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MANAGEMENT ASSESSMENT  
BUREAU FOR PRIVATE ENTERPRISE

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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# MANAGEMENT ASSESSMENT

## BUREAU FOR PRIVATE ENTERPRISE

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## GLOSSARY

A.I.D.	Agency for International Development
AA/PRE	Assistant Administrator for PRE Bureau
I.E.S.C.	International Executive Service Corp
PRE	The Private Enterprise Bureau
PRE/I	The Private Enterprise Bureau's Office of Investment
PRE/PD	The Private Enterprise Bureau's Office of Project Development
PSRF	Private Sector Revolving Fund

## I. EXECUTIVE SUMMARY

The Bureau for Private Enterprise (PRE) has operated a program, the Private Sector Revolving Fund (PSRF), parallel to the operating bureaus. The program has not been adequately integrated into the mainstream of A.I.D.'s country programs. The communications gap between PRE and the regional bureaus and field missions limits the Agency's effectiveness in reaching its goals in private enterprise development.

We conclude that AID has been successful in instituting a private sector initiative which is well established but of uneven application throughout the agency. It is time to move to a second phase in AID's Private Sector Initiative to bring about more effective teamwork directed toward the Agency's private sector goals.

To accomplish this, we suggest an enhanced role and a new set of relationships for PRE. PRE should be given a stronger mandate to become a "center of excellence" as a staff and service function within A.I.D. on private enterprise matters.

To emphasize teamwork, we suggest that the PSRF program be placed under the overall direction of a Board of Directors in which the regional bureaus and PRE become partners. A corollary is that field missions would integrate PSRF resources into their programs and assume primary responsibility for day-to-day management of the projects.

PRE's performance against its objectives is generally rated as good in the areas of PSRF administration and provision of services to field missions. However, due to limited availability of human resources -- particularly experienced private sector executives -- PRE has not been able to exert substantive leadership within the Agency in matters of private enterprise program content and policy reform.

Finally PRE should strengthen AID's links with other international donors, particularly the World Bank, which is giving new priority to the private enterprise sector.

## II. INTRODUCTION

### A. Background

Historically, the private enterprise theme has been woven into the U.S. foreign assistance program. The Marshall Plan focused on reinvigorating private enterprise in war-torn Europe. In 1961, the Humphrey amendment to the Foreign Assistance Act stated that the foreign assistance program should promote private rather than public sector development, and explicitly encouraged the promotion of private cooperatives and credit unions. Thus, the Alliance for Progress in Latin America was characterized by intermediate credit programs and other small business development activities.

In 1981, the A.I.D. Administrator designated the Private Sector as one of the "Four Pillars" of Agency activity, and established the Bureau for Private Enterprise to promote the use of private enterprise mechanisms through the foreign assistance program. Simultaneously, other bureaus within A.I.D. also explored how their programs might utilize private mechanisms for implementation.

The A.I.D. emphasis on private enterprise has coincided with growing recognition among international donors and among LDC governments that public resources will never be sufficient to sustain adequate rates of growth in the developing countries. There is disillusion over the failure of public enterprises to fulfill their roles as efficient producers. A large portion of the LDC debt burden is due to the inefficient operation of state owned entities which have failed in their mission and continue to require subsidies which generate large budget deficits. At the same time, developing countries are believed to be characterized by large informal sectors comprised of people who have been frozen out of remunerative economic opportunities by excessive government control. A.I.D.'s emphasis on the private sector is based on the realization that free, open and competitive markets serve as engines of development. The incentive they provide extends to all levels of people within society, and motivates them to save, to invest and to produce. This reliance on market-based growth creates new imperatives for donors such as A.I.D. and the World Bank.

### B. General Conclusions

The assessment team reviewed each of the organizational components of the PRE bureau - their programs, personnel, and accomplishments. The team assessed PRE against the original expectations, as well as the current more limited objectives reflected in organizational practice.

Underlying the individual findings is one superordinate conclusion: PRE, set up as a separate entity in the A.I.D. structure, has operated a parallel program which has not been integrated adequately into the mainstream of A.I.D.'s country programs. The result is a gap in communications between PRE and the operating bureaus and field missions which does today, and will in the future, limit the Agency's effectiveness in reaching its goals in private enterprise development. This was demonstrated many times: the Regional bureaus, and too many of the field missions, acknowledged they were not familiar with the programs and resources of PRE; and PRE personnel did not understand and know the details of the country strategies and programs. Indeed, the team was concerned to find no single source of information in the Agency concerning private sector programs and projects, or even the proportion of Agency resources devoted to private enterprise activities.

The team therefore concluded that not enough effort has been made by both parties - the regional bureaus and PRE - to collaborate on making the private enterprise initiative work better. We believe this is due to an inherent defect in the way PRE was established in the A.I.D. structure, and to a wide spread feeling that PRE is a temporary phenomenon which may soon be abolished and "out of our hair". Both problems are susceptible to solution in the short term.

PRE's organizational position is characterized by an inherent conflict of roles. PRE is constituted both as a line bureau with its own financing portfolio, and as a staff and service bureau for the Agency. The imperative of "Greshams law of administration" states that the demands of day to day operations will drive out the concerns of long range planning and other less urgent or less tangible roles. We observe that PRE management regards the PSRF as its priority program, and has allocated to it the lion's share of operating and program funds.

We suggest that top Agency management make clear the direction and priorities which it expects from all components of the Agency with respect to the private enterprise initiative. As part of this process we suggest that a new role and a new set of relationships be established for PRE in order to facilitate a higher level of teamwork.

A new role for PRE should take the following shape.

- Place the Revolving Fund under the overall direction of a Board of Directors consisting of senior Agency line management and AA/PRE. PRE/I would continue to serve as General Manager of the Fund under direction of the Board of Directors.

-- Give PRE a broad mandate to become a "center of excellence" as a staff and service function within A.I.D. on matters pertaining to the private enterprise sector. Under this mandate, PRE would:

1. Serve as General Manager of the Revolving Fund
2. Provide leadership by serving as an intellectual focal point and center of information for Agency experience on a broad range of private enterprise issues.
3. Bring talented private sector expertise to the entire Agency's private enterprise policy and programming process.
4. Continue to manage technical services contracts as a service to the Bureaus and missions.
5. Serve as a central point for compiling and analysing the Agency's experience in private enterprise programs.
6. Expand coordination with the U.S. private sector and with other donors such as the World Bank.

This mandate is designed to enhance communication and teamwork among the different components of the Agency. Furthermore, it will encourage the operating missions to take hold of an innovative resource -- the Revolving Fund, or its successor guarantee authority -- as a new, flexible development resource for specific private sector objectives. It is time to move it from the incubator to the mainstream operating programs.

### C. Scope and Methodology

This assessment covers the management and operation of the programs of A.I.D.'s Bureau for Private Enterprise, excluding those of the Office of Housing and Urban Development, which operates independently of PRE. Our review covered the goals and objectives of PRE; their relationship to A.I.D.'s overall goals and those of other A.I.D. organizational units; the extent of progress toward those objectives; the sufficiency of personnel and financial resources allocated to PRE and the effectiveness with which they are being managed. In assessing these issues, the team focused on each of the major activities currently managed by PRE in support of their overall objectives.

The findings and conclusions of this report are based on three sources of data: documentation, personal interviews and comments solicited by cable from A.I.D. field missions.

Documentary evidence included Foreign Assistance legislation, A.I.D. policy papers, speeches made by A.I.D. management, Congressional Presentations, functional statements, program and administrative expense budgets, staffing patterns, personnel records, management reviews, project reports and contracts, audit reports, project files including project descriptions and authorizations and project evaluation reports.

The assessment team conducted interviews with over 80 people, including present and former PRE Bureau professional staff; A.I.D. staff in the Bureaus for Program and Policy Coordination, Science and Technology, the geographic bureaus, and General Counsel's office; contractor and grantee officers; A.I.D. mission directors and other field staff; and officials of other organizations, including IBRD, OPIC, GAO, NSC, etc.

Comments were solicited from all A.I.D. field missions, and 22 field missions were asked to respond to detailed questions regarding specific PRE-supported activities. Comments from interviewees and cables from the field were forthcoming and candid. Necessarily, the team is required to make judgements and come to conclusions. These are our own responsibility, of course, but we feel they are based on the soundest data and information possible to obtain within the time and resources available.

### III. PRINCIPAL FINDINGS

1. A.I.D.'s Private Sector Initiative is well established throughout the Agency, but is uneven in application. PRE is only a part of the Initiative.

The Initiative's strength, breadth and momentum is evidenced by the increased funding allocated to private enterprise programs worldwide, the integration of private sector criteria in planning and evaluating programs and projects, the emphasis on private enterprise in staffing and training functions, and a palpable level of commitment on the part of many of the officers we interviewed. Some country programs, however, have lagged in their application of private enterprise programs in their development strategies.

PRE's programs represent only a fraction of the Agency's Private Sector programs and projects. The regional bureaus invested in 1987 about five times more DA funds than PRE in Private Sector projects, in addition to large ESF resources used for policy reform.

