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A.I.D.'S ASSISTANCE TO PRIVATE SECTOR DEVELOPMENT

(Project Number 930-0092)

FINAL REPORT

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EXECUTIVE SUMMARY

One of A.I.D.'s most important objectives is to stimulate and strengthen the private sector in developing countries. This can be accomplished by establishing appropriate policies and ensuring effective implementation through individual projects.

Given the multiplicity of socio-economic and political systems among aid-recipient countries, a single all encompassing approach would not be appropriate. Rather, strategies for each country must be developed and perfected. In some cases, this may result in large amounts of assistance being provided to and through host government agencies. In other instances, aid directly to private sector entities will have a more meaningful impact.

A.I.D. has conducted a review of its expenditures and identified projects which illustrate the Agency's multi-faceted approach of providing assistance directly to private sector firms, using public sector intermediaries to channel assistance to the private sector, relying on private voluntary and non-profit organizations as a delivery vehicle for aid, attempting through "policy dialogue to influence host country attitudes about private enterprise development and providing assistance to host country governments.

The Agency's effectiveness in stimulating and strengthening the private sector cannot be measured merely in terms of the expenditures related to each of these methods of assistance.

Rather, achievements in each Mission/Office must be evaluated in light of conditions in the host country and the specific approach taken to implement the broader policy goals the Agency has established.

I. INTRODUCTION

This report describes A.I.D.'s efforts to encourage and support the development of private enterprise in host countries during FY85. This is an important endeavor because it is becoming increasingly clear that private enterprise, operating in open markets, is the best means of employing creative energies, allocating scarce economic resources and attaining higher levels of economic growth and development. Private enterprise is recognized not only as the key to improving the material well-being of lesser developed countries, it serves the equally important function of creating a climate conducive to increased political freedoms as well.

The Agency realizes that it is not enough merely to distribute assistance to private sector entities or to fund public service projects that have some incidental impact on the private sector. Rather, there must be a concerted effort to develop the skills of individuals, to provide the wherewithal for private businesses to be profitable, to establish infrastructures which are supportive of private sector activity and to encourage dismantling of government policies that inhibit private sector growth.

A.I.D. is implementing a multi-faceted approach that addresses these and other needs that are prerequisites for a meaningful impact on private enterprise development in host countries.

real and lasting impact, however, can be evaluated only after programs have been in operation long enough to show a measurable effect. At this point, the Agency is best able to judge its progress in implementing its "Second Policy Pillar"--to stimulate and strengthen the private sector--by examining the extent to which its Bureaus and the individual Missions are devoting project expenditures to public and private sector activities.

In August 1985, AID/W requested detailed information from its Bureaus and Missions on the allocation of project and project component expenditures between the public and private sectors. In particular, the Bureaus and Missions were asked to divide their expenditures according to the following categories:

Cat. A --direct assistance to the private sector;
Cat. B --indirect assistance to the private sector through a public sector entity whose goal is direct assistance to the private sector;
Cat. C --assistance to private voluntary and non-profit organizations;
Cat. D --assistance used to influence change in the host government policy environment for private sector development;
Cat. E --public sector expenditures to support traditional public service activities.

Considering a total of $2,731,171,000 in project expenditures, Agency-wide expenditures for FY85 have been distributed as follows:

Cat. A -- $118,958,000 or 4.4% of total expenditures.
Cat. B -- $508,044,000 or 18.6% of total expenditures.
Cat. C -- $239,576,000 or 8.8% of total expenditures.
Cat. D -- $460,082,000 or 16.8% of total expenditures.
Cat. E -- $1,404,510,000 or 51.4% of total expenditures.

These numbers alone do not tell the whole story. As much as one would wish that maximum effectiveness in promoting private enterprise development could be achieved in all instances by providing assistance directly to the private sector end-user, such expenditures are by no means a panacea. It is clear that there are as well some functions necessary to support private enterprise that government and other groups can perform more efficiently than the private sector. This fact is even more relevant in those developing countries where private enterprise is only in its elementary stages, human resources and management skills are undeveloped and basic infrastructure is lacking. Then, many purely public service activities, such as sanitation, education, road building and port development, must be assisted, because they may be crucial to developing a viable private sector.

Also, with Agency Missions located in 44 countries, and with other facilities in 17 countries, a single formula for economic development applicable to all circumstances would by no means be appropriate or useful. Agency personnel deal with numerous socio-economic, political systems, each with its own variables and each requiring a slightly different approach. Additionally, implementation progress of AID's private enterprise development program will vary with the ability of the host country system to accommodate such influence.

It is clear that in some aid-recipient countries, basics such as pre-natal care, clean water to drink, simple sanitation, primary health care, enough food to sustain energy levels sufficient to even work must come before investments in infrastructure of roads, ports, vocational training, and the like. All these basic things must be developed in order for a private enterprise system to have a chance of flourishing and ultimately leading the country to sustained economic growth and the alleviation of poverty.

In order to carry out its private sector policy of promoting open and competitive markets and supporting public policies that permit the exercise of the indigenous private sector's initiative and ingenuity, the Agency must necessarily take a surgical step-by-step approach tailored to each individual country. A discussion of progress in this regard and a fuller examination of the performance of A.I.D. Bureaus and Missions follow.

II. PRIVATE SECTOR EXPENDITURES

In examining the progress of A.I.D.'s multi-faceted approach for promoting the development of private enterprise in host countries, FY85 expenditures are divided into the five basic categories outlined above. No single method of assistance offers the perfect solution for promoting private enterprise. Expenditures in all categories are necessary to achieve A.I.D.'s objectives.

Even in promoting relatively narrow objectives, such as ensuring the availability of credit to the private sector, some projects will be needed to support directly private financial institutions (Category A), other projects will channel assistance through public institutions to borrowers (Category B), others still will utilize PVOs as an alternative delivery mechanism, especially for aid to small enterprises (Category C) and some projects will be needed to promote fundamental policy changes by host governments in credit and related economic matters (Category D). A single project might also allocate expenditures among all these methods of assistance and Category E.

With each host country at a different stage of development, and with promotion of its private sector accordingly subject to widely varying conditions, each Mission will exhibit a different pattern of expenditures among and within the assistance categories. However, the fact that there are inherent differences among host countries--is not alone enough to justify

variations in the mix of expenditures. A.I.D. will be examining expenditure patterns of each Mission and Bureau to ensure that each is targeting its assistance appropriately.

Category A

Category A expenditures are those that are made directly to and through private sector entities in the form of direct assistance to private intermediary institutions, to end-users or to a private sector business or trade association. Based on the premise that private sector entities can generally make most efficient use of resources best contributing to economic growth, Category A expenditures are the preferred method of assistance. Assistance directly to the private sector also minimizes the unproductive administrative expenses generally associated with assistance to or through public sector entities.

While Agency-wide Category A expenditures of $118,958,000 among 122 projects accounted for only 4.4 percent of total expenditures, A.I.D. registered many real and lasting successes, and by laying a foundation through expenditures in other categories, the Agency is positioned for additional gains in direct expenditures to the private sector.

Category A assistance is allocated roughly to efforts in the following areas--1) general support to business entities; 2) manufacturing and facilities; 3) investment promotion and export market development; 4) credit availability and capital formation; 5) management development and vocational training; and 6) building private institutions.

General Support to Business Entities. A number of projects providing direct assistance to the private sector in

FY85 supported the establishment of new businesses or general increase in the productivity of private sector entities. In the agricultural and agri-business sectors, for example, some expenditures facilitated privatization of input marketing systems while others were used to enhance the productive output of farmers.

A project of generalized private sector impact is the Bureau for Private Enterprise's "Joint Agriculture Consultative Corp." project (940-0005) which provided a $534,000 grant to promote the transfer of agricultural business capital, technology and the like to private businesses. Commodity-specific projects in Kenya (615-0230) and Senegal (685-0249) provided $2,826,000 and $168,000, respectively, to encourage active private business participation in fertilizer distribution and sales. Similar efforts to commercialize seed production were undertaken in Bolivia (511-0465) and Nepal (567-0118) through expenditures of $1,838,000 and $394,000, respectively, although the Nepalese seed production system will continue to be managed by a parastatal.

