The Private Sector Investment Program

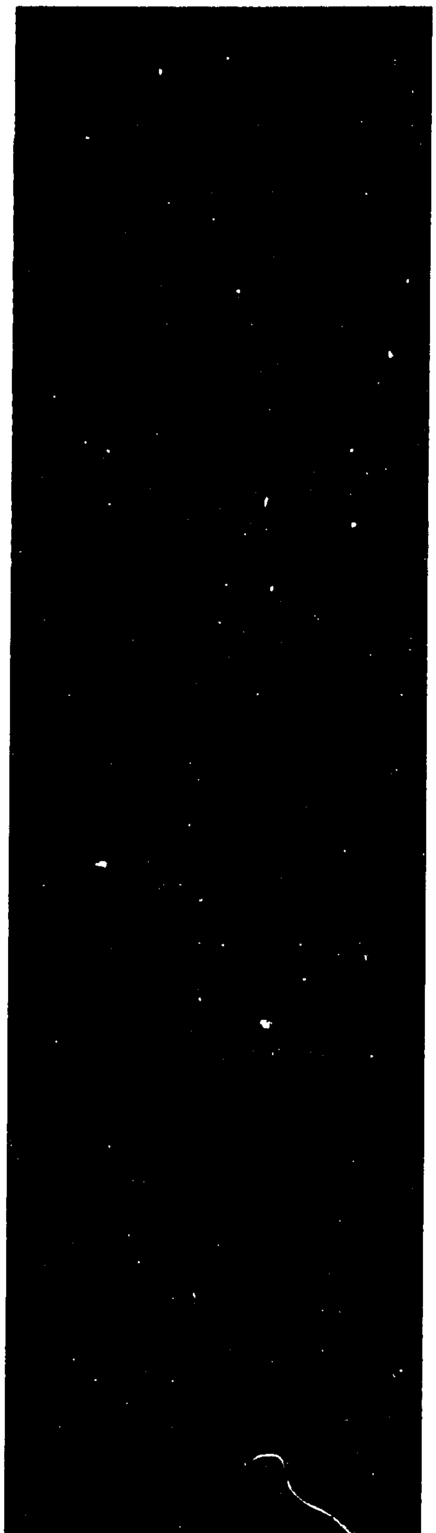
Annual Report
Fiscal Year 1992

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

"The Congress finds that the development of private enterprise, including cooperatives, is a vital factor in the stable growth of developing countries and in the development and stability of a free, open and equitable international economic system. It is therefore in the best interest of the United States to assist the development of the private sector in the developing countries and to engage the United States private sector in that process."

The Private Sector Investment Program
Section 108 of the Foreign Assistance Act of 1961, as amended

Cover: Detail of Sri Lankan batik.



Private Sector Investment Program

Fiscal Year 1992

Annual Report

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LETTER FROM THE DIRECTOR

It is a pleasure for me to present this 1992 Annual Report of A.I.D.'s Private Sector Investment Program. Since the Program's inception in 1983, we have energetically designed and implemented innovative development assistance programs targeted at addressing the needs of developing country small businesses and financial institutions. During the past several years, it has been particularly gratifying for us to see many of our programs coming to fruition to provide tangible results for our clients, and to hear the positive response of participants in our programs.

The profound changes the world experienced in 1992 have had a significant impact on the global investment climate and on countries where the Investment Program itself is active. The Office of Investment has been responsive in this time of change by offering the loan guarantee program in new formats to better serve our clients. The performance of our existing portfolio has been exceptional. We continue to have an excellent record of loan repayment with minimal claims. Our development objectives remain on track and we continue to provide an important alternative means of accomplishing A.I.D.'s development objectives.

The goal of the Office of Investment remains the same, to promote sustainable economic development which is best defined by our mandate in the Foreign Assistance Act: "It is ... in the best interest of the United States to assist the development of the private sector in the developing countries and to engage the United States private sector in that process."

Fiscal year 1992 was a year of innovation in establishing new facilities for the Investment Program, with 10 new facilities committed totalling $16.0 million. The current active portfolio of guarantees, loans, and grants is $138.47 million.

Along with major transformations of the global economy in 1992, came a growing appreciation for the importance of private sector-oriented development assistance programs in almost every country. The past year will be remembered as one of change not only because of the election in the United States and the transition it implies, but also because of the new and successful programs being developed to meet the changing needs of emerging economies. As our programs have become better known, we have received a growing number of requests for assistance from USAID missions, developing country financial institutions and U.S. companies. Our experience of previous years and the innovative nature of our programs has allowed us to be responsive to these requests and to take advantage of these exciting opportunities.

We strongly believe that one of the most effective means of strengthening the private sector in developing countries is through building linkages with the U.S. private sector. During 1992 we continued our efforts to involve U.S. companies as partners in our economic development projects. In particular, we have developed and expanded the Franchise Guarantee Program. This Program has the benefit of simultaneously helping U.S. companies expand overseas while sharing U.S. business skills and technology with developing country businesses and entrepreneurs. To date, over 120 U.S. franchisors have expressed interest in the program, eighteen of which have already been approved for eligibility.

An important objective of the Investment Program is to assist with comprehensive financial sector reform in developing countries. As developing country economies make the transition to sophisticated financial markets, the Office of Investment responds with programs to lend assistance to broaden and deepen their capital markets.

- In 1992 we established the Bond Guarantee Program to further strengthen Bolivia's capital markets.

- The Privatization Guarantee Program provides access to credit that otherwise might not be available to developing country businesses converting from public to private ownership due to market imperfections. Toward this end, A.I.D. played a key role in the privatization of Sri Lanka's state-owned tire manufacturer.

During this past year we not only refined existing programs and operational systems, but moved in new directions by designing programs and facilities to address market imperfections in transitional economies. These include programs in South Africa, Nicaragua and Central and Eastern Europe and the NIS.

- In South Africa, we are supporting the historic transition to a non-racial democratic government by establishing guarantee facilities with three South African banks to support the credit needs of individuals who have been disadvantaged by apartheid. These banks include one of only two black-owned banks in the country. These facilities will be used to explore new ways to help "emerging" entrepreneurs.

- In another transitional economy, Nicaragua, we trained bankers to improve their credit analysis techniques to lend more prudently to small businesses. We also assisted small business owners to enhance their ability to successfully identify and access resources in the formal banking sector.

- Perhaps no other countries have had a more difficult and painful transition to market economies than Central and Eastern Europe and the Newly Independent States (NIS). In 1992 the Investment Program contributed to their development by providing needed training for bankers and entrepreneurs in Hungary, and, as part of a joint Department of State/A.I.D. delegation, assisted in the assessment and design effort leading to establishment of Enterprise Funds to provide needed equity and loan capital for new businesses in Russia and Ukraine.

In March of 1993, the Office of Investment will host a three-day international finance conference entitled, "Banking on Small Business." The conference will provide a forum for the exchange of ideas concerning small business lending practices and experiences, innovative methods of mobilizing credit for the small business sector and ways in which to enhance the profitability of lending to small businesses.

We will continue to refine existing programs to improve their effectiveness and will move in new directions to develop programs that address the market imperfections in transition economies as well as our traditional client countries within the changing global context. As stated by a noted philosopher and baseball player, Yogi Berra, "The future isn't what it used to be." And as that uncertain future evolves into a new world order, the Investment Program will continue to play an important role in helping the U.S. Government pursue its commitment to providing technical and financial assistance in a meaningful, helpful and timely way. As the new world order evolves, we will assist in providing the critical help necessary to insure that developing countries successfully achieve their desired transition into democratic societies with free market economies.

Sincerely,

Stephen C. Eastham

Stephen C. Eastham
Director
Office of Investment
Bureau for Private Enterprise

The Private Sector Investment Program

Overview

Recognizing the critical role of the private sector in economic growth, the U.S. Congress created the Private Sector Investment Program (PSIP) in 1983 under Section 108 of the Foreign Assistance Act of 1961. The Investment Program (formerly the Private Sector Revolving Fund) is administered by the Office of Investment within the Bureau for Private Enterprise of the United States Agency for International Development.

The Investment Program was designed to promote sustainable economic development by strengthening the private sector in developing countries. To this end, the Investment Program aims to stimulate growth primarily by helping small businesses access financing, but also by creating innovative financing mechanisms, enhancing the business skills of bankers and small business owners, and involving the U.S. business community in this process.

It is often the case that small business owners in developing countries encounter difficulty in obtaining adequate credit from the formal banking sector due to imperfections in credit markets. Bankers often perceive, unnecessarily, that the administrative costs and risks of lending to small businesses are excessive. In addition, owners of small businesses are often unable to present a credit history, a business plan and/or other required loan documentation. They also may not have acceptable collateral. Even when borrowers have collateral, the legal and practical problems of monitoring and gaining control of it are often anticipated to be too significant and costly. However, the Office of Investment's programs address these misconceptions which are a form of market imperfection.

A.I.D.'s Investment Program focuses on "making markets work for everyone" and pursues this goal through innovative transactions designed to address market imperfections that limit the ability of small, private sector enterprises to thrive and grow. The Investment Program mobilizes credit for small private enterprises by providing risk-sharing vehicles and training in modern lending techniques that encourage developing country financial institutions to lend to small businesses. As these institutions gain experience with small business lending, they often find that it is profitable in terms of both principal and interest repayment, and increased bank deposits generated from these clients.

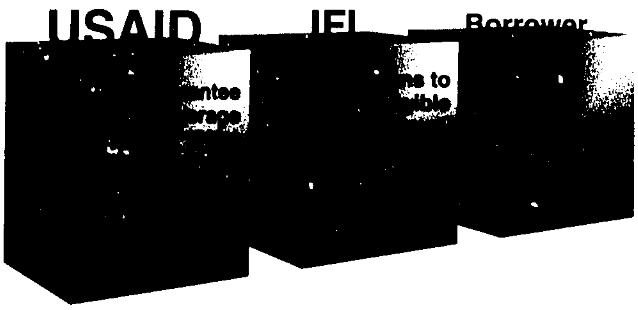
To complement its programs, the Office of Investment provides training programs that improve the small business lending practices of bankers and the financial management techniques of small business owners. To foster private sector development, the Investment Program also introduces innovative financing mechanisms that are as yet untested in many developing countries. These mechanisms then serve as models for the private sector development efforts of local USAID Missions.