2. There is a serious leadership and information gap in the Agency in the private sector area.

Initially, PRE was expected to exert a leadership role in policy-making concerning the content and direction of the Agency's private sector activities. PRE has not been able to play this role because of the resistance of the other Bureaus and offices of the Agency, and because of limited ability to attract and retain qualified, creative talent, both from within A.I.D. and from the private sector.

This report calls for establishing PRE as a "center of excellence" for the Agency on private enterprise matters and as an information center on A.I.D. activities in the private sector.

3. PRE's current objectives are valid in terms of A.I.D.'s overall goals. In this context PRE has become effective in three areas: The Revolving Fund, Technical Services to Missions, and Training.
4. PRE has successfully introduced innovations in A.I.D.'s private enterprise programs.

PRE has achieved recognition as a source for the missions of qualified technical services, in three general areas: privatization, financial markets, and private enterprise development analysis and planning. Further, the Revolving Fund has introduced new financing techniques to increase the flow of resources to small and medium business.

5. PRE's service contracts have provided an important resource to field missions and A.I.D./W bureaus.

Demand for PRE's services has grown, and field missions have confirmed their value by using, and in many cases, funding them with their own resources. Nevertheless, several missions were not aware of the availability or relevance of these support services. This points to the need for improved communications.

6. With Revolving Fund resources, PRE has successfully managed the build-up of a portfolio of \$60 million.

The Fund has originated \$60 million (30 projects) of investments with the LDC private sector that comply with both the legislative criteria and A.I.D.'s private sector objectives. A key feature of this effort was the introduction of new financing techniques that induced private commercial banks to lend to non-traditional sectors, e.g. small scale rural enterprises.

7. The Revolving Fund should be incorporated into the mainstream of A.I.D.'s private enterprise programs.

A new form of organization is required to achieve this objective with respect to the Revolving Fund as well as the proposed Guarantee Authority. We suggest that A.I.D. incorporate the Fund under the direction of a Board of Directors, consisting of the senior managers of the regional bureaus and PRE (i.e. the Assistant Administrators). This new structure would assure the direct participation of the regional bureaus, and give the field missions a strong role in project design and implementation. PRE would serve as General Manager of the Fund under the overall direction of the Board of Directors, and would retain on its staff the expertise necessary to assist the field missions.

8. More complete integration of PRE programs with the rest of A.I.D. is required, but will require organizational changes.

PRE's technical service programs, as well as the Revolving Fund, should be better integrated with the programs of the field missions. This would require a realignment of the relationship between PRE and the geographic bureaus and field missions. This realignment would also eliminate the current confusion about PRE's line and staff roles.

9. The training course, Role of the Private Sector in Development (RPSD), has made a positive contribution to A.I.D.'s Private Sector Initiative, and should be expanded. Additional impact could be achieved if Mission Directors and other senior officers were required to attend a modified RPSD.

A.I.D. officers who have attended the two-week RPSD course have been highly positive in their evaluation of it. The course should be expanded with more emphasis on acquisition of technical skills. A shorter course, suitably modified and targeted for Mission Directors, has the potential to accelerate the process of translating A.I.D.'s private enterprise policy emphasis into field programs.

10. PRE staff contains insufficient experienced private sector executives.

Part of the problem PRE and the Agency face in implementing the Private Sector Initiative is the lack of people with solid private sector experience who command credibility among the operating managers of the Agency and with the private sector and host governments. It is not necessary to recruit career staff for all private sector skills.

#### IV. PRE BUREAU OBJECTIVES AND OVERALL PROGRESS

##### A. Current Policy and Objectives

Current A.I.D. policy on private enterprise development is codified in A.I.D.'s Private Enterprise Development Policy Paper issued by the Bureau for Program and Policy Coordination in March 1985, which superseded both the PRE bureau Policy Paper of May 1982 and PPC's Policy Paper issued in 1982. The revised Paper focuses squarely on private enterprise development in the LDC'S. The goals are:

"- to encourage LDCs to open their economies to a greater reliance on competitive markets and private enterprise in order to meet the basic human needs of their poor majorities through broadly-based, self-sustained economic growth; and

"- to foster the growth of productive, self-sustaining income and job producing private enterprises in developing countries."

The paper further states that

"The overriding intent of A.I.D.'s private enterprise policy is to promote the establishment of a climate conducive to LDC private sector activity; it is ~~is~~ not intended primarily to finance the establishment of individual business entities per se. The two pronged objective, to reach the ultimate goal of growth, is the establishment of viable, competitive markets, and the expansion of private enterprise in LDCs."

The Policy Paper does not set priorities, since these decisions were "to be made at the mission strategy, program and project levels." It assigns "principal" responsibility for carrying out the policy to A.I.D. field missions and regional bureaus.

Since 1984, there is reasonable consistency in statements of PRE's broad overall goal, i.e.

"to provide support for the establishment and growth of indigenous private enterprises in LDCs as a cost effective means of achieving broad-based, self-sustaining economic growth and development. ... As the Agency's focal point for promoting LDC economic growth and development through private enterprise mechanisms, PRE works closely with regional bureaus and country missions to help develop strategies and programs which will incorporate private initiative in U.S. A.I.D. missions' development programs."

(FY 1985 Congressional Presentation, Feb. 1984)

Current PRE program documents, the Central Program Strategy Statement (CPSS), the FY 1987-88 Action Plan and the FY 1989 Congressional Presentation (CP), are consistent with each other and with agency goals as stated in earlier documents. According to the FY 1989 CP, PRE "provides ideas, direct investments, guidance and expert assistance to A.I.D. and its missions to achieve self-sustaining, equitable economic growth..." The FY '89 CP continues: PRE has focused on:

- "facilitating policy reform to improve business climates";
- "building an investment portfolio which provides innovative models for replication";
- "strengthening capital markets";
- "privatizing state-owned and controlled enterprises"; and
- "providing skills training in both developing countries and within A.I.D."

B. Overall Performance

PRE sees itself in three roles: leader, service-provider and innovator. In terms of leadership, ~~the assessment team encountered considerable skepticism throughout A.I.D./W that PRE had played more than an incidental leadership role in promoting private enterprise as a means of achieving economic growth.~~ A number of persons observed that PRE's credibility and influence would be substantially enhanced if PRE were able to attract into public service a business person of established prominence, capability and vision. Others, both in central and regional bureaus, felt that PRE offered little in the way of policy guidance or private enterprise-related services that the bureaus could not provide. However, many conceded that PRE had contributed as part of a collaborative team effort, primarily through providing contract technical services.

Skeptical views on PRE's leadership role may flow from bureaucratic turf considerations and inadequate knowledge of PRE Bureau functions. The team notes that with few exceptions, PRE has had inadequate staff and resources to serve as leader in either policy or program matters. Furthermore, the Bureau for Program and Policy Coordination has retained overall responsibility for policy coordination within the Agency, and field missions and regional bureaus were explicitly given the leadership role in the policy guidelines. Thus, PRE reference to leadership is inaccurate in most instances. PRE can provide leadership only to the extent that it promotes innovation

through investments and services and above all, the expertise it has to offer. Often other A.I.D. offices will claim credit for these activities.

The team concluded that there is a serious leadership and information gap in the Agency in the private enterprise area, broadly defined both as a mechanism and as an end in terms of building indigenous private enterprise. It is evident that there is no single point within A.I.D. for accumulating information about the Agency's private enterprise programs.

In our view, PRE is the logical organizational entity for pulling together and analyzing Agency-wide experience among missions, regional bureaus and central bureaus in areas such as privatization, financial market development, trade promotion, micro-enterprise, innovative investment techniques, guarantee funds, investment promotion, debt-equity, capital flight, private mechanisms for health delivery, population, agricultural marketing, etc. PRE could utilize the Agency's Private Sector Council, which it chairs, to bring together Agency expertise on these sectoral issues. It can also utilize current contract mechanisms for "state of the arts" analysis of A.I.D. Moreover, there is much to be gained from a closer Agency contact -- which PRE should lead -- with other international donors, particularly the World Bank.

The team found that the Private Sector Initiative is well established in A.I.D., and that Agency leadership at all levels had been active and effective in promoting the initiative. The creation of PRE symbolized A.I.D.'s intent in respect to private enterprise and served as a catalyst to the Agency's efforts. PRE's role in program innovation and training has contributed to the progress.

As innovator, PRE has had moderate success. As one overseas mission said, "We believe PRE functions well as a 'think tank', and this mission has benefited from their skills in this area.". PRE has provided leadership in the PL 480 Section 108 legislation. The Center for Privatization provides A.I.D. with expertise in a new field. PRE's Financial Markets Development Project has the potential to become A.I.D.'s recognized and preferred source for financial markets expertise. The Revolving Fund has been used to demonstrate creative means of coaxing LDC financial institutions to venture into more risky, small-to-medium business lending. On the other hand, PRE has not offered much help to the Agency in finding new roles for private enterprise in the delivery of health and agriculture services.

C. "Partnership" with U.S. Private Enterprise

Initially, PRE's major objectives included establishment of a "partnership" between U.S. and LDC private enterprise which was expected to result in significant flows of capital, management and technology to LDC private enterprise. While some creative effort was devoted to this objective, it met with little success in its first area of concentration, the Caribbean Basin. In 1986, the partnership activity was transferred to the Office of Private Sector Coordinator, attached to the Administrator's Office. In 1987, this function was returned to PRE, with the staff of two. There are encouraging signs of activity in Egypt, with two U.S. firms committed to investments and a significant number of others at various pre-investment stages. The tentative signs of reversal warrant careful watching, to assure they are real, replicable and cost-effective.