Increasing agricultural outputs is essential to raising farm incomes and generating marketable commodities. In Indonesia, A.I.D. grants and loans totaling $548,000 assisted two U.S. feed firms organize local private firms to produce improved livestock and feed (497-0302), and in Honduras, $2,961,000 was made available to increase the national livestock herd and provide more equitable distribution of cattle among cattlemen (522-0209).

Not all such FY85 projects involved large sums of money. In

Zaire, a $21,000 grant assisted private cooperatives raising fish in artificial ponds (660-0080). Another relatively small expenditure of $74,000 in Indonesia provided technical assistance, training and capital formation to strengthen local private credit units, small industries and producers in five provinces (497-0264).

In the energy sector, A.I.D. projects also encouraged privatization and the application of free market principles. In Sudan, approximately $700,000 in renewable energy grants were made to privately-owned agricultural companies and other businesses (650-0041). Similarly, a grant of $6,005,000 in Pakistan supported a multi-faceted energy project providing analyses, manpower development, coal resource and market assessments, conservation assistance and institutions to address renewable energy development (391-0478). In R/DOC, a Central America regional small industry, energy-efficiency project was administered through two private organizations by means of a $986,000 grant (596-0095).

In the health sector, A.I.D. has been promoting the development of commercial markets and a reduced role for host country governments. One effort in this regard is the Bureau for Science and Technology's "Contraceptive Social Marketing" project (936-3028) with $2,010,000 in grant funds supporting the use of non-clinical contraceptives through commercial marketing and private sector distribution systems. In Bangladesh, the "Family Planning Services" project (388-0050) with $13,050,000 in grants

provided technical assistance, marketing advice and research through private firms and an additional $8,510,000 through PVO expenditures. (Category C).

Projects in other sectors where assistance directly to the private sector is beneficial included, private sector construction of an irrigation project in Indonesia with a $367,000 grant (497-0252; private development and management of forestry resources in Nepal with $2,955,000 in expenditures (367-0132); and, credit and training to support commercial transportation in Malawi through a $156,000 grant (612-0218).

Manufacturing and Facilities. In several cases, A.I.D. has been able to provide direct private sector assistance in manufacturing and the establishment of facilities. The Bureau for Private Enterprise (PRE) has been particularly active in this regard with two programs and others planned. Through its Office of Investment, PRE provided $1,000,000 in grants and loans to build a modern leather tannery in Kenya to allow its entrepreneurs to turn rawhides into finished goods for export (940-0002.12), and in Pakistan, PRE made a $85,000 grant to help capitalize a factory manufacturing farm machinery and implements (940-0002.13).

Investment Promotion and Export Market Development. number of A.I.D. projects are designed to increase the involvement of the U.S. private sector by encouraging foreign investment in host countries and serving as a market for lesser developed country products. Related projects also emphasize

indigenous investment. Some excellent examples of investment promotion projects are found in Asia Near East Missions.

In Indonesia, grants and loans totaling $202,000 were made available for investment promotion advisory services to potential U.S./Indonesian joint venture partners for preparation of investment subsector profiles, technical assistance to Indonesian entrepreneurs to meet export demands in furniture, light metals manufacturing, agro-business and shrimp hatchery business along with U.S. business training for management employees (497-0329). In Sri Lanka, a $884,000 project provided investment services, promotion, research, analysis and training by the Sri Lanka Business Development Center (383-0082). The "Private Sector in Development" project in Thailand (493-0329) made a $102,000 grant for direct assistance to increase private sector investment in employment generating, export-oriented and resource-based ventures outside of the Bangkok area.

Latin America and Caribbean Missions also have implemented a number of projects devoted to investment promotion and export development. In Belize, a $97,000 grant administered by the Belize Chamber of Commerce strengthens local institutions and finances export promotion (505-0025), and in Guatemala, a $24,000 grant administered by a non-traditional exporters guild provided financial support to develop a market information system for agri-business (520-0276). In Ecuador, a $316,000 grant supported a reimbursable fund established in two private financial institutions (IFIs) to finance technical assistance for

agri-business, export market development assistance, improvement and expansion of export services and export market studies (518-0019). In the Eastern Caribbean, the "Private Sector Investment Assistance" project (538-0043) provided $762,000 in grants to strengthen the capacity of the Chicago Association of Industry and Commerce, through institutional support and economic research, to promote private investment. A large grant of $2,125,000 supported the Eastern Caribbean's "Investment Promotion and Export Development" project (538-0119) operated through Coopers & Lybrand. In LAC Bureau, AID/W a centrally-managed project with $311,000 in grant expenditures encouraged activities designed to increase trade and foreign investment generally in the region (598-0619.95).

The Bureau for Science and Technology's "Market and Technology Access Project" (936-4053) with $300,000 in grant expenditures also had broad applicability to aid-recipient countries. It supported systems development research to devise and test methods and institutional approaches for developing country enterprises to establish joint ventures with U.S. small and medium business. This project also developed cost and performance guidelines for different methods of promoting technology transfer at the firm level and market development.

Credit Availability and Capital Formation. The availability of credit and capital is essential for private sector growth, but in many countries there is little credit infrastructure, credit facilities are managed by public sector

entities, or private institutions generally do not cater to small borrowers. A.I.D. uses multiple methods of assistance to address the need for accessible credit and capital formation as illustrated in the introduction to this chapter. Within the Category A method of assistance, A.I.D. also takes multiple approaches dictated by the circumstances.

One approach involving direct assistance to the private sector is in supporting private Intermediary Financial Institutions (IFIs) who on-lend to private end-users. One such IFI established in the Eastern Caribbean with $3,435,000 in A.I.D. assistance is the Caribbean Financial Services Corp. which will provide financing to private business (538-0084). An IFI created by A.I.D. in Costa Rica, the Private Sector Investment Corp., received $68,000 in grants to support its activities as merchant bank in development of projects leading to hard currency exports and employment creation (515-0204), and another IFI, the Costa Rican Industrial Finance Corp., received $2,116,000 in loans to provide critically needed credit to the productive private sector with particular consideration to production aimed at the export market (515-0176). Similarly, in Haiti a $2,965,000 grant to the Development Finance Corporation provides credit to small and medium industry (521-0154). Two smaller projects in Jamaica involved a $112,000 grant to the Private Development Bank to provide medium and long-term credit for equity and debt financing to medium-sized firms seeking to expand (532-0091) and a $62,000 expansion grant to the National

Development Foundation providing loans to small businesses (532-0108).

The Bureau for Private Enterprise Office of Investment also supported an IFI in Kenya with $800,000 in grants and loans to an investment fund for on-lending to privately-owned agri-businesses and rural light manufacturing (940-0002.03). In Malawi, a $310,000 grant similarly supported the private sector lending activities of a private bank (612-0214), and a broadly-reaching $206,000 expenditure in Indonesia provided training, technical assistance and capitalization to approximately 2000 private credit unions in three provinces who promote local enterprises through credit and savings programs (497-0341).

Management Development and Vocational Training. A great deal of A.I.D.'s efforts are devoted to human resources development both in terms of managerial skills and vocational training. In Rwanda, a $310,000 grant provided business management and technical assistance and training to small and medium enterprises (696-0121), and in Honduras, a $456,000 grant offered management training to entrepreneurs (522-0256). In Egypt, grants totaling $909,000 under the "Management Development for Productivity" project (263-0090.01) were designed to increase the productivity of individual industrial firms by introducing and improving management systems and practices.

Several projects provided formal and informal training in U.S., local and third country institutions for participants from both the public and private sectors. Examples of private sector

expenditures for some such projects are as follows: Mali (688-0221)--$650,000; Mauritania (682-0233)--$25,000; Swaziland (645-0218)--$150,000; Indonesia (497-0328)--$474,000; Pakistan (391-0474)--$1,315,000; and in the Eastern Caribbean Region (538-0087)--$1,426,000.

