THE FEASIBILITY OF LOCAL CURRENCY PROGRAMMING FOR PRIVATE ENTERPRISE DEVELOPMENT

February 15, 1984*

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By Ludwig Rudel

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SECTION I - SCOPE AND PURPOSE OF THE STUDY

This study was commissioned by the Office of Private Enterprise, AID, on behalf of the Private Sector Liaison Council. The Agency for International Development (AID) has, during the past several months, considered the feasibility of increasing its involvement in the programming of local currencies (L/C) generated by PL 480 Title I sales and the commodity import programs financed with AID appropriations. The purpose of such involvement by AID and its Missions abroad would be to redirect these local currencies from their present uses to other applications that would enhance or facilitate the achievement of AID's development objectives (i.e., private sector development).

In essence, AID is seeking ways to maximize the utilization of all resources that are available to it. Its dollar appropriated resources are allocated through an elaborate programming process for activities of the highest priority to meet AID development goals and objectives in AID recipient countries. AID also has some influence or control over certain local currencies generated from current or prior year programs (PL 480 sales and FAA loans and grants) and would like to assure itself that its command over these resources is also exercised to best serve its development objectives.

More specifically, this study is to cover the following six areas:

1. Review past AID and OPIC efforts to use local currency proceeds for private sector development, including capitalization of IFIs, Cooley loans, IESC, etc., specifically to identify appropriate and successful uses of local currency as opposed to dollar funding.

2. Review and draft new directives to the field for programming of counterpart generated by CIP, PL 480 Title I and Title II for private enterprise development initiatives, including specific concepts and project ideas based on paragraph 1 above.

3. Identify countries where the nature of economic and political conditions, CIP or PL 480 Title I programs provide a developmental context in which this program can be implemented in FY 1984-85 time frame.

4. Review and, if needed, propose revisions to applicable agreements which will further policy objectives.

5. Review issues related to deposit of U.S.-owned local currencies in private banking institutions abroad.

6. Examine and make recommendations on specific design criteria such as: (a) packaging U.S. dollar and/or other donor resources with local currency, and (b) utilizing local professional expertise.

Critical Considerations

It would be well to recognize, at the start of our explorations, that we are seeking means by which AID might employ additional resources to meet AID program objectives. Local currencies can always be generated by purchasing them with appropriated dollars. But such action merely trades one resource for another and does not create any additionality for AID programs. Thus, the introduction of a "currency use payments" (CUP) clause in a PL 480 agricultural commodity sales agreement, to set aside an amount of local currency to be generated under the agreement, would have little interest for AID since AID would have to purchase these local currencies from the U.S. Treasury with its appropriated dollars.

It is intended that this study be used by the Private Sector Liaison Council to recommend approaches for the Agency to increase benefits toward achievement of AID goals and objectives by shifting local currency resources from present uses to those designed to enhance private enterprise development in the recipient nation. The private sector is but one claimant competing among a number of important development sectors included in AID's programs with host governments. There will inevitably be trade-offs between the currently existing claimants for l/c resources and any proposals to shift those resources into the private sector. Decisions to reallocate resources inevitably require a judgement call, weighing the benefits to be derived from such a shift against the cost to the existing recipients of those resources. The purpose of this study is to help illuminate the choices available to AID so that the choices can be more effectively evaluated by those who are asked to make that judgement.

SECTION II - EXISTING AGENCY GUIDANCE

The issue of whether, when, and how AID is to involve itself in the programming of local currencies generated either under the PL 480 program or the AID commodity import program, has long and deep roots. It has been explored and reviewed on several occasions at the most senior levels of the Agency during the past ten years. Differences in policy which resulted from these reviews are only a question of emphasis or degree. There has been universal recognition that individual country situations differ and that different approaches are required by different AID missions at different times with respect to programming L/C in recipient countries.

AID has never categorically issued policy guidance mandating that all AID Missions act uniformly in this matter. The guidance has invariably laid out certain parameters and a framework within which AID Missions are expected to examine the local conditions and to make a judgement, year by year, whether a greater or lesser degree of involvement is required. The only exception to this was the so called "Cooley Amendment" to the PL 480 surplus Agricultural Commodities Act. This program is discussed in detail in Section V below.

The most recent manifestation of concern by AID with respect to the matter of programming L/C is contained in a circular telegram (State #276001 dated September 22, 1983), from the Administrator to all AID principal officers. The message is quoted in its entirety below.

AIDAC - FOR PRINCIPAL AID OFR FROM ADMINISTRATOR MCPHERSON

E.O. 12356: N/A

TAGS:

SUBJECT: MISSION PLANS FOR USE OF CIP AND PL 480 LOCAL CURRENCY GENERATIONS

1. AS MOST OF YOU ARE AWARE, I HAVE MADE A DETERMINED EFFORT TO PROMOTE THE USE OF CIP AND PL 480 LOCAL CURRENCY GENERATIONS FOR DEVELOPMENT PURPOSES. EFFECTIVELY INTEGRATING THE USE OF THESE IMPORTANT RESOURCES WITH OTHER TYPES OF DEVELOPMENT ASSISTANCE SHOULD ENHANCE THEIR OVERALL DEVELOPMENT IMPACT. THIS IS EVEN MORE IMPORTANT IN PERIODS OF BUDGET STRINGENCIES WHICH THE AGENCY NOW FACES AND WILL LIKELY CONTINUE TO FACE FOR SOME TIME. I AM VERY PLEASED WITH PROGRESS SO FAR IN THIS REGARD, BUT I BELIEVE THAT FURTHER PROGRESS IS POSSIBLE IF MORE ATTENTION IS DEVOTED TO IT.

2. MANAGEMENT OF THESE RESOURCES COULD BE ENHANCED, IN MY OPINION, THROUGH PREPARATION OF MISSION PLANS FOR THE USE OF CIP AND PL 480 LOCAL CURRENCY GENERATIONS.

3. I HAVE ASKED PPC TO COORDINATE WITH GEOGRAPHIC BUREAUS AND CENTRAL BUREAUS IN DEVELOPING A GUIDANCE MESSAGE TO FIELD MISSIONS FOR PREPARATION OF SUCH PLANS. THIS GUIDANCE WILL INDICATE GENERALLY THE KINDS OF ACTIVITIES WHICH ARE APPROPRIATE FOR PROGRAMMING INCLUDING THE USE OF LOCAL CURRENCY TO STIMULATE PRIVATE ENTERPRISE. IN INITIATING THIS EFFORT, WE RECOGNIZE THAT PATTERNS HAVE BEEN ESTABLISHED IN MANY COUNTRIES WITH HOST GOVERNMENTS WITH RESPECT TO LOCAL CURRENCY PROCEEDS WHICH WILL IMPACT ON MISSION FLEXIBILITY TO NEGOTIATE LOCAL CURRENCY USES. THE PURPOSE OF THIS MESSAGE IS TO ALERT YOU TO A FORTHCOMING GUIDANCE MESSAGE SO YOU CAN CONSIDER HOW YOU AND YOUR STAFF WILL APPROACH THE DEVELOPMENT OF SUCH A PLAN. YY

UNCLASSIFIED

As of this writing, AID has not sent to its Missions, the guidance message promised by the Administrator.

Policy Determination #5 (PD-5) issued by AID on February 22, 1983 is the prevailing policy guidance of the Agency with respect to the programming of l/c generated from PL 480 sales. The policy determination does not address l/c generated by programs financed from AID appropriations.

PD-5 states, "When it is determined that AID should become more actively involved..." certain policy guidelines shall apply. It does not provide guidance indicating who is responsible for making this determination of whether and when and to what degree AID should become more actively involved in the programming of l/c. A review of the Agency CDSS guidance to the field for FY-83, FY-84, and FY-85 discloses that none of these guidance messages contain requests for AID Missions to recommend whether greater or lesser involvement by AID in the programming of l/c is desirable in terms of the CDSS strategy developed by the Mission.

The most recent guidance from AID/Washington on the matter of programming l/c is contained in AIDTO Circular A 333 dated June 23, 1976. Seven years after its issuance it is still the Agency's policy guidance. This message reviews the subject in terms of prevailing conditions in 1976 and concludes that the Agency's previous guidance, issued in 1972, is in need of some modification.

In 1972, AID had adopted a new policy with respect to country owned l/c proceeds from the sale of PL 480 Title I and AID financed program loans. In order to reduce direct U.S. involvement in the affairs of AID recipient countries and to simplify program procedures, the recipient governments were no longer required to deposit these proceeds in segregated accounts and Missions were no longer required to approve their uses except when necessary to effectuate the purpose of the aid or in exceptional circumstances where otherwise justified. That decision was reviewed in

1976 and it was determined that in some (but not necessarily all) country situations, more active AID participation in programming of l/c proceeds generated with U.S. AID could enhance its ability to influence a recipient's policies and thereby improve the quality and quantity of the recipient's development effort. Thus, AID policy was revised in 1976 to require Mission examination of the merits of more activate participation of the programming of l/c and to encourage its use as another AID tool in those countries where it promises to be effective. In accordance with the change in policy emphasis, each Mission which expected PL 480 Title I or AID financed commodity imports to generate l/c proceeds, was requested to analyze its situation to determine whether a more active role in counterpart programming would be useful in its host country.

That guidance message, (AIDTO Circular A 333 dated June 23, 1976) also provided AID Missions with a list of considerations which they were to explore on a systematic and regular basis to make such a determination. Annex I to this paper is an extract of the issues and questions which were provided as guidance to Missions in the 1976 message.

The implicit assumption contained in the guidance of 1976 was that the Mission would review conditions prevailing in their respective host countries and would, on a periodic basis, make recommendations to AID/Washington prescribing the appropriate role and involvement of the Mission in the programming of l/c. AID/Washington would then have the perrogative of approving or disapproving the Mission's recommendation.

It is not clear to what extent this practice was followed subsequent to 1976. It is clear however, that no discussions of l/c programming has been held between Missions and AID/Washington on any systematic basis in the course of the annual program reviews for FY-83, FY-84, or FY-85. Nor was such an examination demanded by AID/Washington.

The shortcoming in current AID guidance to the field with respect to the programming of l/c therefore rests in the area of identifying the responsible entity and the procedure to be used to make the determination whether or not it would be useful for AID to become more actively involved in programming local currency in any of the AID recipient countries.

It would also seem useful to update the criteria which are to be used in evaluating conditions for making such a determination. The existing guidance of 1976, while still valid, could profit from updating to reflect current agency policies and program goals. In a later section of this report, recommendations are made for issuance of such guidance to the field.

Recent Events Impinging on AID Local Currency Programming Activity

The need for Agency guidance with respect to the programming of l/c takes on increased significance in light of the four recommendations of the Commission on Security and Economic Assistance (the Carlucci Commission report). The relevant recommendations read:

INCREASE PROGRAM EMPHASIS ON SCIENCE AND TECHNOLOGY

The Commission recommends greater programming emphasis be given to science and technology-related development assistance that would also be available, on a mutually cooperative basis, to middle-income and newly industrialized countries.

PROMOTE THE PRIVATE SECTOR

The Commission endorses the use of our bilateral and multilateral cooperation programs to promote and encourage the growth of indigenous private sectors and U.S. private sector contributions to the development process. The strengthening of free trade unions and the promotion of employment-oriented development strategies, in an environment conducive to free enterprise, are integral to sound long-term growth and security. Both bilateral and multilateral programs should be used to achieve appropriate policy reforms and to support these objectives wherever feasible.

SUPPORT DEVELOPMENT OBJECTIVES OF P.L. 480

Requirements for P.L. 480 assistance will continue, particularly in Africa. The Commission recommends that special attention be given to those needs. Whenever possible, P.L. 480 resources should be used in connection with other forms of economic assistance to maximize development impact.

INCREASE CONCESSIONALITY IN MILITARY ASSISTANCE

The Commission believes that the U.S. Government should consider the same economic factors in determining the concessionality of military assistance as it considers in determining the concessionality of economic assistance and provide the level appropriate to conditions in each recipient country.

If adopted, the last of these four recommendations would produce significant increases in l/c generations for certain AID recipient countries. These l/c generations could be programmed for economic development purposes.

SECTION III - EXISTING AID USES OF LOCAL CURRENCY

The legal ownership, character and degree of control which AID may exercise over l/c in U.S. government accounts will vary depending on the source from whence the l/c was generated. In earlier years PL 480 Title I sales were made for l/c. These l/c payments were then "owned" by the U.S. A portion of these l/c generations were earmarked for "country uses" and could be programmed by the AID Missions on a grant or loan basis without further congressional appropriation action. Subsequently, Title I sales were shifted to dollar repayable terms but the repayments were scheduled over a long term (40 years) and at highly concessional interest rates.

Under the dollar repayable terms of sale, ownership of the l/c generated from the sale of the agricultural commodities by the recipient government in their local markets rests with the recipient government, not with the U.S. The U.S. can insist on including provisions in the sales agreement permitting AID control over the release of these funds because of the concessionality of the terms. If the recipient government agrees, AID may insist on a right to program these funds for specific uses. But the willingness of the recipient government to allow such control by AID is often dependent on the political leverage it can and wants to apply. For example, l/c generated from PL 480 Title I sales to Egypt are not even deposited into a special account, let alone programmed for specific uses.

In this section we will examine the various categories of l/c over which AID has some direction.

A. U.S. Owned Local Currency

A number of countries currently have deposits of "U.S. owned" l/c that were generated in previous years from AID or PL 480 programs and are under the control of the U.S. Treasury. These U.S. owned, Treasury managed, l/c now on deposit in U.S. accounts were generated in previous years from PL 480 Title I sales for l/c. There are only two countries with significant deposits of such funds (India and Pakistan). These funds are assets of the U.S. government but are categorized "excess" to U.S. uses and special conditions apply to the availability of these funds for AID programs or programs of other U.S. government agencies. In most instances, these funds are subject to the U.S. Congressional appropriation process. When such funds fall below the level of estimated U.S. government requirements for a two-year period, the U.S. Treasury changes the classification of the currency from "excess" status to a "near-excess" status and more restrictive procedures are followed in drawing down the remaining balances. Generally the funds are reserved to meet the administrative costs of U.S. Embassies abroad and for sale to U.S. government agencies in exchange for appropriated dollars. Thus, the Treasury obtains dollars from the sale of these l/c.

B. Recipient Country Owned Local Currency

Since the terms of Title I sales are currently dollar repayable, ownership of currencies that are now generated from PL 480 Title I sales rests with the borrower. The legalities are quite clear. The l/c is owned by the borrower who has accepted liability for dollar repayment at some time in the future, in payment for the commodities that were delivered under the PL 480 program. This is also true of loan financed AID commodity import programs. AID involvement in the programming of these l/c is based on the concessionality of the terms and the extent to which the recipient government is willing to tolerate AID involvement.

In the spring of 1983, the Bureau of Policy and Program Coordination together with the Bureau for FVA was asked to conduct a survey of current practices by AID Missions and recipient governments in the allocation of L/C generated from these programs. A report prepared by Donald G. McClelland, PPC, analyzed the responses from 26 AID Missions. The results were transmitted to the Administrator through an information memorandum prepared on June 15, 1983 by Frederick Schieck and Charles Gladson. (See Annex II.)

Briefly, the analysis discloses that the largest and most politically sensitive programs (Egypt) do not even have an ex-post attribution for Title I sales proceeds. In fact, Egypt was not included in the survey at all. In those countries where local currencies are programmed by the Missions there is a "broad continuum from what can be called attribution to allocation with full additionality." The memorandum further states, "In all cases however, we believe there is not full additionality in the allocations; a trading process usually goes on, with the Mission agreeing on using sales proceeds for some ongoing host government development projects in return for getting host government agreement to use sales proceeds for some projects desired by the USAID that are additional to what would otherwise be funded."

My own review of the data would suggest that the preponderance of Mission involvement in this area results in attribution. Very little conclusive evidence is shown that U.S. AID Mission involvement in the programming of l/c actually resulted in the reallocation of resources from what would otherwise have taken place. On the other hand, where l/c is programmed to meet l/c support costs of AID development projects, there is strong reason to believe that the existence of l/c generated from U.S. programs resulted in some reallocation of resources. Absent U.S. programs generating l/c in some countries, it would have been difficult to obtain l/c contributions from the host government to assure support for AID development projects.

The Schieck/Gladson memorandum to the Administrator is attached as Annex II.

SECTION IV - RECENT AID DISCUSSION/STUDY PAPERS RELEVANT TO LOCAL CURRENCY PROGRAMMING

During the past two years the Agency has examined ways in which l/c generated from PL 480 Title I sales and AID's commodity import programs could be better utilized to serve AID's development objectives. Simultaneously, the Bureau for Private Enterprise (PRE) has sought to find ways in which AID resources can be reallocated to increase the total resources available for private enterprise development in AID's recipient countries. More specifically, PRE has sought to shift these funds to finance the needs of the indigenous private sector instead of their traditional allocation for budget support in AID recipient governments and then attributing these funds to the recipient country's development projects.

In the course of examining these two related issues, a number of studies were undertaken which have contributed information, identified certain points of view and offered recommendations for the consideration of AID. Some of the more relevant studies on this subject are reviewed below.

A. Hullander Study

A study was undertaken by Dr. Edwin L. Hullander entitled "Financial Leverage Potential of Local Currency Proceeds Generated from the Food for Peace Program to Stimulate Private Enterprise in Developing Countries." The study was submitted to the Bureau for Food for Peace and Voluntary Assistance on November 2, 1982.

In brief, the study has positive findings for the thesis that PL 480 generated l/c can be leveraged so as to attract additional external private funds to the AID recipient country and also to stimulate internal capital flows "...for productive investment to enhance the role of private enterprise in each stage of the economic development process...." It accomplishes this primarily by reducing exposure and risk of lenders/

investors via the transfer of a portion of their risk to the l/c funds made available through the AID program. The Hullander study makes specific recommendations, then concludes that "AID should conduct a number of pilot studies of selected countries to identify very specific operational criteria for leveraging."

The executive summary and conclusions and recommendations of the study are reproduced as Annex III to this paper.

B. First Washington Associates

The "Final Report on the Use of Counterpart Funds" prepared by First Washington Associates of Washington, D.C. in October 1982 concludes that, "Counterpart funds which have been generated either by PL 480 or by the Foreign Assistance Act programs, as well as 'excess' l/c owned by the U.S. government may be used in ways which complement AID's innovative private sector development initiative." The report identifies certain activities which could be financed with l/c including:

1) Development of relevant in-country management expertise;
2) Make loans to develop promotional programs which would encourage multilateral trade, economic development and agriculture;
3) Encourage the growth of an infra-structure supportive of private sector enterprise growth;
4) Facilitate private U.S. and local investors to invest in priority development areas which would result in appropriate technology transfers.

In its discussion of sources of l/c to finance the private enterprise activities in developing countries, the First Washington Associates report did not focus on the issue of additionality. In many of its findings the report suggests that AID's dollar appropriated funds should, in effect, be utilized to purchase the l/c which would then be made available for private enterprise development. One can argue that private enterprise activities enjoy a high priority with respect to the programming of AID's dollar appropriations. However, the report is not particularly helpful with respect to the question of utilizing available l/c and reallocating them in such a manner as to increase AID's resource base with respect to its availabilities to achieve its development objectives.

The study contains a listing of countries which have counterpart generating programs for FY 1983 in excess of $25 million. This table is reproduced below because it will help us to identify those countries which offer some opportunities for the programming of l/c for private enterprise activities. The findings and recommendations of the First Washington Associates report is attached to this report as Annex <u>IV</u>.

COUNTRIES WHICH HAVE COUNTERPART
GENERATING PROGRAMS FOR FY 1983
IN EXCESS OF $25 MILLION
AND MAY HAVE
NEED FOR DEVELOPING PRIVATE SECTOR

Country	Initiatives ($ millions) Total Programs	PL-480 Title I/III	ESF Loans	ESF Grants	Earmarked for:	Other DA Programs Loans	Other DA Programs Grants
Bangladesh	136.0	60.0	-	-	-	-	76.0
Costa Rica	95.0	20.0	-	60.0	Various	11.5	3.5
Dominican Republic	44.0	18.0	-	-	-	21.5	4.5
Egypt	1,000.0	250.0	250.0	500.0	CIP 250.0 Various	-	-
El Salvador	160.0	30.0	-	105.0	Private Sec. Supp Ind. Rec.	20.0	5.0
Haiti	26.0	11.0	-	-	-	-	15.0
Honduras	59.0	5.0	25.0	-	Private Sec. Prom.	20.7	8.3
India	87.0	-	-	-	-	66.0	21.0
Indonesia	85.0	20.0	-	-	-	48.9	16.1
Jamaica	112.0	20.0	50.0	5.0	Various	32.3	4.7
Kenya	73.0	15.0	-	30.0	Agribusiness Dev.	9.7	18.3
Liberia	59.0	15.0	-	32.0	Program Grant IV	3.7	8.3
Morocco	38.5	25.0	-	-	-	-	13.5
Pakistan	250.0	50.0	97.0	78.0	Various	20.0	5.0
Peru	47.0	20.0	-	-	-	16.5	10.5
Philippines	88.8	-	-	50.0	Various	20.0	18.8
Senegal	33.9	7.0	-	10.0	CIP	-	16.9
Somalia	57.0	15.0	-	25.0	CIP	-	17.0
Sri Lanka	57.9	17.6	-	-	-	37.5	2.8
Sudan	125.0	30.0	-	70.0	CIP	-	25.0
Thailand	38.0	-	-	10.0	Various	15.7	12.3
Turkey	350.0	-	100.0	250.0	Balance of P. Supp.	-	-
Yemen	27.5	-	-	-	-	-	27.5
Zaire	35.0	10.0	-	15.0	CIP	-	10.0
Zambia	27.0	7.0	5.0	15.0	CIP 15.0 Various	-	-
Zimbabwe	75.0	-	-	75.0	CIP 50.0 Various 25.0	-	-
Israel	785.0	-	260.0	525.0	Cash Transfer	-	-
Unallocated	87.0	87.0	-	-	-	-	-
	4,058.6	732.6	787.0	1,855.0		344.0	340.0
% of total appropriation FY '83		94%	92%			37%	

C. <u>Study by D. M. Orsini, dated November 1983, for President's Task Force on International Private Enterprise, entitled "AID Private Sector Initiatives: Past, Present and Lessons Learned."</u>

The study examines, to the extent AID's institutional memory permits, projects that were financed by AID and its predecessor agencies from 1957 through 1980 that were designed to assist the growth of the private sector in developing countries. It also analyses this experience to draw some general conclusions about lessons learned. It categorizes these projects as follows:

<u>Catalog of AID Private Sector Programs, 1957-1980</u>

- Industrial Development
  1. Development Loan Fund
  2. Productivity and Industrial Development Centers
- Foreign Exchange Access or Savings
- Policy Dialogue
- Capital Market Development
  1. Intermediate Credit Institutions (ICI)
  2. Securities Markets
- Foreign Private Investment Promotion
  1. Cooley Loans
  2. Investment Guaranties
  3. Investment Centers and Groups
  4. Investment Project Identification
     a. Pre-Investment Surveys
     b. Feasibility Studies
     c. Project Identification Units
  5. Cofinancing
- Export Promotion and Development
- Tourism

- Training
  1. Vocational
  2. Management
- Technology Transfer
  1. Joint Ventures
  2. Private Voluntary Organizations (PVO)
  3. Agribusiness Technology
  4. Management Technology
- Small Scale Enterprise (SSE) Development

The study describes each of these project categories and evaluates their relative effectiveness in contributing to the AID Mission's program goals. It should be noted that these projects were not exclusively financed either with l/c or with dollar appropriations. For the most part, AID financed activities require both dollars and l/c for proper implementation. In the case of l/c utilized for intermediate credit, the foreign exchange component often is provided by the investor, therefore AID financing may be limited to l/c only. But in the case of technical assistance activities, particularly when the project is predominantly AID supported, the distinction between dollar and l/c financing needs becomes blurred.

AID financed projects in the public sector usually look toward the host government for contributions from its budget to meet the l/c component of the project. Projects in support of the private sector often are not eligible for that source of funding and would benefit from AID l/c financing.

The final section of the study, which describes the lessons learned and lists the author's general conclusions, is attached as Annex VI.

D. <u>AID Program Evaluation Discussion Paper #14 dated June 1982, entitled, "Private Sector Ideas and Opportunities"</u>

In September 1981, PPC's Office of Evaluation began an examination of the Agency's experience with programs and projects that apply private sector approaches to development problems or in other ways attempt to set the stage for private sector initiatives in developing countries. In all, the study examined 145 AID projects that dealt with the private sector. Discussion Paper #14 presents the results of their initial investigation.