As part of the Investment Program's legislative mandate and A.I.D.'s Partnership for Development Initiative, the Office of Investment continues to support programs that, while addressing market imperfections in developing countries, also promote the involvement of U.S. businesses in overseas development efforts.

Evolution of the PSIP

Since its inception in 1983, the Investment Program has continuously evolved in new and important ways. When it was created, the Investment Program's primary instrument for promoting private sector development in developing countries was direct lending authority. In 1988, Congress added loan guarantee authority, and stated that guarantees would thereafter become the Investment Program's primary instrument. Since then, the Office of Investment has limited its use of direct loans to select cases where significant potential exists for substantial development impact, including critical environmental projects and innovative solutions requiring loans rather than guarantees. Guarantees, backed by the full faith and credit of the United States Government, have proven to be an effective and flexible means of achieving the objectives of the Investment Program.

Diagram 1: How an A.I.D. Guarantee Works



The Guarantee Portfolio

How the Guarantee Works

Guarantees are issued by A.I.D. on behalf of intermediary financial institutions (IFIs) in developing countries. These guarantees cover 50% of the net losses on the principal amount of eligible loans placed under coverage by the IFI. An eligible loan is one made to a small enterprise as defined in the guarantee agreement. For instance, a $1.0 million guarantee facility will mobilize at least $2.0 million in small business loans. Fees, based on the risk of each transaction, are charged to offset possible future claims. Guarantees are limited to $3.0 million for any single facility. Sharing the risk equally between the IFI and A.I.D. both enhances the probability of a relatively low loss ratio for the Program and leverages limited A.I.D. resources to promote private sector growth.

Loan guantees backed by the full faith and credit of the United States Government effectively allow A.I.D. to assist in mobilizing expanded credit for small business without front-end cash outlays.

Current Guarantee Programs

Mobilizing Credit for Small Businesses

- *Training*

To complement its guarantee programs, the Investment Program provides training courses for bankers and small business owners in A.I.D.-assisted countries. The primary purpose of training is to acquaint bankers with the use of cash flow lending techniques to enable them to better address the credit needs of small business borrowers and to provide small business entrepreneurs with additional financial management tools to operate their businesses more efficiently. In addition, small business entrepreneurs learn how to obtain and repay loans. The training program serves to improve communication between the two reference groups and thus facilitates the flow of credit to the small business sector.

■ *Small Business Loan Guarantee Program*

Small businesses play a critical role in the economy in both developing and developed countries. In the United States alone, over 50% of the workforce is employed in the small business sector. By focusing on small businesses, the Investment Program promotes a vital and dynamic source of employment and productivity in developing countries.

A.I.D.'s Small Business Loan Guarantee ("Small Business") Program continues to be an extremely useful tool for promoting small businesses. Under the Small Business Program, A.I.D. provides guarantees for up to 50% of the risk exposure on a portfolio of small business loans made by participating financial institutions. To respond more effectively to the varied needs of small businesses, the types of credits guaranteed have been expanded to include financial leases. Institutions eligible for the Small Business Program include locally owned commercial banks, finance companies, insurance companies, leasing companies and other specialized financial institutions.

■ *Resource Mobilization Guarantee Program*

Another tool designed to increase small business lending is the Resource Mobilization Guarantee Program. Its purpose is to gather under-utilized financial assets and channel them to productive small business enterprises. Under this program, A.I.D. guarantees up to 100% of the deposits of U.S. companies in local financial institutions, thereby increasing their liquidity. This increased liquidity is then matched by the financial institution and lent to small indigenous businesses. An advantage of this program is that it avoids the foreign exchange risks and inflationary implications inherent in cross-border borrowing, while expanding the flow of capital to entrepreneurs in the local private sector. An additional advantage of the program is that it provides an alternative investment for U.S. companies which in turn is made available to small businesses.

■ *Leasing Guarantee Program*

Leasing is an attractive alternative method of financing capital equipment for business owners in both developing and developed countries. Variation in leasing agreements allows for a high degree of flexibility for both the lessee (user) and lessor (owner). For example, business owners appreciate the 1:1 collateral relationship offered by leasing companies compared to usually higher ratios required by banks. In some developing countries, leasing may be the only means of obtaining medium- to long-term financing for these small business owners. In 1990, the Office of Investment established its Leasing Guarantee Program to extend its risk-sharing coverage to leasing transactions for these entrepreneurs. Recent experience shows that leasing as a source of credit for small businesses is rapidly increasing in lower middle income countries,

A loan officer from Continental Acceptances Ltd. meets with a prospective client at his brick factory in Ghana to discuss his financing needs.

As one of its innovative environmental projects, the Office of Investment provided a direct loan to the trading division of Cultural Survival, a non-profit human rights organization whose primary objective is to aid indigenous people who inhabit some of the world's most threatened eco-systems.

Photograph by © Paula Lerner/ Woodfin Camp 1990, courtesy of Cultural Survival, Inc.

which are key targets of A.I.D. financial market development assistance.

A finance lease is particularly attractive for developing country entrepreneurs. Such an arrangement allows the lessee to use the asset for most of its useful life, as opposed to an operating lease which allows the lessee to use the asset for a shorter period. Another advantage of a finance lease to the lessee is that the leased equipment is reflected as an asset on the lessee's balance sheet. The lessor recovers the full capital cost of the asset, associated financing costs and a profit.

Enhancing Financial Markets and Instruments

■ *Bond Guarantee Program*

A range of sophisticated debt financing instruments is a critical component of an efficient, well-developed capital market. In many developing countries, however, bonds are rarely used because they are perceived by potential purchasers to be a higher risk than they actually are. During 1992, the Office of Investment developed the Bond Guarantee Program to address this market imperfection, and thereby to broaden and deepen capital markets in A.I.D.-assisted countries. By

Expansion of the Investment Program into Central and Eastern Europe will benefit emerging groups of entrepreneurs as financial institutions in these countries learn that prudent small business lending is profitable.

guaranteeing up to 50% of the principal of bonds issued by banks, the Bond Guarantee Program will encourage banks to gain experience in using bond issues as a means of raising capital. Also, by structuring the bond issue in small denominations, this facility can encourage small, first-time investors to participate in local capital markets, further broadening and deepening capital markets, and possibly discouraging capital flight. Finally, the proceeds of partially guaranteed bond issues could provide a stable source of funding for small business lending.

■ *Privatization Guarantee Program*

While many developing countries are receiving A.I.D. technical assistance and other forms of guidance in the area of privatization, the Investment Program focuses on accessing badly needed financing for privatizations. A.I.D.'s Privatization Guarantee Program is designed to support privatization efforts in countries that have a firm government commitment to divesting state-owned enterprises. The program redresses market imperfections that impede the flow of capital by providing guarantees of up to 50% on loans or debt instruments issued to financial institutions that finance privatizations. Eligible transactions for the program include: 1) loans to employees to enable them to participate in Employee Stock Option Programs; 2) loans to private local investors; 3) commercial debt incurred by enterprises that have been privatized; and 4) debentures issued by newly privatized companies.

By promoting the privatization of state-owned enterprises, the A.I.D. guarantee facilitates increased efficiency, enhanced competition and improved allocation of scarce resources. The program's flexibility allows small businesses to take advantage of the benefits of privatization - either by being privatized or by operating in a business climate made more efficient and competitive through privatization of other companies. Although privatizations of small businesses often receive little attention, the large numbers of such divestitures have a positive impact on the economies of local communities. For example, a recent World Bank report estimates that 100,000 small distribution and retail companies have been privatized worldwide.

Involving U.S. Business in Development

■ *Franchising Guarantee Program*

The Franchise Guarantee Program, a unique initiative within the Agency, addresses two of A.I.D.'s key objectives: promoting private sector growth in developing countries and involving U.S. businesses in economic development through expansion of their international operations. First, franchising is a proven, lower risk means of starting a business. The franchise's business system offers entrepreneurs a higher probability of success than starting a new business without an established format. This is often referred to as "sheltered entrepreneurship." As an added benefit for developing countries, a franchisor can provide important goods and services as well as U.S. technology, skills and training in important areas such as accounting, management, administration, marketing and personnel. Second, the Franchise Guarantee Program involves U.S. businesses in A.I.D.'s international development activities while helping them improve their competitive advantage in the international economy as well as providing export opportunities.

To address the lack of adequate financing for potential developing country entrepreneurs, compounded by the local banks' inexperience with franchising, A.I.D. provides loan guarantees of up to 50% for the purchase of a U.S. franchise.

■ *Non-Recourse Export Finance*

The Forfaiting Guarantee Program promotes U.S. exports while giving developing country importers the opportunity to access U.S. goods. Under a forfaiting (or non-recourse export financing) arrangement, the U.S. exporter accepts a series of promissory trade notes from the importer that are guaranteed by the importer's bank in payment of the export. Once a forfait house (a financing organization that specializes in buying and selling these trade notes) buys these notes, it no longer has recourse to the exporter, but only to the importer who issued the notes and its developing country guarantor. A.I.D. guarantees up to 50% of the forfait house's risk in buying the developing country note. The program promotes U.S. exports to developing countries and introduces an important financing mechanism to support developing country importers.

Assisting Transitional Economies

The countries of Central and Eastern Europe, and the former Soviet Union, as well as many developing countries, continue their conversion to free market economies. In particular, Central and Eastern Europe, and the Newly Independent States (the former Soviet Union) are in different stages of transition from closed, centrally-planned economies, to open market economies. In addition, almost all countries in Latin America and the Caribbean, Africa and Asia have adopted structural adjustment programs, including: privatization; liberalization of prices, exchange rates and interest rates; and encouragement of private sector involvement in financial institutions.