Building Private Institutions. At the same time as providing training, A.I.D. seeks to build an infrastructure of private, business-oriented institutions in host countries to expand educational and training opportunities and provide research and other services. In FY85 there were three such projects undertaken in Ecuador. One $42,000 grant supported financial and technical assistance to the Banking Association Institute (518-0048), another $43,000 grant provided assistance to a professional training institute in the local Chamber of Commerce (518-0041) and $710,000 in grants and loans under the "Rural Technology Transfer System" project (518-0032) provided assistance to local Agricultural Producers Associations. In Jamaica a $95,000 grant will strengthen four local management training institutes to meet that country's acute need for planning and management skills in all sectors (532-0084). The "INCAE Expansion Project" in the Central American Region (596-0113) provided $521,000 grant funding for a second business administration institute campus and to establish a private sector program aimed at non-traditional exports.

These above-described projects represent but a few examples of A.I.D.'s approach to expanding private enterprise through assistance directly to the private sector. They illustrate the breadth and depth of A.I.D.'s assistance in this regard.

Category B

Category B expenditures are those that are made indirectly to private sector entities through a public sector intermediary whose goal is direct assistance to the private sector. They are used, for example, to finance the divesture of parastatals or take the form of financial flows through a central bank to an intermediate financial institution (IFI), such as a farmer's credit union or cooperative, or directly to the private sector end-user. These expenditures serve a very important function in development sectors where the host government has an effective assistance program or the AID infrastructure for dealing directly with the private sector is not yet developed.

Although Category B expenditures are necessary, they are less "desirable" than Category A expenditures because their effectiveness may be diminished by governmental administrative expenses and the difficulty of preventing the redistribution of monies on political grounds rather than purely economic considerations. The former leads to "crony capitalism" which can be counterproductive in promoting the proper climate and public attitudes for private enterprise development.

Category B project expenditures amounted to $508,044,000 among 153 projects accounting for 18.6 percent of total expenditures in FY 85. Properly employed, the Category B method of assistance plays a very important role in effectively increasing the amount of assistance which reaches the private sector.

Much of A.I.D.'s approach under the Category B method of assistance parallels the activities outlined in the preceding discussion of Category A expenditures. The primary difference lies in the delivery mechanism--that is, a government agency may serve much the same function as a private IFI in enhancing credit accessibility or as a private association in promoting investment and export market development.

Category B assistance generally was allocated among the folowing types of projects--1) credit availability and capital formation; 2) investment promotion and export market development; 3) management development and vocational training; 4) facilities construction; 5) public institution building and policy implementation; and 6) sector-specific improvements.

Credit Availability and Capital Formation. In encouraging credit availability and capital formation, A.I.D. has instituted a number of important programs that are reliant on host country public sector institutions. The Bureau for Private Enterprise, for example, provided a $30,000 grant to Pakistan's National Development Leasing Corp. to finance small business leasing lines coupled with transfers of U.S. leasing technology (940-0002.33).

A number of projects in the Missions also expanded host government capacity for loans to business. In Guatemala, the "Rural Enterprise Development" project (520-0245) provided

$1,390,000 in grants and loans to the Ministry of Finance for loans to small business, and in Botswana, a $621,000 grant was made to increase productive employment opportunities for the rural population through National Development Bank loans and Ministry of Commerce training (633-0077). A.I.D. grants and loans of $1,019,000 in the Dominican Republic supported loans to small entrepreneurs (517-0150), and a much larger project in Morocco with $13,500,000 in loans provided funds to the principal lending institution serving small farmers for rescheduling and new loans (608-0184).

Investment Promotion and Export Market Development. In its investment promotion and export development efforts, A.I.D. similarly directs assistance to the private sector through host government institutions. In Guinea, the "Private Agro-business Preparation" project (675-0212) provided a $294,000 grant for a center to attract and facilitate foreign investment and conduct pre-investment studies. Under the "Tahaweli Business Development Activity" project in Sri Lanka (383-0044), A.I.D. loaned $919,000 to study private enterprise promotion requirements for small and medium businesses and to create a business promotion unit. A Bureau for Private Enterprise effort focused on exports (940-0002.25) provided a $1,000,000 loan to the Dominican Republic's Finade Investment Development Bank for a collateral guaranteed facility for the exports of small growers and manufacturers.

Management Development and Vocational Training. In management development and vocational training, A.I.D. uses host government institutions but to a lesser degree than private sector institutions. One program of the Sahel Region provided $245,000 in grants to train private sector accountants in Niger (625-0960.83). In Indonesia, approximately $29,000 out of $1,708,000 in assistance to government agricultural schools supported graduates entering the private sector (497-0297), and in Gambia, a $485,000 grant through government ministries supported staff training in water and soil conservation techniques (635-0202). The "Irrigation Management and Training" project (386-0484) in India provided training grants for 5000 professionals and farmers through a $295,000 expenditure.

Facilities Construction. Category B expenditures also serve as a useful mechanism to finance the construction of facilities. In Indonesia, two such projects were supported in FY85. The "Small Scale Fisheries Development" project (497-0286) provided $924,000 in grant support for construction of demonstration fish hatcheries and an ice plant with extension services to promote private sector investment in surrounding areas. The second project provided $1,080,000 in grants and loans for government research extension development and construction of agricultural research stations in Sumatra to generate income and employment for private sector farmers (497-0263). In India, A.I.D. grants and loans under the "Maharashtra Irrigation, Technology and Management" project

(386-0481) provided $4,868,000 for facilities construction by private contractors, and the "Rajasthan Medium Irrigation" project (386-0467) provided $9,093,000 through government agencies for construction by the private sector to improve the living standards of 32,000 families and their participation in improved agriculture. In Mali, $558,000 in grant expenditures were devoted to increasing agricultural production through infrastructure construction (688-0210), and in Rwanda, a $499,000 grant provided for construction of crop storage facilities for coops, a line of credit and training (696-0107).

Public Institution Building and Policy Implementation. Because the host country government serves as the aid delivery mechanism for Category B assistance, some A.I.D. expenditures in this category address institutional changes beyond A.I.D.'s policy dialogue efforts that will be discussed under Category D assistance following. These projects deal with the implementation of policies which have a direct impact on private sector expansion.

Several such projects in FY85 dealt with the theoretical under-pinnings of a free market. In Indonesia, a loan of approximately $287,000 supported research on the means to promote productive use of electricity by urban small businesses and included technical assistance to improve pricing and distribution of energy resources to private and public sector producers (497-0318). In Guatemala, A.I.D. provided a $1,001,000 loan to the Ministry of Agriculture to create a marketing mechanism for

fruit sales including construction of facilities for packing, storing and processing (520-0238).

While parastatals may serve a useful role where no market system exists their entrenchment may prove counter-productive to the efficient allocation of resources and act as an impediment to free market development. In this regard, a program grant in Ecuador provided $123,000 specifically for technical assistance to support parastatal divestiture (518-0005).

Other A.I.D. projects similarly addressed market infrastructure changes enhancing the role of private enterprise. In Zaire, the "North Shaba" project (660-0059) provided a $1,649,000 grant to develop a private sector mechanism for maintaining roads, and the "Agricultural Marketing Development" project (660-0026, 0028 and 0098) provided $1,333,000 in grants and loans to revitalize transportation to support development of the private sector. Indirect grant assistance to the Bangladesh private sector of $15,870,000 through the Bangladesh Agricultural Development Corp. was for the purpose of improving fertilizer distribution (388-0024). In Panama, the "Agricultural Cooperative Marketing" project (525-0222) similarly provided a $64,000 grant to strengthen that country's cooperative movement through a wide range of services related to product marketing and a marketing credit and infrastructure revolving fund.

In the Eastern Caribbean, an effort to introduce free market infrastructure changes took the form of financing privately-owned industrial estates to be rented to private businesses, thus,

shifting aid from the public to private sector through $400,000 in grants and loans under the "Infrastructure for Productive Investment" project (538-0084). Similarly, in the Philippines, the "Small Farmers System II" project (492-0334) provided a $105,000 loan to create a farmer-managed infrastructure to provide inputs, technology and services for irrigation, production, processing and marketing. A second Philippine Mission project (492-0359) provided $227,000 in grants and loans to institutionalize private sector processes for encouraging growth in labor-intensive enterprises and to strengthen capabilities of service firms in an effort to ease developmental burdens on the government.