The study identifies a number of modes by which private sector enterprise initiatives were fostered by AID in past years. These modes include:

A. Policy analysis and policy reform.

B. Programs and projects that facilitate private enterprise development,

   1. Feasibility Studies
   2. Brokering
      a. Conference approaches to promoting business ventures
      b. Business "clearing house"
      c. Trade fairs
   3. Management training and related assistance
   4. Technology access and transfer
   5. Infrastructure
   6. Financial systems and sources of funds for enterprise.

In examining the different activities on which AID's programs focused for the promotion of private sector development, it became clear that the availability of l/c was of some use in virtually every one of these activities. But by far, the largest amount of l/c would have been utilized in category B(6) (developing the financial systems and sources of funds for private enterprise). These activities included the Cooley loan program and special funding for development banks and other financial intermediaries in developing countries to make available medium term financing for the private sector.

(My personal reaction is that the study suffers from lack of data about AID efforts during the 1960's in the area of industrial development. I am personally familiar with relevant AID projects that were not considered in this review because the AID institutional memory has now been lost. I recommend that some effort be undertaken in the near future while the "old time" personnel are still available, to resurrect this very important data.)

For purposes of our study, however, it is useful to understand the different categories of AID financed development activities that have been identified in Discussion Paper #14 (incomplete though it may be). These categories can be a guide to the kinds of activities which might now be considered by AID Missions for inclusion in their private sector development programs.

E. Results of "In-depth" Project Evaluations

Following up to AID Discussion Paper #14, AID's Office of Evaluation performed "in-depth" evaluation of several major AID financed completed projects that focused on private sector development. Two of these project evaluations (Private Development Corporation of the Philippines [PDCP]; and Ecuador Industrial Development and Finance) are now in final draft. These evaluation reports conclude that AID's assistance to these three financial institutions (two in Ecuador and one in the Philippines) was highly successful.

In the case of the Phillipine PDCP, the initial AID l/c loan of $6.3 million equivalent was a very important ingredient to the success of the project. The IBRD made foreign exchange loans to PCDP in much larger amounts but the l/c loan overcame the major constraint of mobilizing domestic resources for the local cost component of the project in an economy where monetized domestic savings were hard to find.

These institutions began operations in the mid-1960's and are now, 20 years later, the major actors in the capital markets of their respective countries. AID/Washington should assure that these evaluation reports, once completed will be distributed within AID, particularly to PRE and field Missions to stimulate thought for new AID supported activities to enhance the private sector's contribution to AID's development goals.

V. PAST AID APPLICATIONS OF LOCAL CURRENCY FOR PRIVATE SECTOR DEVELOPMENT

In the 1960's l/c was programmed by many AID Missions together with dollars to finance technical assistance activities designed to build supportive institutions and services for the manufacturing sector. But by far the most significant use of l/c generated from PL 480 or AID CIP programs has been to provide medium term credit for the private sector in developing countries. Throughout the late 1950's and early 1960's AID Missions in many developing countries concluded that there was a need for medium term credit for private sector development. Commercial banking systems of developing countries did not provide sufficiently flexible financing to meet the needs of the private sector for expansion of plant and machinery.

Where developing banks already existed, l/c was provided to increase their capitalization and expand their capability to respond to the productive sector's demand for financing. Where such institutions were not available AID Missions often provided direct financing to local companies through the Cooley Loan program as well as dollar and l/c loans guaranteed by the host government.

The Cooley Loan Program

Prior to 1971, the Agency for International Development made loans in foreign currencies to eligible borrowers for qualified projects in certain less developed friendly countries. These loans are commonly called "Cooley Loans" after Congressman Harold D. Cooley, who sponsored the amendment (Act of August 13, 1957), to section 104(e) of Public Law 480 pursuant to which the loans are made.

A. Source of Cooley Funds. Public Law 480 of the 83rd Congress, the Agricultural Trade Development and Assistance Act of 1954, is the enactment of the "Food for Peace" program. Title I of the statute, as amended by the Food for Peace Act of 1966, authorizes the United States government to sell agricultural commodities for foreign currencies under agreements with friendly countries. These agreements commonly provide that a specified percentage of the l/c to be paid to the U.S. government as the purchase price of such commodities will be set aside for use under the Cooley loan program. As commodities are sold and paid for, the percentage of the purchase price allocated to the Cooley loan program becomes available for loans to finance projects located in the country (the "host country") in which the commodities were sold.

Since the beginning of the Cooley loan program in mid-1958, 427 loans totaling approximately $433 million have been made to U.S. firms operating in over 31 countries. These loans include those made by the Export/Import Bank and AID prior to the transfer of the program to OPIC in 1971. After that date developing countries entered into dollar credit sales agreements or convertible l/c credit sales agreements under Title I. Therefore U.S. owned l/c generations under Section 104(e) ceased.

B. Purpose and Use of Cooley Loans. A Cooley loan is made in order to finance eligible l/c costs of a qualified project that contributes to the economic development of the host country and is acceptable to the host government. Eligible costs commonly include the cost of capital assets (land, buildings, machinery and equipment, etc.) acquired locally and other capital expenditures (construction, inland transportation and installation charges, customs duties, etc.) payable in l/c. Whether working capital costs are eligible varies from country to country. A Cooley loan usually may not be used to finance or refinance any expenditures or costs which the borrower has made or became obligated to pay prior to the authorization of the loan, unless AID's written agreement to regard such expenditures and costs as eligible was requested and obtained before the borrower made or became liable to pay such expenditures or costs.

C. Qualified Projects. A project contributing to the economic development of the host country qualifies for Cooley loan financing if it involves business development and trade expansion (or private home construction) and if a U.S. business firm invests its own capital and know-how in the project. (See paragraph D below.) In addition, a project contributing to the economic development of the host country qualifies for Cooley loan financing if it involves the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural products. Under the statute, however, a project will not qualify if it involves the manufacture of any products intended to be exported to the U.S. in competition with products produced in the U.S.; and due consideration must be given to the continued expansion of markets for U.S. agricultural commodities or the products thereof.

D. Eligible Borrowers. Except in the case of a project involving the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural products, the borrower must be either a U.S. business firm (or a branch of such a firm) or an affiliate (or a subsidiary) of such a firm.

(i) A "U.S. business firm" is a U.S. firm that is actively engaged in activities of a kind customarily engaged in activities of a kind customarily engaged in by profit-making organizations. (Cooperatives qualify as business firms.) A. U.S. firm is a corporation, partnership association or other legal entity (including a sole proprietorship) tht is organized and has its principal place of business within the U.S. and is controlled by U.S. interests. A firm in which the majority of the voting interest is owned beneficially by individual U.S. citizens is automatically regarded as one controlled by U.S. interests

(ii) An "affiliate of a U.S. business firm" is a corporation, partnership, association or other legal entity in respect of which a U.S. business firm has, by virtue of its equity interest in and other commercial and operating ties to the entity, the power to exercise a significant influence on policy and operations. An entity in which the majority of the equity (voting and total) is owned beneficially by a U.S. business firm is automatically regarded as an affiliate of that firm.

In the absence of majority ownership, affiliation may be established through other commercial and operating ties with the U.S. business firm, provided the latter owns a substantial part (in no event less than 20%) of the entity. The entity may be affiliated with a U.S. business firm through one or more majority-owned subsidiaries of such firm. The eligibility requirements of affiliation must, however, be satisfied through reference to a single U.S. business firm; they will not be satisfied if it is necessary to refer to a group of U.S. business firms which are not themselves affiliated (except through their common interest in the borrower).

In the case of a project involving the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural projects, the borrower may be any free world firm (including a cooperative) and need not be affiliated with a U.S. business firm.

E. Terms of Cooley Loans. The amount of a Cooley loan and the period of time over which it is repayable depends upon the purpose of the loan and various financial considerations. Interest on a Cooley loan is payable at the rate designated by AID (usually in consultation with the host government) for Cooley loans in the host country at the time the Cooley loan is authorized; in general, the interest rate is comparable to the rates then charged on long-term l/c loans by local development banks. Principal and interest on a Cooley loan are generally payable semi-annually in the foreign currency in which the loan is made, without maintenance of value. Whether security or guarantees will be required is determined on a case-by-case basis in light of applicable financial and economic considerations and of the degree of financial and technical participation by the U.S. affiliate. In general, no restrictions (maximum or minimum) are imposed on the amount of a Cooley loan, although financial considerations, the amount of Cooley funds available, alternative sources of financing (and the cost of obtaining such financing) and other factors may be relevant.

Impact of Cooley Loan Program

AID has not performed a comprehensive evaluation of its Cooley Loan Programs. The most thoroughly documented loans are, as might be expected, the few that went sour, and resulted in judicial proceedings (i.e., NAPCO Bevel Gear in India). Discussions with AID officials who had extensive involvement with the Cooley Loan Program, particularly during its earlier years (1960's), leads to the following generalizations:

1) Reservations of specified amounts of l/c in the Title I sales agreement that could be used for no purposes other than "Cooley lending," tended to call attention of host government officials to U.S. interest in the program and improved the negotiating posture of the AID Mission in reaching agreement with the host government on the program.

2) The program was labor intensive for the AID Mission and placed it in the position of acting as an intermediate lending institution in the host country.

3) On the other hand the program demonstrated the need for aggressive/ responsive banking by local banks. The Cooley Lending program stimulated local banks to adopt more appropriate lending criteria.

In fact, U.S. owned l/c that was not reserved for Cooley loans, often were injected into the capital structure of local development banks to increase their lending capabilities and serve the needs of local private enterprises, notably small scale enterprises, that were not a subsidiary of a U.S. corporate parent.

4) It is likely that the Cooley Loan Program would continue to be active today and would be sought after by U.S. companies if there were significant levels of l/c availabilities reserved for Cooley loans. However, these availabilities have disappeared, now that Title I sales are made under dollar repayment terms and l/c sales proceeds are not owned by the U.S.

Development Banks as a Tool of Economic Development[1/]

There are more than 600 institutions operating throughout the world today that may be classified as development banks. Almost all of these came into existence since World War II. They are varied in structure and in capitalization, in their method of operation, and in their primary focus. Some are entirely government-owned, others are entirely owned by private shareholders. In each instance they were created as a means to mobilize capital and direct it to those purposes which the financial institutions operating in that particular territory were not serving adequately. In short, they are a means of channeling resources into priority development areas, identified by planning agencies or governments, that were either too risky or

1/ Past AID l/c financing for private enterprise development was heavily directed towards development banks. A more detailed discussion of development banking may be found in a study prepared by the author for the U.S. Dept. of Interior entitled "Justification to Establish an Insular Development Bank" in September 1982.

insufficiently remunerative to be financed through normal financial channels.

As the capability, resources and sophistication of a development bank increases over time, it also becomes an effective means to create needed new financial institutions or services in the economy. For example, the Korean Development Finance Corporation, which started in 1967 as a conventional development bank, concluded that a new type of institution was needed in Korea to tap the savings of the unorganized money market. It, therefore, pressed for appropriate legislation, and through the creation of the Korean Investment and Finance Corporation, pioneered a new type of financial institution which undertook short-term money market activities along with investment banking operations. It also encouraged the establishment of firms to deal in the commercial paper of private enterprises and promoted the first such company, the Korean Securities Finance Corporation. Later, recognizing the value of leasing for smaller enterprises, it created the Korean Development Leasing Corporation. In due course, it entered the field of financial and management consultancy and merchant banking, this time within the framework of its own corporate structure. More recently, it has joined a technological research organization to set up a new venture capital company to provide primarily equity for enterprises which introduce new technologies into the country.

U.S. policy towards national development banks in developing nations which receive U.S. bilateral aid has generally been supportive. The U.S. Agency for International Development has channeled sustantial resources into these institutions, in many instances l/c generated from

PL 480 sales, as a means of reaching and assisting the small scale private sector of LDC's and facilitating the growth and strengthening of the private sector in general.

Other Local Currency Uses

In past years AID has programmed l/c in support of dollar funded projects for private enterprise development. See discussion of these projects in AID Program Evaluation Discussion Paper #14 dated June 1982 and Orsini Study dated November 1983 (Annex VI).

More recently AID has taken an interest in establishment of venture capital firms to assist small scale enterpreneurs in developing countries obtain equity capital. Capitalization of venture capital firms lends itself to l/c financing since most small scale entrepreneurs do not require foreign exchange.

Additional areas which may provide opportunities for l/c uses include:

--Technical and managerial training to meet needs of the business community.

--Policy reform to improve investment environment - locally produced studies of ways to reduce institutional impediments, such as cumbersome Governmental procedures and other governmentally imposed requirements which add risk and uncertainty to private sector operations.

--Improved mechanisms by which the private business community may identify and evaluate sources of needed technology and gain access to such technology (i.e., information systems, enhancing the technical and engineering consultancy industry to better serve the producer).

--Improved access to international market information including data repositories of information on GSP.

--Improvement of insurance, transport, and other services needed by producers.

Selected AID Missions in Latin America have developed some imaginative, innovative and effective programs to support private enterprise development as part of their country strategies, utilizing l/c as one important input. In one important input. In a number of instances Missions have programmed their dollars to generate l/c to meet specific private enterprise program needs. Annex VIII.A. (Costa Rica), Annex VIII.B. (Jamaica), and Annex VIII.C. (Dominican Republic) are extracts of relevant descriptions of key activities developed by these AID Missions as part of their "Caribbean Basin Initiative."

These descriptions are included in this report in the hope that program personnel in other AID Missions may find them to be thought provoking in terms of their applicability for inclusion in their country programs.

SECTION VI - SOME BASIC PRINCIPLES, ISSUES & LIMITATIONS WITH RESPECT TO LOCAL CURRENCY PROGRAMMING BY AID

It would be well for us to review some of the underlying principles that apply to the utilization of AID generated l/c. Once we reach general agreement on these underlying principles, some feasible new approaches to the more effective utilization of l/c generated from AID programs and PL 480 programs may suggest themselves.

Economic Considerations

In much of the discussion about AID's responsibilities and authorities concerning l/c generated from AID programs, there is an implicit assumption that the funds identified in these agency accounts represent "idle resources" of the U.S. government. Conventional monetary and banking theory tells us that monies in a bank are not resources as such, but represent a potential demand on resources that can be effected by the owners of the account. In this instance, the funds, though dollar dominated in AID's reporting system, are, in fact, l/c on deposit in either the central bank or commercial banks of the AID recipient country. Consequently, they represent a potential demand on other peoples resources, not on U.S. resources.

The demand on resources can be effected by the owner of the account. In most instances, the l/c on deposit in these accounts is legally owned by the host government because the program which generated the l/c was a dollar repayable loan to which the host government has committed itself. Once the recipient government has undertaken such an obligation the legal title to ownership of l/c derived from the program rests with them.

Nor do the monies in these accounts represent real economic resources. While the funds are on deposit the real resources are being employed as they are commanded to do by the expenditure of other monies in the economy. If the host government and/or the U.S. government decide to delay expenditure of the currencies on deposit, it means that the economic resources in the recipient country are being employed elsewhere. In macro-economic terms, the impact of non-utilization of these funds at the time of their generation has a deflationary impact on the total government/private sector expenditure level.

Alternatively, the financial institution holding the deposit might lend an equivalent amount to others or to itself (if it is the host government) and expend these funds for its own purposes. The degree to which the U.S., as the AID donor, is able to insist upon utilization of these funds in any specific manner is limited in that the host government, assuming it has some sophistication in the matter of monetary policy, can circumvent any action the U.S. is prepared to take. These local currencies are fungible with other resources under the control of the host government. Offsetting actions by the host government can be taken to neutralize any U.S. actions having to do with the expenditure or non-expenditure of the funds in these accounts.

In brief, we should understand that the effective de facto and de jure control over these funds rests with the host government. No action by the U.S. is possible without the willingness and agreement of the host government to permit the U.S. to take the proposed actions.

Political Considerations

There are also political constraints operating on the ability of the U.S. to influence the utilization of these l/c. Increased assertiveness by AID with respect to programming of l/c means reduced control over these funds by the recipient government. The totality of the AID relationship between the U.S. and the recipient country comes into play. How significant is the level of U.S. aid to the recipient country in relation to aid provided by other aid donors? For example, the current level of bilateral U.S. aid to India represents less than 5% of total free world assistance to India. This compares with a U.S. AID level during the 1960's in excess of 50% of free world aid. How much leverage is available to the U.S. AID Mission to bring about the proposed change in l/c programming? And at what price? There may be other important issues which dominate the U.S. relationship with the recipient country. The issue of programming l/c must be looked upon in the context of our overall relationship with that country.

Even when the U.S. is a major aid donor (i.e., in Egypt or El Salvador) the rationale for the aid will influence the degree to which the U.S. is able (or willing) to insist upon certain actions by the recipient government with respect to the programming of l/c. It is worth noting that the U.S. does not require the government of Egypt to deposit any l/c generations from its very large scale aid at this time. These funds are being directly applied to meet the revenue requirements of the Egyptian government budget. The degree to which the U.S. would be prepared to insist upon greater control over l/c utilization must be examined in the context of the effect such insistance would have on the policy dialogue between the U.S. and the recipient government on many other issues.

A decision to insist on changing the status-quo with respect to l/c programming would also have to be examined in terms of the effect on other aid donors and the degree to which it would complement or run counter to their general strategy for achievement of certain policy reforms in the recipient country.

Accounting Considerations

Neither the Foreign Assistance Act nor PL 480 contain specific provisions requiring AID to audit the uses of l/c generated under the Act. Nevertheless, AID and the Inspector General have established agency regulations that call on AID to monitor l/c expenditures for compliance with the specified uses contained in any project or program to which these expenditures are attributed, even though title to the l/c rests with the host government, and not with the U.S. government. If AID makes a policy decision that U.S. interests would be best served if AID Missions were to take a more direct and active role in progamming l/c generations for specified purposes, this would impose an obligation on the AID Mission to audit the projects to which these funds are contributed and to establish controls over the conduct of these projects. There is a strong reluctance among the AID Missions abroad and the AID Regional Bureaus in Washington to impose, on their limited staff, the additional requirements for audit. For this reason AID agreements for use of l/c tend to be vague and ill-defined.

The problem would be all the more severe if the l/c were to be used for private sector activities in which the funds were to absorb some of the investment risk (as proposed by Hullander) to leverage additional resource flows for private sector investment, and losses were to be sustained in the process.

It will be necessary to obtain specific legislative authority for AID to insulate itself from certain aspects of these audit requirements, or at a minimum, obtain agreement among AID, the Inspector General and the General Accounting Office to restrict audit procedures for l/c expenditures to allow AID to involve itself actively and usefully in the programming process.

Complementarity of Requirements for Foreign Exchange and Local Currencies

There is almost universal experience with respect to past AID programs that effective project activities require a mix of foreign exchange and local resources. It is therefore unrealistic to attempt to develop programs that are funded purely with l/c. The only significant agency experience that is an exception to this rule concerns the release of l/c for medium term credit facilities for the private sector. Past AID experience with respect to the Cooley Loan Program as well as AID contributions to development banks in less developed countries indicate that l/c releases in these instances achieved the desired objectives because the borrower provided the needed foreign exchange from other sources. For all other AID projects, including such technical assistance activities as management training programs, there was inevitably some requirement for foreign exchange. AID's effort at program development therefore should not focus on the development of projects that would rely exclusively on l/c as a source of financing, although AID need not necessarily be the source of the complementary dollar funding.

Pressure from Special Interests for Local Currency Releases

Experience by AID in recent years suggests that the availability of resources under AID control generates claims from special interests that may have strong political backing in the U.S. but which may be of marginal interest to AID with respect to its development objectives. It is very likely that the imposition of AID control over l/c resources generated from AID programs would generate claims on these resources by certain U.S., private voluntary organizations operating within the host country but whose activities may not be considered by the host government (the owner of these funds) to be of sufficient importance to warrant the allocation of these funds.

Conflicting Interests and Approaches by U.S. Government Agencies

The PL 480 program serves a number of U.S. interests. Its primary rationale rests with the need to dispose of certain surplus U.S. agricultural commodities. The primary responsibility for that program rests with the Department of Agriculture. The terms of sale and the repayment terms are hammered out by an interagency committee comprised of representatives of the Office of Management and Budget, U.S. Department of Agriculture, and the U.S. Treasury. Any modification of the terms having to do with l/c releases for development purposes that reduce the availability of such funds for U.S.D.A. market development objectives, or impact on the appropriation process for the U.S. Department of Agriculture, will generate strong resistance by these agencies.

In addition, any proposal by AID to modify the requirement for dollar repayable terms to be imposed on PL 480 Title I sales (to shift such sales to the original sales for l/c terms) would probably generate resistance in the U.S. Treasury Department and in the Office of Management and Budget. It is likely that certain congressional committees would themselves have strong views on any proposed changes to existing agreed uses of l/c or terms of repayment.

Two Examples

It may be well to consider two real situations in AID recipient countries that perhaps demonstrate some of the issues which need to be considered in determining whether additional AID involvement in l/c programming would have a beneficial effect on the U.S. AID programs and relationships.

Example 1 - Sri Lanka

The USAID program to the government of Sri Lanka (GSL) includes approximately $25 million per year in PL 480 Title I wheat sales, under long term dollar repayable loans at concessional interest rates. The local currency generated from the sale of the wheat is owned by the government of Sri Lanka. It is not deposited into any special account; consequently, the U.S. government exercises no control over its expenditures. The government of Sri Lanka treats these l/c as they would any government revenue derived from their tax system; the funds are receipts of their treasury and are used to finance their government budget.

The GSL annual level of expenditures is about $2 billion equivalent, of which domestic tax revenues account for about 50%; external assistance, including the Title I generations makes up most of the difference. The balance is derived either from sale of treasury notes to the banking system and pension funds (about $170 million this year) or deficit financing. USAID/Sri Lanka considers the GSL budget to be satisfactory, would not wish to change the GSL allocation of resources and therefore sees no benefit to the U.S. from increased involvement in Title I local currency programming.

The private sector complains that there is insufficient term lending available and that funds for plant expansion (5-10 year financing) cannot be obtained. The U.S. banks in Colombo confirm this, claiming that time deposits are not to be had and that banks cannot lend long with short term deposits. On the other hand the IBRD has made substantial loans to the National Development Bank (NDB) and these funds are not being drawn down. USAID argues that funding is not the problem; that there are constraints within the financial system and additional allocations would not help the private sector so long as the NDB behaves in such a slow and conservative manner. USAID recently has undertaken several projects to strengthen the Sri Lankan private sector.

One could make the argument that USAID could insist on the Title I proceeds being deposited in the Sri Lankan commercial banks as long term time deposits, thereby making it possible for the banks to utilize these funds for term lending in parallel with the NDB. This might even inspire the NDB to move more aggressively in its lending program. But such action might not be acceptable to the GSL for several reasons:

1) It would reduce government revenues and thereby increase the deficit;
2) It runs counter to GSL monetary policy which, very much like current U.S. monetary policy, now calls for tight money to curb an increasing rate of inflation, said to approximate 15% at this time. Indeed the GSL is requiring its banks and pension funds to purchase treasury notes, thereby sopping up private resources and transferring them to the public sector.

Moreover, the GSL could do several things to counter U.S. insistence on the shift of Title I proceeds to the private banking sector.

1) It could refuse to buy PL 480 wheat;
2) It could agree to everything but then require banks to buy additional treasury notes in an equivalent amount. (But such action would be more difficult if the funds were deposited with U.S. banks.)

On the other hand, some elements of the government of Sri Lanka may welcome USAID intervention to shift resources to the private sector. The Minister of Finance may consider USAID assistance welcome in curbing his government's spending by ministers who may be more powerful than he within the cabinet.

Some very difficult judgements need to be made concerning U.S. and GSL interests before instituting a change in the current procedures. Clearly, the USAID Mission is in the best position to make that judgement. It would not be wise for AID/Washington to issue a blanket policy directive requiring Missions to channel local currencies generated from AID programs to the private sector irrespective of prevailing local conditions.

Example 2 - India

India is an "excess currency" country. L/c generated in previous years from various AID programs (mostly PL 480) have provided large holdings of U.S. owned Indian rupees on deposit in accounts at the reserve bank of India and U.S. banks in India controlled by the U.S. Treasury. Utilization of these funds is tightly circumscribed by agreements between the U.S. and the government of India but the existence of these funds suggested to AID's Bureau for Private Enterprise that a means might be found for their utilization to serve AID's objectives.

As a result of visits to India by two high level U.S. delegations, a project proposal was developed to establish a "Foundation for U.S./India Industrial Technology Development." The details of this project proposal are described in Annex V.