Transitional economies often require special assistance in this arduous and complex undertaking. The Office of Investment's programs are available to facilitate such transitions in A.I.D.-assisted countries. Its guarantee and training programs are valuable to entrepreneurs who often encounter limited access to credit and have little or no experience with the competition engendered in a free market economy. Similarly, the Office of Investment's programs are valuable to countries that are in the process of developing strong, competitive financial sectors.

The Office of Investment staff.

Implementing Change

FY 1992 was a year of political and economic change for many countries, including the United States. In order to take advantage of the opportunities for economic growth presented by many of these changes, the Investment Office strived to implement its programs in bold and imaginative ways. It concentrated on maximizing the development impact of its programs by intensifying training for bankers and small business owners as well as exploring new ways to utilize existing facilities. In addition, as part of its efforts to harness the entrepreneurship and energy of U.S. businesses for international development, the Office of Investment forged new relationships with U.S. franchisors to help them expand overseas. And finally, in 1992, the Office of Investment launched a number of performance improvement measures to glean "lessons learned" from past experiences and to better position itself to meet future challenges and opportunities.

In FY 1992, the Office of Investment also expanded its regional focus to accommodate assistance for economies in transition, such as South Africa, Nicaragua, Central and Eastern Europe and the countries of the former Soviet Union.

Expanding the Small Business Program

The Small Business Loan Guarantee Program has been the cornerstone of the Investment Program's small business promotion activities, but its other small business assistance programs, especially training, have expanded considerably. Currently, there are 42 Small Business Program projects with outstanding authorizations totalling $55 million in guarantee coverage.

In the past year of change, the Office of Investment concentrated significant resources on refining its small business programs and improving existing facilities, in terms of both development impact and utilization. Client banks were given more guidance in finding innovative and effective uses of the programs in order to maximize guarantee utilization and credit for small businesses. Training for bankers and entrepreneurs had the dual benefit of improving valuable business skills and increasing awareness of the Investment Program. Also, in order to better assess the quality of the programs, clients were assisted in reporting more accurate and relevant information.

The main gate of Kelani Tyres Limited, through which its workers pass each morning on their way to jobs in the factory privatized during 1992 with A.I.D. assistance.

Supporting Privatization in Sri Lanka

Over the past decade, there has been a global wave of privatization. The trend to privatize is motivated by the indisputable realization that the private sector can provide goods and services much more efficiently than the public sector. In addition, privatization frees up public financing for other critical needs.

In 1992, the Office of Investment played a key role in the privatization of Sri Lanka's state-owned tire manufacturer, Kelani Tyres Ltd., by guaranteeing the issuance of medium-term debentures. The Office of Investment, in close coordination with USAID/Colombo, sought to achieve the Mission's long-term privatization goals. The guarantee encouraged local investors, who were unaccustomed to financial instrument maturities beyond one or two years, to commit their funds to a new instrument with a six year tenure. The Kelani privatization highlights A.I.D.'s ability to support privatization efforts and thus enhance capital market development. The success of this transaction will facilitate other privatizations which will substantially reduce public sector debt and introduce the efficiencies associated with private sector management.

Under private ownership, management is held accountable for the company's performance, the clearest indicator of which is profit. In the case of Kelani, private ownership will lead to more focused and market responsive tire production.

Developing the Bond Market in Bolivia

An important objective of the Investment Program is to support A.I.D.-assisted countries in developing their financial markets. To this end, A.I.D. provided critical assistance in establishing the Bolivian Stock Exchange in 1989. However, in the few years of its existence, only short-term debt instruments have been issued and traded, 90% of which were issued by the Central Bank with maturities of up to one year.

In 1992, the Office of Investment established the new Bond Guarantee Program, to encourage the use of debt instruments with longer maturities, thereby broadening and deepening Bolivia's capital markets. The Bond Guarantee Program has already achieved impressive results in Bolivia. The first approved facility of this program for Banco Santa Cruz, one of Bolivia's leading banks, introduced bonds as a means to raise capital and demonstrated to investors that bonds are a sound investment option. The success of Banco Santa Cruz's first bond issue drew considerable attention in Bolivian and international financial circles. So far, the Banco Santa Cruz bond issue has motivated three Bolivian banks to list their Certificates of Deposit on the Bolivian Stock Exchange.

A.I.D. Senior Investment Officer Carolin Crabbe and A.I.D. Attorney Advisor Paul Weisenfeld meet with Senior Officials of Banco Santa Cruz following the successful issue of the first bank bond issued in Bolivia under the Bond Guarantee Program designed to broaden and deepen its capital markets.

Focusing on Performance

The Office of Investment continually seeks to better meet the changing needs of its clients. In 1992, it took a variety of steps to improve program performance. To measure development impact, the Office of Investment is linking program goals to measurable indicators, and enhancing its monitoring and information system. In addition, it is focusing more on increasing utilization of existing facilities, as well as monitoring compliance with program requirements.

Monitoring

■ *Performance Review*

In response to the Agency-wide initiative to link program goals and strategic objectives with measurable program results, the Office of Investment is conducting a Program Performance Information System for Strategic Management (PRISM) review. This review will clearly articulate the Investment Program's major long-term development goals, identify the specific indicators that will measure the progress in attaining those goals, and reflect the Office of Investment's commitment to track development benefits.

■ *Monitoring and Information System*

As a complementary activity to the PRISM review, the Office of Investment is developing a monitoring and information system (MIS) to consolidate financial, monitoring and program performance data. The new MIS will greatly facilitate the assessment of program results and ensure that resources are used more effectively. In addition, the new system will provide high quality information which can be used to modify and adjust the Investment Program to better achieve its objectives.

■ *Compliance*

To ensure proper monitoring and implementation, the Office of Investment is placing increased emphasis on improving the compliance of client banks with Office of Investment reporting requirements and streamlining its approval procedures. In 1992, the Office of Investment intensified its efforts to evaluate client bank adherence to Investment Program requirements. On-site visits have proven useful in ensuring compliance, verifying accuracy of claims and providing guidance in implementing the programs. Face-to-face meetings, with the express purpose of discussing implementation, have had the added benefit of providing an opportunity to reiterate the Investment

Loan officers of Kenyan financial institutions participating in the Investment Program attended a Small Business Lending course organized by A.I.D. through the Investment Program.

Program's value to each bank. The Office of Investment also refined a set of definitive procedures to expedite the approval process internally.

The Role of Collateral

In developing countries, small business owners are often unable to obtain financing because they lack collateral. Even when they have collateral, banks often discount its value because legal or other impediments make appraisal and collection at full value uncertain. In order to increase the flow of credit to small businesses, the Investment Program aims to reduce collateral requirements by offering partial guarantees and by providing training to encourage cash-flow analysis while discouraging reliance on collateral-based lending.

In 1992, the Office of Investment sponsored a study to assess the effectiveness of their programs in reducing collateral requirements for small business borrowers. To date, the Office of Investment's preliminary findings suggest that banks participating in the Small Business Program have lower collateral requirements than other banks. The next phase of the study, a more in-depth examination, is planned for the upcoming year.

Involving U.S. Business

Involving the U.S. business community in the economic growth of developing countries is one of the Investment Program's legislative mandates as well as an Agency-wide objective. Stronger linkages with U.S. businesses can efficiently transfer technology, credit and critical know-how to developing countries. Additionally, in expanding their international operations, U.S. businesses can benefit from A.I.D.'s extensive knowledge and in-country experience.

Select U.S. franchisors that have been approved for eligibility for the Franchise Guarantee Program.

RANK XEROX

alphagraphics® Printshops Of The Future

COMPREHENSIVE® BUSINESS SERVICES, INC.

TRAVEL NETWORK® LTD.

FASTSIGNS®

CHOICE HOTELS INTERNATIONAL

Sir Speedy The business printers®

Duraclean International

MicroAge®

Kwik Kopy® PRINTING

Wendy's OLD FASHIONED HAMBURGERS

Remedy® The Intelligent Temporary Temporary • Permanent

Growth of Franchise Guarantee Program

The Office of Investment's Franchise Guarantee Program is a unique initiative within the Agency. It is one of the Investment Program's principal instruments used to link U.S. businesses to developing country entrepreneurs in order to promote private sector growth. Franchising can be a comparatively low-risk means of starting a business that is particularly advantageous to entrepreneurs in developing countries who might not have extensive private sector business experience.

The Franchising Guarantee Program, launched in FY 1991, has been well received by both the U.S. business community and the developing world. During 1992, Bancomer was approved to become the first bank in Mexico to offer a guarantee facility for potential franchisees. To date, over 120 U.S. franchises have expressed interest in the program. Sixteen franchises have been approved for participation in the program, including Xerox Corp., MicroAge International, Kwik Kopy Corp., and Sir Speedy.

To gain approval, franchisors must demonstrate that their franchises will positively impact the local economy, particularly by increasing employment and providing training. The Office of Investment also evaluates the degree to which the franchise will support the growth of other industries through forward or backward linkages. For example, a printing franchise will introduce new printing techniques and efficiencies, providing proven support services for investors (as well as local users), further promoting a ripple effect for future investment.

Franchising in the Philippines

In an additional effort to help the development of small entrepreneurs in the Philippines, USAID/Manila joined hands with the Office of Investment to explore ways of expanding franchises in the Philippines. As a first step, USAID/Manila and the Office of Investment sponsored a study to assess the commercial prospects for U.S.-based franchises in the Philippines, and to evaluate the potential demand for A.I.D.'s Franchise Guarantee Program. The study identified 14 industries with high prospects for success, based on the interest of U.S. and local businesses, the potential impact on economic growth, and the characteristics of the Philippine market. Active dissemination of the report and related information to a wide range of potential investors and bankers is planned for the coming year.

New Directions and Special Emphases

Expanding Small Business/Bank Credit Training Program

Building on the success of previous programs, the Office of Investment significantly increased its efforts in 1992 to integrate training programs into its Investment Program activities. Training was conducted this year in several new countries with existing or planned guarantee facilities including: Morocco, Indonesia, Nigeria, Nicaragua, Kenya, Mali, Hungary and Ghana. Further expansion of the training program is scheduled for South Africa and other countries in early 1993, including a second round of training seminars in Morocco and the Philippines. Additionally, the Office of Investment has broadened its training program to include a component on franchising.

