit that
10 goes to women beneficiaries. This strategy shall be devel-
11 oped in consultation with the Agency's Women in Develop-
12 ment Office.

13 SEC. 5. FUNDING SOURCES.

14 (a) SOURCES.—Funds to carry out this Act shall be
15 derived from the following sources:

16 (1) Funds available to carry out chapter 1 of
17 part I of the Foreign Assistance Act of 1961 (relat-
18 ing to the functional development assistance ac-
19 counts).

20 (2) Funds available to carry out chapter 10 of
21 part I of that Act (relating to the Development
22 Fund for Africa).

23 (3) Funds available to carry out chapter 4 of
24 part II of that Act (relating to the economic support
25 fund).

1 (4) Local currency accruing as a result of as-
2 sistance provided under chapter 1 of part I, chapter
3 10 of part I, or chapter 4 of part II of that Act.
4 (5) Local currency proceeds available for use
5 under section 306(a)(9) of the Agricultural Trade
6 Development and Assistance Act of 1954 (as amend-
7 ed by section 1512 of the Food, Agriculture, Con-
8 servation, and Trade Act of 1990 (Public Law 101-
9 624)).
10 (6) Local currency which accrues as a result of
11 assistance provided under the Agricultural Trade
12 Development and Assistance Act of 1954 as in effect
13 immediately before the effective date of the amend-
14 ment made by section 1512 of the Agricultural De-
15 velopment and Trade Act of 1990.
16 (7) Local currency generated under subsection
17 (b) of this section.
18 (b) AUTHORITY TO GENERATE LOCAL CUR-
19 RENCIES.—In order to generate local currencies for use
20 in providing assistance under this Act, the President is
21 authorized to use funds made available to carry out chap-
22 ter 1 of part I, chapter 10 of part I, or chapter 4 of part
23 II of the Foreign Assistance Act of 1961 to provide assist-
24 ance to the governments of developing countries on a loan
25 basis repayable in local currencies, at a rate of exchange

1 to be negotiated by the President and the foreign govern-
2 ment. Such loans shall have a rate of interest and a repay-
3 ment period determined by the President. Section 122 of
4 the Foreign Assistance Act of 1961 shall not apply with
5 respect to loans pursuant this subsection.

6 (c) NONAPPLICABILITY OF CERTAIN LAWS.—Local
7 rencies used under this section shall not be subject to
8 requirements of section 1306 of title 31, United States
9 le, or other laws governing the use of foreign currencies
10 ed by, owed to, or accruing to the United States.

11 . 6. FUNDING LEVELS FOR FISCAL YEARS 1992 AND 1993.

12 (a) MINIMUM LEVEL OF ASSISTANCE.—The Admin-
13 istrator of the Agency for International Development shall
14 use not less than $85,000,000 for fiscal year 1992, and
15 not less than $85,000,000 for fiscal year 1993, for
16 microenterprise assistance pursuant to this Act.

17 (b) ASSISTANCE FOR THE POOREST SECTORS.—

18 (1) MINIMUM FUNDING LEVEL.—Of the
19 amounts used pursuant to subsection (a), not less
20 than $20,000,000 for fiscal year 1992 and not less
21 than $30,000,000 for fiscal year 1993 shall be used
22 to support loans having a purchasing power equal to
23 or less than $300 (in United States dollars).

24 (2) CRITERIA FOR ATTRIBUTION TO MINIMUM
25 FUNDING LEVEL.—Ih addition to amounts made

1 available for direct credit activities involving loans
2 having a purchasing power equal to or less than
3 $300 (in United States dollars), amounts used for
4 institutional development of a financial intermediary
5 described in section 4(c) shall be considered to sup-
6 port such loans for purposes of paragraph (1) to the
7 same extent as the aggregate amount loaned by such
8 institution represents loans having a purchasing
9 power equal to or less than $300 (in United States
10 dollars).

11 (c) USE OF LOCAL CURRENCIES.—In order to meet
12 the minimum funding requirements of this section, local
13 currencies described in section 5(a) may be used in lieu
14 of an equivalent amount of dollars.

15 SEC. 7. MONITORING OF MICROENTERPRISE ASSISTANCE
16 ACTIVITIES.

17 The Administrator of the Agency for International
18 Development shall develop a monitoring system to evalu-
19 ate the Agency's microenterprise development activities,
20 including their effectiveness in reaching the poor and
21 women and their overall impact on economic development
22 in each beneficiary developing country. In developing this
23 system, the Administrator shall consult with the Congress
24 and with appropriate private and voluntary organizations.