This latter project underscores the important function of Category B expenditures in building indigenous public sector development institutions that encourage private enterprise. In Senegal, for example, a $172,000 grant expenditure provided technical assistance to a government food research laboratory that disseminates information for private sector decision-making in the food processing industry (685-0250). In Thailand, $1,252,000 in grant and loan expenditures supported institution building so that the government could maintain a seed program while increasing the private sector role in supplying seed (493-0326), and in Nepal, a $94,000 grant was used to strengthen the legal system's usefulness to the private sector through publication of opinions and regulations, research into water rights and land laws as a basis for reforms and legal literacy training for women (367-0150).

Credit reforms, enhancements in accounting and financial control systems and training of personnel in development financing, computer processing and financial management in national industrial and agrarian development bank institutions were supported through grants in El Salvador (519-0263)--$720,000; in Egypt (263-0045)--$178,000; and in Tanzania (621-0155)--$1,408,000. Another $56,000 grant in India was used to enhance the capability of the agricultural research system benefiting small farmers and agro-industries (386-0470). And in Panama, the "Small Business Development" project (525-0240) with $1,082,000 in grant expenditures creates a self-sustaining, integrated public-private sector process capable of providing financial and business assistance to small enterprises.

A large number of projects established by the Bureau for Science and Technology similarly supported the strengthening of host government development institutions to better assist the private sector. These grant-supported projects included, expanding the capability of government agencies to help small scale enterprises (931-1090)--$281,000; generally improving host government performance on development programs (936-5317)--$105,000; developing systems to identify personal entrepreneurial and credit-worthiness traits for training programs a loans (936-5314)--$431,000; institutional development of service agencies for education and training (931-1054)--$614,000; and improving information on environmental

and natural resource issues related to development (931-1209)--$137,000.

Sector-Specific Improvements. Many private sector projects funded through host government entities are focused on development of specific sectors. A.I.D. has a particularly diverse program in promoting private enterprise through host government agricultural projects. In Senegal, $884,000 in grant support through a government entity assisted farmers with irrigation management (685-0208), and in El Salvador, a $779,000 loan supported development of a small farmer irrigation system (519-0184). Several programs addressed agricultural input needs such as those in Indonesia, which through grants and loans of $1,755,000 provided technical assistance and credit to seed firms and small processors (497-0281), and through a $106,000 loan supported an extension service which promoted U.S. seed stock and allowed private sector firms to provide seed distribution to farmers (497-0304).

More generalized agricultural development programs were supported in Gambia through the Ministry of Agriculture and Natural Resources with $1,368,000 in grant expenditures to increase irrigation and livestock production (635-0203), and with a $73,000 grant to test and adapt improved crop and livestock techniques to the needs of farmers (635-0217). In Nepal, private farm management skills were being enhanced with a $635,000 grant for improved technologies administered under a government program (367-0114). And through grants in Somalia, a multi-faceted

program was instituted to boost the welfare of regional livestock producers (649-0108) with $996,000 in expenditures and to increase agricultural production (649-0112 and 0113) with expenditures of $973,000 and $638,000, respectively.

Given developing country involvement and control of natural resources, government agencies often serve as the primary channel for assistance to the private sector in the forestry and energy areas. In the forestry sector, one project in Gambia through the Ministry of Water Resources and the Environment has received a $125,000 grant to fund tree plantations and maintenance of rural wood lots to prevent deforestation (635-0205). Two projects in India, one in Madhya Pradesh (386-0475) and the other in Maharashtra (386-0478), provided $506,000 and $500,000, respectively, to institutionalize social forestry directorates to assist the establishment and management of community woodlots and individual farm households in reforestation on private lands.

In the energy sector, two projects in Latin American and Caribbean Missions supported credit to encourage energy conservation. In the Dominican Republic one project provided $586,000 in loans and grants to the Central Bank to fund loans for private enterprise to encourage conservation and to pay 75 percent of energy audit costs (517-0144). In Jamaica, a $1,014,000 expenditure similarly provided credit for energy audits and conservation programs (532-0065).

In India, a $12,520,000 loan was made to provide energy for productive and social purposes in rural areas to increase private

sector agricultural production and stimulate small-scale industry (386-0462). A much smaller $102,000 grant in India assisted the development, testing, and application of technologies applicable to rural development and provided collaboration between the U.S. private sector and the Indian public sector to test village energy systems utilizing non-conventional sources (386-0465).

Examples of FY85 programs in other sectors include development of the fisheries sector in Djibouti by strengthening of a coop (603-0003) through a $398,000 grant; enhancing the transportation sector in Panama by developing employment generation and service delivery capability through construction of bus terminals for private transport in eight growth centers (525-0186) with a $1,318,000 loan; and improving health care in the Philippines through commercialization of Oral Rehydration Therapy products and pharmacies, instituting user-financing, insurance and cooperatives, and analyzing the cost-effectiveness of current approaches (492-0371) by means of $500,000 in grants and loans.

As illustrated by the preceding discussion, assistance to the private sector through host government agencies can have significant implications for private enterprise development. In many cases, Category B assistance is the only means to accomplish A.I.D.'s goals under conditions existing in the host country.

Category C

Category C expenditures are those that are made to private voluntary (PVO) and non-profit organizations. While some of these expenditures support projects that are more of a public service nature (e.g., humanitarian aid, basic health care, etc.), which may incidentally enhance private sector development, much assistance falling in Category C directly supports and encourages the development of the private sector (e.g., credit availability, training of technicians, etc.).

Funding to PVOs and non-profits is categorized separately because of the special characteristics of these organizations. While they are considered private sector, they generally are not involved in the productive, profit-making activities associated with business entities. Because they are independent and only marginally susceptible to political pressure, they can do a great deal to support private sector growth without some of the political drawbacks associated with government entities. As such, they provide an important alternate delivery mechanism to government for aid to the private sector and development of private enterprise.

This latter point especially is true with regard to many smaller projects where the management costs of direct A.I.D support to private sector entities would be prohibitively high in relation to program costs. A.I.D. can still offer indirect assistance to these activities by shifting project management

to PVO and non-profit intermediaries who can deal more efficiently with small projects. While there are administrative costs in PVO and non-profit operations, such costs would generally be offset by the contribution of free labor that often accrues from staff volunteers and by the subsidies provided through contributors.

Agency-wide Category C project expenditures of $239,576,000 accounted for 8.8 percent of total expenditures in FY 85. This large sum divided among 285 projects is well spent in contributing to private enterprise development. A review of assistance to PVOs and non-profits indicates support to a wide-range of activities which are complementary to A.I.D.'s overall program of promoting private sector development.

From an Agency-wide perspective, Category C assistance is generally allocated among the following areas--1) free market infrastructure building; 2) assistance to small-scale enterprises; 3) technical assistance and training; 4) health and family planning services; 5) policy dialogue; and 6) humanitarian and public service.

Free Market Infrastructure Building. AID is engaged in numerous programs through PVOs and non-profits to establish the infrastructures necessary to support private sector development. These include, for example, ensuring the availability of credit and a trained labor force, access to a marketing system, the efficient supply of public services and the availability of private support mechanismx like PVOs, research institutes and the like.

Recognizing the important role credit plays in private sector growth, the Agency has developed diverse programs under Category C, as well as other methods of assistance, to ensure the availability of this essential ingredient. Through the Bureau for Food for Peace and Voluntary Assistance Office of Private and Voluntary Cooperation, a $130,000 grant was provided to the Pan American Development Foundation (938-0231) for "National Development Foundations" in up to 8 LAC countries to provide credit to businesses and farms normally outside the reach of commercial credit channels. This complements Mission grants to the National Development Foundation of Belize (505-0011) in the amount of $28,000 to promote accessible credit to small businesses and to the Haitian Development Foundation (521-0181) of approximately $720,000 to expand credit to micro-business entities.