Client banks and their small business borrowers have praised the training programs for their usefulness and applicability. The expanded emphasis on cash-flow-based lending techniques and other prudent banking procedures, and the "hands-on" teaching method, complement the Office of Investment's efforts to assist participating financial institutions in maximizing the utilization and small business development impact of their guarantee facilities. In summary, the training is designed to improve the quality of loans and the creditworthiness of borrowers.

Loan officers of Nicaraguan financial institutions (left) and small business owners (right) participating in the Investment Program attend a Small Business Lending course organized by A.I.D. through the Investment Program.

Meeting Opportunities in Transitional Economies

The demand for the Office of Investment's programs continues to grow. As USAID Missions, developing country financial institutions and U.S. companies have learned more about how they can benefit from these programs, requests for assistance have surged. In particular, there has been an increasing number of requests for assistance in transitional economies in Africa, Latin America and Asia, as well as Central and Eastern Europe and the Newly Independent States.

■ *South Africa*

South Africa, after years of minority rule, has recently embarked on an irreversible process of non-racial democratization. To support this historic transition, the Office of Investment established Small Business Loan Guarantee facilities for three South African banks—Nedcor Bank Ltd., Standard Bank of South Africa Ltd. and FutureBank Ltd.— which are designed to support the credit needs of individuals who have been disadvantaged by apartheid. FutureBank Ltd. is one of only two black-owned banks in the country. These facilities will be used to explore new ways of helping "emerging" entrepreneurs, such as substituting group guarantees for collateral, and promoting franchising.

■ *Exploring Opportunities in Central and Eastern Europe and in the Newly Independent States*

The Newly Independent States (NIS) face daunting challenges in transforming their command-driven economies into dynamic market systems. Economic reform in the countries of Central and Eastern Europe, which embarked on the process of transition earlier than the Newly Independent States, has been hampered by sharply declining output and the harsh realization that reforming the old political and economic systems is a more difficult task than originally envisioned. In 1992, the Office of Investment contributed to the development of the private sectors in the NIS and Hungary in important ways.

As a member of a joint State Department/A.I.D. delegation, Office of Investment Director Stephen C. Eastham assisted in the assessment and design effort leading to establishment of Enterprise Funds to provide needed equity and loan capital for new businesses in Russia and Ukraine. The Freedom of Support Act authorizes the establishment of Enterprise Funds for the NIS, that "promote policies and practices conducive to private sector development through loans, and equity participation."

In Hungary, many small-scale enterprises and a number of larger-scale enterprises have been privatized, particularly in the service sector. Also, like all other countries in the region, Hungary is facing serious problems in building a

A.I.D. Office of Investment Director Stephen Eastham and Senior Investment Officer Sandra Goshgarian meet with the proprietor of a small hotel and convenience store in the black township of East Rand and his banker. Plans are underway to expand the premises to include additional retail shops.

strong and competitive banking sector. To address the critical needs that have emerged in Hungary's transition, the Office of Investment provided badly needed and well-received small business lending training courses for bankers, and plans to expand assistance in the upcoming year. Members of the Office of Investment also began a dialogue with senior members of the financial community about lending to small businesses and how its guarantee programs might be of assistance in that effort.

■ *Nicaragua*

In 1990, at the close of a ten-year civil war, the economy in Nicaragua was in ruins. Since then, a major reform program of monetary and fiscal austerity was launched. To date, the major accomplishments of the reforms include: the privatization of one third of the country's state-owned enterprises; the establishment of access to foreign exchange by the private sector; and a massive reduction in the public sector deficit.

To support the adjustments of the Nicaraguan economy, the Office of Investment provided training for bankers to improve their ability to lend prudently to small businesses, and for small business owners to enhance their ability to successfully identify and access resources in the formal banking sector. As economic conditions continue to improve, the Office of Investment plans to further support private sector banking and small businesses in Nicaragua through a series of guarantee transactions.

SUB-SAHARAN AFRICA

In recent years, Sub-Saharan Africa has undergone a wide range of significant changes. On the one hand, there has been an encouraging movement by many countries to multi-party democracy and free market economic systems, creating tremendous opportunities for private sector development and economic growth. On the other hand, the political and social unrest in several other countries, combined with regional problems such as drought and continued excessive government intervention in the economy, has hindered the process. The situation in the latter countries has precluded the introduction of any meaningful private sector development programs.

The improved political stability and democratic reforms introduced in countries such as Zambia, Tanzania, Cape Verde, Benin, Ethiopia and Ghana, combined with emerging plans to move toward market-based private sector economies, are significant steps which will provide firm foundations for private sector development. For example, Zambia's democratically elected government recently completed its first year in office following two decades of single party rule. The individuals elected to power in late 1991 introduced an economic reform program including the liberalization of investment and foreign exchange regulations, the removal of several interest rate controls and the planned privatization of over 100 state-owned enterprises. Following twenty-five years of socialist central planning, Tanzania has recently made considerable progress in the direction of economic policy reforms that will allow a steady shift away from a command economy toward a free market economy.

1992 ACTIVITY HIGHLIGHTS

The Office of Investment is currently active in 10 countries in Sub-Saharan Africa. In this region there are 25 projects totalling $25.45 million or 18% of the total portfolio. For Sub-Saharan Africa, as elsewhere, 1992 was a year in which the Office of Investment focused mainly on strengthening and fine tuning the ability of the Investment Program to foster sustainable private sector development. In addition to continued efforts to facilitate financial market development, specific emphasis was placed on the expansion of training programs and the creation of new, or the enhancement of existing, mechanisms designed to assist the development and financing of small businesses.

A significant achievement during 1992 was the successful expansion of the Investment Program into South Africa. Guarantee facilities designed to provide targeted support for the credit needs of individuals who have been disadvantaged by apartheid were approved for three South African banks.

The Office of Investment closely monitored improvements in the political, social and economic climates of several countries to assess the possible introduction of the Investment Program. Many of the welcomed economic policy changes (i.e., banking, investment and foreign exchange reforms, as well as privatization programs) announced in these countries must proceed to the implementation stage before their private sectors will be in a position to take full advantage of the assistance offered through the Investment Program. The Office of Investment will continue to monitor the introduction and implementation of policy reforms in these countries with a view toward expanding its private sector assistance to some of them in FY 1993.

Highlights of specific activities undertaken during 1992, including exploratory trips to Zambia and Tanzania, follow.

Small Business Financing (Regional)

- **South Africa** The country that has experienced the most dramatic change in Sub-Saharan Africa is South Africa. It has embarked upon an irreversible process toward a non-racial democracy. A number of important events have taken place over the past year which have significantly impacted political stability in South Africa. These include the U.S. Government's lifting of most of the sanctions imposed on the South African Government, following action taken by the South African Government to: release political prisoners; repeal the state of emergency; remove the ban on the formation of democratic political parties; repeal the Group Areas Act and the Population Registration Act; and agree to enter good faith negotiations with official representatives of the black majority.

In response to this changing political environment, the Office of Investment established a $2.0 million loan guarantee program in South Africa during 1992 to mobilize credit for South Africans disadvantaged by apartheid. The aim of the loan guarantee program is to enable black entrepreneurs, in particular, to participate more actively in the economic development of post-apartheid South Africa.

Three South African banks have been approved for the Small Business Loan Guarantee Program: Standard Bank of South Africa Limited; Nedcor Bank Limited; and FutureBank Limited. Each of these banks has developed a unique approach to servicing the financial needs of "emerging entrepreneurs." Standard Bank recently formed the Community Banking Services Division to enhance the bank's efforts to provide credit for the informal sector. Emphasis will be placed on making loans to micro-enterprises. Individuals who have successfully completed a training course designed to impart basic business skills will be invited to participate in a bank lending program.

Nedcor Bank Limited, acting through Ned Enterprise, a division of Nedcor Limited, plans to develop a full range of specialized financial products for the semi-formal market. Support for franchising will be an important focus of the bank's activities. Established in 1991, FutureBank Limited is one of only two black-owned banks in South Africa. To help entrepreneurs who have difficulty in accessing credit because of lack of collateral, FutureBank designed a series of products modeled after the successful SAFTA (South African Black Taxi Association) scheme. This type of lending is based upon the concept of collective responsibility, i.e., a group guarantee, in lieu of collateral.

• **Zambia** The Government has put in place a comprehensive privatization program and is amending the Banking Act which will enhance the financial sector's ability to service private sector development needs. Several Zambian private sector financial institutions have indicated that, once the new Act is in place, they would be quite interested in participating in the Office of Investment's small business and privatization guarantee programs. On a recent trip to Zambia, the Office of Investment explored possible opportunities to facilitate the privatization process and private sector development, and assessed the viability of introducing its small business and privatization guarantee programs.

• **Tanzania** The financial sector has been undergoing a rather dramatic transformation since the introduction of new banking legislation in 1991. Efforts have been made to create an environment that would facilitate the reintroduction of private sector banking following years of monopoly by one state-owned commercial bank. Several private sector financial institutions are now planning to begin operations in Tanzania. The Office of Investment has been in contact with some of these financial institutions to provide information on how the Investment Program can be used to support small business lending activities. The Office of Investment is exploring the possibility of using its guarantee authority to facilitate local bank participation in venture capital activities supported by USAID/Tanzania under its Finance and Enterprise Development Program.

• **Uganda** After years of economic and political instability, the Government of Uganda is actively encouraging private sector development. As a complement to the Government's economic reform measures, the Office of Investment has been working with two banks to promote the small business sector and to stimulate non-traditional exports. In FY 1991, the Office of Investment established a $500,000 guarantee facility for Nile Bank Ltd., to increase loans to small businesses, and a $1.5 million guarantee facility for Equator Bank Ltd. to provide short-term financing for small and medium Ugandan companies engaged in exporting. Nile Bank is assisting Equator Bank in identifying and evaluating qualified exporters for participation in the program. This facility addresses the need for both foreign exchange and local currency, which are critical to the growth of the export sector. In 1992, the Office of Investment actively promoted the development of the Nile Bank and Equator Bank guarantee facilities to ensure that they continue to have a positive impact on the Ugandan private sector.