Here is an instance where a U.S. owned claim on resources, generated many years ago, in a country in which the U.S. AID presence is now marginal, was utilized in a creative manner to meet an important need of India's private sector. While the funds had been available for a number of years the project was conceived by representatives of the Bureau for Private Enterprise who saw an opportunity to utilize the funds to achieve important AID development objectives and whose orientation is not directed towards government to government arrangements. More will be said about the need for AID/Washington to assist AID Missions in developing private sector programs in Section VII of this paper.

Conclusions

Notwithstanding all of the foregoing cautionary notes with respect to the feasibility of increased AID involvement with respect to l/c programming, we conclude that there is scope for such involvement in certain countries on a selective basis. Based on selection criteria described in Section VII (following) of this paper, AID may identify those country programs which offer the best prospects for success in deriving real benefits from greater involvement in l/c programming.

A. Appearance of Change versus Real Change

Taking the foregoing considerations into account, it would appear that there are three critical questions that must be answered in considering any new approach to increased AID involvement in the programming of l/c generated from the AID program in support of private sector development efforts. These are:

1) Additionality of resources - To what extent would a new approach in fact, add real resources to the Agency for International Development which can be applied to reach its development objectives?

2) Additionality of economic leverage - To what extent would the proposed change catalyze additional private investment flows either from foreign sources or from internal sources?

3) Reallocation of resources - Would the proposed change in l/c application result in an actual shift of real resources among the claimants in the recipient country? Particularly, to what extent would such a shift of resources result in channeling additional resources to the private sector?

Based on the answers to the foregoing three questions it should be possible to determine whether a case may be made for AID's increased involvement in l/c programming.

B. Some General Findings

My experience with projects designed to enhance the growth of the private sector in developing countries leads me to the following general premises:

1) Government agencies that attempt to administer public funds for direct assistance activities for the private sector cannot do this successfully. Inevitably, public funds must be managed in the most prudent manner to "protect" the principal. They are therefore managed under controls to minimize risk. Moreover, they are subject to sunshine laws, equal opportunity to access, dispersion of responsibility and authority, etc. Often government direct assistance to private industry is characterized as the "kiss of death."

2) Government can best serve the private sector by providing resources in support of establishing and operating independent service facilities which may be made available for use by the private sector, possibly at subsidized cost to certain users (i.e., the banking system, information networks).

3) Inevitably, any AID project in this area requires both l/c and dollars. Therefore the programming of l/c must be closely tied to AID's procedures for programming its dollar resources.

SECTION VII - AN APPROACH TO INCREASED USE OF LOCAL CURRENCIES IN SUPPORT OF PRIVATE SECTOR DEVELOPMENT

Short Term versus Long Term Actions

The foregoing review and discussion suggests that significant gains could be achieved for certain AID country programs by an enhanced U.S. involvement in l/c programming. Some gains could be achieved within AID's present authority; but the modification of certain conditions, imposed either by legislation or by executive branch inter-Agency agreement, would significantly improve AID's effectiveness in employing the U.S. resources now provided under U.S. bilateral assistance programs to LDC's. We discuss some possible changes in the following sections, recognizing that some of the proposals require a rather lengthy gestation period before they can be implemented.

Possible Modifications to Existing Agency Policy Guidance

One of the discussion papers cited in Section 4 above (the Hullander study) recommends that the Agency "...establish a policy that defines the role of private enterprise in each stage of the economic development process....to provide the Missions with criteria to develop specific projects and plans....Above all AID can provide the philosophical foundation of private enterprise: that equity, income and wealth is achieved through a free and competive economy; and that the discipline of effective use of resources leads to economic growth and a better quality of life."

The foregoing is more easily said than done. The AID policy paper for the Bureau for Private Enterprise dated May 19, 1982 contains the right thoughts. However, the U.S. economic AID program is basically a government to government enterprise. Thus, much of the guidance contained in that, or any other policy paper is not readily applied by AID personnel who are used to thinking in terms of government to government relationships.

While policy guidance and continued reinforcement by the agency leadership is needed, it is not enough. If the Agency is serious in its expressed desire to undertake activities to enhance the role of the indigenous private sector in its country development efforts, it will be necessary for a responsible unit of the Agency, such as the Bureau for Private Enterprise, to provide direct assistance to AID Missions in designing programs, negotiating with the host government and the private sector and in operation of those programs.

As a case in point, we might look at the recent effort by the Office for Private Enterprise to assist the AID Mission in India in designing and developing a project for private sector commercialization of products stemming from recently completed research. This project, patterned after the U.S./Israeli Bi-national Research and Development Foundation, could not have been developed by the AID Mission and the regional bureau without direct assistance from a team organized by the Bureau for Private Enterprise. Furthermore, it is questionable whether the initiative would have been taken in the absence of PRE's intervention. (A summary of this project is attached to this paper as Annex V.)

As a first step, a sensible approach is suggested in the conclusions to the Hullander paper (i.e., "...AID should conduct a number of pilot studies of selected countries to identify very specific operational criteria for leveraging. Countries to be studied should have:

1) An active Title I program with existing special accounts;

2) A willingness to establish rational economic policies; and

3) Commercial financial institutions to provide a starting point.

Countries that would meet these criteria for example are Jamaica, Bangladesh, and Sri Lanka.")

In the following section we offer certain criteria to be used for selection of countries which stand the best chance of having successful projects of this nature developed for enhancement of private sector participation in the country's development efforts. In an additional section we suggest certain possible changes in AID and PL 480 legislation that might facilitate this process.

Selection Criteria

We can assume that our universe is the 26 countries included in the McClelland Survey plus Egypt. Of this group, we should next identify those ten countries that have been selected by AID as the target countries for private enterprise programs. Perhaps India can be added to that list in light of recent discussions with respect to AID's strategy to link science and technology development with private sector development in India. These countries are listed in Table A, following. For the sake of completeness, the countries identified by First Washington Associates as having l/c generating programs in excess of $25 million are also shown on this table.

Table A

Countries With Local Currency Generation Programs Compared with Private Enterprise Bureau Target Countries

Name of AID Recipient Country	McClelland L/C Programming Survey	First Washington Associates Listing Of Countries Having L/C Generating Programs In FY 1983	PRE Target Countries
Bangladesh		x	
Costa Rica	x	x	x
Dominican Republic	x	x	
Egypt	x	x	x
El Salvador	x	x	
Ghana	x		
Guinea	x		
Haiti	x	x	
Honduras	x	x	
India		x	x
Indonesia	x	x	x
Ivory Coast			x
Jamaica	x	x	x
Kenya	x	x	x
Liberia	x	x	
Madagascar	x		
Mauritius	x		
Morocco	x	x	
Pakistan	x	x	
Peru	x	x	x
Philippines		x	
Senegal		x	
Sierra Leone	x		
Somalia	x	x	
Sri Lanka	x	x	x
Sudan	x	x	
Thailand		x	x
Turkey		x	
Tunisia	x		
Tanzania	x		
Yemen		x	
Zaire	x	x	
Zambia	x	x	
Zimbabwe	x	x	x

Next we must query each Mission to obtain the answers to the following three questions.

1) Additionality of resources - To what extent would a new approach in fact, add real resources to the Agency for International Development which can be applied to reach its development objectives?

2) Additionality of economic leverage - To what extent would the proposed change catalyze additional private investment flows either from foreign sources or from internal osurces?

3) Reallocation of resources - Would the proposed change in l/c application result in an actual shift of real resources among the claimants in the recipient country? Particularly, to what extent would such a shift of resources result in channeling additional resources to the private sector?

In answering these three questions, each Mission should consider the guidance with respect to issues and considerations that was contained in AIDTO Circular A333 dated June 23, 1976. An extract of the relevant sections of that message is attached to this report as Annex I.

Only after this analysis is completed can one be clear with respect to the countries that should be targeted for greater AID involvement in local currency programming.

Missions should be assured that they will receive assistance from AID/Washington with respect to project design and implementation if they propose to undertake projects in this area.

A draft Circular Guidance Message to these Missions (which would be an appropriate follow-up to the administrator's "Alert Message" of September 22, 1983) is attached as Annex VII to this report.

Possible Changes in AID and PL 480 Legislation

It seems appropriate at this time to consider the feasibility of obtaining authorization for the sale of Title I commodities for l/c cash payment in lieu of the requirement for dollar repayable long term low interest, concessional loans. It would appear to be in the overall best interest of the U.S. government to revert, at least in part, to sales of U.S. surplus agricultural commodities under terms originally developed at the time PL 480 was first enacted (1954) for payment in l/c.

An analysis of the discounted present value of the dollar repayable terms for PL 480 Title I sales would suggest that the U.S. government is likely to gain very little from the future stream of income resulting from dollar repayment terms. Furthermore, the recent crises in the third world debt burden suggests that the U.S. government may be adding unnecessarily to the political and economic problems of the AID recipient countries (and to our own problems) by selling consummables on dollar repayment terms. There is also some question whether indeed these dollar obligations can or will be met some 20 or 30 years in the future. Even if the dollar obligations are actually paid by the third world, it is likely, given the general global inflation rate, that the payment of this obligation in the future will not materially enhance the U.S. Treasury's miscellaneous receipts.

On the other hand, reversion of the Title I sales terms to l/c cash payment will allow for the generation of l/c that is titled with the U.S. government. If given the authority to do so AID can then control these funds more effectively than under the present system, particularly if agreement is reached with the host government to deposit the sales proceeds in local branches of U.S. banks. It will also permit reactivation of the Cooley Loan Program for Private enterprise credits.

It is likely that the proposed change in terms of sale will allow the U.S. to increase its shipments of surplus commodities to developing nations, reduce U.S. storage costs and add a net resource flow to the LDC's without an appreciable increase in cost to the U.S. budget. The availability of U.S. owned l/c in may LDC's will permit continued conversion of U.S. appropriated dollars by USDO's to meet l/c costs of U.S. programs abroad, as is done now with the CUP, thereby saving U.S. budgetary resources. Additionally, the level of U.S. official development assistance to LDC's would show a significant increase.

If the legislation proposed above is introduced, it should be coupled with a mechanism allowing AID access to these U.S. owned l/c without going through the appropriations process. This is particularly important if AID chooses to utilize the funds as was proposed by Dr. Hullander (i.e., to reduce risk for international financial institutions and/or domestic and foreign investors. (See section 4 above.) Some modification of the Agency's audit requirements would have to be introduced in the legislation to avoid the onerous task and the horrendous expense associated with auditing the utilization of these l/c.

The l/c that is to be generated from PL 480 Title I sales should have the following characteristics to allow for the most effective utilization by AID.

1) It should be U.S. owned;

2) It should be available to AID, once generated, without further congressional appropriation action;

3) It should be available to be programmed and released on either a grant or loan basis directly to private sector institutions subject to the concurrence of the host government;

4) It should not be subject to certain aspects of the standard audit requirements of AID, particularly with respect to reflows;

5) It should allow for loss write-offs incurred by the grantee or borrower so that the funds could be utilized for risk absorbtion as recommended in the Hullander study.

The terms of sale under the PL 480 Agreement could allow the host government to choose whether it wished to allocate a portion of the sales proceeds for public sector uses (budget support) with the stipulation that the amount so allocated would have to be dollar repayable.

If the Carlucci Commission recommendation (for military sales to be made on the same basis as PL 480 sales) is implemented, then the proposed modification in legislation for PL 480 would apply to military sales, thereby making available additional deposits of l/c generated from military sales.

Most of the arguments advanced above with respect to the PL 480 program seem to be valid for the AID commodity import program as well (except that the commodity import program normally does not finance consummables). Similar changes in the Foreign Assistance Act might be introduced for the commodity import programs now financed on a loan basis.

Possible Executive Branch Action Within Present Legislative Authority

Since 1970 all Title I sales of surplus agricultural commodities have been made on dollar repayable terms. However, some innovative approaches have been introduced to permit implementation of development projects utilizing PL 480 resources, in some instances allowing for monetization of the commodities through commercial sale. Title II Section 206 authorizes the granting of U.S. surplus commodities to be monetized without requiring dollar repayment if it can be demonstrated that the activity can achieve development objectives related to food production and distribution and will serve to improve conditions for the poorer segment of the population. For example, a project that has been recently approved for Jamaica under Title II is described as follows:

> "During 1983 Land O'Lakes, with the assistance of the U.S. government's Agency for International Development, devised an innovative private sector mechanism for the utilization of surplus dairy products being held by the CCC to promote economic development in developing countries. The project calls for the formation of a nonprofit foundation, the Jamaica Agricultural Development Foundation (JADF) which will be controlled by a small board on which Land O'Lakes will have a member.
>
> Under the project plan, PF 480 Title II commodities (bulk cheese and butter) will be granted to JADF by the U.S. government. JADF will contract with the lowest bidder in Jamaica to have the bulk commodities processed into value-added products and sold commercially in markets outside the U.S. which are not available to U.S. dairy producers. Land O'Lakes will provide technical assistance in cheese and butter processing for a fee to the one who gets the contract. The profits generated from the sale of these products (an estimated 60 million U.S. dollars over a six year period) will be used by the JADF to provide financing in the form of loans, loan guarantees, investments, or grants, for large or small scale projects designed to increase Jamaican agricultural production and to promote the growth of Jamaican agribusinesses."

Title II projects tie together the PL 480 commodity with the organization that will utilize the l/c. This tie-in would seem to be too cumbersome to permit effective utilization of this resource for most private enterprise activities.

Title III authorizes the granting of agricultural commodities without payment by the host government, if such a grant will allow the host government to undertake important economic policy measures that it could not implement, absent these U.S. resources. Title III commodities are monetized and the sales proceeds could be made available for private enterprise activities if the U.S. decided to maintain control over the l/c and utilize them for that purpose. (However, that would call into play the audit requirements as described in Section VI above.

There is no maximum dollar limit in the PL 480 Legislation to the amount of the PL 480 appropriation that could be utilized under Title III. In theory the entire appropriation could be utilized under Title III. On the other hand, certain other restrictions apply to Title III programs. As presently administered one could not easily substitute Title III for Title I. It would be well to explore the degree of flexibility that is available within the existing legislation for Title III to be utilized for these intended purposes.

1.) If the Executive branch (USDA, OMB, State, AID, Treasury) were to agree that it is in the overall U.S. interest to utilize surplus agricultural commodities for private enterprise development in several AID recipient countries, it could probably find ways to insure that the l/c so generated will achieve most, if not all of the five characteristics identified as necessary in the previous section of this paper, even without the introduction of changes in the legislation. The vehicle to achieve this shift in U.S. policy would be the Interagency DCC Food AID Subcommittee. This subcommittee has broad authority to approve PL 480 sales agreements and policies under which the program operates.

2.) Section 416 of the PL 480 Legislation carries authority to use surplus commodities for "humanitarian development or emergency needs." However, under current regulations promulgated by USDA, sales of dairy products under Section 416 are not allowed to generate l/c, even though the legislation does not prohibit it. If Section 416 were to be expanded to permit the sale of these commodities, then these programs also would generate l/c which could be utilized for development purposes. Consideration should be given by the DCC Food AID Subcommittee to the expansion of Section 416 to achieve this objective.

3.) Deposit of sales proceeds in local branches of U.S. banks, even if it were only for the interim period between the time of market sale and the time of release for agreed development projects, would improve the control exercised by the AID Mission and limit the flexibility of the host government to circumvent the intended uses of the sales proceeds. It would be interesting to attempt to introduce this procedural change in those countries that are selected for increased AID involvement in l/c programming.

SECTION VIII - NEXT STEPS - A PLAN OF ACTION

In the Short Term

1) The Administrator's alert message of September 27 (see section II above) which announced that AID would soon transmit guidance to the field with respect to the development of l/c use plans, has not resulted in any follow-up as of this writing. To date, no guidance has been provided to the field. The guidance message should incorporate some of the relevant analysis contained in this study and be transmitted at the earliest opportunity. A draft guidance message is attached as Annex VII to this report.

2) Subsequent to receipt of the responses from the Missions AID/Washington should evaluate the responses, notify those Missions that have been tentatively selected and offer assistance similar to that provided presently to U.S. AID/New Delhi with respect to the development of the project design for "the U.S./India Bi-national Fund for Private Sector Development."

3) We believe it is an essential ingredient to any plan of action for PRE to offer timely, direct assistance to AID Missions in developing, designing and negotiating projects of this nature.

A. PRE should be prepared to organize teams under its own Bureau leadership, comprised of representatives of the Bureau of Science and Technology, the Bureau of VFA, PPC, Office of General Counsel, and special consultants as appropriate to respond to Mission requests for assistance in thinking through an appropriate strategy to enhance the indigenous private sector's contribution to country development objectives. The team should also be available to assist Missions in initiating or pursuing a dialogue with the host government and the business community to examine possible design concepts for AID financed dollar and local currency projects.

B. Subsequently PRE should be prepared to assist Missions with the preparation of project documentation, negotiation with host government and expeditious approval of these activities by AID/W.

C. Once projects have been approved, PRE should continue to support Missions in the course of the project's implementation.

4) In making the initial selection of country Missions to receive assistance as described in (2) above, PRE should consider, in addition to other criteria mentioned earlier, the position of each Mission in its own program development cycle. Generally the assignment of a new Mission director will precipitate a review of the country program's composition and development strategy. That is the most propitious time to offer assistance. Recent or imminent Mission Director assignments include Peru, Kenya, Equador, Sudan, Honduras, Philipines, and Egypt. The Caribbean Basin Initiative also requires priority attention.

5) To assist Missions in their responses to the guidance message (Annex VI) PRE should transmit a separate circular message that offers Missions a description of past efforts, both successful and unsuccessful, in stimulating private sector development. This message should be designed to stimulate Mission thinking and preliminary discussion with their host government with respect to possible activities to facilitate private sector development and the utilization of local currency for this purpose.

<u>In the Long Term</u>

1) Simultaneously, consideration should be given to requesting changes in legislation with respect to PL 480 Title I sales to permit sales for l/c. Similarly, the FAA request for FY 1987 might propose a shift from

loan to grant funding for those countries that offer opportunities for l/c programming for private sector activities. A review of the arguments relating to this recommendation may be found in Section VII above.

2) To the extent it is possible to attain some of the desired characteristics of l/c described in Section VII without resorting to congressional action (by agreement within the executive branch), AID should initiate inter-Agency consideration of such action. For example, the audit requirements for l/c financed projects might be relaxed through internal agency action if agreement can be reached with GAO.

Other Possible Actions

As suggested in Section IV above, PRE should request AID's office of Evaluation to undertake an in-depth examination of AID (and its predecessor agencies) activities in the areas of industry development, private sector development trade and tourism development by consulting with the retired "old timers" who were involved with these programs during the 1950's and the 1960's. I am certain that a review of retired agency records (particularly for the near East and South Asia Bureau, which maintained excellent records during that period) would reveal some interesting and useful data.

Extract from AIDTO CIRCULAR A333
Dated June 23, 1976

Subject: Revision in AID's Policy re participation in the programming of the Local Currency proceeds of AID and PL 480 Title I financed commodity imports.

III.F. Some General Propositions to be Considered

1.) Domestic resources mobilization for investment, development and social progress is a major determinant of country social and economic progress.

2.) The progress of an LDC in meeting its own development goals depends on how well it manages its overall economic and financial affairs. Therefore AID has a legitimate interest in country policies in these areas.

3.) In some countries where the U.S. has relatively little influence on national resource allocation policies because of small size of our programs or for other reasons, the international agencies, notably the IBRD and IMF may be in a better position to advise the country on these policies. AID has an important role to play in supporting these policies.

4.) Domestic resource allocation is affected in a major way through government budgets, which as a rule govern the disposition of counterpart receipts. AID therefore has a strong interest in and must be fully informed about government fiscal and budget policies.

5.) The effectiveness of the counterpart programming mechanism depends upon whether the recipient government feels a need for and welcomes foreign advice on its monetary and fiscal policies. The legislative requirement that we concentrate U.S. aid on the poorest countries may result in an increase in the number of aid recipients which want or need AID advice in these areas.

6.) AID involvement in the programming of the local currency proceeds of U.S. assistance as a tool for influencing LDC domestic allocations can only be decided on a country-by-country basis.

7.) Missions should carefully assess their negotiating position before attempting to use counterpart allocation policy to affect the resource utilization pattern of the host government.

8.) Flexibility is necessary in deciding on the policy to be used on local currency counterpart in a given country or for a given agreement. U.S. objectives, the economic situation, and the negotiating environment differ greatly from country to country and will affect the role the Mission assigns to local currency use.

9.) Policy on local currency use in a country should not be narrowly conceived, but should take into account all AID objectives in the country, both for resource transfer to the country and for resources use within the country to benefit the poor majority. It should take into account the other AID activities and instruments being used in the country.

10.) It is desirable to carry out as much as possible of the negotiations over local currency counterpart use before the dollar agreement that will lead to counterpart generation is signed, when the U.S. negotiating position usually is strongest.

11.) It is desirable to reach agreement on counterpart use before the counterpart is generated. In cases where the amount of local currency is not <u>de minimus</u> in relation to total LDC resources. If the local currency is spent at approximately the same time as the imports that generate the local currency are being utilized, there will be little or no net inflationary or deflationary effects from the agreement. If counterpart is spent soon after it is generated, there will later be no large or unused counterpart balances to catch the attention of auditors, inspectors, and critics of foreign aid. However, the timing of local currency generations may not mesh well with the funding needs of AID supported activities.

12.) The developing country should be entrusted with as much of the work of utilizing and accounting for country owned counterpart as possible.

V. Analysis Required as Basis for Determining Appropriate Policy re Local Currency Programming in Individual Countries and Following Evaluation

Missions (or field office) should examine the following questions in their analysis of the extent to which an active AID role in the programming of local currency generated with AID dollars will support their country strategy. It may be useful to use a modified logical framework approach to consider goals, objectives, outputs and inputs in an organized manner.

1.) What would the Mission objectives be for a more active participation in counterpart programming? Where could gains be sought in the following areas?

   a. Additional funding for development projects of the host government.

   b. More rapid funding and implementation of new projects that AID and the host government wish to implement.

   c. Greater participation in host government project preparation and budgeting activities to seek to improve performance of these.

   d. Greater information on and/or participation in monitoring implementation of development projects.

   e. Creation of a useful forum for discussion of development problems and issues with key host government officials?

   f. Enhancement of general Mission negotiating position in carrying out its overall program.

   g. Other

2.) Which members and branches of the government might be sympathetic to achievement of AID's objectives in counterpart programming, and would welcome and cooperate with AID efforts? Which might be indifferent and which would be opposed?

3.) Does the Mission have an adequate understanding of host government project planning, budgeting, and implementation procedures, or is additional information needed before the Mission decides on its recommended policy?

4.) What specific outputs would be expected from a more active participation in counterpart programming? Will it be possible to perform reviews to see if these outputs have been achieved and if AID participation in counterpart programming has helped to achieve them?

5.) Does the recipient government need and want advice from foreign experts on broad resource allocation policy issues and budgetary, fiscal and monetary questions? Ir so, would the international development agencies be the appropriate source? If AID is considered to be a better source of such advice, is the Mission adequately staffed with competent advisors? Are the experts needed available for TDY from elsewhere in the Agency? Would outside consultants be required? What about the demands which would be created by controller's staff?

6.) Does the recipient government welcome such a role for AID? Can we be reasonably sure that the government will cooperate in good faith and sincerely support jointly agreed objectives in the management of its other resources? Is there likely to be resentment of AID's role from some government leaders? the opposition party? the press? or the general public?

7.) What plans does the Mission have to delineate its involvement in planning counterpart expenditures and monitoring in such a way that full responsibility for policy decisions, as well as the execution of local currency financed activities, rests with the local government?

8.) What will be the opportunity costs with the host government in terms of difficulties or resentments by host government officials, or Mission inability to secure other objectives that might otherwise be obtained?

9.) What are risks that U.S. example will stimulate other donors to engage in programming of the counterpart of their aid to the confusion of the LDC concerned as to the ordering of its development priorities?

Where a decision is reached to participate in local currency programming in an individual country, there should be periodic evaluation (once every three years) of the Mission's local currency policies and practice. Such evaluation will be the basis for a determination as to whether continued use of the instrument is warranted.

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: DAA/PPC, Frederick Schieck
DAA/FVA, Charles Gladson

SUBJECT: Allocation of Local Currency Sales Proceeds from PL 480 Title I Agreements and CIP Programs for Development Purposes

In your note of March 19, 1983, you asked that before a local currency task force for private enterprise be established within the Agency, you needed to know: (a) how counterpart funds are being allocated, and (b) the amounts being allocated to support various types of projects, including AID and other donor-financed projects. To answer these questions, a questionnaire was sent to AID Missions with Title I and CIP programs, and replies have now been received from all but one Mission and analyzed. Because local currency practices are rapidly changing, we have supplemented the information from the questionnaires with information from personal interviews, and from new Title I agreements signed and under negotiation this fiscal year.

