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AID PRIVATE SECTOR INITIATIVES: PAST, PRESENT AND LESSONS LEARNED

PREPARED FOR
THE PRESIDENT'S TASK FORCE
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BY
DEBORAH M. ORSINI
4110 FESSENDEN ST., N.W.
WASHINGTON, D.C. 20016

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EXECUTIVE SUMMARY

The purpose of this paper is to evaluate past and present private sector programs and lessons learned from the nearly forty years of U.S. foreign assistance. This paper is intended to serve as background material for the development of a blueprint for future private sector program recommendations.

Ten major programs are described and evaluated in this paper, including Industrial Development (under the Development Loan Fund- DLF); Foreign Exchange Access and Savings; Policy Dialogue; Capital Market Development; Foreign Private Investment Promotion; Export Promotion and Development; Tourism; Training; Technology Transfer and Small-Scale Enterprise Development.

Each of the major implementation mechanisms for the above programs is also discussed and evaluated.

Current Bureau for Private Enterprise (PRE) policy and programs are discussed and a summary evaluation of their efforts to date is provided.

The paper concludes that the two major programs which achieved the greatest degree of success were the technology transfer program and the foreign private investment promotion program. The former, via joint venture promotion and agribusiness, PVO and management technology transfer mechanisms, successfully performed over the years the function of enhancing LDC productivity, improving LDC product quality and promoting LDC product competitiveness in the world market. The latter has assisted the development process through the provision of needed foreign exchange, for both credit and equity purposes. The most successful mechanisms in attracting U.S. private investment appeared to be the Cooley loan program (local currency lending to U.S. investors) and the housing guaranty program (involving U.S. government guaranties for the entire amount of the private investment).

Two other programs also achieved considerable success: the capital market development program, primarily via intermediate credit institutions, and the training program.

Program areas with a much lesser degree of success include the direct loan program under the DLF and the policy dialogue program using program loans.

The paper generally concludes that two primary forms of assistance to LDC's exist: technical and capital, and that a knee-jerk approach to the use of either as the sole development assistance mechanism is dangerous.

While the need does exist for capital markets and institutions to support them, the key problem is a lack of know-how. Investments should only be made if the know-how is present or if it is provided concurrently with the investment. As concerns the smaller enterprises in developing countries, emphasis should be placed on assisting only those which present real growth potential.

The most successful private enterprise programs have involved direct ties to U.S. firms and businessmen and have been demand driven. Every opportunity should be taken to continue to engage the U.S. private sector in the development process and, in return, to promote benefits in exchange to them.

Useful investment promotion tools have been guaranties and cofinancing arrangements, although the latter are still somewhat experimental within AID as regards private lenders. More efficient local institutions for attracting and transferring equity should be explored, including venture capital firms or investment banks.

Emphasis should be placed in all private sector programs on establishing self-sustaining (non-subsidized) institutions.

AID requires a more centralized and self-critical management process to ensure emphasis on adequate programs rather than concentration on individual projects. This same management process should promote the replication of effective initiatives, as well as the dissemination of information on successful programs and projects to AID staff, missions and recipients.

AID currently does not have the systems, organization or staff to effectively implement the private enterprise initiative.

AID PRIVATE SECTOR INITIATIVES: PAST, PRESENT AND LESSONS LEARNED

I. INTRODUCTION

Over the nearly forty years of U.S. foreign assistance, there have been at least four major orientations to the programs implemented: the initial concentration on reconstruction assistance to war-damaged Western Europe under the Marshall Plan (1945 through approximately 1957); followed by a shift to development assistance to lesser developed countries (LDC's), involving major infrastructure and industrial projects (1957 under the Development Loan Fund to approximately 1973); followed by emphasis on Basic Human Needs from 1973 to 1980, when most AID projects concentrated on assistance to the poor majority in the LDC's, with limited assistance to the local private sector. The current Administration has taken a renewed interest in private sector initiatives and established the Bureau for Private Enterprise (PRE) to spearhead its efforts.