Small Business/Bank Credit Training Program (Regional)

• **Ghana** Ghana is an emerging free market economy that has demonstrated its ability to undertake and successfully implement major economic reforms designed to foster private sector development and economic growth. In Ghana, the Office of Investment has been working with two financial institutions on ways to improve the flow of credit to small businesses, including loans used to finance the purchase of U.S. capital equipment. These institutions recently participated in the Office of Investment's bank credit training program in order to explore ways to maximize the use of their small business guarantee facilities.

• **Kenya** The progress made by Kenya relating to financial market development has been encouraging, but further development, especially an increase in the availability of long-term credit, is needed. Economic performance has been hampered by the social and political unrest which Kenya experienced during 1992, resulting in a setback for Kenya's reputation as a bellwether for African tourism.

The Office of Investment intensified its efforts to assist participating financial institutions in enhancing the ability of small business guarantee facilities to foster private sector development. This included the participation of Kenyan financial institutions in the Office of Investment's bank credit training program. Two banks were especially interested in the usefulness of such training as it relates to their intensified efforts to serve the small business community. Barclays Bank of Kenya recently became the first financial institution to renew its Small Business Loan Guarantee facility. The facility is managed by Barclays' Small Business Unit, which was created to serve the financing needs of small businesses. Standard Chartered Bank has recently set up its own small business unit. The establishment of these small business units will allow these banks to augment the effectiveness of the Small Business Guarantee facilities.

The success of these training courses, and those held in Nigeria and Mali during 1992, has led to requests for additional training courses in these and other countries, including South Africa and Uganda, to be held in the coming year.

ASIA

A.I.D.-assisted countries in Asia demonstrated varying levels of economic growth during the past year. Thailand, Indonesia, India and Pakistan reported impressive growth in gross domestic product while noticeably weaker performance was reported in Sri Lanka, Bangladesh, Nepal and the Philippines. Despite positive moves in the direction of democracy, Mongolia's economy experienced severe difficulties as its trade was disrupted by the dissolution of the Soviet Union.

The Philippines experienced a peaceful transfer of power following free national elections in May. Adding to economic challenges the new administration faced during 1992 was the negative economic impact resulting from the closure of U.S. military bases in the Philippines. The new administration, however, is continuing development efforts initiated in 1991 in response to the natural disasters which struck the country that year, and has undertaken a number of important legal and regulatory reforms intended to facilitate economic development and foreign investment.

1992 ACTIVITY HIGHLIGHTS

In the Asia region there are 32 projects totalling $43.13 million. These projects comprise 31% of the active Investment Program portfolio. Highlights of new investments made in fiscal year 1992 follow.

Innovative Privatization Financing (Sri Lanka)

Through an innovative use of the guarantee mechanism, the Office of Investment was instrumental in the successful privatization of a state-owned tire company. A.I.D.'s Privatization Guarantee facilitated the privatization of the parastatal by correcting a market imperfection.

The Government of Sri Lanka decided in 1991 to privatize its tire manufacturing company, Kelani Tyres Ltd. The privatization method chosen involved the private placement, through competitive bid, of up to 60% of the state-owned company to an individual or group of investors. The local group of investors chosen through the bidding process needed to fund a portion of their purchase with medium-term debt. Their financial package represented a conventional leveraged buy-out with equity funds injected by the investor group and the remaining funds (covering the purchase price) raised by the target company through the issuance of medium-term debentures.

The success of the privatization method chosen for this state-owned company was dependent upon the issuance of six-year debentures. Since the investor community in Sri Lanka was unaccustomed to financial instrument maturities beyond one or two years, a guarantee was necessary to encourage investors to commit their investment funds to a new financial instrument with a longer maturity. A local financial institution, Merchant Bank of Sri Lanka, organized a consortium of several local financial institutions to underwrite and guarantee repayment of the debentures. A.I.D. played a critical role in the successful issuance of these debentures by offering a partial backstop guarantee to the local financial institutions, thereby enabling them to manage their risk and participate in additional privatization transactions.

A.I.D.'s privatization guarantee mechanism played an instrumental role in the arrangement of funding for the transfer of the state-owned Kelani Tyres Limited to private hands. Investment Officer Judith Coker Evans visits the tire factory to review privatization plans with plant managers.

Figure 1: Development Impact of Kelani Tyres Privatization

The A.I.D. guarantee facility established for the Kelani privatization had several positive development impacts:

- *Facilitated the successful issuance of the first medium-term debenture in Sri Lanka;*
- *Played a critical role in enhancing the quality of the medium-term debentures, thereby strengthening the private sector's ability to raise funds;*
- *Enabled local financial institutions to participate in several privatizations by enabling them to spread their risk over several transactions;*
- *Created a model to facilitate other privatizations with an A.I.D. guarantee;*
- *Assisted in substantially reducing public sector debt and introducing the efficiencies associated with private sector management.*

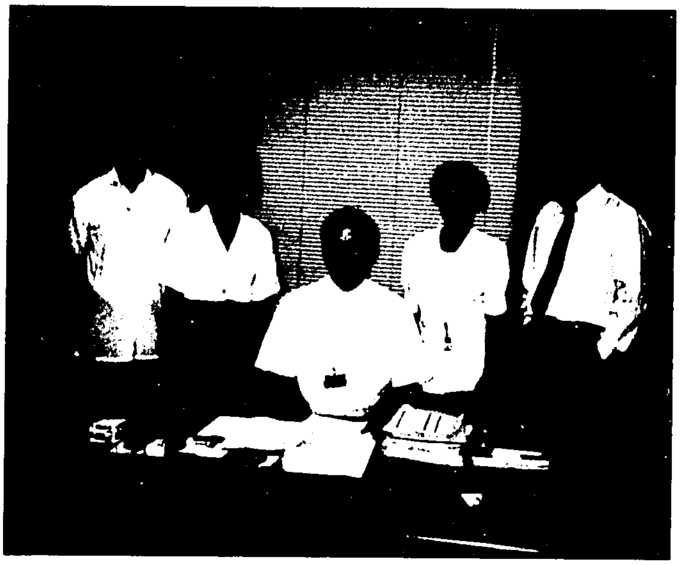
The successful completion of the Kelani privatization has served as a showcase for the ability of an A.I.D. guarantee to support privatization efforts worldwide and thus accelerate and enhance capital markets development. Several Sri Lankan financial institutions participating in the Kelani privatization expressed strong interest in establishing A.I.D. guarantee facilities. In response, the Office of Investment approved the creation of privatization guarantee facilities for individual Sri Lankan financial institutions participating in privatization activities in the future.

Franchising (Philippines)

The Bureau for Private Enterprise's Office of Investment and USAID/Manila's Private Enterprise Support Office recently co-funded a study of franchise opportunities in the Philippines, including an assessment of the need and demand for the Franchise Guarantee Program. As discussed earlier, this program is designed to encourage local financial institutions to finance the participation of local entrepreneurs in U.S. franchise programs.

Small Business Financing (Philippines)

During the year, emphasis in these large and well-established programs was placed on increasing the active utilization of existing guarantee facilities. In addition, several client financial institutions requested renewal of existing Small Business Loan facilities upon expiry in early 1993 and some have proposed additional facilities for innovative uses of the guarantee mechanism. Several non-participating financial institutions have observed the innovative uses and resulting success of the guarantee facilities and have expressed interest in participating in the Investment Program.



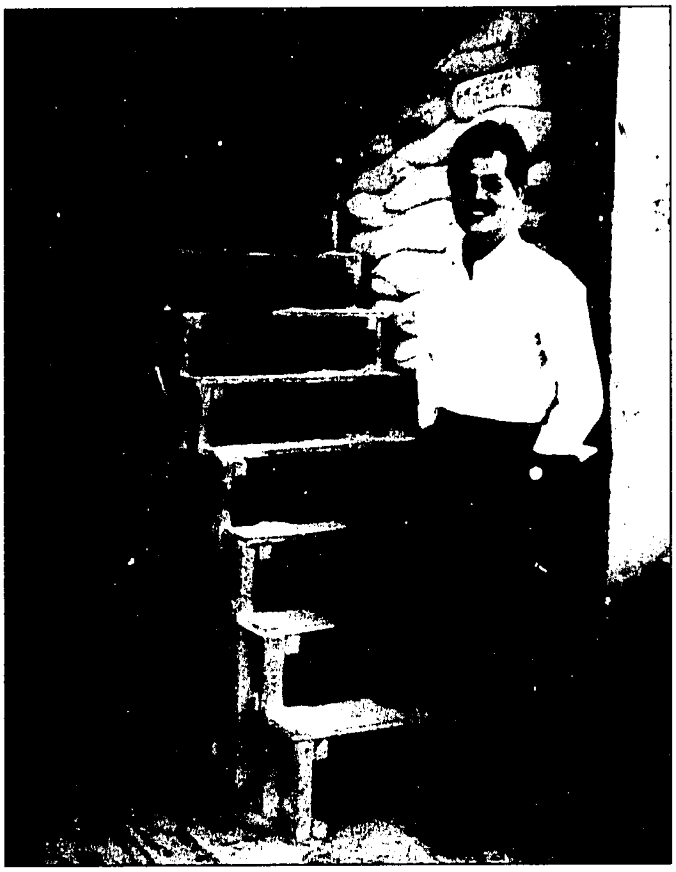
The Office of Investment works closely with participating financial institutions in order to ensure the existence of high quality small business loan portfolios. Senior Investment Officer Bryan Kurtz visits with small business lending officers of the Philippine Commercial International Bank in Manila.

The private enterprise offices in the Manila and Jakarta USAID Missions continue to view the guarantee as one of several critical tools needed to achieve their private sector development objectives. The Missions find it beneficial to have access to the major financial institutions involved in the Investment Program. The relationship established with these financial institutions by the Investment Program is extremely useful to the Missions as it allows them to discuss other development issues and programs with these institutions. The Missions see the benefits of convincing a large number of financial institutions of the merits and profitability of lending to creditworthy small- and medium-sized businesses. Once they are able to mitigate the perceived costs and risks often associated with such lending, participating financial institutions have been able to broaden their loan portfolios to include such previously under-served groups of borrowers.