D. Summary

1. PRE has evolved a consistent, although limited, set of objectives for the Bureau, and these are well integrated with A.I.D.'s overall goals.
2. PRE's success in fulfilling its objectives has been mixed.
3. PRE has not been able to play an effective leadership role in policy reform, or in the content and direction of private-enterprise projects apart from their own.;
4. PRE has produced some innovative ideas and initiatives for A.I.D.'s private enterprise programs; the Center for Privatization, Financial Markets Development and the Revolving Fund are illustrative;
5. PRE's technical service contracts are valued and widely used by field missions;
6. PRE management has succeeded in increasing the field service orientation of the Bureau. However, communication with field missions and regional bureaus still needs improvement;
7. Establishment of a "partnership" between U.S. and LDC private enterprise, an early emphasis in A.I.D.'s Private Sector Initiative, has met with limited success. Renewed efforts are being made.

V. ORGANIZATION AND STAFFING

A. Current Situation

PRE is currently organized into five offices: 1) the Office of the Assistant Administrator (with a three-person administrative support staff), 2) the Office of Program Review (PRE/PR), 3) the Office of Investment (PRE/I), 4) the Office of Program Development (PRE/PD), and 5) the Office of Housing and Urban Programs. The latter operates independently of PRE except for administrative and program operations support and is not included in the scope of this assessment. Excluding housing and urban programs, PRE is authorized 36 positions of which ten are allocated to clerical and administrative support functions.

The Project Development office was added in 1985, when the project function was separated out of the Program Office. The Office of Investment has existed since establishment of PRE.

In broad terms,

- PRE/PR is responsible for policy and program formulation and program resource allocation and control;
- PRE/PD is responsible for designing and implementing technical assistance projects and grant activities;
- PRE/I manages the revolving fund and would be responsible for the Loan Guarantee Fund to be established.

If properly staffed and managed, this organizational structure appears well suited to meet the bureau's objectives, which go beyond structure alone:

- PRE/I operates essentially independent of PRE/PD and PRE/PR. Opportunities for coordination, collaboration, and synergism are being missed.
- There appears to be insufficient staff to carry out PRE's present responsibilities, let alone the addition of the newly approved Loan Guarantee Authority. This observation was pervasive, not only from PRE officers but from inherently skeptical sources such as the I.G. The critical shortages appear to be administration of the Revolving Fund and PRE/PR's policy development function.
- Recruitment and retention of staff have been difficult. Position designations and the assigned grades have seriously inhibited recruitment, as has the perception that PRE does not exercise a strong

leadership role. We were told that rigidities associated with designation of office chief positions as "G", civil service, rather than "F", foreign service, affect the grades at which subordinate positions can be classified.

There has been a relatively high rate of turnover among PRE professional staff. In each year but one from 1983 to 1987, 25% to 33% of the staff left the Bureau. In four of the same five years, the average tenure of those employees leaving was less than two years. Of the 25 employees leaving during that period, twelve were Administratively Determined (A.D.); eleven were foreign service officers and only two were civil service employees. In addition to the usual factors entering into rapid turnover, e.g. grade classification, leadership and general working conditions, staff vs geographic bureau, etc., PRE has been affected by the common perception that it is a "temporary" bureau, and by the fact that a relatively high proportion of PRE positions are A.D. positions.

To be fully effective, PRE must be able to attract and retain creative, qualified individuals. Possible measures include:

- A thorough reexamination of the grade structure, to be carried out by an examiner able to understand the innovative and complex nature of PRE's mandate;
- Retention of some degree of flexibility in terms of A.D. positions. This is desirable in order to access special kinds of expertise and experience from the private sector;
- Judicious use (in addition to that already made by PRE administrative staff) of contracting approaches to extend the usefulness of A.I.D. Direct Hire staff, including PRE/I;
- Designation of several positions as "F", Foreign Service. In addition to providing flexibility in attracting personnel, this would enable A.I.D. to expand the process of assigning to PRE its Private Enterprise, Project Development and other officers who rotate to Washington between overseas tours. Over time, this would strengthen the officer cadre as well as PRE relationships with other Bureaus.

The blend of civil service and foreign service professionals, and of those with Agency experience and private sector experience is reflected throughout the PRE bureau and other central Bureaus. A knowledge of A.I.D. bureaucratic procedures

and development economics is essential to providing effective services. Nonetheless, the paucity of staff with business experience represents an area of inadequacy which is partly compensated by recruiting these skills through contracts. Both skills must be represented if sound policy environments, market forces and business creativity are to be injected into the mainstream of Agency programs and policy reform efforts.

#### B. Private Enterprise Staffing: Special Needs

PRE has operated generally within the usual parameters of public service personnel systems. This has been adequate for the present scope and nature of PRE's service-delivery functions, although the investment function has been forced to resort to AD appointments to attract experienced staff. For the next phase of the Private Sector Initiative, A.I.D. and PRE will need to reach out much more imaginatively into the U.S. private sector to augment the existing pool of talent. With a few exceptions, PRE's staff does not include business leaders with the stature to command credibility within the Agency's councils and elements of the private sector, and to provide the vision to carry the Private Sector Initiative forward. Even at staff levels, it is not realistic to expect a government agency to attract and retain the full range of expertise necessary to support a private enterprise effort as substantial as A.I.D.'s is becoming. The question is: How can A.I.D. obtain the caliber of leadership and technical expertise to continue the momentum already established?

The team realizes there are many difficulties inherent in acquiring the needed talent from the private sector, especially within the constraints of the public personnel system. There are other instruments available, however, including the I.E.S.C., the President's Commission on Executive Exchange, and given the commitment of top management to the Initiative, direct requests to CEOs to provide the talent required, even for limited periods of time. It may not always be necessary to recruit these talents for a career. A well articulated program of perhaps 10-12 people serving varying but limited periods of time with A.I.D. could make a difference if imaginatively deployed.

This cannot be a recruiting effort by the personnel department; success will require a focus on high level leadership within the Agency that will be able to attract the kinds of people that could make a difference in A.I.D. operations; and see to it that they are deployed in helping A.I.D./W focus on the resolution of issues in the use of Private Enterprise mechanisms in A.I.D. programs as well as assist regions and USAIDs in special problem areas. Obviously, PRE would be an option - though not the only one - to exercise this kind of leadership. However, if this course is chosen, we would suggest

consideration of the organization, role and staffing of PRE. As the existing organization is constituted, it may not be suited to perform as a true center of leadership and excellence in private sector matters.

C. Private Enterprise Role of Other Bureaus and Field Missions - Policy, Program and Staffing

In terms of financial and human resources, PRE represents only a fraction of the effort A.I.D. has put into its Private Sector Initiative. A brief description of private enterprise activities in other parts of the agency is useful to put this report in a broader and more accurate context. We made no attempt to assess the quality of what other Bureaus are doing. There are, however, a few areas of effort where the respective roles of PRE and other organizational units are not clearly drawn or where coordination needs to be strengthened.

The Bureau for Program and Policy Coordination plays the leading role in formulating A.I.D.'s overall private enterprise policy. Nevertheless, PRE should be able to contribute as the principal source of private sector experience and expertise. It appears, however, that PRE has made a limited contribution. PRE attributes this in part to a shortage of personnel and an inadequate grade structure. We tend to agree. However, these constraints do not of themselves explain this inability to play a leadership role.

Responsibility for development of Agency policy and strategy for micro-enterprise remains with the Bureau for Science and Technology, in the Office of Rural and Institutional Development. The question of whether this activity should be moved to PRE has been raised in the past and was resolved in favor of S&T. It appears that in its present site in S&T, the function has established a reputation of excellence in product and service throughout the Agency. Given this situation, there seems little to be gained by altering the present organizational pattern. Nevertheless, we think that increased levels of collaboration and information exchange between PRE and the micro-enterprise unit in S&T would have mutual benefits throughout A.I.D.'s programs.

Regional bureaus have integrated the private sector initiative into their own policy/planning processes to varying, but significant, extents. In Latin America, most missions have prepared Private Sector Strategy Statements which give the sector more comprehensive treatment than is possible within the structure of the overall Country Development Strategy Statements. Review and analysis of this strategy, plans and progress then occurs in Washington at the annual Action Plan meeting. The Africa Bureau has issued a regional policy and

strategy document, and many of the major field missions are now in the process of drawing up country strategy statements. In Asia/Near East, private sector policy and strategy are integrated with the CDSS and Action Plan processes.

The regional bureaus have also staffed and organized themselves in keeping with the increased emphasis on the private sector. Both Latin America and Africa have established Private Enterprise Staffs at the office level, reporting directly to respective Assistant Administrators. The Asia/Near East Bureau has established a separate division within its Office of Project Development. Many country and regional missions have established positions for Private Enterprise Officers, and the number of Private Enterprise Officers on duty in A.I.D. has increased from 49 in 1983 to 74 in March 1988. The largest increase occurred in the Foreign Service cadre, which rose from 15 to 31 over this period.