A. HOW COUNTERPART FUNDS ARE BEING ALLOCATED

In allocating counterparts, there is a broad continuum from what can be called "attribution" to "allocation with full additionality." In Egypt, with the largest Title I program, there currently is not even ex-post attribution for Title I sales proceeds, and Egypt was not included in our survey. Other Title I countries -- Zambia, Mauritius, Sri Lanka, Sudan (Title I), Morocco and Tunisia -- have been making attributions to existing host government budgets. These attributions may be more than pro-forma. In Morocco, a severe shortage of government funds meant that attribution of Title I sales proceeds to 1982 projects allowed them to proceed where otherwise they would not have been funded. In Mauritius and Sri Lanka, the projects to receive Title I funding are now selected in advance of signing the Agreement, and included in the self-help measures, increasing our control and influence over use of proceeds. In Morocco, the Mission is now seeking a special account and more active participation in local currency allocation. In Zambia we have elected to put the limited available Mission staff time on policy negotiations rather than use of proceeds, while in Sudan a special account will be sought once the Title III and CIP special accounts are running

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well. All other Missions have special accounts (except Péru which has done well without one) and participate in making allocations of local currency sales proceeds for development projects. In all cases, however, we believe there is not full additionality in allocations; a trading process usually goes on, with the Mission agreeing on using sales proceeds for some ongoing host government development projects in return for getting host government agreement to use sales proceeds for some projects desired by the USAID that are additional to what would otherwise be funded. Even when one has an intimate knowledge of the negotiations with the host government on sales proceeds uses, only a guess can be made on how much additionality on fund use is being obtained, since one cannot know with certainty what the host government would have funded if the sales proceeds were not available.

There is a strong trend by almost all Missions worldwide to improve their participation in local currency programming. Missions are taking the initiative in suggesting projects for funding, particularly during negotiations before the agreement has been signed; closer ties are being established with host country budget offices so that Missions may participate more effectively in programming sales proceeds uses; reporting on sales proceeds uses is being improved. A number of Missions are also making efforts to get the amount of sales proceeds available for use on development projects increased by getting increased sales prices for Title I commodities, by ensuring that parastatals deposit sales proceeds in the special accounts promptly, and by ensuring that the full sales proceeds are deposited.

Looking forward to FY 84, of the $613.5 million of Title I programs designated for 27 countries in the CP, 40% of the amount will have local currency attribution with little or no USAID influence on uses (3 countries, (including Egypt), 30% (8 countries) will have some USAID influence, and for the remaining 30% (16 countries) we expect the USAIDs to have effective mechanisms in place to play a strong role in determining use of sales proceeds. Prospects would be better if the largest Title I programs were not in the highest priority countries from a political point of view, where it is most difficult for our USAIDs to establish a major role in determining uses of sales proceeds.

B. ACTUAL PROJECT ALLOCATIONS

The questionnaire responses cover currency allocations for the most recent year's agreement for which allocations have been substantially completed. This varied from 1980 to 1983, with most for 1982 and 1981. The report on Title I sales proceeds uses covers 21 countries. Excluded are Egypt, Zaire (no reply) Zambia and Mauritius (make general budget attributions only) and Congo (no allocations yet from first FY 82 agreement). The report on the results of the questionnaire is attached.

For the 21 countries covered for Title I programs, $346 million in sales proceeds was reported. Over 80% of these funds were allocated to support development activities, and 15% remained unprogrammed. The bulk of the unallocated sales proceeds were in Pakistan, which only accepted having a special account in FY 1981 after many years of resisting AID participation in programming local currency. The remaining sales proceeds were used for CUP payments, primarily. Of the sales proceeds which had been allocated to development projects, over 85% were allocated to support agriculture, rural development, and nutrition projects. Health, population, and energy -- PVO -- selected development activities followed in much smaller amounts. Within the ARDN account, services (credit; input supply; marketing and storage; nutrition improvements) accounted for 40% of the projects funded, followed by natural resource management, infrastructure and development of new technology.

Large amounts of sales proceeds were used to support AID projects; the total was $121 million, or 43% of all the sales proceeds which had been allocated to development projects. The practice of using sales proceeds to support AID projects varied widely by region. In Asia and NE, no sales proceeds had been allocated to support AID projects. In LAC every mission had made some allocations of sales proceeds for AID projects, and in two missions, Jamaica, and Peru, 100% of sales proceeds allocations were for support of AID related activities. In Africa, all Missions used some sales proceeds for AID projects, but none used close to 100% of sales proceeds for AID projects. (There is no AID mission in Madagascar, and thus no AID projects that could be supported). Sales proceeds were also used to support World Bank projects ($18 million) and small amounts were used for other bilateral or multilateral projects.

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Of the total sales proceeds that had been allocated, $57 million, or 20% were allocated to support private sector activities. Somewhat over 50% of this amount was used to support private business, 39% in support of cooperatives, and the remaining 8% for private voluntary organizations. A major way of supporting private business was through credit programs.

Commodity Import Programs (CIPs) generated $104 million of local currency in four countries: Kenya, Mauritius, Sudan, and Zimbabwe. Quantitative information for the CIP in Pakistan was not available. In contrast to the Title I sales proceeds, over one-third of the CIP counterpart is unprogrammed, and is used primarily as budget support. Of that which was programmed, ARDN and other development projects received the largest allocations, followed by education and human resources development.

Some conclusions from the survey of local currency allocations are:

1. Missions have been responsive to agency policy to participate in the programming of country-owned local currency generated from the sale of PL 480 Title I commodities; only 15% was unprogrammed. In contrast, 34% of CIP sales proceeds were unprogrammed. The quality and intensity of the participation has also been increasing.

2. Most Missions with Title I programs (16 out of 24) arrange for the local currency to be deposited in a special account. Additional Missions are negotiating for special accounts or other means to participate fully in sales proceeds allocations. Missions with special accounts are working to get larger and more timely deposit of sales proceeds in them, and greater control and reporting on disbursements from the accounts.

3. Because responses cover only one year for each Mission, no analysis of changes in local currency allocation practices over time was possible.

4. There are wide differences between regions and Missions in participation in allocations of sales proceeds, and in the amounts that are allocated for support of AID projects.

AID/FVA/FFP/I:WRhoads:6/15/83:pcw

Clearances:
PPC/PDPR, D Caton (Dft)
AID/D/FVA/FFP, T. Lambacher________

Conclusions & Recommendations To
Study Prepared by Dr. Edwin L. Hullander
Dated Nov. 2, 1982 and Titled:

Financial Leverage Potential of Local
Currency Proceeds Generated from the
Food for Peace Program to Stimulate
Private Enterprise in Developing Countries

PL 480 generated local currencies can be used to: (1) increase the economic feasibility of a venture by improving the returns or reducing the risk to the investor; (2) open new areas of economic activity by providing funds for selective uses such as export credits or insurance; and (3) provide advisory services for financial packaging to allow entrepreneurs to be competitive in attracting capital.

AID can have a significant impact on the development of viable private sectors in many developing countries by: (1) skillfully leveraging the local currency proceeds to attract external funds to the country; (2) providing the technical assistance and training necessary to build indigenous private enterprise; (3) facilitating the extension of indigenous enterprise into new markets; and (4) promoting a positive economic climate where risks and rewards are based on individual efforts and skills.

In order for AID to effectively use the financial leverage potential of local currency proceeds, a number of policies and procedures should be changed. The most important action is to establish a policy that defines the role of private enterprise in each stage of the economic development process. This will provide the Missions with criteria to develop specific projects and plans.

The policy which provides this definition should be used to set a clear legislative and administrative authority for AID to promote private enterprise as an integral part of U.S. foreign policy. Specifically: (1) the Cooley loan program authority should be returned to AID; (2) projections of U.S. private investment funds should be included in the CUP as well as be a regular negotiating point in the annual PL 480 Title I agreements; (3) agreement with OMB should be sought to establish a revolving fund using repayments of old, local currency denominated loans; (4) a clear linkage should be established between food aid objectives and local currency programming within the context of overall U.S. policy; and (5) the uncertainty of local currency availability should be reduced whenever possible by using multiyear agreements or other mechanisms.

At the Mission level, AID should encourage the development of private enterprise by: (1) establishing intermediate financial and advisory institutions to provide the technical and administrative staff needed to manage leveraging; (2) providing policy guidance and setting the criteria for loans (i.e., the legislative requirements on Title I proceeds) for these institutions; (3) acting as an intermediary between these institutions and the host government when necessary; and (4) providing budgetary support for those economic policy reforms that improve the incentives for private enterprise and increase the credit standing of the country.

To determine the feasibility for leveraging of local currencies, AID should conduct a number of pilot studies of selected countries to identify very specific operational criteria for leveraging. Countries to be studied should have: (1) an active Title I program with existing special accounts; (2) a willingness to establish rational economic policies; and (3) commercial financial institutions to provide a starting point. Countries that would meet these criteria, for example, are Jamaica, Bangladesh and Sri Lanka.

Above all, AID can provide the philosophical foundation of private enterprise: that <u>equity</u> in income and wealth is achieved through a free and competitive economy; and that the <u>discipline of effective use of resources</u> leads to economic growth and a better quality of life.

FIRST WASHINGTON ASSOCIATES REPORT ON USE OF COUNTERPART FUNDS Dated October 1982

Conclusions & Recommendations

I. EXECUTIVE SUMMARY

Counterpart funds which have been generated either by PL-480 or by the Foreign Assistance Act programs, as well as "excess" local currencies owned by the U.S. Government, may be used in ways which complement AID's innovative, private sector development initiative. The legislative intent behind these programs is clearly compatible with AID's private sector mandate.

This particular AID initiative is intended to establish programs which provide financing and technical help in order to assist in the creation, development, and expansion of productive, private sector enterprises. To qualify, these enterprises must be developmentally sound and in legislatively-mandated priority areas.

The private sector initiative is directed toward AID-assisted countries. Priorities are developed for specific business sectors in terms of both size and type of enterprise. Primary attention is given to small and medium-size enterprises operating in areas of the economy which directly or indirectly may be assisted by AID.

Further dimensions of the AID private sector initiative which utilize local currencies include programs which would:

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- promote the involvement of the private sector in target countries;

- encourage private U.S. foreign and local investors to invest in priority development areas in select countries which would result in appropriate technology transfers;

- facilitate the development of relevant in-country management expertise;

- encourage the growth of an infrastructure supportive of private enterprise growth; and

- make loans to develop promotional programs which would encourage multilateral trade, economic development, and agriculture.

The most promising mechanisms for financing the new AID initiatives which have been identified in this report include:

1. The Currency Use Payment (CUP) under PL-480, Title I;

2. The Commodity Import Program under the Foreign Assistance Act of 1961 (FAA);

3. The Cash Transfer under the FAA; and

4. The Trust Fund under the FAA.

Since very few countries have "excess currency" status, this mechanism is seen to have limited relevance.

In order to maximize the efficient use of these mechanisms, the following are among the steps recommended:

- there is a need to institutionalize the relevant practices and procedures within AID, which would be conducive to the application of these mechanisms to the private sector initiative. This can most expeditiously be accomplished by:

  (a) having a Policy Determination issued by the Administrator which would mandate all necessary institutional support and cooperation for this area;

(b) developing private sector staff training programs; and
(c) revising the AID Handbooks to incorporate new mechanisms and procedures as described herein.

- there is a need to develop additional AID staff with appropriate LDC private sector and project development competence which can provide implementation, monitoring, and trouble-shooting services.

The time frame for developing and implementing the identified mechanisms is over fiscal 1983 and 1984. An extended period would be required because of the lengthy approval process needed to change and institutionalize existing mechanisms and the limitations in the availability of the current fiscal year counterpart funds.

XIV. RECOMMENDATIONS

Based on the analysis of existing programs generating counterpart funds and the decision making and administration processes which determine the utilization of such counterpart funds, the following observations and recommendations are made to reach the objectives of directing a portion of such counterpart toward private sector initiatives.

The recommendations do not cover U.S. Government-owned local currencies and are based on the following premises.

1) That the counterpart funds generated by the existing PL-480 and Development Assistance Loan programs are owned by the host country government.

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2) That the mutually-agreed-upon programs and projects funded from the generated counterpart funds are to be carried out by the host country.

3) That the actual disbursements of the generated counterpart funds to finance the mutually agreed upon projects are basically left in the hands of the host country.

4) That degree of compliance with carrying out the agreed upon projects and quantifying the beneficial effects is often difficult to ascertain. Heavy reliance is placed on the reports submitted by the host country government.

5) That each target country may require different private sector initiatives so long as these are in compliance with initiatives mandated in the underlying legislation.

6) That different country conditions, political and economic, may require a different approach.

7) That U.S. AID has considerable leverage to assure that host country private sector initiatives are carried out in accordance with the original agreement "Annex" (e.g., New PL-480 assistance can be conditioned upon the performance of the host country under the original agreement).

Based on these premises, the recommendations are as follows:

1) That AID/PRE, in conjunction with the relevant Missions, take the initiative in discussing with appropriate host government and private sector officials the types of programs which would best promote private sector development. Initiatives and Programs would be identified which could be assured both public and private support.

2) That program terms should be designed to assure the type of continuity which private industry needs if it is to develop properly (e.g., three years).

3) That AID/PRE prepare a 3-year plan for each target country outlining what AID wants to achieve in specific private sector initiatives.

4) That the estimated expenditures for such a program be disaggregated by source of funds e.g., external financing, external guarantees and host government-owned counterpart funds.

5) That such 3-year plans be integrated with the overall AID program envisioned in each of the target countries to meet the overall objectives of the host country as well as those participated in by the AID Mission within the host country.

6) That in addition to the 3-year plan, there be frequent Agency directives on private sector initiatives to increase agency personnel familiarity with private sector development.

7) That visits to the target country AID Missions under established country-visit guidelines be scheduled with sufficient frequency to assure that program initiatives are carried out in timely and proper fashion.

8) That target country AID Mission personnel visit Washington for briefings and training on private sector initiatives.

9) That procedual and administrative changes be made within AID to assure that the private sector initiative is not short changed. These changes may be mandated by Policy Determinations issued by the Administrator and could include the following:

   a) to involve PRE in developing program policies; and

   b) to have PRE directly involved in setting priorities and programming for PL-480 and other counterpart-funded AID projects.

10) That AID re-examine the possibility of utilizing PL-480 Title III programs (converting loans to grants) in support of private sector initiatives.

11) That PRE be involved in the development of country programs and projects starting with the Project Identification Document.

12) That contract language of PL-480 and other loan agreements be reviewed to support private sector initiatives.

12a) That consideration be given to allow host countries to offset their hard currency obligations with local currency set-asides targeted for private sector programs.

ANNEX V

THE FOUNDATION FOR INDIA-U.S. INDUSTRIAL TECHNOLOGY DEVELOPMENT : A PROPOSAL

November 18, 1983

This draft proposal has been prepared for consideration of the Governments of India and the U.S. by a Private Enterprise Design Team comprised of:

Dr. Bruce Merrifield(Assistant Secretary of Commerce),
Dr. Jordan Baruch (Consultant),
Mr Robert Cassidy (Department of Treasury) and
Mr. Lu Rudel (Consultant)

during their visit to India 13-19 November, 1983.

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PREFACE

The world pool of science and technology is now vast and growing rapidly. Some 90% of all the knowledge in the sciences has been generated only in the last ten years, and will double again in the next ten or fifteen years. The result of this knowledge explosion is that the life cycle of products and processes is continually being compressed. In electronics, the life cycle now is 3 to 5 years and in most other areas 5 to 10 years.

Moreover, all markets now are rapidly becoming global markets. If India wishes to be competitive in these markets it must be at the leading edge of the technology that drives them.

The U.S. has a great interest in expanding the global economy through collaborative development effort with other nations. Bi-national collaborative efforts between companies in India and the U.S. can bring together specialized leading edge knowledge, skills, resoucres, and a sensitivity to real needs in the market place that an individual company may not have alone. It is in this context that the formation of a bi-national collaborative effort is proposed.

The nature of the collaborative effort, however, must be critically focussed on the "development end" of the innovation pipeline.

Innovation Pipeline

I	II	III	IV	V	VI
IDEA STAGE →	LABORATORY FEASIBILITY →	DEVELOPMENT STAGES →	PILOT PLANT OR PROTOTYPE →	INTERIM MANUFACTURE →	FULL SCALE COMMERCIAL
UNIVERSITY AND GOVT. LAB INVENTIONS		TRANSLATION			

Although there are many iterative stages in the pipeline, 90% of the cost, risk and time are involved in the translation steps. Moreover, translation requires a set of many specialized skills with a strong market focus. This is the area where U.S. industrial strengths can be brought to bear as needed to speed up the time to commercialization and radically increase the probability of commercial success. Much of this development work can be done in India where labor costs are much lower than in the U.S. to the benefit of U.S. companies as well as Indian companies. A detailed account of how this collaborative process is managed is included in the "BIRD Foundation" report.

I. INTRODUCTION

India has recognized the importance of research and development to its economic progress in many ways:

- The Prime Minister retains the S and T portfolio and the presidency of CSIR.
- India's tax laws to encourage R and D, allowing deductions up to 135% of expenditures, are among the most liberal in the world.
- The CSIR, controlling over 35 national laboratories, supports a wide range of research.
- Licensing of foreign technology by Indian firms is widespread, with over 500 agreements being approved in the past year.

Were this proposal merely to offer a modest increment to the significant sums already available in India. It would be unworthy of attention. It does not. It proposes, instead, a mechanism for facilitating the development of new products for which a market can be shown to exist, with particular emphasis on wide distribution potential and readying that new product for commercial production. It has even greater potential in its catalytic role that builds the scientific industrial infrastructure within the participating companies and also builds new, rewarding relationships between nations. The focus of this proposal, however, is on a very narrow but critical phase in the product life cycle (scientific research, technological development, market adaptation, large scale production) that deals with converting the results of scientific research into a product ready for production and marketing. Moreover it contemplates JOINT development of these new products between Indian and American firms in a partnership form that recognizes the contribution each can make to the process of moving research results to the commercialization stage.

Section II of this paper describes the process and its motivation in some detail. Section III describes the results that have come about from a similar program between Israel and the United States. Section IV covers a few questions and answers about the program that have arisen in our discussions with governmental and corporate sector representatives up to this point. The appendices, following the main body of the paper include the 1983 annual report of the US/Israel program to assist the reader in understanding the actual experience of the first five years of the program and an excerpt from their handbook. The complete handbook, containing the actual instructions to applicants, application forms, and funding agreements used by the US/Israel program is also available on request. These documents will clarify the focus, priorities and criteria used in screening requests from US and Israeli companies.

The experience of a similar effort in Israel (the BIRD foundation) to date has convinced us that this model has applicability to India's technology development needs.

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India with:

- o a large corporate productive sector
- o a large pool of well trained manpower
- o superb universities
- o an active capital market
- o strong scientific laboratories
- o management capabilities
- o and a tax structure that encourages research

can achieve significant gains toward reaching her development goals through the use of such a mechanism. For that reason, we have prepared this document as an advocacy proposal.

II. THE FOUNDATION FOR INDIA-U.S. INDUSTRIAL TECHNOLOGY DEVELOPMENT (FIUITD)

We propose that India and the U.S. establish FIUITD F as an operating foundation with the narrow objective of facilitating joint development activities between U.S. and Indian companies. This section describes a recommended mode of operation of the foundation. Based on our experience we have tried to adapt it to our perception of prevailing conditions and practices in India. The proposal, as outlined below is, of course, subject to modification and refinement.

A. Reason for Formation

India has earmarked significant resources for subsidizing research and has an effective capital market for financing the commercialization of new products that have demonstrated commercial potential. India also has specialized funding mechanisms that are capable of assisting the process of converting research to a commercializeable stage of development. This last stage, determining the market need for a new product or process and converting selected results from the enormous pool of international research findings into that product or process, is still the most difficult task that a company faces. Our experience demonstrates that a properly structured complementary partnership of two companies from different nations can accomplish that task more efficiently and more rapidly than can either company alone or than two companies in the same country. Section III describes the experience on which we base that claim but, for now, we urge the reader to take it as a given.

Our experience, however, also indicates that the forging of such partnerships requires a great deal of work. In addition, to ensure that each partnership project is focussed on a development likely to lead to successful commercialization, requires detailed business analysis and screening in collaboration with the foundation staff. Lastly, and vitally important is our finding that foundation ongoing consultation and approval of a project and the staff's familiarity with the project can play a significant role in securing the further funding needed on the project's completion.

This relatively narrow focus on facilitating joint development efforts (and their subsequent fruition) between Indian and U.S. companies, because of the effectiveness of such joint endeavors compared to individual efforts, is the objective of the proposed foundation.

Study by D. Orsini dated Nov. 1983 for
President's Task Force on International Enterprise:
AID Private Sector Initiatives:

IV. LESSONS LEARNED

A. MOST SUCCESSFUL PROGRAMS

In synthesizing lessons learned over the years from AID development experience, it is perhaps useful to begin with a summary of the most positive elements of the more successful programs.

Two major programs appear to have been the most successful: technology transfer and foreign private investment promotion.

The technology transfer program, with its joint venture, agribusiness, PVO and management technology transfer mechanisms, has performed the extremely important function of enhancing LDC productivity, improving their product quality and promoting their product competitiveness in the world market.

The value of the transfer of U.S. technology cannot be calculated in dollars and cents since it has considerable impact on the longterm growth among LDC's. The ability to achieve a competitive status internationally for the LDC will often depend upon the accessibility of that technology, while the maintenance of low-cost small-scale agricultural and industrial operations for local production will depend upon good adapted technologies.

U.S. efforts in joint ventures, licensing agreements and adapted technology transfer have and continue to be highly effective in this area.

The foreign investment promotion progrm has also achieved considerable success, especially as regards the Cooley loan program and the Housing Guaranty Program.

The Cooley loan program appears to have achieved considerable benefits from the standpoint of both development concerns (creation of productive industries and export of U.S. private capital, management skills and technology to countries in which U.S. firms would otherwise have been inactive) and U.S. business concerns (dollar reflows to the U.S. from royalties/licensing fees, etc., expansion of U.S. capital goods and raw materials exports, political value of good working relationships between U.S. and indigenous businessmen).

The only criticisms registered of the program involved the lack of funds in certain sought-after countries and limited staff time resulting in loan processing delays.

The success of this program in internationalizing private enterprise clearly underlines the importance of linking trade and aid to the development process.

The housing guaranty program, in which U.S. investment in the form of debt capital from the S&L system was promoted by the provision of a U.S. government guaranty for the full amount of the investment, was also quite successful as a foreign private investment promotion mechanism, although it is not possible to determine precisely how many of the loans would have been provided anyway had the guaranty not been available. The program was effective both in attracting U.S. private capital and in achieving development benefits, notably improved housing. The default rate for the housing guaranty program is very low, as compared with that of other programs.

Two other programs which appear to have achieved satisfactory results are the capital market development program through ICI's and training. The former has generally been effective in creating self-sustaining financial institutions, in mobilizing external resources, in achieving effective transfer of resources to a large number of recipients, and in providing loan monitoring services (alleviating the drain on limited AID human resources). The potential does exist, however, for misallocation of resources if internal policies are distorted or if subloan criteria are not clearly spelled out or enforced. On the whole, however, the capital market development program via ICI's has functioned well.

Training programs which have responded to pre-determined and well-articulated needs and which have become or show promise of becoming independent, self-sustaining entities are considered very valuable to private sector development. More evaluation of the direct impact of training programs on private sector enterprises would be useful in order to better design new programs and to adjust existing ones.

B. LEAST SUCCESSFUL PROGRAMS

Two programs appear to be, on a relative scale, less successful than most of the other programs. These are the industrial development program via the DLF's direct loans and the policy dialogue program via program loans.

The ineffectiveness of the DLF loans appeared to stem from poor management of the enterprises and insufficient capitalization. Little direct management or technical assistance from foreign investors was provided, and this perhaps contributed to the failures. Problems were also attributed to the highly staff intensive nature of the program and to the specialized staff skills required. Finally, the fact that there were very limited institutional benefits from the program added to its negative overall rating.

The program loans are difficult to evaluate objectively since they were provided to strategically important countries. The 'conditioned' loan mechanism did not appear efficient in achieving targeted policy modifications. Evaluatory comments to the effect that the loans were difficult to negotiate, produced modest results at best and may have not even been necessary for some of the policy modifications involved, all tend to negate the mechanism as an effective policy formulation tool unless considerable changes in the program development methodology were instituted. (Changes involving more specific and fewer policy conditions with better review processes were recommended, as was the strategy of diminishing aid as progress is made.)