Each of the above orientations to foreign assistance had its own goals and methods as concerns private sector programs. The purpose of this paper is to evaluate past and present private sector programs and the lessons learned, to serve as background material for the development of recommendations on future programs.

The definition of private sector program used in the context of this paper is any program which directly assists a private sector enterprise, or which is designed primarily to support the local private sector, or which expressly targets private investment promotion. This excludes programs whose benefit to the private sector is only incidental.

It was initially the intention of this paper to conduct a thorough examination of all AID private sector projects in order to summarize successes and failures. This approach was not possible due to the lack of adequate data on the Agency's history of projects. There is no centralized database on pre-1974 AID projects. The AID automated database contains project abstracts on only those projects initiated or still active as of October 1974. Data on pre-1974 projects can only be obtained by pulling documents from the central file or the various bureaus on a project by project basis.

There are gaps in even the post-1974 database. Only 83% of the post-1974 projects are on the database. (4000 of 4800 total projects). Only 38% of that number have any evaluation abstracts available, most of which are 'on-going' rather than ex-post evaluations of actual project impact.

In light of the above difficulties, this paper relies on an interpretive approach to program evaluation, based on available centralized documentation and discussions with persons knowledgeable of Agency operations over the years.

II. CATALOG OF AID PRIVATE SECTOR PROGRAMS 1957-1980

A. INTRODUCTION

In the following presentation, ten major programs directed at the private sector are discussed in an order which is generally chronological according to the period in which the programs became major areas of concentration. For each of the programs, the primary implementation mechanisms are also discussed.

Table 1 indicates the 10 major program areas and the decades in which they were emphasized.

B. INDUSTRIAL DEVELOPMENT

The period during which AID concentrated its programs on major industrial development in LDCs extended from 1957 through the 60's. The Marshall Plan concept of foreign aid had dominated American thinking for over a decade after World War II, but the U.S. scope of foreign aid gradually extended beyond the restoration of damaged but highly developed economies of Western Europe to include the more difficult task of creating modern economies in newly developing nations.

The objectives of this new orientation to foreign aid, as set out in Section 6 of the Mutual Security Act of 1957, were: "to strengthen friendly foreign countries by encouraging the development of their economies through a competitive free enterprise system; to minimize or eliminate barriers to the flow of private investment capital and international trade; to facilitate the creation of a climate favorable to the investment of private capital; and to assist, on a basis of self-help and mutual cooperation, the efforts of free peoples to develop their economic resources and to increase their productive capabilities."

To accomplish these objectives, the Development Loan Fund (DLF) was established as a government corporation in August 1957.

TABLE 1

AID MAJOR PRIVATE SECTOR PROGRAM AREAS AND PERIODS OF CONCENTRATION

PROGRAM	DECADE			
	50's	60's	70's	80's
INDUSTRIAL DEVELOPMENT (DLF and Productivity/Industrial Development Centers)	XX			
FOREIGN EXCHANGE ACCESS & SAVINGS (CIP, Program Loans, Cash Transfers, PL 480)*	X	XX	X	X
POLICY DIALOGUE (Program Loans)*	X	XX	X	X
CAPITAL MARKET DEVELOPMENT (ICI's, Securities Markets)	X	X	X	XX
PRIVATE INVESTMENT PROMOTION				
Cooley Loans	X	XX		
Investment Guaranties		XX	X**	X
Investment Centers/Groups		XX	X**	X
Investment Project Identification		XX	X**	X
Cofinancing (private sector only)			X**	XX
EXPORT PROMOTION			X	XX
TOURISM		XX	X	
TRAINING	X	X	XX	X
TECHNOLOGY TRANSFER	X	XX	X	X
SSE DEVELOPMENT	X	XX		X

X- program active
XX- decade of most activity to date

* Not solely private sector oriented

** LAC only

1. Development Loan Fund (DLF)

DLF was empowered to provide financing, through loans, credits or guaranties to economically, technically and financially sound projects. No grants or direct purchases of equity securities were permitted. (One of DLF's functions was to facilitate the shift of some U.S. foreign aid from a grant basis to a loan basis). DLF was also given the then unique authority to accept local currencies in repayment of its loans to avoid excessive increase in dollar debt burdens in recipient nations. (This repayment mode was deemed impractical over time and the FAA of 1961 requires dollar repayments.) The DLF was also empowered to acquire and dispose of real, personal or mixed property, including mortgages, bonds, debentures, liens, pledges and other collateral.