Measuring the extent and growth of A.I.D.'s financial commitment to private enterprise presents formidable definitional and statistical problems, which evidently have not yet been resolved. We were able to locate only one set of time series data, which indicates that funding for private enterprise projects grew from about 8% of total Development Assistance obligations in FY 1985 to a projected 14% in FY 1989. A contractor employed by A.I.D., working only with FY 1985 data and using various definitions, found that up to 48.6% of A.I.D.'s expenditures in that year were private sector related, including funds for policy reform.

#### D. Summary Findings

1. PRE's present organizational structure appears suitable to achieve the Bureau's current objectives;
2. Mixture of staff and line (i.e. the Revolving Fund) functions has caused problems; new organizational forms are required;
3. Staffing is inadequate to meet current objectives, the Revolving Fund (PRE/I) and policy development (PRE/PR) being the major points needing reinforcements;
4. Staff turnover has been high;
5. The next phase of the Private Sector Initiative will require A.I.D. to reach out more imaginatively into the U.S. private sector for experienced private enterprise personnel willing to fill time limited, non-career appointments. Agency management and PRE both have a role to play.

VI. THE REVOLVING FUND - PRE'S OFFICE OF INVESTMENT

A. Evolution of PRE's Investment Program

PRE's investment program began in fiscal year 1982 with loans to financial institutions in Thailand, Kenya, and Peru. The objectives during this start-up period included broad geographic distribution of projects and reliance on standard A.I.D. loan instruments - negotiated at market-oriented terms and conditions. Ten loans were issued during 1982-83. The majority involved intermediate financial institutions, though some provided direct financing to projects which contained co-financing features.

The Private Sector Revolving Fund (PSRF) was established by Section 108 of the Foreign Assistance Act on November 14, 1983 to "assist the development of the private sector in developing countries and to engage the United States private sector in that process." The legislation mandated a formidable list of criteria that the revolving fund projects must meet:

- benefit small and medium-sized enterprises and cooperatives;
- involve only private entities, generally entities with no state ownership or control;
- provide a rate of return "at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligat[ion]";
- be innovative, financially viable and capable of stimulating the local private sector to undertake similar projects on its own
- be not more than \$3 million for any one project;
- could not provide more than 50 percent of the financial support for any one project, and a "substantial portion" of such support must come from host country sources;
- not more than 20 percent of the assets of the revolving fund may be used in any one country.

The PSRF was designed to serve as an investment research center that would apply the dual criteria of commercial viability and developmental impact. It was capitalized at \$60 million, over four years, with the mandate of operating as a self-sustaining Fund authorized to grow to \$100 million. Interest, fees and repayments of principal are redeposited in the revolving fund and may be used to finance new projects.

B. Office Staffing (PRE/I)

The Office of Investment has the responsibility for originating new PSRF investments and for managing the portfolio. It also handles standard A.I.D. program and administrative requirements in connection with the Revolving Fund, (i.e. preparation of Congressional Presentation, ABS documentation, IG and GAO audits, recruitment of Investment Office staff, response to unsolicited U.S. business proposals and congressional inquiries on behalf of constituent business).

To carry out these responsibilities, PRE/I has a total of five full-time professionals, consisting of the Office Director, three investment officers and one implementation/project monitoring officer.

Except for the Office Director, all of the staff has been recruited from the private sector, creating some problems for PRE/I. While the staff has brought unique banking expertise to A.I.D., they were initially disadvantaged by unfamiliarity with A.I.D. as an organization, and with A.I.D. and U.S.G. policies and procedures.

The hiring of talented and experienced banking professionals has been one of PRE's principal accomplishments. The banking experience (some 55 years) and management knowledge that the present staff possess are unique within A.I.D. and should be utilized as effectively as possible. Under exceedingly difficult circumstances they have made a positive contribution to the projects in which they have been involved. We found the present PRE/I staff to be dedicated, talented, flexible, and efficient in carrying out their duties. PRE/I has built up an investment staff who understands how A.I.D. operates, and is able to execute PRE/I's new strategy of direct Mission involvement in investment projects.

The assignment of one investment officer to each region of the world, responsible for the promotion and monitoring of the portfolio, represents an excessive workload. A tight travel budget exacerbates the problem, reducing the coverage that each officer can provide. Investment officers were limited to approximately 50 person days in the field during FY 87, or only 20% of the work year. The Office Director has been able to visit only two Missions during 2 1/2 years. The limitation on travel precludes an in-depth understanding of the missions' project portfolios and country investment opportunities.

PRE/I's current level of operations require additional staff and operating funds to manage the growing portfolio. This requirement will become even greater when a Guarantee Authority for \$100 million is approved by Congress.

Alternative modes of organization within the Agency affect the precise numbers required. Specifically, additional expertise in the field missions could alleviate the burden on PRE/I's staff of managing the Fund.

### C. Management of the Fund

The Office of Investment (PRE/I) handles the day-to-day operation of the revolving fund. The Director serves as managing director of the fund and oversees portfolio priorities, investment approvals, and financial operations, including investment of fund assets in interest-bearing U.S. Treasury obligations.

Responsibility for the Fund's operations lies ultimately with the Assistant Administrator, and as delegated to the Deputy Assistant Administrator for the PRE Bureau. The investment of fund assets is undertaken in coordination with the Agency's Loan Management Division, Office of Financial Management (M/FM/LMD).

Development of Projects. PRE/I investment officers are responsible for the selection of projects, in coordination and consultation with resident A.I.D. field missions. Representatives of A.I.D.'s General Counsel's Office handle legal matters connected with the Bureau and are heavily involved in the negotiation process. Working within the mandate of the revolving fund legislation, the Bureau's Office of Investment develops criteria by which to identify, screen, analyze and design proposals.

The Bureau for Private Enterprise has formalized an internal review procedure for proposals recommended by investment officers for revolving fund financing. The lead group is the Bureau Portfolio Review Committee. It includes the Assistant Administrator; Deputy Assistant Administrator; Director, Office of Investment; as well as representatives of A.I.D.'s Bureau for Program and Policy Coordination and affected regional and centrally funded bureaus as appropriate.

This committee first reviews the project as an Investment Opportunity Proposal (IOP). The review focuses on the project's suitability from the standpoint of the revolving fund and of the development strategy for the affected country or countries. If the committee finds the project appropriate, further analysis and negotiations are undertaken by the parties involved. This leads to an Investment Proposal (IP), which again passes before the Portfolio Review Committee.

As part of its project review process, the Bureau for Private Enterprise in July 1983 established an external Loan Review Board composed of particularly distinguished financial

executives who are knowledgeable in all types of project financing in developing countries and their associated risks. The board reviews potential revolving fund investments as to financial viability, conformity to investment credit standards, and "packaging" for maximum effect. The board has reviewed all loans made from the revolving fund. The board's recommendations, while not binding on the Bureau, have assisted in the development of sound, creditworthy investments.

Overall, the project development process seems to function well. PRE's use of the external Loan Review Board as an integral part of its project development process is an excellent approach and provides direct private sector input into the PSRF activities. However, there appears to be a need for more in-depth involvement by the regional bureaus in the review/approval process in order to assure close coordination and analysis of PRE/I's proposed projects.

Project Monitoring. As its loan portfolio has grown and matured, the need for up-to-date information on the performance of its portfolio has expanded, both for internal managerial purposes and to share with others inside and outside A.I.D. who are interested in the performance of this experimental program. To meet this need, PRE contracted with Management Systems International (MSI) in 1986 to develop a methodology for developing evaluative information.

MSI noted that no other "comparable" programs outside of A.I.D., evidenced the level of concern for development impact or the complexity of objectives and "constituencies" implicit in the Revolving Fund's mandate. Several of these systems did, however, include methodological features of apparent utility for assessing the efforts undertaken through the Revolving Fund. The study recommends a monitoring system for the PSRF which identifies both successful and problem areas for PRE's management. The system is in place and one of its first outputs was the project evaluations discussed below.

#### D. The Revolving Fund Portfolio

##### 1. Portfolio Characteristics

PRE/I has concentrated on testing and refining two basic approaches for direct investments -- direct loans to establish industries, and loans or loan guarantees to private intermediate financial institutions (IFIs, or banks) in developing countries for on-lending to small and medium size businesses.

The primary emphasis has been on IFI projects (84% of the current portfolio). PRE has concluded that direct investments, in specific companies, should be limited to situations where

they form an essential component of the private sector strategy of a particular A.I.D. Mission. The assessment team endorses this position. The focus on IFI projects constitutes a very pragmatic strategy given PRE/I's limited staff and the difficulty of identifying and implementing direct business loans. It is also appropriate because it builds an institutional capacity within IFIs to continue lending to A.I.D.'s target group. Due to A.I.D.'s familiarity with this type of institution, this approach will facilitate future project replication by the missions.

The Fund has made direct investments at market rates in private businesses and IFIs without host government guarantees. PRE/I's portfolio reflects the criteria established under the PSRF legislation and many of A.I.D.'s most important goals, as demonstrated by Table 1.