In addition to Belize and Haiti, a number of other Missions also actively support PVO projects devoted to increasing the availability of credit to the private sector. In Guatemala, a local PVO has received a $334,000 grant to provide an institutional mechanism for credit to small farmers for purchasing land under the "Pilot Commercial Land Markets" project (520-0330). In Honduras, $1,389,000 has been made available to a PVO establishing a system of credit for building materials to improve rural housing, (522-0171). In Togo, a $354,000 grant to the World Council of Credit Unions was made to improve the credit

infrastructure by strengthening the Togo Credit Union Association's financial management system (693-0224).

Similarly, R/DOC has provided a $60,000 grant to a PVO for development of the Caribbean Credit Union (538-0135) in an effort to increase the level of savings that could be loaned for productive purposes, and a R/DOC program in Dominica (538-0079) provided a $102,000 grant to broaden that country's business base through loans administered by a local PVO.

A.I.D. recognizes that without markets for products and a marketing system, there is little incentive to produce more than subsidence levels demand. Markets are essential to encourage the entrepreneurship necessary for private sector entities to grow and develop. number of PVO administered projects therefore are focused on market development both domestically in host countries and internationally.

In Malawi, the Partners for Productivity have received a $384,000 grant to promote the growth of rural traders (612-0219), and in Guatemala, a U.S. PVO managed a $41,000 grant to stimulate the production, drying and marketing of cardomon. R/DOC has funded a $242,000 PVO project to provide marketing assistance to Caribbean entrepreneurs (538-0102), and the "Small Farmer Production/ Marketing" project (532-0097) in Jamaica provided a $86,000 grant to increase agricultural production for domestic use and export.

Most marketing assistance projects of PVOs and non-profits appear to be directed to overseas markets and international trade development. This effort can have a significant multiplier effect in that overseas sales attract much needed foreign exchange and often precipitate increased foreign investment and technology transfer.

For example, a centrally-managed Bureau for Private Enterprise grant of $235,000 to the Cooperative League of the USA (940-0257) broadly supported the expansion of private enterprise efforts through cooperatives to increase exports in goods and services. Many Missions in Latin America and the Caribbean similarly supported various export promotion projects. In Haiti, a $77,000 grant has been provided to establish a crafts export center as a resource for export services (521-0179), and in Honduras, approximately $87,000 in grant funds was provided through a PVO to assist local artisans with design, production and marketing in international markets (522-0250). In El Salvador, a local PVO, FUSADES, has received a grant of approximately $898,000 under the Mission's "Industrial Stabilization and Recovery" program (519-0287) to provide services to exporters of non-traditional exports. Focusing on a agricultural commodity in Belize, the Pan-American Development Foundation has administered a $134,000 project grant to increase cocoa production with improved varieties for export (505-0023).

Developing countries often lack many other basic infrastructures that exist in the United States and which can contribute

significantly to development efforts supportive of a viable private sector. Thus, AID supports a number of programs through Category C assistance that address labor development, enhance the role of non-profit voluntary organizations and improve government operations.

Several A.I.D. programs are devoted to establishment of a trained labor infrastructure to serve as a base for private sector growth. LAC Bureau, AID/W, for example, has provided a $10,210,000 grant under its "American Institute for Free Labor Development" program (598-0101.95) administered by the AFL/CIO in an effort to strengthen free labor movements and trade union institutions in the Latin American and Caribbean countries. project in El Salvador addressed the same need through a $1,423,000 grant to AIFLD to strengthen agrarian unions as part of that country's agrarian reform program (519-0289). In Morocco, a $3,392,000 grant supported the modernization of an agronomic institute preparing students for agricultural careers and faculty development through University of Minnesota instruction (608-0160). Similarly, a $105,000 PVO grant in Ecuador was for the purpose of establishing an Graduate Business School (518-0016).

Indigenous private voluntary organizations such as trade associations, charities, research institutes and the like can play an important role in private sector development as an alternative to government institutions and as a means of consolidating the energies of individual memebers.

A Bureau for Private Enterprise project grant administered by the Cooperative League of the USA (940-0219), provided $591,000 specifically for the purpose of institution building of PVO capabilities. In Jamaica, the "Voluntary Sector Development" project (532-0085) provided a $368,000 grant to strengthen the institutional capacity of PVOs to provide training and basic education, and the "Small Business Association" project provided $23,000 in grant funds to improve the institutional capabilities of that trade association to act as a community spokesman (532-0076). In Panama, a $73,000 PVO managed-grant was used to strengthen private conservation and environmental groups to become more self-sufficient in planning, financing and implementing programs and projects (525-0257).

Assistance through PVOs and non-profits also is directed to improving governmental structures which, when operated efficiently and properly, have an important impact on the private sector. These efforts, for example, included a $295,000 PVO-managed grant project in Sudan to improve the operation of regional governments in revenue generation, budgeting, financial management and project development (650-0012) and two projects in Morocco. One effort in Morocco, with A.I.D. grant expenditures of $214,000, facilitates enhanced statistical services of a government ministry to improve its delivery of public services (608-0162). The other, administered by the University of Utah, provided $1,390,000 in grant funds to improve range management and incomes of low income livestock owners by improving the capabilities of responsible public institutions (608-0145).

PVOs and non-profits play diverse roles in helping to build free market infrastructures. Often though they must start with the infrastructures which support the most basic human needs in order to bring host country populations up to the point where other business-oriented infrastructures can begin to operate. These activities are discussed in greater detail in the "Health and Family Planning Services" subsection following and at the end of the Category C discussion.

Assistance to Small-Scale Enterprises. The role of PVOs and non-profits as channels for A.I.D. assistance is particularly noteworthy in programs promoting small-scale enterprises. Because of the administrative burdens and attendant project management costs, AID generally is not in a position to assist very many small enterprises directly. Yet, for meaningful private sector development, opportunities must be available to a broad spectrum of the population.

In host countries where private enterprise is a new concept and infrastructure is inadequate to support large firms, private sector development must begin with the smallest economic units. In other more developed host countries, large-scale enterprises are often in public hands or do not need assistance. In any event, small-scale enterprises generally have the weakest access to commercial sources of credit, markets, technical assistance and management support and, therefore, need special assistance. In such cases, PVOs and non-profits serve as a important alternative delivery mechanism to host government bureaucracies in assisting small enterprise development.

Almost all the FY85 expenditures of the Bureau for Food for Peace and Voluntary Assistance were channeled through PVOs and non-profits, and a number of the Bureau's projects were devoted to assisting small-scale enterprises. One such project involved a $225,000 grant to the Partnership for Productivity (938-0203) to foster small-scale enterprise development by providing the means to access credit. Another grant of $145,000 to the National Association of the Partners of the Alliance (938-0256) was used to provide small "seed" grants of up to $5,000 to projects in Latin America and the Caribbean which promote income generating and employment creating activities, especially for low income women and their families. A very small, yet significant project provided a $3,000 grant to Africare (938-0266) to support development of small-scale agri-businesses (which produce, process and market fruits, vegetables, poultry and livestock) and rural enterprises such as grinding mills and farm implements manufacturing. A similar $95,000 grant to the Institute for International Development (938-0259) was to strengthen that PVO's network of host country affiliates which provide loan capital and training to small businesses such as furniture makers, shoemakers, tailors, auto mechanics and print shops.

In another centrally-managed program, the Bureau of Science and Technology has provided $2,498,000 in grant funds to Appropriate Technology International to support the transfer and commericalization of appropriate technologies for small enterprises (936-5428).

Many Missions also supported PVO projects encouraging small-scale enterprises. In Botswana, Partnership for Productivity, received a $114,000 grant in FY85 under the "Small Enterprise Development Project" (633-0228) to operate an urban small business extension service addressing micro-credit and entrepreneurial training. Related PVO-managed projects assisting small businesses were established by grants in Lesotho--$133,000 to redirect cooperative credit union programs by strengthening those that provide credit to small farmers (632-0214); in Liberia--$1,250,000 to support a small private financing organization making loans to small businesses (669-0201); in Senegal--$74,000 to assist agricultural production (685-0260); in the Dominican Republic--$166,000 for loans to micro-business (517-0208); in Honduras--$102,000 for sanitation training and assistance (522-0233); in Jamaica--$86,000 to increase production for domestic use and export (532-0097); in El Salvador--$871,000 through Technoserve to strengthen farm cooperatives and small rural enterprise (519-0286); in Panama--$200,000 through the Panamanian Association of Business Executives to provide technical assistance services (525-0225), to mention a few. In Swaziland, a project administered through a salesman society received $76,000 to establish motor mechanics workshops and training (645-0226), and in Egypt, $1,250,000 was provided to develop a system to improve the access of small farmers to production inputs and for application of the system on a pilot basis (263-0079). When proved effective, projects of these sorts can

serve as models for A.I.D. projects in other countries where conditions are similar.