C. GENERAL CONCLUSIONS

There are two primary forms of assistance to LDC's: the first involves provision of technical assistance (transfer of know-how, training, etc.); the second involves the provision of capital (transfer of funds for credit, equity, etc.).

On the whole, AID's function is to transfer know-how to the LDC's, to permit them to develop their economic resources. Technical assistance serves normally to effect the transfer and further develop skills, while capital assistance normally serves to make that know-how more productive. Both have important roles.

The form of assistance to be provided for any given program should be carefully evaluated- a knee-jerk approach to either technical assistance or capital transfer should be avoided.

The review of the Agency's history of private sector programs indicates the usefulness of a combination of technical and capital assistance. In addition, the following general conclusions are drawn:

1. The need for capital markets and institutions to support these markets in LDC's is generally present, but the key problem is a lack of know-how rather than a lack of funds. Indeed, the need for additional credit is no longer pervasive in LDC's. (When capital is lacking, it tends to be equity capital and not credit.)

2. Two conditions should determine whether investments are made in the LDC private sector: the recipient should have the technology and know-how to effectively use the investment, or the required technology and know-how should be provided concurrently with the investment.

3. Assistance to smaller enterprises should be provided for start-up purposes or early expansion only if a growth potential exists. Assistance should not be provided for 'bail out' purposes.

4. The most successful private enterprise assistance programs have direct ties to U.S. firms and businessmen.

5. The most successful private sector programs have been those that were demand driven, whether they involved technical assistance or investments.

6. Guaranties appear to be an effective means of attracting U.S. private investment to replace public sector investments.

7. In capital allocation or reallocation, equity should be emphasized. The creation of new institutions or the expansion of existing ones geared to provide equity should be considered (e.g., venture capital firms or investment banks).

8. Cofinancing arrangements appear to effectively leverage private sector funds for development assistance, although AID programs with private cofinancers are still in the experimental stage.

9. Long term commitments may be necessary in certain private sector programs to ensure success, but in all instances, the goal of creating or developing independent, self-sustaining (non-subsidized) institutions should be emphasized.

10. Successful experiences and an analysis of the reasons for their success have not been shared within AID, nor with other USAID missions, U.S. embassies, ICI's or local entrepreneurs.

11. The lack of a centralized and self-critical management process within AID for private sector initiatives has resulted in a concentration on projects rather than programs, and in limited replication of good initiatives with occasional continuation of poor ones.

12. AID and PRE currently lack the adequate organization and properly trained personnel to effectively implement the private enterprise initiative.

13. In summary, every opportunity to engage the U.S. private sector in development programs should be taken, to obtain their know-how, capital and markets. Opportunities to provide benefits in exchange to them, i.e. dollar reflows and increased exports, should also be promoted. All opportunities to assist private enterprise growth, particularly vis-a-vis the public sector, should be exploited through a combination of demand-driven technical assistance, training, private institution building, policy reinforcement and capital transfer.

DRAFT CIRCULAR CABLE

SUBJECT: Guidance for Preparation and Submission of Mission Plans for Use of CIP and PL 480 Local Currency Generations

REF: (a) State 276001 (Sept. 22, 1983 Alert Message)
(b) AIDTO Circular A 333 of 6/23/76
(c) PD #5

As reflected in Ref (a), Administrator McPherson is of the view that AID Missions should involve themselves, to the extent U.S. interests can be served in programming U.S. local currency generation. The purpose of this message is to provide guidance to Missions as appropriate for the preparation of a plan for the use of CIP and PL 480 l/c generation (local currency use plan).

Background

AID policy requires annual Mission reexamination of the merits of more active AID participation in the programming of l/c and encourages its use as another AID tool in those countries where it promises to be effective. In some (but not necessarily all) country situations, more active AID participation in programming of the l/c proceeds of U.S. aid could enhance our ability to influence a recipient's policies and thereby improve the quality and quantity of the recipient's development efforts. AIDTO Circular A 333 dated 6/23/76 requires each mission which expects PL 480 Title I or AID financed commodity imports to generate l/c proceeds, to analyse its situation to determine whether a more active role in counterpart programming would be useful in its host country. The analysis should be made in the context of the Mission's objectives and overall strategy for the developing country concerned. Certain considerations which were described in AIDTO Circular A 333 and other criteria to assist Missions in performing this analysis are being transmitted as Section B of this telegram.

The analysis called for in this message (to permit a determination of whether more active Mission involvement in l/c programming is appropriate), normally should be part of the Mission's annual CDSS submission. We note however, that the FY-83, FY-84, FY-85 CDSS guidance messages did not specify that this analysis be prepared. All addressee Missions are requested to perform the required analysis indicating the current status of Mission involvement in programming l/c uses, and describe the actual and planned l/c use for FY-83, FY-84, and FY-85. Missions should indicate whether they believe modification of the degree of Mission involvement in l/c programming is appropriate during the next 12 months. Such time series data should reflect Mission's proposed or anticipated composition and changes for l/c uses over this period to implement AID's current program and policy emphasis. Please indicate the extent to which the FY-84 program has already been discussed/ negotiated with the host government.

It is important to indicate in the plan, the timing with respect to decision making by the host Government and the Mission in making further commitments with respect to l/c utilization.

Only those local currency sales proceeds which are owned by the recipient country should be covered in this analysis. Specifically excluded are the l/c purchased directly with AID dollars to finance the local costs of AID financed sector loans or other activities. These funds are programmed in the context of the loans involved. Also excluded are the l/c repayments of AID dollar loans and the proceeds of PL 480 sales for l/c owned by the U.S. government; these funds are considered to be assets of the U.S. government and their management and disposition are subject to statutory restrictions and special considerations not applicable to country-owned l/c sales proceeds.

Purpose of the Local Currency Use Plan

The l/c use plan as a management tool should focus attention on the programming of l/c generations and the relationship to on-going development assistance programs and achievement of objectives with AID's "four pillars." Furthermore, initial responses from each addressee Mission will provide AID with information from which to determine which Mission programs in the next six to 12 months, might benefit from more active AID participation in the programming of l/c.

Preparation of the Local Currency Use Plan

The l/c use plan should contain information for (1) the actual use of l/c for FY 1983; (2) the planned use for FY 1984 using revised allocations; (3) FY 1985 based upon Congressional presentation program levels. The l/c use plan should contain separate tabulation for each fiscal year showing the uses of l/c by project and the associated amount of l/c allocated with the dollar equivalent. An example of a table:

Mission Plan for CIP/PL 480 Local Currency Use
Fiscal Year 19xx
CIP/PL 480 Program Level $xx million
Local Currency Generated: YY Units

Projects	Amount L/C $'s
xxxxxxxxxxxxxxxxxx	$xxxxxxxx
xxxxxxxxxxxxxxxxxx	xxxxxxxx

The l/c use plan should contain a narrative statement from the Mission to discuss its strategy with respect to l/c uses. A recent study entitled "The Feasibility of Local Currency Programming for Private Enterprise Development." prepared for the AID private sector liaison council by L. Rudel, identifies ways in which l/c can be utilized to enhance the indigenous private sectors contribution to host government development objectives and discusses the more significant considerations that might enter into the review of the Mission's strategy. That study is being pouched to addressee Missions and may be helpful to them in preparation of its l/c use plan. The study identifies certain questions which must be addressed by each Mission in determining whether greater Mission involvement is warranted in l/c programming. These questions are extracted for Mission information:

"Appearance of Change versus Real Change - Taking the foregoing considerations into account, it would appear that there are three critical questions that must be answered in considering any new approach to increased AID involvement in the programming of l/c generated from the AID program in support of private sector development efforts. These are:

1. Additionality of resources - to what extent would a new approach in fact, add real resources to the Agency for International Development which can be applied to reach its development objectives?
2. Additionality of economic leverage - to what extent would the proposed change catalyze additional private investment flows either from foreign sources or from internal sources?
3. Reallocation of resources - would the proposed change in l/c application result in an actual shift of real resources among the claimants in the recipient country? Particularly, to what extent would such a shift of resources result in channeling additional resources to the private sector?

Based on the answers to the foregoing three questions it should be possible to determine whether a case may be made for AID's increased involvement in l/c programming."

Time of Submission

The l/c use plan should be submitted before March 15, 1984. If PL 480 Title I and CIP funding levels are still unknown as of that date of submission, then CP levels can be used for the current fiscal year as well as the projected fiscal year.

Use of Local Currency

PD #5 contains some program examples for the use of l/c. An additional use of l/c is for private sector development. Where the Mission can identify activities that would serve AID's private sector objectives and that will require l/c, incorporate these activities in the l/c use plan.

Private Sector Growth and Development

AID believes the energies and resources of the private sector in developing countries can be stimulated and channeled to contribute effectively to achievement of the host country's development goals, that the market mechanism is often a more effective resource allocation mechanism, and that the removal of certain constraints on the operation of the private sector can be a cost effective means to facilitate the achievement of the country's development objectives. Where the Mission can identify activities t at would serve these objectives and that will require l/c, an effort should be made to incorporate these activities in the l/c use plan. We recognize that not all LDC's in which AID operates enjoy the necessary conditions at this time to permit Mission involvement in private enterprise development with positive effect. But we ask Missions to consider possible activities in the context of the available opportunities offered by U.S. controlled l/c availabilities. For example:

-- Credit is often a major limitation on the effective operation of the private sector. AID experience, beginning with the "Cooley" loan program has had a marked success record. L/C has been programmed to provide resources to existing or proposed intermediate term lending institutions.

-- Technical and managerial training to meet needs of the business community.

-- Policy reform to improve investment environment - reduction of institutional impediments, such as cumbersome Governmental procedures and other governmentally imposed requirements which add risk and uncertainty to private sector operations.

-- Improved mechanisms by which the private business community may identify and evaluate sources of needed technology and gain access to such technology (i.e., information systems, enhancing the technical and engineering consultancy industry to better serve the producer).

-- Improved access to international market information including data repositories of information on GSP.

-- Improvement of insurance, transport, and other services needed by producers.

Extract From
USAID/COSTA RICA
CARIBBEAN BASIN INITIATIVE
IMPLEMENTATION PLAN

(Program Update, No. 1)
October 1983

II. USAID/COSTA RICA'S STRATEGY

USAID/Costa Rica's private sector strategy is focused on providing assistance to both the GOCR and selected private sector institutions in the implementation of a national economic recovery program. The goal of this strategy is to establish the basis for industrial growth through the reorientation of the Costa Rican economy from its present industrial import substitution bias to one in which the industrial sector contributes to export led growth. Therefore, the preferential access which the CBI provides to U.S. markets will be the focal point of the CBI Implementation Plan and overall Mission's strategy.

To achieve this goal USAID will assist the GOCR in the formulation of policies aimed at the design and execution of a development strategy which will encompass the following key areas:

A. Economic Stabilization and Recovery

B. Strengthening the Financial System

C. Export and Investment Expansion

D. Improved Public/Private Sector Coordination

E. Improved Policy Formulation and Administrative Reform

Four strategic planning studies* were completed during the FY 82-83 period and these documents have provided USAID with a basic understanding of the condition of the Costa Rican private sector, the roots and consequences of its problems, the relationships between public policies and private productivity and future private sector prospects. Furthermore, these studies were utilized to provide the GOCR and USAID with the information required to address key constraints in the Costa Rican economy and resulted in the design of the DA and ESF projects/programs currently being implemented.

A. Current Projects

1- Banco Agro Industrial y de Exportaciones (BANEX)

. At the end of FY 1981 USAID/Costa Rica made a $10 million project loan to BANEX, S. A., a newly established Costa Rican private bank. The purpose of that project is to establish an integrated program of credit, export management assistance, and export oriented banking services for the producers, manufacturers and merchants of non-traditional exports to world markets. Among the features of the project are the establishment of a trading company and complementary project cofinancing.

(*) - Current Economic Conditions and Private Sector Prospects in Costa Rica (December 1981)
- CENPRO/Export Development Strategy for Costa Rica (October 1982)
- CBI Implementation Plan (August 1982)
- Costa Rica Private Sector Study (September 1982).

Based on [the findings of a recent project evaluation] BANEX's management presented to USAID a revised strategy to deal with current market conditions and new opportunities. This proposal will provide the basis for a project amendment that will be submitted for LAC review in November 1983. The principal thrust of this new strategy will be the development of the company's capability to serve the "producers end" of the export process. The entire BANEX organization should thus work in an integrated fashion towards supporting existing or potential export producers by:

a) Developing a more venture-oriented investment/financing capability, under either BT or a new investment banking division. This new function would channel dollars (from the USAID loan or other sources) and/or colones into export-oriented investment projects through long-term lending or possibly equity participation.

b) Developing BT's capability to work with and for existing producers to improve their ability to meet new market demands. Such assistance may involve credit (for example, for new packaging machines or materials), product adaptation or redesign, and other services such as warehousing, cold-storage, freight consolidation and negotiation of advantageous freight rates.

c) Developing BT's ability to effectively promote joint ventures for export oriented industries, particularly in the agro-industrial and re-export industry areas.

2. Corporacion Costarricense de Financiamiento Industrial (COFISA)

USAID/Costa Rica entered into a $10 million project loan with COFISA on September, 1982, to provide critically needed credit to the private sector. Particular consideration for credit under this project will be given to developing new and expanded production for the export marketplace. The goal of the project is to provide continued support for this key credit intermediary whose clients are some 300 Costa Rican firms and whose overall foreign debt service requirements are extraordinarily large. The project's threefold purpose is to assist in the solution of the current productive private sector liquidity crisis, to enhance the sector's capacity to earn foreign exchange and to reestablish the borrower as a development-oriented financial institution.

The project will employ both dollar and local currency financing to enable the COFISA to develop and manage a program of dollar and colon sublending to the private sector and when appropriate make equity investments in private industry. Giving priority consideration to the recuperation and capital requirements of the COFISA'S borrowers, the project will provide financing for the restoration and maintenance of existing productive capacity as well as for production growth and diversification. It is expected that dollar denominated sublending will be extended primarily to exports and colon sublending to businesses serving the domestic market.

Conditions Precedent to Disbursement were satisfied on September 30, 1983 and the first disbursement was made in early October, 1983.

3. Economic Support Funds (ESF)

Since May 1982 the local currency (colon) equivalent of $170 million has been disbursed under the ESF cash transfer programs in support of the GOCR's economic recovery program.

A substantial portion of the local currency generated by ESF cash transfers are being used to finance three categories of assistance for the private productive sector: a) $80 million for use by the Central Bank of Costa Rica (BCCR) to help ensure the liquidity of the credit programs of the national commercial banks; b) $35 million will be used to establish a special discount line through the BCCR, which will be reserved for participating public and private banks, and from which credit will be extended to the private sector; and c) grant funds of $11 million were provided to a local PVO, the Costa Rican Coalition for Development Initiatives (CINDE) which is described in detail in section III-A-5.)

The discount lines for the private banks are indirect from the BCCR because legally a state bank or the Costa Rican Development Corporation (CODESA) must act as an intermediary for the discount operation to take place. Until the required legal changes are made to permit direct private bank participation in BCCR discount lines and other lending, this program will be important to assist in the growth of private banking in Costa Rica. The emphasis in this credit line is on working capital financing for non-traditional exporters.

All private producers/exporters (including agricultural, agro-industrial and industrial) are eligible to apply through the participating banks for credit financing. Priority attention, however, is being given to small and medium-size companies or cooperatives in order to maximize the developmental impact of the credit program.

The funds channeled through the special discount line will be used to finance: a) working capital; b) the purchase of stock for new companies or new issues of stock from existing firms; c) to repay or restructure the local or foreign debt position of local companies, and d) for capital equipment. The maximum amount of financing permitted for each company is $500,000.

The private banks have acted very rapidly to disburse these funds to the private sector. Nationalized banks have not responded as quickly and therefore their potential role in the program has diminished.

4. <u>Policy, Planning and Administrative Improvement Project (PPAI)</u>

In May 1983 USAID initiated PPAI project in order to provide the supplementary resources required by the GOCR and selected private sector institutions for the effective implementation of the national economic recovery program, and as an integral part of this, an effective CBI strategy. Funds ($1.8 million) under PPAI will be used to provide inputs to policy formulation, planning, and design and implementation of management and administrative systems, which are required to achieve the goals and objectives of the CBI for Costa Rica.

The criteria for selecting activities under the Project are that they be critical to establishing and implementing economic policy, plans, and managerial and administrative improvements which support the CBI, and that they be activities of a short or medium-term nature.

5. <u>Coalicion Costarricense de Iniciativas de Desarrollo (CINDE)</u>

In March 1983, a group of prominent Costa Rican businessmen and distinguished professionals organized the Costa Rican coalition for Development Initiatives (CINDE). USAID has supported CINDE by providing the equivalent of $11.0 million in ESF local currency and $600,000 from PPAI for the operation of its programs. The development of CINDE as a business and industry oriented local private voluntary organization is the centerpiece of USAID's CBI strategy.

CINDE is a private, non-profit Costa Rican association which grew out of a civic action group of key private sector leaders. These leaders are interested in playing a role in revitalizing the Costa Rican economy while promoting responsible growth, and have in the past served in a key advisory role to USAID/Costa Rica.

CINDE's present activities are focused on the following priority areas:

a) <u>Social and Economic Development Activities Implemented by PVOs/Cooperatives</u>

This category includes funding for social and economic development activities, with special emphasis on employment-generating activities, targeted to improve the standard of living of the rural and urban poor.

b) <u>Export and Investment Promotion Activities</u>

This category will include funding for training, and promotion of employment generating activities in the areas of exports and foreign investment. One such activity is an IESC program to train mechanics for sewing operations in the clothing industry in order to supply the technicians required to service the growth of drawback industries in this field. Another major effort is being carried out in support of Costa Rica's participation in the November C/CAA - CBI Conference. CINDE has assumed the leadership role for the Costa Rican private sector and has assigned two full time consultants to manage the conference activities and to coordinate with the GOCR.

c) <u>Awareness Campaign</u>

CINDE is developing a nation-wide educational campaign through various media forms to educate Costa Ricans in specific areas. The program would promote drawback industries as well as assist in combating misconceptions such as that the value-added from assembly operations is negligible, that tax exemptions have a net cost rather than a net benefit, and that foreign capital "exploits" low-wage labor. Promoting agro-industrial investment and joint ventures will also be included under the program.

In addition to the educational campaigns and training programs that may be directly managed by CINDE, other complementary activities are being carried out by other private groups through CINDE. Studies have been conducted to analyze the potential for expansion of drawback industries, to target foreign investment and to provide marketing studies and product profiles for prospective investors.

d) Cooperation and Support of MINEX

Funds are being channeled through CINDE to support MINEX's development and implementation of an export and investment strategy for Costa Rica. The Minister is an ex-officio member of the CINDE Board and his activities are closely coordinated with CINDE.

One example of this cooperation is a CINDE funded study which analyzed the present constraints in Costa Rica to new exports and industrial investments. The report made recommendations regarding the legal reforms and incentives required to stimulate new industrial activity and identified the type of operational guaranties needed to promote Costa Rica under the CBI.

This activity report has resulted in the design of a proposed "export contract" which would be offered to new export oriented companies by the GOCR, and would be the cornerstone of MINEX's promotional strategy over the next few years.

6. Minister for Export and Investments (MINEX)

USAID, through its continuing policy dialogue, was instrumental in the GOCR's creation of the Office of the Minister for Export and Investments. The new Minister accepted his portfolio in March 1983. The Mission's strategy is to continue to provide the budgetary support, through ESF local currency generations.

B. Non-Project Activities

1. Chicago Association of Industry and Commerce (CAIC)

Under the new LAC grant to CACI, a Caribbean Basin Promotion Center (CBPC) was established to develop trade and investment promotion activities between the Mid-West and the Caribbean Basin. Costa Rica and the Dominican Republc were the two countries selected for a pilot program aimed at opening up new markets and promoting investments under the CBI.

2. Costa Rican Development Corporation (CODESA)

CODESA, the GOCR's development bank and industrial holding company is experiencing operational and financial problems and is attempting to redefine its proper role in the national economic recovery program.

USAID/Costa Rica is assisting CODESA in the development and implementation of a strategy for the future. This strategy, coupled with the necessary technical assistance is intended to provide CODESA with the guidelines with which to "divest" or reorient its current holdings, while at the same time this strategy should identify and recommend an appropriate role for CODESA in Costa Rica's future economic development.

3. Joint Agricultural Consultive Corporation (JACC)

Mr. Jim Thornton, President of Joint Agricultural Consultive Corporation, visited Costa Rica in September 1983 to explore the possibility of establishing a local liason office to promote investments in the form of joint ventures in agriculture and agro-industry. The Agricultural Chamber indicated a strong interest in participating in the JACC program and has formally requested that Costa Rica be strongly considered.

4. Atlanta Market Center (AMC)

The Atlanta Market Center (AMC) offers the facilities and services required to bring buyer and seller together for the purpose of promoting the sale and distribution of consumer products in the national and regional markets of the United States. AMC provides product display space on a permanent, as well as, seasonal or temporary basis. In addition, it annually organizes and promotes some 50 specialized markets and trade shows to facilitate the buying and selling process.

IV. NEW PROJECTS (1984)

A. Market and Technology Access Project (MTAP) (960-4035)

USAID/CR has requested (September 1983) that Costa Rica be selected as one of the participating countries in this centrally funded S&T project. The project goal, to assist companies in LDCs increase productivity and employment by providing access to new technologies and markets, is consistent with the Mission's strategy. Furthermore, both the Costa Rican business community and various GOCR institutions are interested in the approach being pursued by the project in that the principal aim is to develop collaborative ventures with small and medium size U.S. firms.

The primary purpose of this project is to develop cost effective, viable intermediary organizations and operating methods which assist smaller firms in initiating the types of collaborative ventures that will generate technology transfers and improved market access.

B. Investment and Reconstruction Facility (IRF)

AID is presently engaged in investigating the feasibility of a new Investment Financing Facility in Costa Rica, whose major objective will be the expansion of the export oriented private sector in Costa Rica. This objective will be achieved through the attraction of foreign investment and technology, coupled with local investor participation where possible. AID presently envisions this facility playing a complementary rather than a competitive role with existing financial institutions, operating with a maximum degree of creativity and flexibility in order to achieve the objective.

C.- Economic Stabilization and Recovery (III) (ESF Funds)

The Mission will continue to encourage the GOCR to carry out a structural adjustment program by providing much needed financial resources to reduce its balance of payments deficit and reestablish export-led growth in the Costa Rican economy.

ESF programs are conditioned upon the execution of the GOCR/IMF Stand-by Agreement and the adherence to its targets. In FY 84, a third ESF program will be initiated to provide badly needed foreign exchange to import raw materials, intermediate goods and spare parts. Local currency generated from the proposed $140 million cash transfer will, to the maximum extent practicable, be channeled to the private sector to help meet working capital requirements and take advantage of opportunities to increase export production and employment.

USAID/Kingston 10287
dated 20 October 1983
re: CBI Implementation Plan
for Private Sector

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UNCLAS SECTION 01 OF 04 KINGSTON 10287

AIDAC

E.O.12356:N/A
SUBJECT: IMPLEMENTATION OF THE CBI - USAID/KINGSTON UPDAT OF STRATEGY OF ASSISTANCE TO JAMAICA'S PRIVATE SECTOR UNDER THE CBI.

REF; STATE 275252

1. THIS MESSAGE UPDATES THE CBI ACTION PLAN FOR JAMAICA WHICH APPEARS AS CHAPTER V (PAGE 42 FF) OF USAID/J'S PAPER OF NOVEMBER, 1982 ENTITLED "A STRATEGY OF ASSISTANCE TO JAMAICA'S PRIVATE SECTOR UNDER THE CARIBBEAN BASIN INITIATIVE". THE REMAINDER OF THAT DOCUMENT REMAINS VALID AND REASONABLY CURRENT.