TABLE 1: REVOLVING FUND PROGRAM CHARACTERISTICS

<u>Criteria</u>	<u>Representative Project</u>
Financial Institution Development	Kenya Commercial Bank Diamond Trust
Employment Generation	All Projects
Foreign Exchange Generation for the Host Country	FINADE, Wafa Bank
Agribusiness/Satellite Farming Development	Agri-Business International Caribbean Basin Corporation
Small business development	Guatemala Guarantee Facility
Export Trade Financing	Finiber, Wafa Bank, Far East
Technology Transfer	Thai Meat, Nova Gene
Capital Market Development	Thai Venture Capital
Health	Serum Institute of India Healthlink (PATH)
Credit to Micro Businesses	ACCION/AITEC

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PRE has used guarantee mechanisms to induce indigenous commercial banks to extend working capital and term loans to: small and medium businesses in the export sector (Morocco, Dominican Republic and Philippines) and the agro-business sector (Thailand, Philippines and Indonesia). This technique was used to originate a syndicated securitized trade financing facility in Turkey which mobilized \$10 million of capital from the U.S. capital market for pre-export financing requirements of small and medium Turkish companies: the PSRF mobilized four international commercial banks to provide guarantees totalling \$8 million along side the PSRF \$2 million guarantee.

Additional applications of the loan/guarantee technique which are being explored include its use in support of placement of financial instruments by private financial institutions in the LDC capital market (Ecuador and Sri Lanka), and to mobilize long-term local currency for indigenous private financial institutions from local affiliates of U.S. businesses.

Other examples include loan guarantees with U.S. non-profit organizations such as PATH -- to develop investments with Thai and Indonesian business in the health sector utilizing U.S. technology; and with Accion/AITEC -- to provide access to commercial credit at market rates to local affiliates for on lending at market rates to micro-businesses in Latin America.

The balance of the Fund portfolio is made up of direct dollar loans to discrete projects such as Trident Foods (a U.S. joint venture fishing and processing facility in Mauritius) and the Serum Institute in India (expansion of an existing private Indian company to include measles and rabies vaccine in its product line). The PSRF has also made loans to newly established firms with the potential for earning foreign exchange such as the Business Venture Promotions, Ltd. (the first indigenous Thai venture capital company); the Caribbean Basin Corporation and Agri-Business International (U.S. venture capital companies operating in the Caribbean).

The seven new loans in FY 1987 brought the Revolving Fund to its current level of 30 loans totalling \$60 million.

The geographic diversity of the Revolving Fund portfolio reflects both the varying investment instruments utilized by the Revolving Fund as well as the wide range of borrowers. Presently, there are ten projects in Asia, ten in the Latin America, four in Africa, and six worldwide.

The geographic distribution of the PSRF portfolio has been fairly stable, as demonstrated in Table 2, with the exception being the recent expansion in Africa. As a matter of policy, PRE avoids concentrating resources in one geographical area. This is consistent with the Revolving Fund legislation which specifies that no more than 20 percent of its assets may be allocated to any single country.

TABLE 2: ALLOCATION OF REVOLVING FUND RESOURCES

(\$ Millions)

	<u>FY 85</u>		<u>FY 86</u>		<u>FY 87</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Asia/Near East	18.7	61%	28.6	64%	33.3	55%
Latin America/ Caribbean	9.4	31%	11.9	26%	14.9	25%
Africa	1.3	4%	3.3	7%	10.8	18%
Worldwide	<u>1.2</u>	<u>4%</u>	<u>1.2</u>	<u>3%</u>	<u>1.2</u>	<u>2%</u>
	30.6	100%	45.0	100%	60.2	100%

2. Overall Performance.

In the early years (1982 - 83) of PRE's investment program, and prior to the enactment of the PSRF legislation, two projects achieved notable success. During this period PRE loans to the Siam (Thailand) Commercial Bank, and to the Kenya Commercial Bank induced these institutions to expand their credit activities to include small and medium scale enterprises (SMSEs) in rural areas. These loans achieved their own development objectives, and resulted in follow-on projects by the local A.I.D. missions.

This initial positive performance by PRE/I led to the establishment of the Revolving Fund. With less than four years of operating experience, PRE/I has been successful in: originating \$60 million of market rate investments with the LDC private sector that comply with the legislative criteria; influencing the lending behavior of private LDC commercial banks; engaging the U.S. private sector in the process of development of the LDC private sector (25% of PSRF investments feature U.S. businesses); introducing A.I.D. Missions to operating with the LDC private sector (Morocco, Kenya and Thailand); demonstrating that certain projects can be replicated and expanded, e.g., projects in Kenya, Morocco, Thailand and Guatemala; and taking the steps required to

develop a coordinated approach which focuses on co-design and co-financing of potential PSRF projects with the missions.

In June 1987 MSI was contracted to conduct an in-depth study of the PSRF. The study was based primarily on the field assessments of four projects, and it confirms the feasibility of using PRE's financing mechanisms to achieve private sector development objectives. The MSI evaluation high-lighted a number of important lessons that both PRE and the A.I.D. missions can utilize in the on-going development of the PSRF. The findings were grouped into three areas: Operational Lessons, Development Impact Lessons, and Replicability/Sustainability Lessons.

The MSI study is consistent with the findings of the assessment team, and indicates that the PSRF has developed risk-sharing arrangements (collateral accounts and loan set offs) which have proven to be an effective technique for inducing private commercial banks to broaden their lending to non-traditional sectors and borrowers. It has pioneered A.I.D. activity in the area of venture capital and trade financing specifically and generally the introduction of private commercial banks into the A.I.D. arena of economic development.

Despite this progress, the assessment team is believes that the nature and degree of both regional bureau and mission involvement is insufficient under present organizational arrangements. The fact remains that the PSRF is not well known or understood throughout A.I.D., and therefore, remains somewhat isolated within A.I.D. Furthermore, we question whether the new PRE approach will in fact provide PRE with the opportunity to assume a key role in the Agency's private sector initiative in terms of both policy and programmatic impact.

Due to the innovative nature of the PSRF and the risks inherent in financing projects in LDCs, it is not surprising that a number of PRE/I's projects have been unsuccessful. Obviously, due to the realities of business, the international marketplace, and the fragile economies of the LDCs other projects will fail in the future. As long as the PSRF is prepared to take risk, there will be both success and failure. We would agree with PRE that this risk can be managed. However, this assessment is based on the availability of adequate staff, and a management structure that will facilitate the direct participation of the regional bureaus.

To date ten (10) projects have been terminated for various reasons. Some of these projects were not meeting their planned targets and were closed out to avoid further financial losses. Although we did not conduct an audit of the PSRF's loss ratios, the current reported 3% loss rate appears to be very reasonable

for this type of program which has an exclusive focus on developing countries. On a parallel basis, the Fund has achieved a return of 8% over its four year history.

Other projects were terminated prior to any disbursements due to several factors, e.g.: local investors failed to raise the agreed upon capital; a shift in a country's economic situation, and corresponding change in the business climate, that creates new perceived risks; and, there was a tendency in the early years to design intricate and pioneering financial instruments that focused on the packaging of a loan instead of the project's objectives or PRE/I's capacity to manage such a deal. In the latter case, this often resulted in an elegant financial construct which was far afield from a typical A.I.D. Mission's ability to understand, to assist in implementing, or to consider replicating a given project.

Overall, it is clear that the PSRF has operated under several institutional and operational constraints which have had a direct influence on the implementation of this program. These constraints included: the lack of Mission involvement (i.e., commitment) in the design and implementation of the PSRF projects; unfamiliarity on the part of the original group of investment officers with the A.I.D. bureaucracy; and a modest level of resources (annual average of \$15 million worldwide, currently 30 investments in 15 countries) that precluded the PSRF from having a major impact in terms of resources, policy, or project design.

Also, it must be noted that PRE/I was initially under pressure to generate PSRF activity and as a result devoted limited attention to A.I.D. Missions as its clients. Therefore, during PRE's early years the lack of direct involvement of the regional bureaus, and more importantly, of the field missions in the design and implementation of the projects created a situation in which PRE was not able to influence, to any significant degree, the way A.I.D. does business with the private sector.

It is apparent that PRE/I has attempted to overcome this predicament. This change in PRE/I's operating style, focus and emphasis began in late FY 85 and was incorporated in the FY 86 Management Plan for PRE/I and the PSRF. The Mission client concept became more explicit in FY 87 as co-design and co-financing became a key criteria in identification and origination of PSRF investments. Furthermore, experience over the past two years indicates that the most easily established co-financing arrangement is where the PSRF finances the investment and the Missions fund related technical assistance.

### 3. Current Strategy/Focus

During FY 1987 the major themes were emphasized in the Revolving Fund portfolio and will continue to be emphasized in future years: (1) the encouragement of joint collaboration between PRE and the bilateral A.I.D. Missions in the design and/or financing of loan facilities; (2) the development of innovative financial mechanisms; and (3) the promotion of greater involvement by the U.S. private sector.

PRE/I's principal objective for the next few years is to demonstrate that the PSRF concept makes, and continues to make, a significant contribution to A.I.D.'s private sector initiative. Directly related to this objective is the anticipated Investment Guarantee Fund in FY 89.