Given the diverse needs of small-scale enterprises and the project management costs involved in administering small grants, PVOs and non-profits give A.I.D. the means of effectively providing many small entrepreneurs with the wherewithal to become established and grow. Such projects make a significant contribution directly to the private sector and supplement substantially the expenditure levels in the Category A and B methods of assistance.

Technical Assistance and Training. PVO's and non-profits also are utilized by A.I.D. to provide technical assistance and training, including research and the development and dissemination of technology and management acumen. Such efforts are usually directed at broad improvement in specific sectors and the economy as a whole rather than in assistance to a specific firm.

The agricultural sector in FY85, for example, was the focus of a great deal of attention. In Egypt, a $2,676,000 grant supported a PVO project providing new information on rice production and seed processing (263-0027) and a $3,500,000 grant supported a related effort through the "Major Cereals Improvement" project (263-0070) which also enhances Egyptian research and extension capabilities. In Morocco, the "Dryland Agriculture Applied Research" project (608-0136) provided a $3,413,000 grant in support of INRA in increasing Morocco's production of cereal, legumes and forage and improving small farm

incomes through an applied agronomic research program and the strengthening of government research capabilities. In a project crucial to Haitian private sector viability, a $1,565,000 grant expenditure supported repopulation of the swine stock to farmers following an epidemic and eradication of the herd (521-0170).

Sector-specific technical assistance is also devoted to energy and other areas. Grant expenditures of $874,000 supported developing alternative energy resources in India (386-0474) by providing equipment, an analytical planning model and technology exchange in industrial furnaces and steel and aluminum production through a non-profit organization. In the Philippines, approximately $940,000 in grants and loans, supported the "Non-Conventional Energy Development" project (492-0294). In Sri Lanka, $1,879,000 in grants and loans was allocated to improving water management practices through non-profit water users associations (383-0057). A multi-sector approach was taken in one project in Haiti, the "Non-governmental Organization Support Program III" (521-0182), with $246,000 in grant expenditures supporting ceramic enterprise development, conch farming, fruit tree improvement and health education.

Technical assistance can directly support technological growth allowing individual entrepreneurs and host country societies to advance beyond satisfaction of basic needs. In some cases, appropriate technology must be developed to be compatible with conditions in the host country (e.g., available fuels, educa tion levels, etc.). In other cases, suitable technology is

available but has to be placed in the hands of those who can use it. In any event, as the socio-economic system becomes more sophisticated, management skills must be available to ensure the smooth and efficient operation of business entities and government agencies regulating commercial activity. There were numerous A.I.D. programs in FY85 designed to address these developing country needs.

One effort in this regard through the Bureau for Science and Technology's Office of Rural and Institutional Development provided a $2,498,000 grant to Appropriate Technologies International to support the choice, development, transfer, adaptation, commercialization, assessment and replication of appropriate technologies through projects with local PVOs working with small enterprises (936-5428). In Guinea, these efforts found direct application through a $290,000 grant (675-0208) supporting PVO manufacture of building block machines and improved cook stoves which will eventually be turned over to private enterprise. Similarly, A.I.D.'s "Housing Appropriate Technology" project in the Dominican Republic (517-0164) provided $102,000 in grant help to a PVO developing the capability to implement a program of improving living quality in rural housing and hygiene.

Cooperative organizations can also play a important role in the assessment of technological needs and as a conduit for technology transfer. In Equatorial Guinea, a $391,000 grant supported Cooperative League of the USA advisors working with

small farmer, coffee and cocoa cooperatives to develop administration, management and marketing capabilities (653-0002). Similarly in Zaire, the "Management Support" project (660-0113) with $200,000 in grant expenditures seeks through PVOs to improve management and operation of small producers and marketing cooperatives.

In FY85 A.I.D. supported various PVO-managed programs devoted to training laborers, technicians and managers and as a means of transferring technological and managerial knowledge. One Bureau for Private Enterprise grant to Volunteers for Overseas Cooperation in the amount of $146,000 supported sending U.S. farm volunteers to developing countries for short-term assignments helping local farmers (940-0209). Another PVE grant of $3,003,000 supported IESC's program of transferring business skills to developing countries through volunteers (940-0004). The Bureau for Food for Peace and Voluntary Cooperation also supported similar programs. A $1,044,000 grant to Technoserve, Inc. (938-0201) provided technical, managerial and financial assistance to establish and strengthen community-based enterprises.

The Missions were active as well in establishing similar programs. In Togo, for example, $550,000 in grant expenditures supported a Partnership for Productivity project (693-0226) providing management training, developing local farmer organizations and institutionalizing credit education management. A program in Indonesia, "Private-Sector Management" (497-0345),

provided the Institute for Management Education and Development $467,000 in grant funds to train its staff in U.S. business schools, to build its private sector business consulting work and to train rural small business. In the Dominican Republic, a $1,132,000 grant was provided to a private university to train managers in the hotel/tourism industry and to offer graduate degrees in management (517-0157).

Health and Family Planning Services. While the bulk of A.I.D. efforts with regard to improving health and family planning services in developing countries is of a humanitarian/public service nature, there are opportunties to employ private enterprise principles or to encourage the shifting of some activities to the private sector. In Bolivia, the "Self-Finance Primary Health Care" project (511-0569), with a $166,000 grant allowed a PVO to provide low cost health care. In Indonesia, an indigenous PVO received $1,643,000 in grants and loans to help train local private sector firms in the fields of health training and research (497-0325). Also, in Indonesia, two projects with grant and loan expenditures totaling $5,121,000 supported family planning and extension services through PVOs and private sector firms with the marketing of birth control devices shifted to private firms in an effort to increase the private sector's role in family planning (497-0270 and 497-0327).

Cognizant of the role often taken by host governments in family planning services, A.I.D. seeks at the very least to streamline government operations and introduce greater

efficiency. In Morocco, for example, a $1,952,000 grant was made to PVOs for the purpose of strengthening the Moroccan government's capacity to plan, implement and evaluate cost-effective population programs (608-0171). In Somalia, a PVO has received $295,000 in grant funds to improve data and analysis on family planning and reproductive health care (649-0131).

Most projects devoted to improving health and family planning have little direct private sector impact but indirectly play an important role in improving the capacity of host country citizens to engage in sustained work.

Policy Dialogue. PVOs and non-profits can also play an important role in policy dialogue by collecting data and establishing an analytical framework as a foundation for promoting change in government policies. Two examples of A.I.D.'s efforts in this regard are represented by grant expenditures of $365,000 in Egypt for projects which will assist the government in implementing policies conducive to private sector investment and development through modernization and improvements in the business climate (263-0159) and $287,000 in the Dominican Republic to establish an institutional capability to upgrade management and agricultural skills and provide a forum for policy dialogue (517-0125).

Humanitarian and Public Service. Some Category C initiatives are primarily of a humanitarian assistance nature but have significant impacts on the infrastructure necessary for private sector development. One such program in El Salvador,

"Health and Jobs for Displaced Families" (519-0281), provided $1,364,000 in grant support of PVO assistance to unregistered displaced persons offering a jobs program and food assistance. Many projects administered by PVOs and non-profits serve primarily a public service function like Category E projects which are supported through assistance to host governments. Yet, in some developing countries, basic needs have to be addressed before the population can begin to take the next steps to developing a private sector.