2. THE COUNTRY TEAM'S CBI ACTION PROGRAM IS BEING FLESHED OUT. IN THE TEN WEEKS THAT REMAIN BEFORE THE CBI TRADE INCENTIVES BECOME OPERATIONAL, WE WILL BE CONSULTING FURTHER WITH JAMAICAN PUBLIC AND PRIVATE SECTOR INSTITUTIONS TO DEVELOP A PROGRAM CONSISTENT WITH LOCAL NEEDS. OVERALL COORDINATION OF CBI-ORIENTED ACTIVITIES HAS BEEN A FUNCTION OF THE COUNTRY TEAM AT WEEKLY COUNTRY TEAM MEETINGS. AT THE OPERATIONAL LEVEL, THE COMMERCIAL ACTION COMMITTEE (CAC) SERVES AS A COORDINATING GROUP FOR CBI-ORIENTED ACTIVITIES. THE CAC, FOR WHICH THE ECON/COMMERCIAL (E/C) SECTION PROVIDES A SECRETARIAT FUNCTION, INCLUDES A CORE GROUP OF THE DCM, AID DIRECTOR, E/C COUNSELOR, DIRECTOR OF THE OFFICE OF PRIVATE ENTERPRISE DEVELOPMENT, USDOC OFFICER AND THE PAO. OTHER COUNTRY TEAM MEMBERS PARTICIPATE ON AN AD-HOC BASIS.

3. USAID/KINGSTON HAS UNDERWAY A BROAD RANGE OF ACTIVITIES WHICH WILL GREATLY BENEFIT FROM PASSAGE OF CBI LEGISLATION. ACTIVITIES CURRENTLY ON-GOING WHICH WERE DESCRIBED IN CHAPTER V, CBI ACTION PROGRAM FOR JAMAICA, IN REF STRATEGY PAPER ARE:

A. TECHNICAL CONSULTATIONS AND TRAINING GRANT:

THIS FLEXIBLE INSTRUMENT HAS FUNDED THE FOLLOWING ACTIVITIES OVER THE LAST SIX MONTHS, WITH DIRECT CBI LINKAGES:

(1) MARKETING PROMOTION PROGRAM AND PROMOTIONAL VISITS FOR KINGSTON FREE ZONE.

(2) STRATEGY AND ACTION PLAN FOR JAMAICA NATIONAL INVESTMENT PROMOTION LTD.

(3) TECHNICAL ASSISTANCE TO FURNITURE INDUSTRY FOR EXPORTS.

(4) SOLAR WOOD DRYING KILN FOR EXPORT FURNITURE INDUSTRY.

(5) TECHNICAL ASSISTANCE TO CHEMICAL INDUSTRY, INCLUDING ALUMINIUM SULPHATE, SALT, AND CALCIUM CARBONATE PRODUCTION.

(6) AGRO-21 - TECHNICAL ASSISTANCE TO MAJOR AGRICULTURAL AND AGRO-INDUSTRY DEVELOPMENT PROGRAM.

(7) FUMIGATION AND INSPECTION FACILITIES FOR EXPORT OF FRUITS, VEGETABLES AND HORTICULTURE TO U.S.

(8) TRAINING OF JNIP BY FOMENTO, PUERTO RICO.
(9) ASSISTANCE TO PRIVATE SECTOR ORGANIZATION OF JAMAICA TO DEVELOP COMPREHENSIVE ECONOMIC POLICIES TO TAKE MAXIMUM ADVANTAGE OF CBI PROVISIONS.

(10) TECHNICAL ASSISTANCE TO INDIVIDUAL SUB-SECTORS THROUGH I.E.S.C.

(11) MARKETING OF HANDICRAFTS THROUGH ATLANTA MERCHANDISE MART.

B. AGRO-INDUSTRIAL DEVELOPMENT PROJECT:

THIS THREE YEAR PROJECT IS PROVIDING US$8.5 MILLION THROUGH THE JAMAICAN AGRICULTURAL CREDIT BANK (ACB) WHICH WAS CREATED IN 1982 TO PROVIDE CREDIT TO THE AGRICULTURAL SECTOR. THE AGRO-INDUSTRIAL DEVELOPMENT PROJECT WILL PROVIDE:

(1) FOREIGN EXCHANGE AND CREDIT FOR IMMEDIATE FINANCING OF EXISTING AGRI-BUSINESS OPERATIONS.

(2) PRE-INVESTMENT FUNDS FOR THE IDENTIFICATION AND DEVELOPMENT OF NEW AGRO-INDUSTRIAL PROJECTS.

Department of State

TELEGRAM

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UNCLAS SECTION 02 OF 04 KINGSTON 10287

AIDAC

E.O. 12356: N/A
SUBJECT: IMPLEMENTATION OF THE CBI - USAID/KINGSTON UPDATE OF STRATEGY OF ASSISTANCE TO JAMAICA'S PRIVATE SECTOR UNDER THE CBI.

(3) U.S. CONSULTANTS TO PRIVATE AGRI-BUSINESS FIRMS TO ASSIST IN CARRYING OUT INSTALLATION AND START UP OF NEW OPERATIONS, TROUBLE SHOOTING OF TECHNOLOGICAL PROCESSES, AND ANALYSIS OF MANAGEMENT PROBLEMS.

(4) TRAINING FOR PRIVATE SECTOR AGRI-BUSINESS STAFF OF SELECTED JAMAICAN FINANCIAL INSTITUTIONS IN AGRI-BUSINESS INVESTMENT DEVELOPMENT AND PROMOTION.

(5) STRATEGIC PLANNING, PROMOTIONAL ACTIVITIES AND PRE-FEASIBILITY STUDIES TO ACCELERATE INVESTMENT IN AGRICULTURAL ACTIVITIES, ESPECIALLY FOR NON-TRADITIONAL EXPORT CROPS.
THIS PROJECT SHOULD STRENGTHEN SMALL TO MEDIUM SIZE PRIVATE AGRI-BUSINESS ENTERPRISES BY IMPROVING LAND, EXPANDING THEIR OPERATIONS, AND RESTORING THEIR PRODUCTIVITY. TARGETTED FOR EXPANSION ARE EMPLOYMENT, GROSS EARNINGS, PRODUCTION, PRODUCTIVITY, EXPORTS AND THE USE OF INDIGENOUS AGRICULTURAL PRODUCTS.

C. BASIC SKILLS TRAINING:

THIS PROJECT PURSUES A FOCUSED AND INTERNALLY INTEGRATED APPROACH TO MEETING THE LONG AND SHORT TERM TRAINING REQUIREMENTS OF JAMAICA'S PRIVATE SECTOR. PROJECT ACTIVITIES WILL FOCUS ON FOUR AREAS. THESE ARE:

(1) ASSISTANCE FOR THE INSTITUTIONAL DEVELOPMENT OF THE HUMAN EMPLOYMENT AND RESOURCES TRAINING (H.E.A.R.T.) TRUST, WHICH WILL AMONG OTHER THINGS, REGULATE, EVALUATE, FUND, PROMOTE AND COORDINATE NEW AND EXISTING SKILL TRAINING PROGRAMS.

(2) UPGRADING AND EXPANSION OF NON-FORMAL SKILL TRAINING PROGRAMS AND SERVICES WITHIN THE MINISTRY OF YOUTH AND COMMUNITY DEVELOPMENT.

(3) UPGRADING AND EXPANSION OF FORMAL TECHNICAL LEVEL SKILL TRAINING SERVICES AND PROGRAMS WITHIN THE MINISTRY OF EDUCATION.

(4) ESTABLISHMENT OF A REVOLVING LOAN/GRANT FUND, ADMINISTERED BY THE H.E.A.R.T. TRUST, TO ENABLE PRIVATE AND PUBLIC SECTOR ORGANIZATIONS TO OBTAIN SUPPLEMENTARY RESOURCES TO CARRY OUT SKILL TRAINING PROGRAMS OF

PARTICULAR INTEREST TO THE H.E.A.R.T. TRUST. THIS REPOSITORY OF FUNDS IS DESIGNED TO ALLOW INDUSTRIES DESIROUS OF EXPORTING TO THE U.S. UNDER THE CBI ACCESS TO APPROPRIATE TRAINING.

D. LIFE OF JAMAICA:

UNDER THIS FACILITY, A POOL OF FUNDS TOTALLING J$8.9 MILLION (US$5 MILLION) HAS BEEN MADE AVAILABLE FOR LOANS AND OTHER INVESTMENTS IN AGRIBUSINESS AND OTHER FABRICATING AND MANUFACTURING ENTERPRISES LOCATED IN RURAL AREAS. AID'S BUREAU OF PRIVATE ENTERPRISE IN WASHINGTON MADE US$2.5 MILLION IN FOREIGN EXCHANGE AVAILABLE TO THIS FACILITY AND LIFE OF JAMAICA HAS MATCHED THIS AMOUNT IN JAMAICAN DOLLARS.
ELIGIBLE BORROWERS INCLUDE:

(1) ENTERPRISES WHICH ARE AT LEAST 51 PER CENT OWNED BY JAMAICAN CITIZENS OPERATING OR INTENDING TO OPERATE IN AGRI-BUSINESS, INCLUDING FOOD PROCESSING AND PRODUCTION OF SERVICES AND OTHER PRIVATE ENTERPRISES AND INDUSTRIES RELATED TO AGRI-BUSINESS.

(2) OTHER PRIVATE LABOR INTENSIVE ENTERPRISES IN RURAL AREAS.

(3) ENTERPRISES WHOSE TOTAL NET FIXED ASSETS DO NOT EXCEED J$900,000.

THE MAXIMUM LOAN TO ANY ONE ENTERPRISE SHALL NOT EXCEED J$900,000, HALF IN LOCAL CURRENCY AND HALF IN U.S. DOLLAR EQUIVALENT. LOANS HAVE A MINIMUM TERM OF FOUR YEARS AND A MAXIMUM REPAYMENT PERIOD OF SEVEN YEARS. THE INTEREST RATE TO BORROWERS IS 15.35 PERCENT, WITH THE BORROWER BEARING THE FOREIGN EXCHANGE RISK. WITH THE ADVENT OF CBI OPPORTUNITIES, IT IS HOPED THAT THIS FACILITY WILL PROVE MOST USEFUL.

E. ROYAL BANK LOAN PROGRAM:

THIS AGREEMENT WAS SIGNED JULY 13, 1983, BETWEEN PRE BUREAU AND THE ROYAL BANK (JA.) LTD. IT IS DESIGNED TO PROVIDE ASSISTANCE TO RURAL-BASED JAMAICAN BUSINESS

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UNCLAS SECTION 03 OF 04 KINGSTON 10287

AIDAC

E.O.12356: N/A
SUBJECT: IMPLEMENTATION OF THE CBI - USAID/KINGSTON UPDAT OF STRATEGY OF ASSISTANCE TO JAMAICA'S PRIVATE SECTOR UNDER THE CBI

OPERATORS AND SMALL FARMERS. UNDER THE AGREEMENT, USAID WILL GUARANTEE 50 PERCENT OF LOANS TOTALLING THE JAMAICAN DOLLAR EQUIVALENT OF US$4,000,000, WHICH WILL BE LOANED BY THE ROYAL BANK TO ELIGIBLE BORROWERS AMONG THE TARGET GROUPS. ANY INDIVIDUAL, ORGANIZED GROUP, COMPANY, CORPORATION OR ANY ORGANIZATION WITH MAJORITY JAMAICAN OWNERSHIP, THAT IS ENGAGED IN AGRICULTURE, AGRI-BUSINESS, MANUFACTURING, OR OTHER SMALL BUSINESS OUTSIDE THE CORPORATE AREA IS ELIGIBLE TO APPLY FOR LOANS. LOANS WILL BE MADE FOR THE PURPOSE OF PURCHASING EQUIPMENT OR OTHER CAPITAL ASSETS (EXCLUDING REAL ESTATE), AND FINANCE WORKING CAPITAL NEEDS OVER A PERIOD OF ONE TO SEVEN YEARS. THE MAXIMUM LOAN AMOUNT WILL BE J$50,000 AND WILL ENCOURAGE SMALL SCALE ENTREPRENEURS TO TAKE ADVANTAGE OF BOTH IMPORT SUBSTITUTION AND EXPORT OPPORTUNITIES.

F. PRIVATE SECTOR DEVELOPMENT BANK:

USAID IS ASSISTING A GROUP OF JAMAICAN BUSINESSMEN IN THE FORMATION OF A PRIVATE DEVELOPMENT BANK. THIS INSTITUTION WILL PROVIDE A RANGE OF FINANCIAL SERVICES DESIGNED TO PROMOTE NEW ENTERPRISES AND EXPAND EXISTING FACILITIES. FINANCIAL SERVICES WILL INCLUDE LONG-TERM PROJECT FINANCING, UNDERWRITING OF NEW ISSUES, INVESTMENT PACKAGING (WHEREBY AN APPROPRIATE MIX OF DEBT AND EQUITY IS BROUGHT TOGETHER FROM LOCAL AND INTERNATIONAL SOURCES), AND AT TIMES PARTICIPATION IN EQUITY OR QUASI-EQUITY. CAPITALIZATION OF THIS DEVELOPMENT BANK IS EXPECTED TO REACH US15 MILLION DOLLARS. USAID AND PRE BUREAU HAVE UNDERWRITTEN THE COST OF AN INITIAL FEASIBILITY STUDY, AND THE MISSION HAS PROVIDED SUPPORT FOR THE INCORPORATION OF THE GROUP OF INITIAL INVESTORS, WHICH IS NOW TAKING PLACE. THE CAPITAL STRUCTURE IS ENVISAGED AS APPROXIMATELY 60 PER CENT JAMAICAN, AND 40 PER CENT INTERNATIONAL. USAID HAS NOTIFIED THE U.S. CONGRESS OF ITS PLANS, AND HAS BUDGETED US$20 MILLION TO BE LENT THROUGH THIS INSTITUTION OVER THE NEXT THREE YEARS. THIS PROJECT WAS LANGUISHING UNTIL CBI LEGISLATION WAS PASSED. AT PRESENT, INITIAL INVESTOR GROUP APPEARS CONFIDENT AND INTERESTED DESPITE OR PERHAPS BECAUSE OF BLEAK FOREIGN EXCHANGE PICTURE.

4. OTHER ACTIVITIES RECENTLY INSTITUTED BY USAID/

KINGSTON INCLUDE:

A. ESTABLISHMENT OF AN INDUSTRIAL DEVELOPMENT DIVISION WITHIN THE OFFICE OF PRIVATE ENTERPRISE DEVELOPMENT TO WORK DIRECTLY WITH INDUSTRIAL SUB-SECTORS WHICH WILL MOST CLEARLY BENEFIT FROM CBI PROVISIONS. INITIAL SUB-SECTORS INCLUDE FURNITURE MANUFACTURING AND FOOD PROCESSING. FUNDING FOR SUPPORT ACTIVITIES COMES FROM TCTG AND LOCAL CURRENCY TRUST FUNDS.

B. PARTICIPATION IN A SERIES OF PROMOTIONS ORGANIZED BY EMBASSY COMMERCIAL OFFICE TO GIVE BROAD COVERAGE TO CBI PARTICULARS.

C. SUPPORT OF JNIP IN TARGETTING APPROPRIATE U.S. COMPANIES FOR INVESTMENT AND JOINT VENTURES. INCLUDED IN THIS MULTI-FACETED EFFORT ARE:

- INVESTOR ATTITUDE SURVEY, IN PART UNDERTAKEN BY U.S. BUSINESS COMMITTEE;
- PARTICIPATION IN INVESTMENT SEMINAR AT ROSE HALL, MONTEGO BAY, IN WHICH TOTAL U.S. PRESENCE WAS MOBILIZED INCLUDING SECRETARY OF COMMERCE BALDRIGE, AMBASSADOR HEWITT, DEPUTY CHIEF OF MISSION WARNE, MISSION DIRECTOR READE, AND A SUBSTANTIAL PORTION OF EMBASSY/MISSION STAFF; AND

- SUPPORT FOR JNIP ACTIVITIES IN NEW YORK AND KINGSTON PROMOTING CBI OPPORTUNITIES.

5. THE MISSION ALSO SUPPORTS PROGRAMS SUCH AS THE NATIONAL DEVELOPMENT FOUNDATION (WITH PADF) PROJECT LENDING TO VERY SMALL BUSINESSES WHICH ARE CONSISTENT WITH THE PRIVATE SECTOR THRUST OF THE CBI, BUT ARE NOT LIKELY TO IMPACT ON JAMAICAN EXPORTS TO THE U.S., ETC.

6. MISSION CURRENTLY DEVELOPING THE FOLLOWING CBI ACTIVITIES:

A. SUPPORT TO JAMAICA EXPORTERS ASSOCIATION.

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UNCLAS SECTION 04 OF 04 KINGSTON 10287

AIDAC

E.O. 12356: N/A
SUBJECT: IMPLEMENTATION OF THE CBI - USAID/KINGSTON UPDAT STRATEGY OF ASSISTANCE TO JAMAICA'S PRIVATE SECTOR UNDER THE CBI.

B. SUPPORT TO JAMAICA MANUFACTURERS ASSOCIATION.

C. SUPPORT TO JAMAICA HOTEL AND TOURIST ASSOCIATION.

D. SERIES OF PROMOTIONS, SPECIFIC STUDIES AND MARKET DEVELOPMENT FOR SUB-SECTORS WHOSE EXPORT POTENTIAL IS MOST ENHANCED BY CBI PROVISIONS.

7. IN ALL OF THESE ACTIVITIES, WE ARE ENDEAVOURING TO COORDINATE CLOSELY WITH THE EMBASSY E/C SECTION, WHICH IS CARRYING OUT AN ENHANCED PROGRAM OF TRADE AND INVESTMENT PROMOTION. THE PRINCIPAL CBI-RELATED FUNCTIONS OF THE E/C SECTION ARE:

- DISSEMINATION OF INFORMATION (THROUGH BROCHURES, SPEECHES, SEMINARS) ON THE CBI TO ALL INTERESTED PUBLIC AND PRIVATE SECTOR PARTIES;
- ORGANIZATION OF TRADE AND INVESTMENT MISSIONS IN BOTH DIRECTIONS;

- TARGETTED SEARCHES (USING OPIC AND DEPARTMENT OF COMMERCE OFFICES, BOTH IN WASHINGTON AND THE FIELD) FOR SUPPLIERS, MARKETERS AND JOINT VENTURE PARTNERS FOR ACTUAL AND POTENTIAL JAMAICAN EXPORTERS;

- COUNSELING FOR BOTH U.S. AND JAMAICAN BUSINESSMEN;

- MARKET RESEARCH.

8. THE E/C SECTION IS INCREASING ITS STAFF TO DEVOTE MORE RESOURCES TO CBI BUSINESS PROMOTION ACTIVITIES. A USDOC TRADE SPECIALIST IS ON DETAIL HERE FOR A YEAR. IN ADDITION, A BUSINESSMAN ON DETAIL TO THE USG UNDER THE PRESIDENTIAL EXECUTIVE EXCHANGE PROGRAM (PEEP) WILL BE ARRIVING SOON TO WORK WITH U.S. INVESTORS. WE EXPECT THE E/C SECTION WILL CONTINUE TO CONCENTRATE ON EXPLOITING IMMEDIATE COMMERCIAL OPPORTUNITIES WHILE USAID/J'S ROLE WILL FOCUS ON BUILDING UP THE CAPABILITY OF JAMAICA'S PRIVATE AND PUBLIC SECTOR INSTITUTIONS TO RESPOND TO SUCH OPPORTUNITIES.

9. FROM OUR PERSPECTIVE, IT WOULD APPEAR THAT THE CBI PROGRAMS OF USAID SHOULD BE CLOSELY COORDINATED WITH THE INCREASED ACTIVITIES BEING UNDERTAKEN BY OTHER AGENCIES, COMMERCE IN PARTICULAR. CLOSE COORDINATION

KINGST 10287 04 OF 04 201607Z 2953 054108 AID5641

IN THE FIELD IS ALSO IMPORTANT. AS NOTED, THE MISSION PARTICIPATES IN THE CAC THAT ESTABLISHES THE OPERATIONAL PRIORITIES FOR PROGRAMS PROMOTING THE CBI. CONVERSELY, THE E/C COUNSELOR PARTICIPATES IN THE USAID/J COMMITTEES THAT MONITOR THE TCIG PROGRAM AND OTHER PRIVATE SECTOR DEVELOPMENT PROGRAMS. (DRAFTED: OPED:TPENNER;APPROVED:DIR:LREADE), HEWITT

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**Santo Domingo 8718
dated 25 October 1983
re: USAID/Dominican Republic
CBI Implementation Plan**

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TO SECSTATE WASHDC PRIORITY 4430

UNCLAS SECTION 01 OF 07 SANTO DOMINGO 8718

AIDAC

FOR: DWIGHT JOHNSON, LAC/DR

E.O. 12356: N/A
SUBJECT: IMPLEMENTATION OF THE CBI

REF: STATE 275252

1. SUMMARY. AS REQUESTED IN REFTEL, THE FOLLOWING IS THE MISSION'S UPDATED ACTION PROGRAM OF THE CBI IMPLEMENTATION PLAN. END OF SUMMARY.

2. CBI IMPLEMENTATION STRATEGY. THE MISSION'S CBI STRATEGY PURSUES THE GOALS OF INCREASED EMPLOYMENT AND INCOME AND IMPROVEMENT IN THE DOMINICAN REPUBLIC'S FOREIGN EXCHANGE POSITION. THESE GOALS WILL BE PURSUED IN THE CONTEXT OF EQUITABLE ECONOMIC GROWTH AND DISTRIBUTION IN A DEMOCRATIC ENVIRONMENT. IN REACHING THESE GOALS, THE MISSION HAS SET INCREASING EXPORTS AND INVESTMENT IN THE DOMINICAN REPUBLIC AS THE PURPOSE OF THE MISSION'S CBI PROGRAM.

3. TO ACHIEVE THE PURPOSE OF THE PROGRAM, THE MISSION HAS SET THE FOLLOWING MEDIUM TERM (1-3 YEARS) OBJECTIVES:

A. REDUCTION OF CONSTRAINTS TO EXPORT. THE MISSION VIEWS THE REDUCTION OR ELIMINATION OF CONSTRAINTS TO EXPORTS AS A SIGNIFICANT OBJECTIVE. PRINCIPAL AMONG THESE CONSTRAINTS ARE EXPORT DUTIES, FOREIGN EXCHANGE SURRENDER REQUIREMENTS, AND BUREAUCRATIC AND ADMINISTRATIVE PAPERWORK REQUIREMENTS TO OBTAIN EXPORT LICENSES AND BENEFITS. THESE ARE CONSIDERED KEY CONSTRAINTS TO INCREASED EXPORTS. THE CBI PROGRAM WILL THEREFORE FOCUS POLICY DIALOGUE AND FINANCIAL RESOURCES ON THE REDUCTION AND ULTIMATE ELIMINATION OF THESE CONSTRAINTS.

B. REDUCTION OF CONSTRAINTS TO INVESTMENT. ALONG WITH THE FOREIGN SURRENDER REQUIREMENTS AND DUTIES DISCUSSED ABOVE, A PRINCIPAL CONSTRAINT TO INVESTMENT IS THE RESTRICTIVE PRICING POLICIES WHICH INHIBIT THE DEVELOPMENT OF PROFITABLE INVESTMENTS. THE CBI PROGRAM WILL FOCUS ON A DIALOGUE CONCERNING THE REDUCTION AND EVENTUAL ELIMINATION OF PRICE CONTROLS ON A WIDE RANGE OF PRODUCTS. IN ADDITION, LACK OF DEPENDABLE BASIC INFRASTRUCTURE (E.G. ROADS, IRRIGATION, AND ELECTRICAL SERVICES) RESTRICT DEVELOPMENT OF THE PRIVATE SECTOR. WHILE THE CBI PROGRAM HAS MADE AVAILABLE RD PESOS 10 MILLION TO HELP IMPROVE THE BASIC INFRASTRUCTURE REQUIREMENTS UNDER THE PRIVATE SECTOR DEVELOPMENT PROGRAM (LOAN 517-K-039), MORE RESOURCES ARE NEEDED.

C. ESTABLISHMENT OF A VIABLE GODR EXPORT PROMOTION INSTITUTION. SINCE AUGUST 1983, THE GODR HAS SHOWN INCREASED INTEREST IN AND HAS TAKEN ACTIONS TOWARD DEVELOPING A MUCH STRONGER PROGRAM TO PROMOTE EXPORTS. THE DOMINICAN CENTER FOR EXPORT PROMOTION (CEDOPEX) IS THE PRINCIPAL GODR INSTITUTIONAL EXPRESSION OF THIS INTEREST. ITS PRINCIPAL FUNCTION IS TO

REGULATE AND PROMOTE EXPORTS. RECENTLY, A HIGHLY QUALIFIED AND PARTICULARLY WELL CONNECTED PERSON FROM THE DOMINICAN PRIVATE BANKING SECTOR HAS BEEN APPOINTED TO HEAD CEDOPEX. THIS INDIVIDUAL HAS SHOWN CONSIDERABLE INTEREST IN MAKING SIGNIFICANT CHANGES REGARDING GOVERNMENT EXPORT POLICIES. THE MISSION VIEWS THE DEVELOPMENT OF THE INSTITUTIONAL CAPABILITY OF CEDOPEX AS AN IMPORTANT MEANS TO HELP ESTABLISH A STRONG EXPORT PROMOTION PROGRAM, AS WELL AS AN ADVOCATE OF REFORMS IN OVERALL POLICIES AIMED AT EXPORT EXPANSION. USAID HAS PROVIDED (THROUGH THE PRIVATE SECTOR DEVELOPMENT PROGRAM) DR PESOS 100,000 IN SUPPORT OF THIS ORGANIZATION.