Small Business/Bank Credit Training Program (Regional)

- **Indonesia** Indonesian financial institutions participating in the Small Business Loan Guarantee Program attended an Office of Investment bank credit training program in early 1992. All of the participants contacted following the completion of the training program indicated several direct benefits including the development of prudent lending practices relating to small businesses. One participating commercial bank, Bank Niaga, was so pleased with the training course that it requested and obtained A.I.D.'s permission to have the course instructors design an in-house training program for it at its own expense.

- **Philippines** The success of similar training programs sponsored by the Office of Investment in Sri Lanka and the Philippines in 1991 has led to requests for a second round of training courses to be held in the coming year. In addition, the Private Enterprise Support Office of USAID/Manila retained the services of the course instructors in order to enhance the training component of the Mission's other private sector development activities.



In certain cases, the Office of Investment provides funding to A.I.D. Missions to support the hiring of local staff to assist in the implementation and coordination of the Private Sector Investment Program. Mr. Manual Villanueva is a former Philippine banker who was hired by the Private Enterprise Support Office of USAID/Manila to help manage several projects involving banks participating in the Investment Program.

LATIN AMERICA & THE CARIBBEAN

The Latin America and the Caribbean (LAC) region is beginning to make a comeback after its "Lost Decade" of the 1980s, when it was the world's slowest growing region, with GDP hovering around 1%. The LAC region launched programs to reverse this economic decline, including structural adjustments, promotion of trade and non-traditional exports, diversification of agriculture, liberalization of trade and privatization.

These programs have begun to have positive effects. Beginning in 1991, the region's GDP grew slightly by 1.2% and by 2.6% in 1992, and the debt service ratio dropped from 41% to 26%. There is reason to be cautiously optimistic about the region's prospects in the 1990s. While the debt level for the region is still substantial, many countries notably Chile, Mexico, Costa Rica, Bolivia, Venezuela and Uruguay, have created imaginative schemes to reduce it. The impact of these measures is evidenced by the gradual return of international banks and investors, and a reversal in capital outflows. Private capital investment reached US $15 billion in 1991, representing 75% of worldwide investment. Thus, Latin America and the Caribbean should provide a fertile ground for A.I.D. guarantee programs in the upcoming year and beyond.

1992 Activity Highlights

This region includes 20 projects totalling $39.57 million or 29% of the total portfolio.

This year, the Office of Investment's projects in the region supported the important objectives of mobilizing credit for Small Businesses, and broadening and deepening capital markets. It expanded its activities into several new areas which are highlighted below.

Promoting U.S. Business (Mexico, Regional)

In 1992, in addition to expanding small business guarantees in several new countries in the LAC region, A.I.D. inaugurated its Franchise Guarantee Program in Mexico. This program is intended to enable local entrepreneurs to own and operate their own businesses while at the same time supporting U.S. businesses to expand their franchise sales in developing countries. The program in Mexico is in consonance with the North American Free Trade Agreement (NAFTA) and interfaces with Mexico's bright prospects enabled by its policies of fiscal stringency and economic liberalization. It is cited as the leader in attracting foreign capital to the region, which reached the highest point since the early 1980s. Mexico is a particularly attractive country for U.S. franchises that are seeking to expand internationally.

The Franchise Guarantee Program in Mexico extended a $3.0 million Loan Portfolio Guarantee to Bancomer exclusively for franchising transactions. The Office of Investment is anticipating the approval of five new guarantee facilities for franchising in Latin America in early 1993. With the improving economic prospects, there is great demand and potential for U.S. franchises in the region.

Broadening and Deepening Capital Markets (Bolivia)

Bolivia's newly-formed Stock Exchange began operations in 1989. Since then, only debt instruments have been issued and traded, 90% of which were issued by the Central Bank with tenors of up to one year.

This year, the Office of Investment successfully launched the Worldwide Bond Guarantee Program, designed to broaden and deepen capital markets in A.I.D.-assisted countries. The first bonds for $6.0 million were issued by Banco Santa Cruz of Bolivia, with resounding success. The entire issue, half of which was purchased by a AAA-rated foreign investor, sold out in an unprecedented seventeen minutes, and the bonds were traded on secondary markets at a profit. Banco Santa Cruz's success has already encouraged three other banks to compete by issuing certificates of deposit (CDs) on the Bolivian Stock Exchange for the first time.

The success of the Santa Cruz issue far exceeded expectations. Both the bank and the Office of Investment had not envisioned that the first issue would have such a profound and immediate impact on Bolivia's capital markets.

It is anticipated that two to three other Bolivian banks will be approved for A.I.D.'s Bond Guarantee Program in FY 1993. The Office of Investment also plans to expand the program into other countries where the emerging market could be deepened by the program.

Training (Nicaragua)

As part of its efforts to focus on transition economies, the Office of Investment is providing increased assistance in Nicaragua. In 1992, training was offered to newly created banks in various techniques of small business lending. The courses are vital to private sector development as they provide the skills necessary, particularly cash-flow based lending techniques, to expand lending to smaller companies. Training was also provided to small business owners in financial management techniques, with an emphasis on cost-accounting. The training courses were well-received by the banking and small business communities in Nicaragua. As economic conditions improve, the Office of Investment expects to further develop private sector banking and small businesses in Nicaragua.

NEAR EAST AND NORTH AFRICA

The repercussions of the Gulf conflict continued to affect the Near East and North Africa in 1991. In addition to the physical damage inflicted on the countries involved, countries throughout the region are still recovering from sharply diminished trade, a dramatic drop in tourism, and an influx of refugees and migrant workers from the Gulf.

In 1992, the economies of the Near East and North Africa region rebounded surprisingly well, following a period of disruption caused by the Gulf conflict. Countries in the region, including Morocco, Tunisia, and Egypt, have implemented economic reform programs to: liberalize interest rates and foreign exchange rates; liberalize prices of manufactured goods; increase trade and attract foreign investment; and shift to more efficient and less inflationary monetary and fiscal policies. In particular, Morocco's economic reforms have contributed to its steady economic growth, impressive price stability and greatly increased foreign direct investment, which has nearly quadrupled in five years. Tunisia's economic reform program has been quite successful in the areas of private sector development, privatization and tax reform, as well as the expansion of the range of available financial instruments.

1992 ACTIVITY HIGHLIGHTS

This region includes 6 projects totalling $12.5 million or 9% of the total portfolio.

Activities continue to be concentrated in Morocco and Tunisia. In 1992, the Office of Investment's primary goal in the region was to intensify efforts relating to training in order to enhance the ability of participating banks to maximize usage of their guarantee facilities. USAID/Tunisia continues to provide important support for privatization activities in Tunisia. Recent moves by the Government of Tunisia indicate its near-term plans to activate the Privatization Guarantee Facility. Established by the Office of Investment in 1991, this facility enables employees to participate directly in the privatization process by mobilizing credit for the purchase of shares and/or fixed assets of companies that are being privatized.

Highlights of the year's accomplishments follow.

Small Business/Bank Credit Training Program (Morocco)

The success of previous training programs sponsored by the Office of Investment in Morocco has led to requests for a second round of training courses to be held in the coming year.

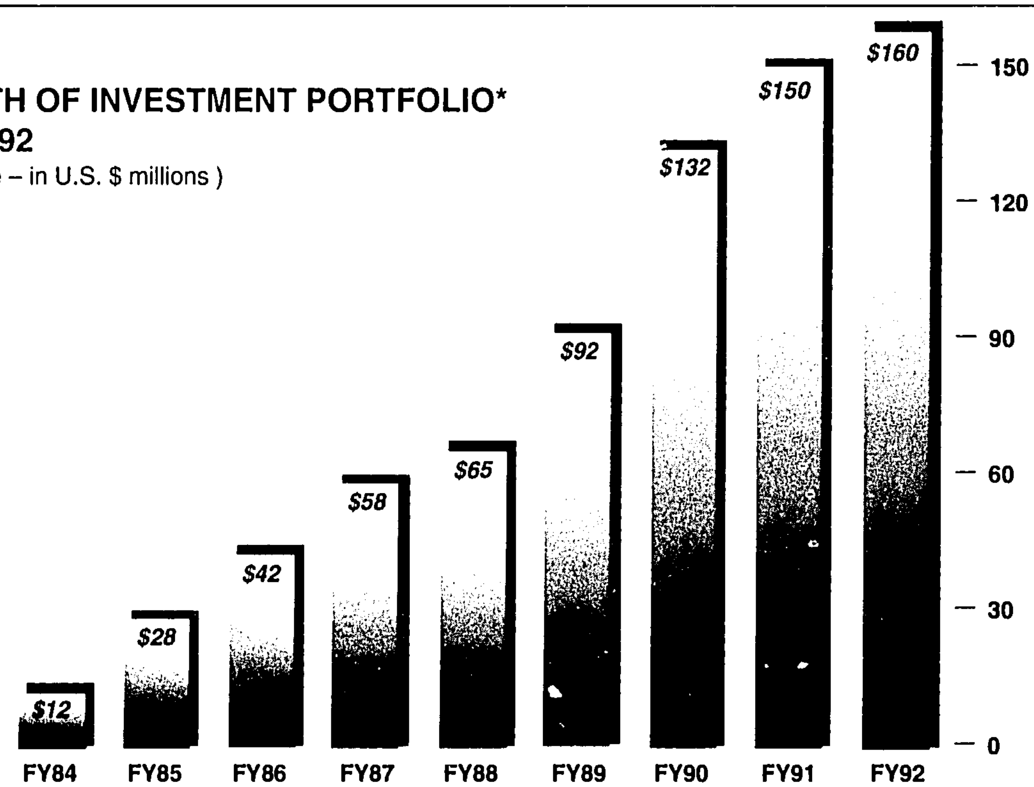
The training courses scheduled for Morocco in January 1993 will break new ground in that this is the first time the training program will be conducted outside of Casablanca, the major commercial center. Training will take place in Tangier and Marrakech in an effort to reach bankers and small business owners who are located in other important regional areas.