Sometimes infrastructure needs which must be addressed before direct private sector development programs can be introduced are very basic indeed. In Egypt, the Neighborhood Urban Service program (263-0161.05) with FY85 grant expenditures of $3,619,000 financed infrastructure improvements to enhance living conditions and economic climate in low-income neighborhoods of major Egyptian cities through local PVOs. Housing improvements were also addressed through a $535,000 grant by The Bureau for Private Enterprise to broaden the Cooperative Housing Foundation's (938-0221) capability to provide technical assistance and training to indigenous housing cooperatives. In Honduras, $2,566,000 in grants and loans through a PVO were devoted to expanding safe water and waste disposal in rural areas (522-0166).

Category D

Category D assistance involves expenditures for policy dialogue and technical assistance to influence change in host government policies and lead to a more favorable climate for private enterprise development. Generally, these expenditures are made to the government but they may also be in support of private sector and non-profit groups for the purpose of similarly influencing change in government policies. The Category D method of assistance is devoted, for example, to increasing the private sector's access to foreign exchange, removing investment and export barriers and the financing of policy analyses that examine the constraints on private sector growth.

Category D assistance plays an important, indeed essential, role in ensuring long-term growth and development in the private sectors of host countries. Such expenditures are addressed to changing both governmental attitudes and the political-economic climate which is often the key to private enterprise development.

Agency-wide Category D project expenditures of $460,082,000 among 102 projects accounted for 16.8 percent of total expenditures in FY 85. They are used to create the necessary climate to support private enterprise. Accomplishments through the Category D method of assistance follow are diverse.

"Policy Dialogue" is designed to address a broad number of issues. Foremost among them is the encouraging of host governments to rely on free market mechanisms to the extent

possible with minimal government intervention in the economy. In this regard, AID has developed a number of programs to encourage indigenous savings and capital formation based on market interest rates. For example, through A.I.D.'s Bureau of Science and Technology's "Rural Savings for Capital Mobilization" program (936-5315), a $325,000 grant was made available in FY85 for field work to demonstrate the capability of rural areas to raise capital for their own investment needs and to identify rural financial conditions when savings are best mobilized.

Related policy dialogue efforts also deal with macro-economic issues and involve studies of exchange rate valuation, custom regimes and tariff structures, tax policy, economic controls and foreign investment restrictions. In Bolivia, A.I.D. has made $396,000 in grant expenditures, under its "Policy Reform" project (511-0571), for research in economic policy reform and has recently conducted a study of tax policy. Similarly in Ecuador, under A.I.D.'s "Macroeconomic Policy Analysis" project (518-0050), $184,000 in grant funds were expended in FY85 to assist the government in realignment of private sector oriented economic policies. A related AID program in El Salvador, "Reform and Policy Planning" (519-0260), involved grant expenditures of $1,161,000 in FY85 to provide planning and implementation of improved policies and procedures which will promote economic stabilization and social development.

Much policy dialogue has been conducted to influence host government attitudes on market barriers and other economic controls involving, for example, wages, prices and rents. In agricultural development where many aid-recipient countries are lagging, there has been significant effort to assure market responsive prices as a means of providing greater incentives for increased agricultural production. In Indonesia, for example, A.I.D. has made grant and loan expenditures of $541,000 in FY85 under its "Agricultural Planning Project II" (497-0342) to provide technical assistance and training to the Ministry of Agriculture. This project emphasizes a shift to free market pricing, transfer of the marketing system from the government to the private sector and more efficient methods of transferring technology from the public sector to private sector farmers.

Simiarly, A.I.D. has developed programs to encourage market pricing of energy supplies. They are designed to lower host country reliance on imported fuels through conservation programs, substitution of indigenous fuels, and development of indigenous energy supplies. In Indonesia, components of two A.I.D. projects with expenditures totaling $796,000 in grants and loans, "Energy Planning for Development II" (497-0318) and "Development Studies" (497-0340), were devoted to research and policy studies on renewable energy sources and promoting productive use of electricity by urban small scale and household businesses with particular emphasis on free market pricing and marketing systems.

Another program managed centrally by the Bureau for Science and Technology, "Energy Policy Development and Conservation" (936-5728), involved approximately $675,000 in FY85 grant expenditures to assist host countries develop institutions, personnel and processes capable of effective energy policy-making leading to measurable improvements in efficiency of energy use and level of national energy self-sufficiency.

With regard to impediments to market entry, policy dialogue efforts are designed to encourage governments to remove or ease barriers. Barriers in the form of government monopolies prevent the development of independent traders and the establishment of market prices for the services involved. While in some cases there are no legal impediments which exclude private firms from market entry, de facto barriers exist in the form of lengthy and complex procedures, oppressive licensing requirements and bureaucratic attitudes.

A.I.D. efforts to streamline government operations to benefit the private sector involved approximately $176,000 in grant assistance to the Government of Haiti under the "Technical Consultants and Training" program (521-0167) for technical assistance to improve customs and tax procedures, among other things. A companion grant program in Jamaica, "Technical Consultants and Training" (532-0079), provided approximately $725,000 in policy dialogue expenditures addressing the sectors of agriculture, commerce and industry. Additionally, under the "Small Farmer Marketing" project (936-5313), the Bureau for

Science and Technology has expended $286,000 in grant funds to conduct market assessments to identify constraints inhibiting small farmers from marketing produce.

The Agency has also undertaken policy dialogue to increase the role of the private sector and to encourage the application of private enterprise principles in areas that are traditionally the domain of the public sector in lesser developed countries, such as population, health, education and housing.

In health care, for example, A.I.D. has developed programs which emphasize good basic preventative health care which can be cost-effective in having broad-based benefits. In Mauritania, for example, a $669,000 grant under the "Rural Health Services" project (682-0230) supported policy dialogue efforts to improve the national system of immunization and develop an expanded and integrated community-based primary health care system in two regions. An important feature of this effort was encouraging the privatization of pharmaceutical marketing and payment for community health services by the users.

Similarly in housing, policy dialogue encourages greater involvement of the private sector in construction and financing. Governments are encouraged to collect the costs of capital improvements over long periods through special assessments and to promote a variety of solutions to housing problems so that all groups and particularly those with lowest incomes will benefit.

One such A.I.D. policy dialogue effort in Egypt involving grant expenditures of $1,311,000 in FY85, the "Housing and

Community Upgrading" project (263-0066), was in the form of technical assistance designed to demonstrate the premise of a new policy for urban housing. It stressed that socially acceptable basic housing, public utilities and community facilities can be provided for low income families at a price they can afford and which will allow the government to recover a portion of its investment.

While only a few of A.I.D.'s many policy dialogue efforts have been cited, they should illustrate the breadth and depth of policy reform that is necessary in A.I.D. countries and the essential benefit policy dialogue holds for the long-term future of private enterprise development in host countries.

Category E

Category E assistance involves other Mission activities which fall into the area of expenditures which support traditional public sector functions. These expenditures may include aid to host government ministries for the purpose of improving public administration functions, assistance to parastatals or state-owned enterprises and assistance to mixed--quasi-public or quasi-private--entities.

Agency-wide Category E project expenditures of $1,404,510,000 among 266 projects accounted for 51.4 percent of total expenditures in FY 85. While at first blush the amount of Category E expenditures may appear to be excessive in light of policy objectives, closer examination reveals that it is not so inappropriate given the level of economic development and other conditions A.I.D. faces in host countries.

In many countries the private sector is ill-prepared to deal with development problems, and often the infrastructure that government traditionally provides, such as roads and port facilities need to be developed. Thus, an essential component of A.I.D.'s program to encourage private enterprise development involves direct assistance to host country governments for the purpose of supporting both basic public services and other activities that are generally reserved for the private sector in more developed countries. Discussion of specific programs supported by Category E assistance which follows is enlightening on these points.

Some Category E assistance was devoted to projects that have generalized economic and social impact such as the Bureau for Private Enterprise's "Urban Development Support Services" project (940-1001) with $1,052,000 in grant expenditures to strengthen the ability of aid-recipient countries by guiding national urbanization policies to maximize their contribution to economic growth while endorsing social equity for the urban poor. Many others addressed public health needs such as the Bureau for Science and Technology's "Nutrition Improvement of Maternal and Infant Diets" project (931-1010) with $1,193,000 in grant expenditures to assist developing countries design, test and implement programs to promote breast feeding and good dietary practices among pregnant and nursing women and young children. Similarly, the Bureau for Science and Technology devoted $7,919,000 in FY85 grant expenditures to develop and test a vaccine against human malaria (931-0453). These programs and others like them fill essential needs in many developing countries which must be addressed in order for their citizens to begin to develop an entrepreneurial spirit.