D. ESTABLISHMENT OF A STRONG GODR INVESTMENT PROMOTION INSTITUTION. INCREASED INVESTMENT IN THE DOMINICAN REPUBLIC WILL REQUIRE THE DEVELOPMENT OF EFFECTIVE MECHANISMS AND SYSTEMS TO INFORM THE PRIVATE SECTOR OF AREAS OF INVESTMENT OPPORUNITIES AND OO ASSISHTHOSE INTERESTED IN MAKING CVESTMENTS. THE GODRLHAS RECENTLY ESTABLISHED A FOREIGN INVESTMENT COMMISSION TO MEET THIS NEED. USAID HAS PROVIDED (THROUGH THE ONGOING PRIVATE SECTOR DEVELOPMENT PROGRAM) DR PESOS 100,000 TO SUPPORT THIS NEWLY CREATED ORGANIZATION. PD AND S FUNDS (DOLS. 71,000) HAS ALSO BEEN PROVIDED FOR TECHNICAL ASSISTANCE, SEMINARS AND WORKSHOPS, AND OBSERVATION TRIPS TO VARIOUS PARTS OF THE WORLD. THE MISSION BELIEVES THAT HE CONTINUED DEVELOPMENT OF THE INSTITUTIONAL C
PABILITY OF THIS
ORGANIZATION IS VERY IMPORTANT TO THE ESTABLISHMENT TF A VIABLE GODR INVESTMENT PRBMBTION PRNGRAM.

3. ESTABLISHMENT OF EXPORT PROMOTION FUNDS. INCREASED PARTICIPATION OF THE PRIVATE SECTOR IN EXPORT ACTIVITIES WILL REQUIRE IMPROVED ACCESS TO CREDIT AND TECHNICAL ASSISTANCE, PLANNING STUDIES, AND INCREASED PRIVATE VOLUNTARY ORGANIZATION (PVO) ACTIVITY. UNDER THE PRIVATE SECTOR DEVELOPMENT PROGRAM (LOAN 517-K-039) DR PESOS 23 MILLION WAS PROVIDED FOR AGROINDUSTRY AND EXPORT CREDIT, DR PESOS 1 MILLION WAS BUDGETED

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AIDAC

FOR: DWIGHT JOHNSON, LAC/DR

FOR PRIVATE SECTOR DEVELOPMENT STUDIES, AND DR PESOS 4 MILLION WAS MADE AVAILABLE FOR SUPPORT TO PVO'S. OVER THE MEDIUM TERM, A MAJOR PORTION OF THE USG CBI AND DA RESOURCES WILL BE ALLOCATED TO EXPAND THESE ACTIVITIES.

F. DEVELOPMENT OF A CORE GROUP OF ENTREPRENEURS. LACK OF MANAGERIAL CAPABILITY REMAINS A MAJOR IMPEDIMENT TO THE DEVELOPMENT OF THE DOMINICAN PRIVATE SECTOR. VARIOUS ACTIVITIES HAVE BEEN INITIATED DURING THE PAST YEAR TO ADDRESS THIS CONSTRAINT:

(1) UNDER LOAN 517-K-039, DR PESOS 3.0 MILLION OF GODR COUNTRPART WAS PROGRAMED TO COMPLEMENT A US DOLS. 5.0 MILLION DOLLAR AID GRANT FOR THE GRADUATE MANAGEMENT TRAINING PROJECT (NO. 517-0157) AIMED AT DEVELOPING A SCHOOL OF PRIVATE AND PUBLIC SECTOR ADMINISTRATION WITHIN THE UNIVERSIDAD CATOLICA MADRE Y MAESTRA (UCMM) - A PRIVATE UNIVERSITY. THE DR PESOS 3.0 MILLION IS BEING USED TO SUPPORT THE CONSTRUCTION OF AND EQUIPPING OF A SCHOOL OF ADMINISTRATION AT UCMM.

(2) DURING JULY 1983 INVITATION TRAVEL TO THE ATLANTA MARKET CENTER WAS PROVIDED FOR 3 DOMINICAN REPRESENTATIVES, INCLUDING 2 FROM THE PRIVATE SECTOR (ONE TRADING COMPANY, ONE DEVELOPMENT BANK AND THE THIRD FROM CEDOPEX). THE PURPOSE OF THE VISIT WAS TO INVESTIGATE THE POSSIBILITY OF PARTICIPATION BY DOMINICAN PRODUCERS IN A TRADE SHOW TO BE HELD IN ATLANTA. DURING THE FIRST WEEK OF SEPTEMBER 1983, A TRIP TO SANTO DOMINGO BY 2 OFFICIALS OF THE ATLANTA MARKET CENTER WAS COMPLETED, TO LOOK AT THE DOMINICAN PRODUCTS AND TALK TO DOMINICAN PRODUCERS ABOUT THE TRADE SHOW FOR A CARIBBEAN BASIN GIFT SHOW TO BE HELD IN ATLANTA IN THE SUMMER OF 1984.

(3) INVITATIONAL TRAVEL WAS SET UP FOR 5 DOMINICANS TO ATTEND A USDA SPONSORED AGRICULTURAL MARKETING WORKSHOP WHICH WAS HELD AT THE END OF SEPTEMBER IN MIAMI. AMONG OTHERS, THOSE WHO ATTENDED THE MEETING WERE THE PRESIDENT OF ADOEXPO, THE TECHNICAL ADVISER OF ADOEXPO AND REPRESENTATIVES OF THE PRIVATE SECTOR, INCLUDING A FERTILIZER PRODUCER, A FOOD PACKER AND A FRUIT AND VEGETABLE EXPORTER. THE WORKSHOP WAS A PRACTICAL INTRODUCTION TO MARKETING CARIBBEAN PRODUCTS IN THE U.S. AND OTHER COUNTRIES. THE WORKSHOP DEALTH WITH SUCH TOPICS AS NON-TRADITIONAL TROPICAL CROPS, U.S. AGRICULTURAL TRADE POLICIES, MARKETING FOR EXPORT, TRENDS IN CARIBBEAN AGRICULTURAL PRODUCTION AND TRADE, POST HARVEST QUALITY, REFRIGERATION, PACKAGING AND TRANSPORT, GRADING AND STANDARDS, MARKET NEWS, MARKETING ORDERS, AND PLANT, ANIMAL AND FOOD SAFETY REGULATIONS.

(4) DURING THE FIRST WEEK OF SEPTEMBER 1983 A VISIT TO THE DOMINICAN REPUBLIC BY FOOD PROCESSING EQUIPMENT REPRESENTATIVES WAS COMPLETED. THIS WAS SPONSORED BY THE U.S. DEPARTMENT OF COMMERCE. THE PURPOSE OF TRIP WAS TO PROMOTE INVESTMENT BY AMERICAN FOOD PROCESSING AND FOOD PACKAGING FIRMS, IN COLLABORATION WITH DOMINICAN EXPORT INITIATIVES

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(E.G., PACKAGING AND EXPORT OF FRIED BANANA CHIPS TO THE U.S.).

(5) FINANCIAL SUPPORT WAS PROVIDED TO THE DOMINICAN SMALL BUSINESS ASSISTANCE PROGRAM (PROAPE) UNDER AID SMALL INDUSTRY GRANT PROGRAM (NO. 517-0150) IN SUPPOT OF A SMALL INDUSTRY TRADE FAIR THAT WAS HELD IN SANTIAGO DURING AUGUST 1983. MORE THAN ONE HUNDRED SMALL PRODUCERS SHOWED THEIR PRODUCTS. AID ALSO PROVIDED FINANCIAL SUPPORT UNDER THE SMALL INDUSTRY GRANT PROGRAM FOR THE DOMINICAN DEVELOPMENT FOUNDATION (DDF) SPONSORED SMALL INDUSTRY TRADE FAIR WHICH WAS HELD ON OCTOBER 3, 1983 IN SANTO DOMINGO. THE OBJECTIVE OF THESE FAIRS WAS TO PUBLICIZE AND SELL PRODUCTS PRODUCED BY DOMINICAN SMALL INDUSTRIALISTS, UNDER THE MICRO AND SMALL INDUSTRY PROGRAM PROMOTED BY PROAPE AND THE DDF.

(6) THROUGHOUT THE PAST YEAR AID HAS TAKEN OTHER ACTIONS TO HELP STIMULATE EXPORT DEVELOPMENT IN THE DOMINICAN REPUBLIC. FOR EXAMPLE, WITH AID SUPPORT, REPRESENTATIVES OF THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY HAVE MADE SEVERAL VISITS TO THE DOMINICAN REPUBLIC IN AN EFFORT TO FIND MARKETS FOR NON-TRADITIONAL EXPORT PRODUCTS; THE WORLD TRADE INSTITUTE DEVELOPED A REPORT ON EXPORT DEVELOPMENT CONSTRAINTS AND POTENTIAL IN THE DOMINICAN REPUBLIC. ARTHUR D. LITTLE PREPARED A REPORT FOR USAID WHICH ANALYZED THE ORDER OF MAGNITUDE OF THE DOMINICAN EXPORT PROGRAM AND OUTLINED PRELIMINARY GUIDELINES FOR AN EXPORT DEVELOPMENT STRATEGY.

(7) IN AUGUST 1983, AID AND THE INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC) SIGNED AN AGREEMENT TO PROVIDE TECHNICAL ASSISTANCE TO TRADING COMPANIES IN THE DOMINICAN REPUBLIC.

(8) IN MARCH 1983, USAID PROVIDED DOLS. 14,200 TO THE AGR -BUSINESS COUNCIL TO PROMOTE AND FACILITATE THE INVOLVEMENT OF US FIRMS IN AGRO-INDUSTRY PROJECTS.

(9) USAID WILL CONTINUE TO SUPPORT KEY INTERVENTIONS TO DEVELOP DOMINICAN ENTREPRENEURS USING BOTH PROJECT AND NON-PROJECT ASSISTANCE TO SUPPORT THESE ACTIVITIES.

4. ACTIONS PLANNED TO IMPLEMENT CBI PROGRAM. IN PURSUING THE OBJECTIVES DISCUSSED ABOVE, THE MISSION HAS DEVELOPED AN INTEGRATED PROGRAM OF PROJECT AND NON-PROJECT ACTIVITIES. A

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AIDAC

FOR: DWIGHT JOHNSON, LAC/DR

NUMBER OF ACTIVITIES WILL BE SUPPORTED WITH DEVELOPMENT ASSISTANCE AND ESF RESOURCES. IN ADDITION, THE CBI PROGRAM WILL DRAW UPON THE RESOURCES OF ALL RELEAVANT USG AGENCIES TO CARRY OUT PROMOTION, TRAINING AND TECHNICAL ASSISTANCE ACTIVITIES WHICH HELP INCREASE EXPORTS AND INVESTMENT. THE FOLLOWING DISCUSSION LAYS OUT THE MISSION'S CBI ACTION IROGRAM FOR THE FISCAL YEARS 19
AND 85:

A. ACTIVITIES TO HELP ELIMINATE CONSTRAINTS TO EXPORTS

(1) THE DOMINICAN REPUBLIC HAS TAKEN SOME IMPORTANT STEPS TOWARDS IMPROVING THE ENVIRONMENT FOR DEVELOPMENT OF EXPORTS. FOR EXAMPLE, THE GODR RECENTLY MODIFIED THE FOREIGN EXCHANGE SYSTEM FOR EXPORTERS. THE KEY CHANGE IS THAT EXPORTERS OF FRESH AGRICULTURAL PRODUCTS (98 PERCENT OF NON-TRADITIONAL AGRICULTURAL EXPORTS) ARE NOW ALLOWED TO RETAIN 100 PERCENT OF THEIR FOREIGN EXCHANGE EARNINGS. IN ADDITION, THE GODR HAS STREAMLINED THE PROCEDURES FOR OBTAINING EXPORT LICENSES AND BENEFITS UNDER LAW 69 (THE EXPORT INCENTIVE LAW). HOWEVER, MUCH MORE REMAINS TO BE DONE.

(2) IN ORDER TO ASSIST THE GODR IN CONTINUING THIS PROGRESS, AN EXPORT SECTOR ASSESSMENT WILL BE CARRIED OUT IN FY 84. LOCAL CURRENCY GENERATED UNDER THE ONGOING DOLS. 49 MILLION ESF LOAN PROGRAM WILL FINANCE THE ASSISTANCE OF A LOCAL CONSULTING FIRM AND AID PD AND S FUNDS WILL FUND THE COST OF THE FIRM OF A.D. LITTLE IN THIS EFFORT.

3) USING THE EXPORT SECTOR ASSESSMENT, AID DURING FY 85 WILL UNDERTAKE AN EXPORT PROMOTION AND INVESTMENT PROJECT, ESTIMATED AT DOLS. 12 MILLION, DESIGNED TO ADDRESS POLICY CONSTRAINTS, AND DEAL WITH CURRENCY CONTROL AND PROMOTE FREE ZONE EXPANSION. THE PROJECT WILL PROVIDE A DOLS. 8 MILLION CREDIT TO THE EXPORT PROMOTION FUND OF THE CENTRAL BANK, WHICH WILL INCREASE THE VOLUME AND SMOOTH THE FLOW OF CREDIT AND INVESTMENT TO AND WITHIN AREAS OF THE PRIVATE SECTOR WHICH ARE NOT ADEQUATELY FINANCED FOR EXPORT PROMOTION. CREDIT WILL BE AVAILABLE FOR INVESTMENT IN SPECIAL EXPORT RELATED FACILITIES SUCH AS FUMIGATION AND COOLER WAREHOUSE FACILITIES AND FOR CONSTRUCTION OF INFRASTRUCTURE AND PLANTS FOR FREE ZONES. EMPHASIS WILL BE PLACED ON SATISFYING PRE-EXPORT, SHORT-TERO, WORKING CAPITAL NEEDS FOR PRIVATE SECTOR PRODUCTION OF NON-TRADITIONAL EXPORTS, ESPECIALLY TO SMALL AND MEDIUM ENTERPRISES WHICH NORMALLY RECEIVE ONLY LIMITED HELP FROM THE FORMAL BANKING SYSTEM. GRANT FUNDS (DOLS. 4 MILLION) WILL ALSO BE PROVIDED TO FINANCE: (I) POLICY ANALYSIS AIMED AT IMPROVING THE CLIMATE FOR EXPORT; (II) INVESTMENT PROMOTION TO ATTRACT FOREIGN CAPITAL AND STIMULATE DOMESTIC INVESTMENT IN EXPORT ORIENTED PROJECTS; (III) RESEARCH AND IDENTIFICATION OF INVESTMENT OPPORTUNITIES AND DEVELOPMENT OF NEW MARKETS; (IV) ADMINISTRATIVE AND INSTITUTIONAL UPGRADING, INCLUDING TRAINING FOR PUBLIC AND PRIVATE ORGANIZATIONS INVOLVED IN EXPORT

PROMOTION; AND (V) LONG-TERM TECHNICAL ASSISTANCE FOR KEY INSTITUTIONS INVOLVED IN FOREIGN COMMERCE AND INVESTMENT, SUCH AS THE INVESTMENT PROMOTION COMMISSION.

(4) THE AGRICULTURAL ECONOMY IS DOMINATED BY SUGAR AND THE GOVERNMENT IS VERY RETICENT ABOUT DIVERSIFICATION. AS A RESULT, INVESTMENT AND DEVELOPMENT IN NON-TRADITIONAL AGRO-INDUSTRIAL ACTIVITIES HAVE BEEN LIMITED BY THE LACK OF ANY CONCERTED PROGRAM AND BY AN INVESTMENT CLIMATE WHICH HAS FAVORED IMPORT SUBSTITUTION AND WHICH HAS BEEN CHARACTERIZED BY CONTRADICTORY POLICIES AND UNNECESSARY REGULATIONS. TO ADDRESS THIS CONSTRAINT AID WILL START A DOLS 9.8 MILLION AGRIBUSINESS PROMOTION PROJECT IN FY 1984 AIMED AT CREATING A FAVORABLE INVESTMENT CLIMATE FOR EXPORT ORIENTED INDUSTRIES. CRITICAL ISSUES WHICH HAMPER THE DEVELOPMENT AND GROWTH OF AGRIBUSINESS WILL ALSO BE ADDRESSED THROUGH THE IMPLEMENTATION OF A VARIETY OF ACTIVITIES INCLUDING THE PROVISION MF: (I) CREDIT FOR INVESTMENTS IN PLANT AND EQUIPMENT, PRODUCTION AND MARKETING; (II) TECHNICAL ASSISTANCE TO CONDUCT PRE-FEASIBILITY AND/OR FEASIBILITY STUDIES AIMED AT IDENTIFYING NEW MARKETS AND INVESTMENT OPPORTUNITIES; (III) PILOT ACTIVITIES TO IDENTIFY AND DEVELOP NON-TRADITIONAL PRODUCTS FOR EXPORT; AND, (IV) TRAINING, SEOIMARS, AND DEMONSTRATIONS TO INTRODUCE NEW VARIETIES AND FARMING TECHNIQUES TO SMALL GROWERS THOUGH THE EXPERTISE OF AGRO-BUSINESS FIRMS.

(5) OVERALL, THE MINING SECTOR POSSESSES CONSIDERABLE POTENTIAL AS A SOURCE OF FUTURE OUTPUT AND FOREIGN EXCHANGE EARNINGS OR SAVINGS. THE COUNTRY MAY HAVE SUBSTANTIAL UNTAPPED POTENTIAL MINERAL RESOURCES. PRELIMINARY STUDIES SUGGEST SIGNIFICANT COPPER DEPOSITS IN THE CENTRAL PART OF THE ISLAND AND THE POSSIBILITY OF SIGNIFICANT COPPER AND MANGANESE FURTHER TO THE WEST. ALLUVIAL GOLD OCCURS IN VARIOUS PARTS OF THE ISLAND, AND VARIOUS NON-METALLIC MINERALS ARE ABUNDANT IN THE SOUTHWEST. THE RECENT DISCOVERY OF COMMERCIALLY EXPLOITABLE LIGNITE DEPOSIT HOLDS OUT A POSSIBILITY FOR A REDUCTION IN OIL IMPORTS, AND EXPLORATION FOR PETROLEUM IS BEING UNDERTAKEN IN SEVERAL PARTS OF THE ISLAND, THUS FAR WITHOUT SUCCESS (ALTHOUGH NATURAL GAS HAS BEEN FOUND). MORE DETAILED STUDIES ARE NEEDED, HOWEVER, FOR THE COUNTRY TO BE ABLE TO EFFECTIVELY EXPLOIT THIS POTENTIAL EXPORT RESOURCE. ACCORDINGLY, AID PROPOSES TO

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AIDAC

FOR: DWIGHT JOHNSON, LAC/DR

FINANCE PRELIMARY STUDIES BY THE U.S. GEOLOGICAL SURVEY AIMED AT ASSESSING THE POTENTIAL FOR ADDITIONAL EXPORTS OF MINERALS AS WELL AS IDENTIFYING POLICY CONSTRAINTS WHICH IMPEDE EXPORTS OR INVESTMENTS IN THE MINERAL SECTOR. AID EXPECT TO FINANCE, BEGINNING IN FY 84, A DOLS. 5 MILLION MINERALS EXPORT PROMOTION PROJECT AIMED AT PRODUCING A COMPLETE CLASSIFICATION OF ALL MINERAL RESOURCES IN THE DOMINICAN REPUBLIC AS TO THE TYPE, LOCATING, ESTIMATED RESERVE QUANTITY AND QUALITY, AND COMMERCIAL VIABILITY. IT IS EXPECTED THAT THIS CLASSIFICATION WILL BECOME A BASE FOR ATTRACTING FOREIGN PRIVATE IVESTMENT WHICH WILL ENHANCE THE XPORTS OF MINERALS. IN ADDITION, THE PROJECT WILL ASSIST THE GODR TO REVIEW AND REFORM THE MINING SECTOR TO MEET ITS FUTURE NEED.

B. ACTIVITIES TO HELP ELIMINATE CONSTRAINTS ON INVESTMENT

(1) ANALYSES OF PRINCIPAL AGRICULTURAL PRODUCTS SHOW THAT DOMINICAN AGRICULTURE PRODUCTION STAGNATED DURING THE 1970'S. THERE IS GROWING EVIDENCE THAT THIS STAGNATION IS A RESULT OF FAULTY POLICY MEASURES RATHER THAN NATURAL DISASTERS. PRICE AND EXCHANGE RATE POLICIES APPEAR TO BE PRINCIPAL FACTORS EXPLAINING THIS STAGNATION. GODR PRICE POLICIES HAVE EITHER IGNORED THE EFFECTS OF INFLATION ON AGRICULTURAL PRICES OR ATTEMPTED TO COMBAT INFLATION THROUGH AGRICULTURAL PRICE CONTROLS, WHICH HAVE BEEN COSTLY IN TERMS OF LOSS OF AGRICULTURAL PRODUCTION. IN ADDITION, AN OVER-VALUED OFFICIAL EXCHANGE RATE NOT ONLY BEAME A TAX ON EXPORT PRODUCTS BUT INTRODUCED A BIAS TOWARDS IMPORTS.

(2) THE GODR HAS RECOGNIZED THE NEED TO REVISE THESE POLICIES AS A PRE-REQUISITE TO PRODUCTION INCREASES. IN ORDER TO PROVIDE A MECHANISM FOR FACILITATING THE REQUIRED ANAYSIS, DURING FY 84, AID WILL FINANCE THE AGRICULTURE POLICY ANALYSIS PROJECT (NO. 517-0156) WITH DOLS. 1 MILLION IN GRANT FUNDS. THIS PROJECT WILL SEEK TO DEVELOP AN ADEQUATE CAPACITY TO PROVIDE UNBIASED PRICE DATA AND ANALYSES TO DECISION-MAKERS. TO ASSURE THE CAPACITY TO USE THIS ANALYSIS, FORMAL AND NON-FORMAL TRAINING WILL BE MADE AVAILABLE TO DECISION-MAKERS. THE BASIC ACTIVITY WILL BE THE DEVELOPMENT OF A GODR AGRICULTURAL POLICY ANALYSIS UNIT, WHICH WILL REQUIRE A CORE STAFF OF WELL-TRAINED ECONOMIC, AGRICULTURAL ECONOMIC, AND STATISTICAL ANALYSTS. SHORT-TERM TECHNICAL ASSISTANCE AND ON-THE-JOB TRAINING WILL BE PROVIDED TO THE CORE STAFF IN ORDER TO REACH PROJECT OBJECTIVES. SOME ANALYSTS (4 TO 6 AT A COST OF ABOUT DOLS. 25,000) WILL RECEIVE TRAINING EITHER LOCALLY OR OVERSEAS, TO ENSURE THE NUMBER OF CRITICAL PROFESSIONALS NECESSARY FOR LONG-RANGE DEVELOPMENT. SEMINARS AND WORKSHOPS WILL BE CONDUCTED FOR POLICY MAKERS AS A MEANS OF IMPROVING THEIR UNDERSTANDING OF POLICY MATTERS AFFECTING THE AGRICULTURAL SECTOR IN THE DOMINICAN REPUBLIC.

(3) A FUNDAMENTAL REQUIREMENT OF BUSINESS IS THE EXISTENCE OF THE BASIC INFRASTRUCTURE NECESSARY TO PRODUCE,

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TRANSPORT, AND MARKET THEIR PRODUCTS. IN MANY AREAS OF THE DOMINICAN REPUBLIC, THESE FACILITIES DO NOT EXIST, THUS INHIBITING NOT ONLY THE EXPANSION AND DEVELOPMENT OF THESE AREAS, BUT ALSO THE PRIVATE SECTOR. IN ORDER TO ASSIST THE GODR IN REMOVING THIS BASIC INFRASTRUCTURE CONSTRAINT, GODR COUNTERPART FROM THE FY 84 AND ESF LOAN WILL BE PROGRAMMED FOR THIS PURPOSE.