The emphasis on co-designed and co-financed investments is first articulated in the FY 86 Management Plan. This will continue to be the principal criteria for decisions on where and what investments will be undertaken by the PSRF, and where PRE/I focuses its human and financial resources. For example, in FY 1987, five of the seven investments made were co-designed and three were co-financed with A.I.D. missions.

Related activities that will be undertaken in support of PRE/I's strategy include: a program to draw the U.S. Business Promotion initiative (a new PRE effort) and other resources into comprehensive programs in support of key missions; and the introduction of new investment concepts to PRE's Revolving Fund, in line with the needs of A.I.D. and host countries.

Although PRE/I's objectives are consistent with A.I.D. policy and PRE's past and current activities, we find them to be overly ambitious in view of PRE/I's limited resources. PRE/I should reduce its emphasis on designing creative financial instruments due to a widely held perception that this approach does not provide a "product" which the Missions understand and are interested in replicating, except on a limited basis. In our opinion, the appropriate strategy would be to identify a development problem or opportunity in a given country and jointly design a project to address this situation with a straightforward financial package.

In summary, PRE/I should limit the scope of its operations to those activities that can be effectively integrated into the missions' strategies and programs, and that give primary program management responsibility to the field.

E. New Initiative - Guarantee Authority

A.I.D. is proposing to enhance its Private Sector Revolving Fund investment program in FY 1989 to include \$100 million guarantee authority to directly guarantee private investments in developing countries. Use of the guarantee mechanism would permit A.I.D. to expand its investment activities significantly without corresponding increases in outlays or appropriations.

To date, the following legislative recommendations have been made as to the management of the guarantee:

- the kinds of projects that will be funded under the guarantee will be the same as those funded under the PSRF. This statute, FAA Section 108, will remain unchanged as to purpose and focus;
- the bulk of the guarantee program will be made through local, private intermediate financial institutions (IFIs) in the LDC's;
- The IFIs will assume no less than 50% of the risk of each project undertaken;
- the PSRF will maintain an account with Treasury with an adequate balance to reserve against the guarantee (25% of all guarantees made).

Experience to date shows that some of the private sector investments now financed by direct dollar loans from the Revolving Fund or from Development Assistant accounts could be supported by the issuance of guarantees. The proposed new authority would give A.I.D. the option to issue full faith and credit guarantees in lieu of direct loans to support such investments whenever this is feasible.

We are concerned about PRE/I's ability to carry out this new expanded program successfully. Given its limited staff, and our perception that neither the regional bureaus nor the missions participate to a significant degree in the PSRF's activities, we do not believe that PRE will be in a position to develop and monitor an expanded PSRF. At the same time, in the absence of a comprehensive structural revision in PRE's management of the PSRF, we are concerned that the guarantee authority will not have a significant impact on A.I.D.'s private sector initiative.

#### F. Proposed Organizational Structure

The lack of an integrated approach with the overall Agency program has been a critical problem throughout PSRF's history. Although we acknowledge the value of the Bureau's current focus on coordinated planning, this is not, in and of itself, satisfactory as a means of obtaining Agency-wide support and accountability. We propose that the overall direction for the PSRF be lodged in a new body which would share this responsibility more broadly throughout the Agency. The management of the PSRF should remain in PRE, but it would operate under the policy direction of a board of directors drawn from the regional bureaus, as well as PRE.

Specifically, we suggest that A.I.D. incorporate the Fund and its successor Guarantee Authority under the direction of a "Board" consisting of the Assistant Administrators of the regional bureaus and PRE. The Administrator should appoint a chairperson of his choice. It would be responsible for:

- Determining the broad annual allocations for the PSRF;
- Approval of annual and 3 year business plans for the Fund;
- Providing policy guidance on the terms, conditions and general features concerning the design and implementation of the projects;
- The monitoring and evaluation of PSRF operations;
- Representing the Agency before Congress, multilateral organizations, and bilateral donor nations on all matters concerning the PSRF.

The PRE/I office would serve as General Manager and continue to carry out its current responsibilities in project design/loan negotiations and implementation troubleshooting under the general policy direction of the Board.

This proposed structure would give the field missions and regional bureaus a way of buying-in substantively to the objectives of the Fund. The missions would be motivated to apply this unique resource to country program objectives, and to bring forward their ideas and proposals in the program planning process (e.g., CDSS, Action Plans). Relying on the technical expertise of PRE/I's staff, the missions would participate in the project design and accept responsibility for the day-to-day implementation of the projects.

It is further recommended that a special task force be named to consider this organizational proposal, and develop detailed guidelines which would govern the operations of the PSRF in this new corporate form.

G. Summary Findings

1. PRE/I's management of the PSRF has been successful in the placement of \$60 million of market rate investments with the LDC private sector that comply with both the legislative criteria and A.I.D.'s private sector program objectives.
2. PRE/I has concentrated on testing and refining two basic models or approaches for direct investments: direct loans to industries; and loans or loan guarantees to private intermediate financial institutions for on-lending to small and medium sized businesses. Appropriately, recent emphasis has been placed on projects with IFIs given the difficulty of identifying and implementing direct business loans.
3. Guarantees have proven to be a valuable mechanism that stimulates LDC financial institutions to utilize their own resources to make loans to indigenous small and medium businesses.
4. PRE was initially under pressure to build its portfolio, and functioned in relative isolation from the Agency's bureaus and missions. Therefore, the PSRF did not become instrumental to AID's private sector initiative. Presently A.I.D. missions are treated as the principal client of the Fund, which actively develops investments consistent with Mission strategies.
5. Due to the innovative nature of the PSRF and the risks inherent in LDC investment climates, it is normal that some projects have been unsuccessful. The timely termination of these projects reflects PRE's sound banking judgment in managing an innovative, high risk portfolio, which is consistent with A.I.D.'s development mandate.
6. PRE/I's staff is talented, flexible, and efficient in carrying out their duties. The banking experience (some 55 years) and management knowledge that they possess are unique within A.I.D. and should be utilized to the maximum extent possible.
7. The nature and degree of both regional bureau and mission involvement is unsatisfactory under A.I.D.'s present organizational arrangements. In order to bring the resources of the PSRF into A.I.D.'s mainstream, the regional bureaus must participate directly in the allocation, design, and monitoring of future PSRF activities. Therefore, we believe that the management of the PSRF should be restructured in a manner that will assure broad based Agency involvement and the continued use of PRE/I's technical expertise.

## VII. TECHNICAL ASSISTANCE SERVICES - PROJECT DEVELOPMENT OFFICE

### A. Purpose and Historical Perspective

The Project Development Office plans and manages centrally funded activities to support Agency and mission capacity to foster market-based economic growth. The Office manages three service contracts, the International Executive Service Corps (I.E.S.C.) grant and the content of the training contract for A.I.D. staff. It is also developing a services contract to promote trade and technology transfer.

Historically, PRE Bureau's project development function was included in the Program Office. Prior to 1985, projects were directed at expanding U.S. business involvement in the developing world, through organizations like the World Trade Center and the Young President's Organization (YPO). These activities produced disappointing results, although some results such as a newly created YPO chapter in Africa may encourage regional and international business.

In 1985, PRE Bureau shifted to a service-oriented portfolio designed to support private enterprise within the mainstream of A.I.D. programs. The Project Development Office spun off from the Program Office and was expanded to manage the three support contracts authorized in 1985. The services focused on: 1) Private Enterprise Development Support for overall strategy and project design assistance, 2) Privatization and 3) Financial Market Development.

### B. Office Staffing

The Project Development Office currently has nine direct hire positions. These include the Director, three project development officers (Foreign Service Officers), three general business specialists (Civil Service) and two support staff.

There is one staff member with private banking experience. Others are career officers. The Office Director has a business major and a Law degree in business law. One officer has industrial and small business development experience both overseas and with the Small Business Administration. Two officers have served as private sector officers overseas.

The Office Director provides management oversight and program guidance. Three professionals manage the service contracts, and are expected to distill the "intellectual value added", e.g. to synthesize Agency experience, and to respond to mission requests, coordinate evaluations, and design follow-on projects. A fifth professional handles the I.E.S.C. grant and the training contract. A sixth professional will be Deputy Director who also handles trade and technology transfer.

Until FY 1988, the Office had no travel budget, and trips were limited to one or two per year for the entire staff. This constrained the ability to obtain meaningful feedback from client missions. Travel undertaken during the current FY has produced new areas of cooperation with new client missions.

### C. Private Enterprise Development Support (PEDS) Project

The first Private Enterprise Development Support Project (PEDS I) was awarded on September 30, 1985 for \$1.2 million with Coopers and Lybrand for a two year period. Demand was high, and funds were expended by March 1987. An Interim PEDS contract was signed with an S.A. firm in July 1987 for \$1.6 m. over two years. The PEDS II contract was awarded on September 30, 1987 to Arthur Young, Inc. for \$20 million over five years.

The scope of the PEDS contracts is comprehensive:

- program strategy and project development for private sector development or related policy reform;
- policy reform studies such as assessments and planning for regulatory or legislative constraints;
- assistance in export promotion, free trade zones, business associations, industrial development, commercialization of technology and regional or local development; and
- analysis of AID and other donor portfolios and private enterprise programs or mechanisms, to provide "state of the arts" information.