1 **SEC. 8. REPORTS TO CONGRESS.**

2 The Administrator of the Agency for International
3 Development shall report to the Congress annually on the
4 Agency's microenterprise development activities, including
5 the Agency's strategy for complying with the minimum
6 funding requirements of sections 6(a) and (b).

O

APPENDIX 2

DANTE B. FASCELL, Florida,
Chairman

LEE H. HAMILTON, Indiana
BUD YATRON, Pennsylvania
STEPHEN J. SOLARZ, New York
HOWARD WOLPE, Michigan
SAM GEJDENSON, Connecticut
MERVYN M. DYMALLY, California
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
MEL LEVINE, California
EDWARD F. FEIGHAN, Ohio
TED WEISS, New York
GARY L. ACKERMAN, New York
MORRIS K. UDALL, Arizona
JAIME B. FUSTER, Puerto Rico
WAYNE OWENS, Utah
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American Samoa
BARNEY S. STUDDS, Massachusetts
AUSTIN J. MURPHY, Pennsylvania
PETER H. KOSTMAYER, Pennsylvania
THOMAS M. FOGLIETTA, Pennsylvania
FRANK McCLOSKEY, Indiana
THOMAS C. SAWYER, Ohio
DONALD M. PAYNE, New Jersey
BILL ORTON, Utah

JOHN J. BRADY, JR.
Chief of Staff

One Hundred Second Congress

Congress of the United States

Committee on Foreign Affairs

House of Representatives

Washington, DC 20515

WILLIAM S. BROOMFIELD, Michigan
Ranking Minority Member

BENJAMIN A. GILMAN, New York
ROBERT J. LAGOMARSINO, California
WILLIAM F. GOODLING, Pennsylvania
JOE LEACH, Iowa
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
JOHN MILLER, Washington
GEN GLEE, Ohio
ELTON GALLEGLY, California
ARCHER HOUGHTON, New York
PORTER J. GOSS, Florida
ILEANA ROS-LEHTINEN, Florida

JOHN M. SINCLAIR
Minority Chief of Staff

April 30, 1991

The Honorable Dante B. Fascell
Chairman
Committee on Foreign Affairs
2170 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Fascell:

The Subcommittee on International Economic Policy and Trade met on April 18, 1991, to mark up three pieces of legislation. The first is comprised of amendments to those sections of the Foreign Assistance Act that fall within the jurisdiction of the Subcommittee. The second piece of legislation is H.R. 964, the authorization of the Enterprise of the Americas Initiative. The third is H.R. 1608, the Microenterprise Development Act of 1991.

The sections within the Foreign Assistance Act amended by the Subcommittee fall within the so-called "trade and aid" provisions. Attached is the document entitled "Recommendations of the Subcommittee on International Economic Policy and Trade to the Foreign Aid Bill," along with the Subcommittee's report language.

The provisions approved by the Subcommittee are as follows:

The Subcommittee terminates the authority of the Private Sector Revolving Fund to furnish assistance, loans or guarantees as of September 30, 1991. This provision reflects the conclusion by the Subcommittee that A.I.D. has failed, despite repeated expressions of concern by this Subcommittee, to improve the management and effectiveness of this program. Furthermore, the Subcommittee is unable to see how this program, as it is currently implemented, enhances economic development. The termination of this program will result in a savings within the foreign assistance act of some portion of the $57 million that A.I.D. requested in its testimony before this Subcommittee.

The Subcommittee proposes to keep the Housing Investment Guarantee Program, or "HIG", at its current $150 million level and to broaden its mandate to include assistance in urban infrastructure. Wherever possible, we have used the language from H.R. 2655, which was passed by the House in 1989. Any other changes are reflections of

credit reform. The Administration has requested $100 million in guarantee authority for the Housing Investment Guarantee Program.

We propose to make a number of changes to the Overseas Private Investment Corporation. First, we would keep the language passed by the House in H.R. 2655 which essentially updates OPIC's original legislation and eliminates outdated programs. We would also eliminate the language restricting OPIC's programs in the PRC since there is already language in the Foreign Assistance Act restricting OPIC's activities if human and/or labor rights violations exist and in P.L. 101-246 (Title IX, sections 901 and 902 of the Foreign Relations Authorization Act, Fiscal Years 1990 and 1991).

The remaining changes reflect compliance with the Federal Credit Reform Act of 1990. The Credit Reform Act requires OPIC to place its credit programs on budget. It separates OPIC's assets into two accounts: credit and non-credit. The credit accounts are controlled by the Treasury, while the non-credit accounts remain under OPIC's control. Both accounts are physically held in the Treasury. Since there is over $1.4 billion in assets in the non-credit account revolving fund, we have provided OPIC with the authority to use funds available in its non-credit account revolving fund to cover estimated subsidy costs of its credit programs and its administrative costs, approximately $18.3 million. The interest alone on this account will more than pay for these programs. For 1990, the interest on this reserve account totaled $149.4 million --eight times the amount we would utilize.