Category E assistance can also be employed to introduce free enterprise principles in host government public service programs. For example, in the Bureau of Science & Technology's "Strategies for Improving Service Delivery" project (936-3030), grants of $3,066,000 supported testing the acceptability, accessibility and cost-effectiveness of family planning and health service delivery systems. In Rwanda, grant expenditures of $741,000 provided

technical assistance to improve the capability of marketing agencies to store and market crops (696-0116), and a Bureau for Science and Technology project provided a $286,000 grant for technical assistance in specialized training adaptable to host countries pursuing joint venture objectives (931-1233). These types of projects have a effect similar to policy dialogue assistance (Category D) in that they introduce ideas and principles in government circles which may precipitate a more conducive climate for private enterprise to take hold and endure.

Category E expenditures also are devoted to strengthening the operation of public institutions. Some of these projects have a fairly direct impact on the private sector because of its heavy involvement and reliance on agencies involved in research, extension, standards-setting and market information. For example, the Bureau for Science and Technology's "Demographic Data for Development" project (936-3000) provided a $1,598,000 grant to strengthen the capacity of developing country statistical and population institutes to process and analyze data. A companion project in Morocco assisted the Ministry of Agriculture to improve economic analyses and planning with a $1,096,000 grant (608-0182). Other projects have only a slight impact on private sector development through general increases in public sector efficiency and effectiveness. Two illustrative projects of this type involved a $1,011,000 grant expenditure to establish land grant-type college in the Cameroon serving both private farm and parastatal needs (631-0031) and a $2,318,000

grant project in Liberia to increase revenue for development by upgrading the capacity of the Ministry of Finance to increase collection of taxes (669-0167).

number of projects provided support to host government agencies engaged in public sector, or quasi-public, activities which have a very direct, yet incidental, impact on private sector viability and growth. Prime examples of such assistance are road building and port development. Some specific examples of FY85 expenditures in this regard include a $1,795,000 grant in Mauritania for an all weather road link to the region with greatest agricultural potential which will raise private agricultural production by creating access to markets (682-0214); and reconstruction and rehabilitation of roads in Swaziland (645-0224) with grant expenditures of $245,000 and in Honduras (522-0164) through grants and loans of $4,371,000. In Dominica, the Eastern Caribbean Region provided a $6,900,00 grant in similar road and bridge construction support to provide port access for agricultural producers (538-0076), and the "Kismayo Port Rehabilitation" project (649-0114) in Somalia provided a $10,000 grant for design and construction of a southern regional port to facilitate handling of livestock and agricultural exports. Other approaches involved a $462,000 loan in Indonesia for government demonstration plots and technical assistance aimed at improved private farm production in the uplands region (497-0311), and $5,059,000 in grants and loans in Guatemala to finance repair and expansion of the national electric power system (522-0164).

While at this stage of analyzing A.I.D.'s private sector expenditures, it is not possible to specify with any degree of exactitude the private sector impact of most public sector assistance, it does seem clear that even these expenditures can play an important part in promoting private sector development.

III. SUMMARY OF EXPENDITURE DATA

The expenditure data for projects discussed in this report is based on information compiled in December 1985 and February 1986 from reports submitted by Missions and Bureaus at the end of FY85 and beginning of FY86 and AID/W financial management data. These reports varied widely in quality and completeness of reporting and required the exercise of judgement in determining whether the assistance category is stated were appropriate. conservative approach was taken in analyzing the reports to ensure that A.I.D.'s private sector expenditures would not be overstated.

The cumulative expenditure figures displayed with respect to A.I.D.'s spending under each method of assistance and in Table 1 following are intended only to illustrate generally the mix of expenditures among the Regions and Bureaus and for the Agency as a whole. Similarly, the "numbers of reported projects" are displayed to show roughly the relative amount of activity in connection with the various assistance methods. As illustrated by the large ESF expenditures cited, one or two large projects can cause expenditures in a given Category to be high in relation to actual projects.

In taking action to improve the Agency's spending in support of private sector development in host countries, A.I.D. must focus on individual Mission and Office performance. Only then is it possible to evaluate whether a certain mix of expenditures among categories is appropriate for conditions in the individual country and what, if any, corrective adjustments must be made.

TABLE 1
SUMMARY STATISTICS

EGION/BU: EAU	PRIVATE SECTOR CATEGO: Y ($000,000/# OF PROJECTS REPORTED)				
	A	B	C	D	E
1. AFR Region, AID/W	7.363/16	61.354/30	14.501/38	150.045/21*	190.400/42
2. ANE Region, AID/W	65.911/40	283.571/60**	76.213/52	63.057/25**	786.615/77**
3. LAC Region, AID/W	26.722/43	159.301/44+	62.569/116	236.319/37+	190.133/44
4. Bureau For Food For Peace and Voluntary Assistance (FVA)	0	0	30.591/51	0	20.587/0
5. Bureau For Private Enterprise (PRE)	4.717/9	1.183/9	5.162/9	3.111/3	3.315/8
6. Bureau For Science and Technology (S&T)	14.245/14	2.635/10	50.540/19	7.550/16	213.460/95
AGENCY TOTALS:	118.958/122	508.044/153	239.576/285	460.082/102	1,404.510/266

* Includes 5 Economic Support Fund projects totaling $140.500.

** Includes 1 Economic Support Fund project totaling $32.500 in Cat. B; 1 in Cat. D totaling $37.500 and 1 in Cat. E totaling 100.000.

\+ Includes 1 Economic Support Fund project totaling $95.000 in Cat. B and 2 in Cat. D totaling $190.000.

It should be noted that figures for projects represent only reported projects for which expenditures in assistance categories are shown. Thus, a single project may be counted more than once because expenditures are divided among more than one category. Approximately 1220 projects were not reported and as such were assumed to be devoted to public sector assistance. These project expenditures were therefore added to Category E, but the number of such unreported projects is not incorporated in this Table.

IV. CONCLUSIONS

Overall, a relatively sizeable portion of A.I.D. assistance in FY85 has been devoted to the development of private enterprise in host countries through expenditures in all categories.

Although A.I.D. has been able to provide only 4.4 percent of its FY85 expenditures totaling $118,958,000 directly to private businesses (Category A), a much larger percentage of A.I.D. expenditures indirectly flowed to the private sector through host government intermediaries (Category B) and PVOs and non-profit organizations (Category C). These methods of assistance accounted for 27.4 percent of total expenditures equal to $747,620,000 of assistance to the private sector. Additionally, the benefit of expenditures supporting policy dialogue (Category D), accounting for 16.8 percent of total expenditures totaling $460,082,000, accrued directly to the private sector in creating a climate which will allow private enterprise to grow and flourish.

Assistance to the public sector to support traditionally public service functions (Category E) is also beneficial, and frequently essential, to encourage private sector growth. This indirect benefit is not susceptible to measurement with the data at hand, but it is clear that the $1,404,510,000 in Category E expenditures do serve a useful function in terms of private enterprise development. Measurable expenditures allocable to efforts promoting private enterprise in host countries (Categories A, C,

C and D) account for 48.6 percent of expenditures in FY85 totaling $1,326,661,000.

In the months ahead, A.I.D. will be studying the data provided by Missions and Bureaus to evaluate whether, under the conditions presented by the host countries, the individual country approaches are appropriate. The information reported by the Missions and Bureaus will also serve as a means of identifying particularly successful projects which may be transferable to other host countries.

This comprehensive study has provided a thorough picture of A.I.D.'s implementation of its private sector policy and will enable A.I.D. to set future goals and establish benchmarks to measure progress. Together, the compiled expenditure data and analyses will allow the Agency to refine and strengthen its approach to promoting private enterprise in host countries.