USAID missions or regional Bureaus originated 33 requests and PRE or other AID/W offices requested 14 activities, totalling 47 requests under the three contracts. The Asia and Near East (ANE) region led the regional demand with 20 activities. Latin America had 12 requests. Africa had one request, since missions drew on an Africa Bureau support project entitled the PRE Fund.

The LAC Bureau initiated the first request in November 1985: a review of all private sector projects throughout the region. LAC Bureau later requested assistance to develop a data base of private sector objectives and performance for the Action Plan, and a private sector "stock-taking" exercise. LAC mission requests were for investment studies, debt-equity, assessments, free trade zones and export development.

The ANE Bureau received assistance for a comparative incentive study for trade and investment in key Asian countries, followed by a specific study for Indonesia; strategy and project development assistance, especially in the trade area; a Bangladesh-U.S. Business Council Strategy; program evaluation, investment promotion literature search and an industrial development reconnaissance.

The PRE requests included a range of activities, such as a consultant roster; the private enterprise training course, a study of small-scale loan guarantee mechanisms, evaluations, an A.I.D. publication on private enterprise development, a review of mission strategies for private enterprise content, a framework for private sector diagnosis, a conference on food aid resources for private enterprise credit and a PRE retreat.

The PEDS I contract provided the vehicle for several innovative activities, e.g. a debt-equity policy and program in the Dominican Republic, as well as some leadership initiatives on the part of PRE, such as the conference on food aid resources for private enterprise (Section 108 of the Agricultural Bill on PL 480. The contract was utilized for broad reconnaissance work at a time when the Agency was struggling to define its role in private enterprise development.

The PEDS II contract has added an important new element: the preparation of state of the arts papers. This task provides a vehicle for leadership in assessing what the Agency has accomplished in private enterprise areas such as financial market development, trade policies, etc., as well as mainstream areas, such as low-cost, private health delivery mechanisms and policy reforms for health, population services, agricultural marketing and overall employment generation related to meeting the basic needs of the population in a manner which also produces broad-based economic growth.

The PEDS II contract has two prime sub-contractors:  
1) Stanford Research Institute (SRI), which offers unique expertise in international business policy, economic competitiveness, health policy, science and technology policy, employment and training research, health and food industry; and  
2) Management Systems International, which specializes in business training, business center development and employee stock ownership programs. There are ten sub-contractors representing a variety of specializations.

The PEDS contracts have been well utilized, impacting in an often innovative way on mission strategies, programs and projects, as well as defining and developing the policy reform agenda. Demand has been high, resulting in significant budgetary increases as well as a longer time frame for PEDS II.

The enhanced analytical focus of PEDS II demonstrates that the Agency has now grasped the main elements of a private sector approach, and now requires more specific analysis of its experience in specific sub-sectors.

The PEDS contract complements assistance for similar services provided by regional Bureaus and the regional support field offices in Africa. The provision of alternatives to missions is a sound practice, because it allows missions latitude in developing relationships with contractors in different aspects of private enterprise development. The diversity of contracts also enhances creativity and cross-fertilization among the various contracts. From the patterns of use, it is apparent that missions benefit from continuity of assistance, and from the "intellectual value-added" provided by experienced contractors and the PRE project manager.

#### D. Financial Markets Project

The Financial Markets Project was created to focus on private sector financial markets development to stimulate indigenous private enterprise, through fostering the evolution of financial market institutions to mobilize domestic capital for productive enterprise. PRE signed a three-year contract with Arthur Young and Company in September 1985. The \$1,920,460 contract has been amended four times to augment the authorized funding level to \$2,896,507.

The contract provides technical assistance to for:

- policy analysis of financial market constraints, legal and regulatory environment, middlemen, tax systems for corporations and individuals, accounting systems and accountability in terms of penalties;
- financial markets assessment and marketing of financial services, for commercial, investment and merchant banks; development finance corporations; savings and loans; credit unions; venture capital firms, leasing companies, pension funds, export trading companies and insurance companies;
- institutional assessment and management training, accounting and auditing;
- the economic and political environment in terms of growth, "open-ness", and economic analysis;
- government attitudes toward private enterprise.

Bilateral A.I.D. Missions in 25 countries have utilized the contract services, and six buy-ins have occurred. Sixteen financial market surveys were carried out: eight in LAC, six in ANE and four in Africa. Over thirty consultancies were provided in 18 countries. ANE was the heaviest user, with sixteen consultancies in eight missions. Latin America used thirteen consultancies in seven countries. Research reports were prepared on financial markets repression, interest rates, micro credit and venture capital. These were distributed throughout AID/W and to interested missions. A pilot bank training activity is planned for West Africa for host country staff.

Response time to mission requests has been excellent, averaging 3-4 weeks. Nearly 75% of mission requests are for immediate services, requested to commence within 2-4 weeks. This reflects a lack of forward consultation by missions with PRE. More specialized assistance may take longer, but missions appear to be satisfied with the services received.

Indonesia exemplifies a mission which has utilized the contract several times, including technical assistance from the Securities and Exchange Commission. This assistance has enabled the government and the mission to evolve a comprehensive approach to financial markets development, resulting in a proposed 6-year, \$15 million project.

The Financial Market Project provides effective assistance in a focused, well-defined area which is essential for sustained, equitable growth. Host governments and Missions are clearly benefitting from services to assess incentives and disincentives for indigenous and international business. The emphasis on stock markets, over the counter markets and other financial market institutions is important for local small and medium business development, and enhances the prospects for successful privatization, insofar as local stock purchases provide a politically and socially acceptable alternative for ownership by foreign or crony capitalists.

#### E. The Center for Privatization

The Center for Privatization (CFP) is a highlight of A.I.D.'s Private Sector Initiative. The Center is a technical assistance team established under A.I.D.'s contract with Analysis Group, Inc., a minority-owned engineering and technical services firm. The Center is a consortium of six companies representing a complementary blend of expertise relevant to the privatization process. The \$7.4 m. contract was awarded on the basis of a concept paper, since there was no consensus in 1985 within the Agency or the development community on a "blue print" for privatization.

The establishment of the Center coincided with an A.I.D.-sponsored Privatization Conference in February 1986.

With 450 professionals from over 40 nations, the conference was among A.I.D.'s most successful, and proved to be a catalytic event which focused world attention on privatization. It resulted in the pronouncement of a new AID policy whereby each of 40 bilateral A.I.D. missions would be involved in an average of at least two privatization activities by the end of FY 1987.

The Conference and the new policy goal placed the Center for Privatization on center stage. Mission demand grew and the contract was amended five times to over \$15 m., including a \$3 m. buy-in from Honduras. PRE Bureau has requested another amendment to increase the contract to \$25.4 million.

The objectives of the Center are to provide expert advisory services to developing country governments and private sectors and to field missions, to plan and implement programs for divestiture and privatization of state-owned enterprises. The Center also develops strategies and guidance for privatization and maintains "state of the arts" information with respect to privatization throughout the world.

The Center has a staff of five professionals and six support staff. The Executive Director was the Chairman and CEO of SCM Corporation, a diversified manufacturing company. The Deputy Director is a founder and former CEO of a small business capital equipment manufacturer and exporter, and an advisor to the EXIM Bank, the Department of Commerce and the U.S. Trade Rep. Two assistant directors with responsibility for regional coverage are retired Foreign Service Officers. The Director of Research is an expert in small business and management training.

The Center has dispatched over 100 consultants to 32 countries in a variety of services: Nearly 20% of requests have been for a conference, a specific study or training. About 35% have been for strategy development. Over 45% of services have been for specific privatization assessments, ranging from agricultural holding and marketing boards to hotels, solid waste collection, electric companies, insurance, banking, airlines, textiles, pharmaceuticals and telecommunications. In two countries, the Center has designed a divestiture organization or procedure. The Center has also reached approximately 4 million people in target countries with television programs on privatization.

The first privatization was a banana plantation in Belize, which was sold to peasant farmers. An under-utilized, "white elephant" foundry in Honduras was sold to a U.S. company for the manufacture of parts for a U.S. product. The Center documented the sale of Jamaica's largest bank, the National Commercial Bank, to 30,000 Jamaican share holders, including 98% of the bank's employees. This offering was politically popular and enjoyed the support of the bank's management and

staff, who benefitted from a generous employee share scheme. The Center has provided consultations for state-owned enterprises in 27 countries.

The Center has been directly involved in about 10 privatizations, with about 75 more in the pipeline. It has been involved in laying the groundwork for numerous other privatization, through strategy work and the establishment of mechanisms for sale. Once established, many privatizations occur without further involvement of the Center. It is clear from experience to date that privatization involves the laborious process of sorting out legal entanglements, establishing market value and finding acceptable buyers.

A clear success for the Center occurred in Honduras, which initiated privatization in 1984, and passed authorizing legislation in 1985. In 1986, the new government requested the Center's assistance to divest the holdings of CONADI, the National Investment Corporation. Since April 1987, a \$3 million, 30-month buy-in has provided a 3-person team. The complex process of valuation, auction and negotiation set forth in the legislation has been completed for many companies, some active and some inactive. The team is also assisting the forestry corporation to divest several saw mills.