(I) THE DR PESOS 10 MILLION ORIGINALLY ALLOCATED FOR "PRODUCTIVE INFRASTRUCTURE" UNDER THE ORIGINAL 1982 ESF PROGRAM AS COUNTERPART TO MAJOR MULTILATERAL FUNDED INFRASTRUCTURE PROJECTS HAS BEEN DISBURSED. THE ADDITIONAL DR PESOS 5 MILLION PROVIDED UNDER THE 1983 DOLS 8.0 MILLION AMENDMENT TO THIS ESF PROGRAM FOR THIS PURPOSE WILL BE FULLY COMMITTED SHORTLY. THERE STILL EXISTS, HOWEVER, A SUBSTANTIAL NEED TO PROVIDE COUNTERPART RESOURCES TO SUPPORT OTHER INFRASTRUCTURE PROJECTS WHICH ARE CRITICAL TO THE EXPANSION OF THE DOMINICAN PRIVATE SECTOR. THE GODR ESTIMATES THAT THERE EXISTS AN IMMEDIATE NEED FOR APPROXIMATELY DR PESOS 27 MILLION TO SUPPORT VARIOUS CRITICAL INFRASTRUCTURE PROJECTS FUNDED BY IBRD, IDB AND AID. ACCORDINGLY, IT IS EXPECTED THAT DR PESOS 10 MILLION TO BE PROVIDED UNDER THE FY 84 ESF LOAN WILL BE UTILIZED IN SUPPORT OF PRODUCTIVE INFRASTRUCTURE INCLUDING A CRITICAL HIGHWAY PROJECT FUNDED BY IBRD AND RURAL ROADS PROJECTS FUNDED BY IDB AND AID.

(II) THE GODR AND THE PRIVATE SECTOR HAVE CREATED FREE ZONES IN DIFFERENT PARTS OF THE COUNTRY TO STIULATE INDUSTRIAL DEVELOPMENT. FOUR FREE EXPORT ZONES ARE CURRENTLY IN OPERATION (TWO PRIVATELY OWNED AND MANAGED). SOME OF THESE FREE ZONES SITES OFFER CONSIDERABLE OPPORTUNITY AND POTENTIAL IN THE SHORT-TERM FOR INCREASING EMPLOYMENT AND FOREIGN EXCHANGE. THUS, THE GODR INTENDS TO USE UP TO DR PESOS 2 MILLION, MADE AVAILABLE UNDER THE AMENDMENT TO THE FY 82 ESF PROGRAM, TO EXPAND THE PUERTO PLATA FREE ZONE FACILITY. THERE STILL EXISTS, HOWEVER, MUCH OPPORTUNITY TO DEVELOP THE COUNTRY'S FREE ZONES. ACCORDINGLY, DR PESOS 6 MILLION IN LOCAL CURRENCY PROCEEDS WILL BE MADE AVAILABLE UNDER THE FY 84 DOLS. 40 MILLION ESF LOAN FOR FREE ZONE DEVELOPMENT.

(4) IN ORDER TO INCREASE INVESTMENTS IN AGRICULTURE AND IMPROVE AGRICULTURAL PRODUCTIVITY, AN EFFECTIVE PROGRAM OF

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AIDAC

FOR: DWIGHT JOHNSON, LAC/DR

AGRICULTURAL RESEARCH AND EXTENSION IS NEEDED FOR CROPS OF PRIMARY IMPORTANCE TO THE NATIONAL ECONOMY. WHILE THE GODR HAS MADE SIGNFICANT INVESTMENTS TO DEVELOP ITS RESEARCH AND EXTENSION CAPABILITY, THE EXISTING RESEARCH DATA BASE AND EXTENSION CAPABILITY ARE INADEQUATE TO SUPPORT THE NEEDED INCREASES IN AGRICULTURAL PRODUCTION. THE CAUSE OF THIS SITUATION HAS BEEN IDENTIFIED AS THE INABILITY OF THE EXISTING PUBLIC SECTOR SYSTEM TO EFFECTIVELY MANAGE, COORDINATE, AND CARRY OUT THE REQUIRED RESEARCH PROGRAMS. ACCORDINGLY, IN FY 84 AID WILL FINANCE THE AGRICULTURE RESEARCH AND EXTENSION PROJECT (NO. 517-0180) WITH DOLS. 5 MILLION IN LOAN AND DOLS. 1.5 MILLION IN GRANT FUNDS. THE PROJECT IS AIMED AT DEVELOPING AN INTERDISCIPLINARY PRIVATE SECTOR RESEARCH CAPABILITY IN THE DOMINICAN REPUBLIC SIMILAR TO THE US LANDIGRANT UNIVERSITY RESEARCH/EXTENSION SYSTEM.

C. ACTIVITIES TO ESTABLISH A VIABLE GODR EXPORT PROMOTION INSTITUTION

(1) FROM COUNTERPART RESOURCES MADE AVAILABLE IN CONJUNTION WITH THE CBI LOAN, DR PESOS 100,000 WAS MADE AVAILABLE IN SUPPORT OF CEDOPEX OPERATIONS. FROM THE AMENDMDNO TO THIE LOAN, DR PESOS 1 MILLION IS EARMARKED TO SUPPORT A SERIES OF KEY PROMOTIONAL ACTIVITIES TO BE CARRIED OUT BY CEDOPEX.

(2) DURING FY 84, THE USAID PLANS TO ARRANGE FOR THE SHORT-TERM TRAINING OF UP TO 4 CEDOPEX STAFF MEMBERS. THIS TRAINING WLL BE FINANCED WITH AID PD AND S FUNDS AND WILL BE CARRIED OUT BY A US TRAINING INSTITUTION SPECIALIZING IN TRADE DEVELOPMENT. THE TRAINING WILL COVER THE PLANNING, DESIGN, IMPLEMENTATION, AND EVALUATION OF EXPORT ACTIVITIES.

(3) UNDER THE AID FUNDED FY 85 EXPORT PROMOTION PROJECT, THE USAID PLANS TO PROVIDE TECHNICAL ASSISTANCE TO DEVELOP THE INSTITUTIONAL CAPABILITY OF CEDOPEX TO ORGANIZE AND CARRY OUT EFFECTIVE EXPORT PROMOTION ACTIVITIES. THIS TA WILL LIKELY INCLUDE BOTH SHORT AND LONG-TERM ADVISORS TO HELP CEDOPEX STRUCTURE AN URGENTLY NEEDED PROGRAM TO IDENTIFY POTENTIAL EXPORT MARKETS, PRODUCTS, AND DISTRIBUTION SYSTEMS.

(4) IN ORDER TO HELP CEDOPEX IDENTIFY THE EXPORT PRODUCTION CAPABILITY AVAILABLE IN THE DOMINICAN REPUBLIC, A STUDY WILL BE UNDERTAKEN DURING FY 84 OF THE INFORMATION INCLUDED IN THE RECENTLY COMPLETED SMALL INDSUTRY SUB-SECTOR ASSESSMENT. (THIS ASSESSMENT WAS COMPLETED BY THE SANTO DOMINGO TECHNICAL INSTITUTE, INTEC, AND FINANCED JOINTLY BY AID AND THE ASSOCIATION OF INDUSTRIES.) THE CURRENT STUDY, ALSO FINANCED BY AID, WILL IDENTIFY EXPORT OPPORTUNITIES IN TERMS OF PRODUCTS AND PLANT CAPACITIES.

D. ACTIVITIES TO ESTABLISH A STRONG GODR INVESTMENT PROMOTION INSTITUTION

(1) THE NATIONAL INVESTMENT COMMISSION WAS ESTABLISHED BY PRESIDENT JORGE BLANCO IN JUNE 1983. IN SUPPORT OF ITS

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OPERATIONS AND ACTIVITIES, DR PESOS 100,000 FROM THE COUNTERPART FUNDS RESULTING FROM THE INTIAL CBI PROGRAM WERE PROVIDED. RECENTLY, THE GODR HAS APPOINTED AN EXECUTIVE DIRECTOR AND SUB-DIRECTOR, BOTH OF WHOM HAVE HAD CONSIDERABLE ORGANIZATIONAL AND OTHER APPROPRIATE EXPERIENCE. THE COMMISSION IS NOW HIRING STAFF AND DEVELOPING AN IMPLEMENTATION PROGRAM. IN SUPPORT OF ITS CONTINUED DEVELOPMENT AND EXPANSION OF ACTIVITIES THE GODR AND AID ARE PREPARED TO PROVIDE ADDITIONAL RESOURCES TO THIS ORGANIZATION.

(2) DURING TPE NEXT FEW WEEKS THE INVESTMENT COMMISSION WILL COMPLETE ITS DETAILED WORK PROGRAM KOR 1983-84. IT IS EXPECTED THAT THIS PLAN WILL INCLUDE A NUMBER OF ACTIVITIES WHICH CAN BE FINANCED FROM THE LOCAL CURRENCY PROCEEDS AVAILABLE UNDER THE FY 84 DOLS. 40 MILLION ESF LOANS AMONG THESE ACTIVITIES INCLUDED: THE DEVELOPMENT OF INVESTMENT OPPORTUNITY INFORMATION AND ASSISTANCE PACKAGE FOR DISTRIBUTION TO POTENTIAL FOREIGN INVESTORS; ESTABLISHMENT OF A DATA BANK TO PROVIDE INFORMATION ON EXISTING DOMINICAN FIRMS AND IDENTIFICATION AND PROMOTION OF POTENTIAL JOINT VENTURE PARTICIPANTS; DEVELOPMENT OF AN INFORMATION SYSTEM TO PROMOTE FREE ZONE DEVELOPMENT; AND PREPARATION OF STUDIES OF THE LEGISLATIVE AND ADMINISTRATIVE CONSTRAINTS TO INVESTMENT.

(3) DURING EARLY FY 85 IT IS ANTICIPATED THAT AID WILL FINANCE WITH PD AND S (OR PROJECT GRANT) FUNDS THE SHORT-TERM TRAINING OF UP TO 2 INVESTMENT PROMOTION COMMISSION STAFF MEMBERS IN THE BASIC SKILLS AND TECHNIQUES FOR PROMOTION OF FOREIGN INVESTMENT. THIS TRAINING MAY BE PROVIDED THROUGH A US TRAINING INSTITUTIN SPECIALIZING IN TRADE DEVELOPMENT.

(4) DURING FY 85 AID WILL FINANCE, UNDER THE EXPORT PROMOTION AND INVESTMENT PROJECT, LONG AND SHORT-TERM TECHNICAL ASSISTANCE TO DEVELOP THE INSTITUTIONAL CAPABILITY OF THE INVESTMENT PROMOTION COMMISSION. CONSULTANTS WILL ASSIST THE COMMISSION IN DEVELOPING AND IMPLEMENTING IMMEDIATE IMPACT ACTION PROGRAMS TO STIMULATE FOREIGN INVESTMENT.

E. THE ESTABLISHMENT OF EXPORT PROMOTION FUNDS

(1) IN ADDITION TO THE DOLS. 9.8 MILLION AGRIBUSINESS PROJECT ANTICIPATED TO BE INITIATED IN FY 1984 DISCUSSED ABOVE, APPROXIMATELY DR PESOS 19 MILLION IN LOCAL CURRENCY COUNTERPART

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FOR: DWIGHT JOHNSON, LAC/DR

WILL BE MADE AVAILABLE UNDER THE FY 84 ESF LOAN PROGRAM. ITS PURPOSE WILL BE TO INCREASE THE CAPITALIZATION OF THE CREDIT FACILITY (FIDE) WITHIN THE CENTRAL BANK, THUS INCREASING THE VOLUME OF CREDIT TO THE PRIVATE SECTOR FOR EXPANSION OF AGRIBUSINESS AND EXPORT ACTIVITIES.

(2) THE USAID WILL ALSO MAKE AVAILABLE ANOTHER DR PESOS 1 MILLION FROM COUNTERPART RESOURCES RESULTING FROM THE FY 84 ESF LOAN TO FINANCE A SERIES OF ESSENTIAL STUDIES NEEDED TO SUPPORT THE DEVELOPMENT OF IMPORTANT PRIVATE SECTOR INITIATIVES. POSSIBLE EXAMPLES INCLUDE INTER ALIA:

I) EXPORT INFRASTRUCTURE REQUIREMENTS,
II) SUGAR DIVERSIFICATION,
III) PRICE POLICIES,
IV) EFFECTS OF GOVERNMENT REGULATION OF BUSINESS,
V) POTENTIAL OF THE PRIVATE SECTOR IN MINING,
VI) IMPROVING EFFICIENCY OF THE CONSTRUCTION INDUSTRY,
VII) TOURISM.
VIII) REVISION OF TARIFF RATES AND ITS IMPACTS, AND
IX) REVISION OF FOREIGN INVESTMENT LAWS.

(3) PVOS BRING A UNIQUE PERSPECTIVE TO DEVELOPMENT. AND CAN PROVIDE A GRASSROOTS DIMENSION NOT ALWAYS ATTAINABLE UNDER REGULAR LOAN/GRANT PROGRAMS. THERE IS CONSIDERABLE SCOPE IN THE DOMINICAN REPUBLIC FOR SUCH ACTIVITIES. A NUMBER OF PRIVATE U.S. ORGANIZATIONS ARE CURRENTLY ACTIVE HERE IN VARIOUS FIELDS INCLUDING AGRICULTURE, SMALL BUSINESS, HOUSING, HEALTH, AND EDUCATION. FURTHER, THRE ARE A NUMBER OF DOMINICAN PRIVATE DEVELOPMENT INSTITUTIONS, MANY OF WHICH ARE HIGHLY QUALIFIED TO DEVELOP AND IMPLEMENT PROJECTS, WHICH SUPPORT CBI OBJECTIVES. ACCORDINGLY, USAID PLANS TO PROGRAM AN ADDITIONAL RD PESOS 4.0 MILLION IN COUNTERPART TO (A) EXPAND THE ONGOING CBI PVO PROGRAM, (B) EXPLORE WITH THE PVO COMMUNITY POSSIBLE NEW OPG ACTIVITIES THAT WILL PROMOTE CBI GOALS AND COMPLEMENT AND REINFORCE THE MISSION'S PROGRAM.

F. ACTIVITIES TO DEVELOP A CORE GROUP OF ENTREPRENEURS

(1) ON NOVEMBER 10, 1983, AN EXPORT PROMOTION SEMINAR WILL BE HELD IN SANTO DOMINGO AND WILL BE SPONSORED BY: THE DOMINICAN-AMERICAN CHAMBER OF COMMERCE, THE ASSOCIATION OF INDUSTRIES OF HERRERA, THE ASSOCIATION OF INDUSTRIES OF THE D.R., THE ASSOCIATION OF DOMINICAN EXPORTERS, THE DOMINICAN EXPORT PROMOTION CENTER, THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY, AND AID. THE SEMINAR WILL COVER A BROAD RANGE OF EXPORT ORIENTED TOPICS SUCH AS:

- HOW TO PLAN AND DECIDE ON EXPORTS;
- HOW TO CHOOSE SEGMENTS OF THE U.S. MARKET;
- HOW TO CALCULATE COSTS OF EXPORTING;
- HOW TO FIX SALES PRICES OF EXPORTING;
- HOW TO CHOOSE CHANNELS OF DISTRIBUTION;

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- HOW TO SATISFY PRODUCT REQUIREMENTS;
- EXPORT INCENTIVES;
- HOW TO DESIGN PRICE LISTS AND CATALOGS;
- INVESTIGATION AND EVALUATION OF THE U.S. MARKET; AND
- EVALUATION OF PRODUCTS AND PRICES FOR THE U.S. MARKET.

(2) IN JULY 1984 THE NATIONAL GIFT SHO AT TGDNATLANTA MARKET CENTER WILL BE HELD. THIS GIFT SHOW WILL FOLLOW UP ON THE PREVIOUSLY DESCRIBED INVITATIONAL TRAVEL FOR DOMINICAN REPRESENTATIVES TO ATLANTA AND THE FIELD SURVEY BY ATLANTA MARKET CENTER PERSONNEL. THE JULY 1984 CARIBBEAN BASIN GIFT SHOW WILL BEGIN EFFORTS TO ACTUALLY FIND MARKETS FOR THE DOMINICAN PRODUCTS AND PROVIDE USEFUL EXPERIENCE FOR DOMINICAN PRODUCERS FOR FUTURE MARKETING EFFORTS.

(3) WITH THE SUCCESSFUL EXPERIENCE OF THE PROAPE MICRO AND SMALL INDSUTRY TRADE FAIR IN SANTIAGO AND THE DOMINICAN DEVELOPMENT SMALL INDUSTRY TRADE FAIR IN SANTO DOMINGO, IT IS ANTICIPATED THAT THESE FAIRS WILL BE REPEATED ON AN ANNUAL BASIS. AS THE MICRO AND SMALL INDSUTRY PROGRAM INCREASES IN SIZE GEOGRAPHICALLY, WITH TECHNICAL ASSISTANCE CENTERS BEING ESTABLISHED IN SECONDARY CITIES, IT IS ANTICIPATED THAT SUCH FAIRS WILL ALSO BE HELD IN THOSE SECONDARY CITIES IN THE NEAR FUTURE.

(4) UNDER THE AID FUNDED SMALL INDUSTRY PROGRAM (NO. 517-0150), IT IS EXPECTED THAT SHORT-TERM TECHNICAL ASSISTANCE WILL BE PROVIDED DURING FY 84 TO IMPROVE THE DESIGN OF HANDICRAFT PRODUCTS, I.E., TEXTILES, STRAW PRODUCTS, CERAMICS, ETC. ALSO, ASSISTANCE WILL BE PROVIDED TO HELP IDENTIFY FOREIGN MARKETS AND CHANNELS OF DISTRIBUTION.

(5) THE UCMM SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION (NO. 517-0157) OPENED ITS DOORS IN AUGUST 1983. THE SCHOOL NOW HAS A STAFF OF 6 DOMINICANS AND 3 AMERICAN PROFESSORS. THE FIRST CLASS INCLUDES 110 STUDENTS (60 BUSINESS AND 50 PUBLIC). DURING THE NEXT 18 MONTHS THE CONSTRUCTION AND EQUIPPING OF THE ADDITIONAL FACILITIES SHOULD BE COMPLETED, THE STUDENT BODY SHOULD HAVE INCREASED TO 220, AND THE FIRST CLASS OF MBA'S SHOULD HAVE GRADUATED. IN ADDITION, THE SCHOOL SHOULD BE OFFERING 10 EXECUTIVE TRAINING SEMINARS EACH YEAR TO THE

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FOR: DWIGHT JOHNSON, LAC/DR

HIGHEST LEVELS OF ENTREPRENEURS, BUSINESS MANAGERS, AND PUBLIC OFFICIALS.

(6) UNDER THE LAC REGIONAL TRAINING PROJECT, DOLS. 40,000 WAS ALLOCATED TO FINANCE THE SHORT-TERM MANAGEMENT COURSES IN THE U.S. FOR PARTICIPANTS IDENTIFIED BY THE AMERICAN CHAMBER OF COMMERCE. PARTICIPANTS ARE NOW BEING IDENTIFIED AND PLACED. DURING FY 84 AND FY 85 USAID EXPECTS THAT BOTH SHORT AND LONG-TERM TRAINING ACTIVITIES WILL BE EXPANDED TO INCLUDE MORE PRIVATE SECTOR PARTICIPANTS.

5. ROLE OF COUNTRY TEAM

A. THE COUNTRY TEAM IS ENGAGED IN AN EFFORT TO RAISE THE LEVEL OF CONSCIOUSNESS OF PUBLIC AND PRIVATE SECTOR ORGANIZATIONS, ATTEMPTING TO CHANGE ATTITUDES FROM EMPHASIS UPON IMPORT SUBSTITUTION TO EXPORT PROMOTION. IT WILL SUPPORT EFFORTS TO STRENGTHEN THE NEWLY ESTABLISHED FOREIGN INVESTMENT PROMOTION COMMISSION AND TO ENCOURAGE THE EFFORTS OF THE GODR TO REFORM AND STRENGTHEN CEDOPEX.

B. THE DEPARTMENT OF COMMERCE, THRU ITS COMMERCIAL COUNSELOR IN THE EMBASSY, IS ACTIVELY INVOLVED IN WORKING WITH PRIVATE SECTOR OGANIZATIONS SUCH AS AS THE AMERICAN CHAMBER OF COMMERCE AND CONSEJO NACIONAL DE HOMBRES DE EMPRESA. THE COMMERCIAL COUNSELOR WILL CONTINUE DEVELOPMENT OF A REFERENCED LIBRARY OF EXPORT ORIENTED PRODUCTS AND A DATA PROCESSING SYSTEM IN THE COMMERCIAL LIBRARY AT THE EMBASSY. THE INFORMATION SYSTEM DEVELOPED BY THE COMMERCIAL OFFICE WILL PERMIT INTERESTED DOMINICANS AND AMERICANS TO EASILY SEARCH THE INFORMATION BANK FOR BUSINESSES ACCORDING TO THEIR STANDARD INDUSTRY CODES (SIC) AND QUICKLY MATCH AND PRINTOUT LISTS OF POTENTIAL BUYERS, SELLERS, AND INVESTORS. IT IS ANTICIPATED THAT DURING THE UPCOMING YEAR, WHEN AID'S WANG COMPUTER EQUIPMENT IS FULLY INSTALLED, USE OF THIS INFORMATION WILL BE EXPANDED. IN ADDITION, THE DEPARTMENT OF COMMERCE COMPUTER CENTER IN MEXICO WILL BE SENDING A TEAM TO THE MISSION TO TRAIN THE COMMERCIAL OFFICE STAFF AND TO DEMONSTRATE THE UTILITY OF THIS SYSTEM TO OTHER MISSION OFFICERS AND TO OFFICIALS FROM CEDOPEX, THE AMERICAN CHAMBER OF COMMERCE, AND THE GODR'S FOREIGN INVESTMENT COMMISSION.

C. THE COMMERCIAL OFFICE IS ALSO PRODUCING A JOINT AGRO-INDUSTRIAL NEWSLETTER (THIS IS A JOINT EFFORT BETWEEN USDOC, USDA, AND AID) WHICH IS DISTRIBUTED TO OVER 2,000 DOMINICAN BUSINESSMEN BIMONTHLY. THIS NEWSLETTER WILL BE USED TO PASS IMPORTANT CBI INFORMATION TO THE DOMINICAN PRIVATE SECTOR AND TO ALERT DOMINICAN BUSINESSMEN OF POTENTIAL TRADE AND INVESTMENT OPPORTUNTIES.

D. FINALLY, THE COMMERCIAL COUNSELOR WILL ALSO CONTINUE IDENTIFYING TRAINING OPPORTUNITIES AND TECHNICAL ASSISTANCE OPPORUTNITIES TO HELP STRENGTHEN MANAGEMENT AND ADMINISTRATIVE

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KNOW HOW OF DOMINICAN BUSINESSMEN.

E. THE AGRICULTURE ATTACHE, REPRESENTATIVE OF THE DEPARTMENT OF AGRICULTURE, WILL CONTINUE TO SERVE AS A SOURCE OF TECHNICAL INFORMATION REGARDING PLANT AND ANIMAL INSPECTION SERVICES. IN ADDITION, USDA'S OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT WILL PROVIDE AGRICULTURAL MARKETING INFORMATION AND WILL SUPPORT EFFORTS TO HELP IDENTIFY POTENTIAL JOINT VENTURES IN AGROINDUSTRIAL PROJECTS.

F. THE EMBASSY ECONOMIC SECTION HAS COORDINATED NEGOTIATION OF CBI DESIGNATION FOR THE DOMINICAN REPUBLIC. THIS IS EXPECTED IN NOVEMBER 1983. THROUGH THIS PROCESS THE MISSION HAS URGED THE GODR TO MOVE PROMPTLY IN TAKING ADVANTAGE OF THE SUBSTANTIAL EXPORT OPPORTUNITY THAT WILL APPEAR WHEN MANY DOMINICAN PRODUCTS ARE PERMITTED DUTY FREE ENTRY. FURTHER, THE DESIGNATION PROCESS AND THE ONGOING BILATERAL DIALOGUE UNDER THE PROVISION OF THE CBI LAW WILL PROVIDE CONTINUING OPPORTUNTIES TO ENCOURAGE SENIOR GODR OFFICIALS AND PRIVATE SECTOR REPRESENTATIVES OF THE BENEFITS OF A DYNAMIC INVESTMENT AND EXPORT POLICY.

G. THE PEACE CORPS WILL CONTINUE HELPING SMALL FARMERS TO INCREASE PRODUCTION, IMPROVE MARKETING IN ADDITION TO WORKING CLOSELY WITH ARTISANS TO DEVELOP NEW PRODUCTS AND IMPROVE EXISTING PRODUCTS FOR POSSIBLE EXPORTS. ANDERSON

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