This legislation enables OPIC to continue to operate without appropriated funds and, therefore, frees up funds in the Foreign Assistance Account - about $18.3 million - for other purposes. This would also enable OPIC to maintain its status as a self-sustaining agency within the U.S. Government.

The legislation would rename the Trade and Development Program, the Trade and Development Agency, which will be an independent agency under the foreign policy guidance of the State Department. It would also expand the Agency's mandate to cover the preliminary stages of engineering design. We propose an authorization of $58 million in fiscal year 1992 and $70 million for fiscal year 1993. Despite the fact that TDP now generates $70 of exports for every dollar it spends on feasibility studies, the Administration had proposed only $35 million for fiscal year 1992. The House Budge Committee has authorized $58 million for this program for fiscal year 1991.

In addition there was an amendment offered by Mr. Miller (R-WA) and approved by the Subcommittee regarding industrial cooperation projects in China and Tibet. The amendment establishes a set of principles for business to voluntarily abide by when conducting business in the People's Republic of China and Tibet. The principles include the creation of a working environment which permits free speech, association and press and the establishment of a safe, environmentally sound workplace which prohibits the use of goods made by forced labor in the manufacturing process. The State Department

will submit an annual written report on whether or not U.S. companies are in compliance with the principles. Those companies not in compliance would be ineligible for export marketing support from the U.S. government.

The second piece of legislation is H.R. 964. H.R. 964 authorizes the implementation of the foreign assistance provisions of the Enterprise for the Americas Initiative. An amendment by Congressman Johnston (D-FL) to permit the President to forgive the debt owed by non-profit private institutions in Latin America to the Agency for International Development was accepted. The Subcommittee also accepted another amendment that I offered to modify the eligibility criteria, to increase the membership on the Enterprise for the Americas Board, to allow members of the Board to offer supplementary views to the annual report and to establish a spending cap of $285 million in FY 1992 and $182 million in FY 1993.

This Subcommittee (and the Subcommittee on Western Hemisphere) has a number of concerns regarding this legislation. Although some of these concerns have been addressed by the Department of Treasury, I would like to reserve the right of the Subcommittee to include relevant report language in the full committee's report regarding any remaining concerns.

Finally, the Subcommittee reports H.R. 1608, the Microenterprise Development Act of 1991. This bill formally authorizes the implementation of A.I.D.'s microenterprise development program. H.R. 1608 is the result of extensive cooperation and consultation between the Congress, the Agency for International Development, and the many private organizations that implement microenterprise and poverty lending programs. H.R. 1608 reflects the efforts of the Subcommittee to understand the constraints facing A.I.D. in reaching the poorest sector. The Subcommittee recognizes that access to credit alone may not be appropriate or sufficient for generating opportunities for successful microenterprise development. The Subcommittee embraces A.I.D.'s current four-pronged approach aimed at providing credit, institution strengthening, training and technical assistance and policy reform. However, the Subcommittee believes that "poverty-lending" should be an essential component of A.I.D.'s overall microenterprise activities.

Within its general authority to conduct microenterprise activities, the legislation calls upon A.I.D. to devote a portion of its work to poverty lending activities. The legislation lays out reasonable benchmarks for funding poverty lending activities over the next two fiscal years. In Section 6(b)(1) of the bill, A.I.D. is directed to disburse $20 million for loans of $300 or less in fiscal year 1992 and $30 million in 1993. That leaves $65 million in fiscal year 1992 and $55 million in fiscal year 1993 for other microenterprise activities including loans greater than $300.

The Subcommittee also agrees with A.I.D. and the poverty lending community that reviewing the aggregate of loans of $300 or less is an imperfect mechanism to ascertain whether or not A.I.D. is able to

address the microenterprise needs of the poorest of the poor. However, in the absence of a more precise measurement, it was agreed among the organizations that implement this program (financial intermediaries) that this measurement was a workable alternative for accomplishing the objectives of the legislation. The two-tiered credit component in the legislation should be viewed as a compromise between A.I.D. and those who implement poverty lending programs.

Should you have any questions or concerns regarding this legislation, please give me a call. I look forward to working with you to ensure a smooth mark-up at the full committee.

Sincerely,

Sam Gejdenson
Chairman
Subcommittee on International
Economic Policy and Trade

O