Some missions pursued privatization activities with other contract assistance. The ADMARK Holding Company in Malawi was serviced by a field contractor, who benefitted from the Center's literature, as was the CONESI Holding Company in Costa Rica. Missions such as Egypt have some in-house privatization expertise, which is a cost effective approach where mission and host government interest is substantial.

PRE turned down several mission requests, on the grounds that the government involved did not demonstrate an adequate commitment to privatization. This placed several missions in a difficult position to implement the policy goal of two privatizations, particularly after they had engaged in dialogue with host governments. Some missions solicited other donors and some governments proceeded without A.I.D.

The Center is a new, fledgling institution which is developing a reputation as a possible "center of excellence" in the popular subject of privatization. The uniqueness of the challenge, and the credential of the contract team, have enabled the Center to attract top private experts at government rates. The Center has become a valuable resource in the privatization process. It has attracted the attention of the World Bank and UNDP, and has provided services to many governments through AID missions. An enhanced capacity to track privatization in areas where the Center is not directly involved with strengthen its role as a leader in this field.

The next challenge for the Center is to work out its existence as a private entity rather than a contract team. As an independent institution, the Center could be supported through a cooperative agreement or contracts with AID and other donors or clients. This would be cost effective for AID and would strengthen the Center as an institution.

F: International Executive Service Corps (I.E.S.C.)

I.E.S.C. is a private voluntary organization of mainly retired business executives who volunteer for short term (up to three months) assignments to give specific technical assistance to business enterprises in the LDC's. There are nearly 10,000 individuals registered with I.E.S.C. as volunteers. The current level of activity is about 600 assignments per year. Assignments are generated and administered in the field by 32 resident country directors.

A.I.D. has provided support for the I.E.S.C. since its inception in 1964. PRE inherited the responsibility for administering A.I.D. support for I.E.S.C. in 1981. The grant now consumes half of PRE's annual budget resources, excluding the Revolving Fund. I.E.S.C.'s 1988 budget revenue total \$13.8 million, of which \$7.8 is from A.I.D. (\$5.0 from PRE and \$2.8 from field missions), \$5.3 from LDC client contributions, and \$650,000 from U.S. corporate sponsors. I.E.S.C.'s level of operations peaked in the 1970-74 period with 2,978 activities and declined thereafter until 1984. The increased level of operations since 1984 coincided with changes in I.E.S.C. leadership, A.I.D.'s renewed emphasis on the private sector, higher levels of funding from A.I.D. field missions, and a generally more proactive stance which PRE has taken with I.E.S.C. I.E.S.C.'s 1988 annual plan calls for 682 activity starts, increasing to a level of 1,000 in 1992.

Based on communications from A.I.D. field missions, interviews with mission and regional Bureau personnel, and a recent evaluation, the assessment team concludes that the I.E.S.C. program has been and is continuing to be successful, in terms of its contribution to A.I.D.'s overall program in the field and in terms of client firm satisfaction.

Prior to PRE management of the I.E.S.C. grant, there was a relatively low level of oversight and involvement typical of A.I.D. grants to independent voluntary organizations. With PRE management, by 1984 the intensity and closeness of the A.I.D./I.E.S.C. relationship increased significantly, both in the U.S. and the field. There has also been a steady and significant increase in the volume of I.E.S.C. activity, from 371 new starts in 1983 to 682 planned in 1988. I.E.S.C. executives have welcomed the active dialogue attendant with closer A.I.D. involvement. The dialogue centers around two related issues:

the priority accorded to small to medium - vs large LDC business clients, and I.E.S.C. costs and charges to clients. A.I.D. stresses smaller businesses, whereas I.E.S.C. prefers clients across a broader spectrum, including larger enterprises. The issues are related, because larger clients can usually afford to pay fees, and I.E.S.C. is able to accept more small clients because the larger ones can subsidize them.

Two other points require analysis and resolution. For several years, I.E.S.C. has, according to their account, run virtually out of funds while waiting for authorization of each year's A.I.D. grant. Since A.I.D. has supported I.E.S.C. since 1964, and will undoubtedly continue to do so, A.I.D. should establish a reasonable degree of forward funding.

Another issue we encountered was one of doctrinal purity. PRE administration of the I.E.S.C. grant has held strictly to the line that I.E.S.C. services were not to be made available to LDC enterprises even partially state-owned. Both I.E.S.C. and field sources felt that some exceptions would benefit A.I.D.'s development goals and should be allowed. They point out that some public or part-public enterprises affect the overall climate for private enterprise and that I.E.S.C. assistance to those public enterprises can have a positive albeit indirect effect on private enterprise. Further, in the broader context of U.S./host country relations, an occasional assist to a parastatal under these circumstances can enhance the entire relationship and contribute to overall program success. Moreover, it might open the door to a dialogue on more efficient ways to operate the parastatal, including privatization.

As noted above, the number of volunteers registered with I.E.S.C. greatly exceeds current and projected requirements for assistance direct to LDC businesses. Based on our discussions with I.E.S.C. officials, we suggest that some of the appropriately qualified volunteers be recruited for periods of up to 3 - 4 months as "Private Enterprise Counselors" to meet A.I.D.'s need, identified earlier in this report, for additional experienced private enterprise talent. A cadre of such Counselors would be useful in PRE and/or the regional Bureaus working on overall policy issues. They would also add elements of experience and pragmatism to field missions, at the level of sector assessments, financial markets, legal constraints or general advice to Mission Directors or host governments.

On the whole, we found the I.E.S.C. program to be well managed. The relationship between A.I.D. and I.E.S.C. is more vital than ever before, A.I.D. values I.E.S.C.'s contributions, and I.E.S.C. responds to A.I.D.'s concerns to an extent appropriate to its circumstances and its private voluntary status.

G. Training Course: Role of the Private Sector in Development

PRE and the Training Division of A.I.D.'s Office of Personnel Management jointly initiated in 1984 a training course, the Role of the Private Sector in Development (RPSD), designed to demonstrate to A.I.D. professionals the advantages of working with and through the private sector in A.I.D.'s development projects and to impart a set of private sector technical skills to enable them to do so. The course thus supports two of PRE's overall objectives, the promotional objective of encouraging A.I.D. to make more extensive use of private sector, market-based means of stimulating economic growth; and the institutional objective of building capacity within the Agency to plan and carry out private sector strategies and programs.

There are about 1,500 A.I.D. Foreign Service Officers in program and technical positions. Through 1987, only 118 A.I.D. personnel had attended the two-week course, about three-fourths of them Foreign Service personnel.

An evaluation of RPSD was conducted in late 1987. The contractor, Management Systems International (MSI) found that eighty percent of attendees felt that the course was responsible for positive attitudinal changes toward the use of the private sector in development. A similar proportion applied course information in the conduct of their work. Virtually all participants felt the course should be continued. MSI recommended that future courses be targeted for certain administrative strata, e.g. Mission Directors, or by region, and that some courses be given in the field. The contractor also recommended that course content reflect a change in emphasis away from attitudinal change to skills acquisition. A.I.D. officers attending the course also suggested that it be redesigned and made available to host country officials and private sector participants.

The assessment team does not believe that the Agency has taken sufficient advantage of the training program. Too few A.I.D. personnel have attended the course. The Agency should require all key management personnel in the regional bureaus and field missions to attend a suitable course providing exposure to private enterprise concepts, business skills and terminology. Emphasis should be placed on understanding the critical features of the overall policy climate on the growth of private enterprise and investment, and the "how to" of incorporating private enterprise considerations into country programs. Further, more private enterprise material should be incorporated into other existing courses, e.g. the Development Studies program and the Senior Management course.

The Private Sector Initiative can be compared to the population issue which the Agency incorporated during the 1960's. At least part of the credit for the successful integration of population into the mainstream of A.I.D. programs can be attributed to the mandatory training seminar for all Agency executives.

#### H. Summary Findings

1. PRE Bureau's services contracts, I.E.S.C. grant and training contract have been well well managed and well utilized by missions and regional bureaus. Demand has grown steadily, as evidenced by expanded funding and increased buy-ins.
2. Demand for PRE services has been uneven. Some missions have drawn heavily on services, while other missions have not utilized them. Africa as a region stands out for its low usage, attributed in part to regional bureau resistance leading to poor communications and in part to slower adoption of broad private sector development.
3. PRE has communicated unevenly the availability of its services to the field, especially with respect to its impact on small entrepreneurs. The lack of use by some missions is symptomatic of a communications gap and misperceptions by some client missions, which results not only from regional competition with PRE, but also from field missions not absorbing the information provided by PRE through cables, etc. Increased regional Bureau input in planning the PRE program could ease this problem, to the advantage of PRE and the Bureaus. It could also reduce the turf issues which are inevitable in a large bureaucracy.
4. PRE's leadership role is likely to grow as "state of the arts" analysis is expanded, leading to synthesis of Agency experience in specific sub-sectors, such as financial markets, privatization, trade or export promotion, free trade zones, health, population, agriculture. The Privatization Center is a leader in developing "state of the arts" information.
5. PRE's contribution to private sector development may often go unrecognized, as missions and Bureaus claim credit for the activity. This is the inherent nature of service functions within central bureaus.