ACTIVE INVESTMENT PORTFOLIO SUMMARY

September 30, 1992
Expressed in U.S. $ millions

	LOANS	GUAR.	GRANTS	TOTAL	% OF PORTFOLIO	NO. OF PROJECTS
Sub-Saharan Africa	3.00	22.4	0.05	25.45	18%	25
Asia	4.38	38.63	0.12	43.13	31%	32
Latin America & Caribbean	5.5	35.50	0.57	39.57	29%	20
Near East and North Africa	–	12.50	–	12.50	9%	6
Worldwide Facilities	5.40	12.42	–	17.82	13%	7
Total	18.28	121.45	0.74	138.47	100%	90
% of Total	13.01%	86.46%	0.53%	100%		

GROWTH OF INVESTMENT PORTFOLIO*
1984-1992
(cumulative – in U.S. $ millions)



**Authorizations/obligations less write-offs and de-obligations*

SUB-SAHARAN AFRICA

September 30, 1992
Expressed in U.S. $ millions

	PRIMARY SECTOR	FY	TYPE	LOANS	GUAR.	GRANTS	TOTAL
Africa Regional							
EDESA S.A. (Sub Sahara)	Small Business	FY86	LNG	–	1.50	–	1.50
EDESA S.A. (Sub Sahara)	Small Business	FY91	RMG	–	2.00	–	2.00
Botswana							
Barclays Bank	Small Business	FY88	LNG	–	0.25	–	0.25
BCCI/FNBB	Small Business	FY88	LNG	–	0.15	–	0.15
EDESA S.A. (Botswana)	Small Business	FY91	RMG	–	0.75	–	0.75
Standard Chartered Bank	Small Business	FY88	LNG	–	0.25	–	0.25
Cameroon							
CCEI	Small Business	FY90	LPG	–	1.00	–	1.00
Ghana							
Continental Acceptances	Small Business	FY91	LPG	–	1.00	–	1.00
Kenya							
Barclays Bank of Kenya	Small Business	FY89	LPG	–	1.00	–	1.00
Diamond Trust (Kenya)	Small Business	FY87	LNG/GRT	–	0.50	0.05	0.55
Middle Africa Finance Co.	Small Business	FY89	LPG	–	0.50	–	0.50
Standard Chartered Bank	Small Business	FY90	LPG	–	1.00	–	1.00
Kenya Equity Capital Limited	Small Business	FY91	RMG	–	2.00	–	2.00
Mali							
Bank of Africa	Small Business	FY90	LPG	–	0.50	–	0.50
Mauritius							
Trident Foods (*)	Fish./Process.	FY87	DIL	1.24*	–	–	1.24
Nigeria							
Chartered Bank	Small Business	FY90	LPG	–	1.00	–	1.00
Investment Banking & Trust	Small Business	FY90	LPG	–	1.00	–	1.00
Meridian Equity Bank	Small Business	FY90	LPG	–	1.00	–	1.00
South Africa							
Future Bank	Small Business	FY92	LPG	–	0.50	–	0.50
Nedcor Bank	Small Business	FY92	LPG	–	0.50	–	0.50
Standard Bank	Small Business	FY92	LPG	–	1.00	–	1.00
Togo							
Ecobank (ETI)	Small Business	FY90	LPG	–	3.00	–	3.00
Uganda							
Equator Bank	Small Business	FY91	RMG	–	1.50	–	1.50
Nile Bank	Small Business	FY91	LPG	–	0.50	–	0.50
Zambia							
Masstock	Agribusiness	FY88	DIL	3.00	–	–	3.00
Total for Sub-Saharan Africa Active Portfolio				**3.00**	**22.40**	**0.05**	**25.45**
Total for Sub-Saharan Africa Cumulative Portfolio (includes completed facilities)				**4.24**	**22.40**	**0.05**	**26.69**

* *Completed facility*

KEY		
DIL Direct Loan	FRA Franchise Guarantee	LPG Small Business Loan Guarantee
FOR Forfait Guarantee	GRT Grant	PRV Privatization Guarantee
	LNG Loan Guarantee	BND Bond Guarantee
		RMG Resource Mobilization Guarantee

September 30, 1992
Expressed in U.S. $ millions

	PRIMARY SECTOR	FY	TYPE	LOANS	GUAR.	GRANTS	TOTAL
Bangladesh							
Industrial Dev. Leasing Co.	Leasing	FY90	LPG	–	0.50	–	0.50
Indonesia							
Bank Bali	Small Business	FY89	LPG	–	1.00	–	1.00
Bank Niaga	Export Promotion	FY85	LNG/GRT	–	2.00	0.05•	2.05
Bank Niaga	Small Business	FY90	LPG	–	3.00	–	3.00
Bank Umum Nasional (•)	Rural Lending	FY85	LNG	–	0.60•	–	0.60
Bank Umum Nasional	Small Business	FY91	LPG	–	3.00	–	3.00
Niaga Factoring	Small Business	FY91	LPG	–	0.50	–	0.50
Nusa Bank	Small Business	FY90	LPG	–	0.50	–	0.50
Overseas Express (•)	Small Business	FY85	LNG	–	0.50•	–	0.50
Pan Indonesia Bank	Small Business	FY89	LPG	–	2.00	–	2.00
Nepal							
Nepal Grindley's	Small Business	FY91	LPG	–	0.50	–	0.50
Pakistan							
Pakistan Indust. Comm Leas.	Leasing	FY90	LPG	–	0.04	–	0.04
				–	0.02•	–	0.02
Philippines							
Asiatrust	Small Business	FY91	LPG	–	0.50	–	0.50
Bk. of Philippine Islands	Agribusiness	FY86	LNG	–	1.00	–	1.00
Far East Bank I (•)	Export Promotion	FY85	LNG	–	2.00•	–	2.00
Far East Bank II	U.S. Exports	FY88	LNG	–	2.19	–	2.19
FEB Leas. & Finance Corp	Leasing	FY90	LPG	–	0.50	–	0.50
Mercator Finance Corp.	Leasing	FY90	LPG	–	0.50	–	0.50
Metrobank	Rural Lending	FY86	LNG	–	0.50	–	0.50
Phil. Commercial Intl Bank	Rural Lending	FY86	LNG	–	2.40	–	2.40
Phil. Commercial Intl Bank	Small Business	FY90	LPG	–	3.00	–	3.00
Planters Develop. Bank	Small Business	FY90	LPG	–	1.00	–	1.00
SolidBank	Small Business	FY89	LPG	–	1.00	–	1.00
Sri Lanka							
Citibank	Small Business	FY91	LPG	–	0.50	–	0.50
Finance Company Ltd.	Small Business	FY90	LPG	–	0.50	–	0.50
Hatton National Bank	Small Business	FY90	LPG	–	3.00	–	3.00
Kelani Tyre Merchant Bank	Privatization	FY92	PRV	–	2.00	–	2.00
Sampath Bank Ltd.	Small Business	FY90	LPG	–	2.50	–	2.50
Seylan Bank	U.S. Exports	FY91	DIL	1.00	–	–	1.00
Seylan Bank	Small Business	FY91	LPG	–	1.50	–	1.50
Thailand/Indonesia							
Healthlink/Path(•)	Health	FY84	LNG	–	0.31•	–	0.31
Thailand							
Bank of Asia (†)	Small Business	FY90	LPG	–	3.00†	–	3.00
Thai Danu(•)	Rural Lending	FY85	LNG/GRT	–	2.35•	0.05•	2.40
Thai Pacific Foods	U.S. Exports	FY84	DIL/GRT	2.50	–	0.07	2.57
Thai Venture Capital	Venture Capital	FY87	DIL/GRT	0.88	–	0.05	0.93
Total for Asia Active Portfolio				**4.38**	**38.63**	**0.12**	**43.13**
Total for Asia Cumulative Portfolio (includes completed facilities)				**4.38**	**44.41**	**0.22**	**49.01**

• *Completed facility*   † *Suspended due to coup in Thailand*

September 30, 1992
Expressed in U.S. $ millions

	PRIMARY SECTOR	FY	TYPE	LOANS	GUAR.	GRANTS	TOTAL
LAC Regional							
ACCION I	Microenterprise	FY85	LNG/GRT	–	1.00	0.52	1.52
ACCION II	Microenterprise	FY91	DIL	2.00	–	–	2.00
Bolivia							
Union of Bolivian Banks (8 banks)	Small Business	FY86	LNG/GRT	–	2.00	0.06*	2.06
Banco Industrial, S.A.	Small Business	FY92	LPG	–	1.50	–	1.50
Banco Hipotecario National	Small Business	FY92	LPG	–	1.50	–	1.50
Banco de LaPaz	Small Business	FY92	LPG	–	1.50	–	1.50
Banco Santa Cruz Bonds	Small Business	FY92	BND	–	3.00	–	3.00
Caribbean							
Agribusiness (*)	Agribusiness	FY85	DIL	0.15*	–	–	0.15
Caribbean Basin Corp.(*)	Venture Capital	FY84	DIL	0.26*	–	–	0.26
International Multifoods (*)	Agribusiness	FY85	DIL	1.00*	–	–	1.00
Costa Rica							
Banco de Comercio	Small Business	FY90	LPG	–	2.00	–	2.00
COFISA	Small Business	FY89	LPG	–	0.50	–	0.50
Costa Rica Ecotourism	Environment	FY90	DIL/GRT	0.50	–	0.05	0.55
PIC	Venture Capital	FY91	DIL	3.00	–	–	3.00
Dominican Rep.							
Banco de DeSarrollo BHD (*)	Small Business	FY89	LPG	–	0.50*	–	0.50
Confisa Leasing	Leasing	FY90	LPG	–	0.50	–	0.50
Finade(*)	Export Promotion	FY84	LNG	–	2.00*	–	2.00
Ecuador							
Finguasa (*)	Small Business	FY84	LNG	–	1.40*	–	1.40
Finiber I (*)	Small Business	FY84	LNG	–	1.40*	–	1.40
Guatemala							
Guatemala LGF (*)	Agribusiness	FY87	LNG	–	0.50*	–	0.50
Jamaica							
ALICO Jamaica (2 banks)	Small Business	FY89	RMG	–	2.00	–	2.00
Century National Bank	Small Business	FY90	LPG	–	2.00	–	2.00
Jamaica Citizens Bank (*)	Small Business	FY89	LPG	–	0.50*	–	0.50
Jamaica Privatization (5 banks)	Privatization	FY91	PRV	–	10.00	–	10.00
Mutual Security Bank	Small Business	FY89	LPG	–	3.00	–	3.00
Mexico							
Bancomer	Small Business	FY92	LPG	–	3.00	–	3.00
Total for LAC Active Portfolio				**5.50**	**33.50**	**0.57**	**39.57**
Total for LAC Cumulative Portfolio (includes completed facilities)				**6.91**	**39.80**	**0.63**	**47.34**

* *Completed facility*

NEAR EAST AND NORTH AFRICA

September 30, 1992
Expressed in U.S. $ million

	PRIMARY SECTOR	FY	TYPE	LOANS	GUAR.	GRANTS	TOTAL
Jordan							
Bank of Jordan (*)	Small Business	FY88	LNG	–	1.00*	–	1.00
Cairo Amman Bank(*)	Small Business	FY88	LNG	–	0.50*	–	0.50
Morocco							
SMDC	Small Business	FY91	LPG	–	1.00	–	1.00
Wafabail	Leasing	FY90	LPG	–	1.50	–	1.50
Wafabank(*)	Small Business	FY85	LNG/GRT	–	2.50*	0.05*	2.55
Wafabank	Small Business	FY90	LPG	–	3.00	–	3.00
Tunisia							
Arab Tunisian	Small Business	FY90	LPG	–	2.00	–	2.00
BIAT	Privatization	FY91	PRV	–	3.00	–	3.00
CFCT	Small Business	FY90	LPG	–	2.00	–	2.00
Turkey							
Securitized Trade (*)	Small Business	FY87	LNG	–	2.40*	–	2.40
Total for Near East Active Portfolio				**0.00**	**12.50**	**0.00**	**12.50**
Total for Near East Cumulative Portfolio (includes completed facilities)				**0.00**	**18.90**	**0.05**	**18.95**

** Completed facility*

WORLDWIDE FACILITIES

September 30, 1992
Expressed in U.S. $ million

	PRIMARY SECTOR	FY	TYPE	LOANS	GUAR.	GRANTS	TOTAL
Environment							
Cultural Survival Enterp.	Environment	FY90	DIL	3.00	–	–	3.00
Environ. Enterp. (Winrock)	Environment	FY90	DIL	2.40	–	–	2.40
Forfaiting							
Barclay's Forfaiting	U.S. Exports	FY91	FOR	–	2.50	–	2.50
Midland Bank Aval, Ltd.	U.S. Exports	FY89	FOR	–	2.50	–	2.50
Monaval Finanz A.G.	U.S. Exports	FY89	FOR	–	2.50	–	2.50
Westdeutsche Landesbank	U.S. Exports	FY90	FOR	–	1.92	–	1.92
Franchising							
AlphaGraphics	U.S. Franchising	FY91	FRA	–	3.00	–	3.00
Total for Worldwide Active Portfolio				**5.40**	**12.42**	**0.00**	**17.82**
Total for Worldwide Cumulative Portfolio (includes completed facilities)				**5.40**	**12.42**	**0.00**	**17.82**

STATEMENT OF CASH REFLOWS

September 30, 1992
Expressed in U.S. $ thousand

FISCAL YEAR	PRINCIPAL	INTEREST	FEES	TOTAL*
1985	$0	$74	$15	$89
1986	152	296	94	542
1987	1,878	862	113	2,853
1988	1,436	1,134	145	2,715
1989	6,549	1,406	149	8,104
1990	6,022	2,309	198	8,529
1991	4,889	1,660	240	6,789
1992	3,664	1,017	224	4,905
TOTAL	$24,590	$8,758	$1,178	$34,526

** Note: excludes earnings on reflows invested in U.S. Government Obligations.*

As required by Section 303 of the Chief Financial Officers Act of 1990, the Financial Statements for the Private Sector Investment Program will be submitted to the Office of Management and Budget by March 31, 1993, and audited Financial Statements for the Private Sector Investment Program will be available on June 30, 1993. Therefore, the Financial Statements for the Private Sector Investment Program are not included in this year's annual report for the Private Sector Investment Program.

INVESTMENT PROGRAM MANAGEMENT

U.S. Agency for International Development

Administrator (acting)	Scott M. Spangler

Bureau for Private Enterprise

Assistant Administrator (acting)	Robert Bakley

Office of Investment

Director	Stephen C. Eastham
Deputy Director	James Dempsey
Chief Credit Officer	Daniel Roberts
Senior Investment Officers	
Africa and the Near East	Sandra Goshgarian
Asia	Bryan Kurtz
Latin America & the Caribbean	Carolin Crabbe
Investment Officer	Judith Coker Evans
Project Officer	Katherine Wilson
Assistant Investment Officer	Frank Nieves

Office of the General Counsel

Assistant General Counsel (PRE)	Michael Kitay
Attorney Advisor	Dale M. Sarro
Attorney Advisor	Paul Weisenfeld

Investment Advisory Board

Daniel Callahan, III
Chairman, USLICO Corporation

William Diamond
former Director, World Bank

John Petty
Chairman, Czech & Slovak American Enterprise Fund
former Chairman of the Board, Marine Midland Bank

Alexander Tomlinson
President and CEO, Hungarian-American Enterprise Fund
former Chairman, Executive Committee, First Boston

George Williams
Chairman, Allied Capital Corporation

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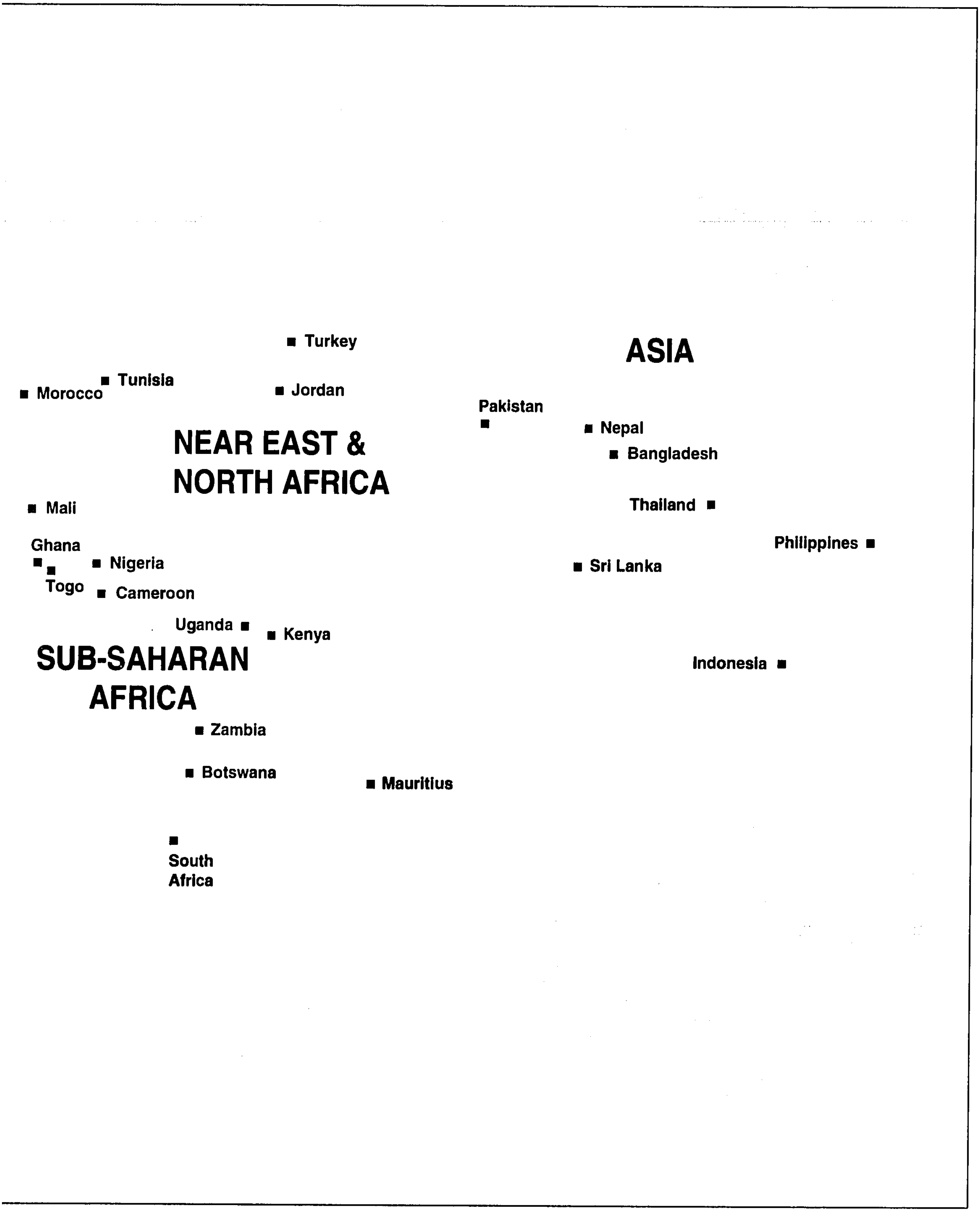
REGIONAL DISTRIBUTION OF INVESTMENT PORTFOLIO

- Mexico
- Dominican Republic
- Guatemala
- Jamaica
- Costa Rica
- Ecuador

LATIN AMERICA & CARIBBEAN

- Bolivia
- Paraguay
- Chile


Turkey
ASIA
Tunisia
Morocco
Jordan
Pakistan
Nepal
NEAR EAST &
NORTH AFRICA
Bangladesh
Thailand
Mali
Ghana
Nigeria
Philippines
Sri Lanka
Togo
Cameroon
Uganda
Kenya
SUB-SAHARAN
AFRICA
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Botswana
Mauritius
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Africa