Since DLF funds were no-year appropriations and since by statute DLF was exempt from having to return the funds to the US Treasury, DLF authorities created a revolving fund, along the lines of that proposed by PRE for its activities.

Although many of the DLF authorities are still available to AID by law, including the authority to acquire and dispose of certain debt and equity instruments and the authority to make direct loans, most of these authorities were no longer used once the emphasis of AID's foreign assistance program changed to Basic Human Needs (BHN) in 1974.

From August 1957 to November 1961, at which time DLF was merged with the International Cooperation Agency to form AID, 220 credits were approved by DLF in the amount of $2.2 billion and were used to construct facilities and productive enterprises in 50 LDCs.

The two primary instruments of the DLF for private sector programs were the direct loan and convertible debentures. DLF loans and convertible debentures for the direct benefit of the private sector totaled almost $716MM or about 34% of its total commitments. (The balance of commitments were directed primarily toward major public infrastructure projects).

The purpose of the convertible debenture mechanism was not to enable AID to become an equity participant, but to provide projects with a vehicle for expanding their equity base at a later date through the sale of the debentures to the private sector once the projects had shown some success. Under the DLF, nearly a dozen borrowers obtained DLF financing in exchange for debentures convertible into equity.

Table 2 shows the distribution of DLF loans by sector and purpose.

DLF pioneered the use of ICI's as on-lenders to small

DEVELOPMENT LOAN FUND

Distribution of Loans by Sector & Purpose as of November 3, 1961

	Food and Agriculture	Transportation and Communications	Power and Multi-Purpose Projects	Industrial Development	Other General Development	Total
DOLLAR LOANS						
A. Loans to Private Sector:						
1. Direct Loans to Private Sector................	2,600,000 (1)	---	7,378,913 (4)	236,392,997 (35)	510,151 (2)	246,882,061 (42)
2. Intermediate Credit Institutions..........	32,000,000 (5)	---	---	134,736,000 (26)	53,000,000 (9)	219,736,000 (40)
3. Loans to Public Borrower w/Private Impact...	---	55,000,000 (2)	---	188,350,000 (10)	6,028,000 ---	249,378,000 (12)
Subtotal, Private Sector...	34,600,000 (6)	55,000,000 (2)	7,378,913 (4)	559,478,997 (71)	59,538,151 (11)	715,996,061 (94)
B. Loans to Public Sector.....	180,975,943 (8)	462,469,525 (65)	466,250,000 (31)	138,413,600 (11)	124,032,194 (11)	1,372,141,262 (126)
Total, Dollar Loans........	215,575,943 (14)	517,469,525 (67)	473,628,913 (35)	697,892,597 (82)	183,570,344 (22)	2,088,137,323 (220)
LOCAL CURRENCY LOANS (in dollar equivalents)						
A. Loans to Intermediate Credit Institutions..........	----	----	---	---	1,000,000	1,000,000
B. Loans to Public Sector.....	----	1,079,801	---	---	---	1,079,801 (1)

TABLE 2

business. Loans were made to 24 development banks in 18 countries in the amount of $150MM. DLF also supported national systems of Savings and Loan institutions. It pioneered the concept of tied procurement in 1959, which was the first time U.S. procurement had been required as opposed to free world spending authorization.

DLF projects involved several major industrial enterprises, including, among others, a cotton textile mill in Ethiopia, a sawmill in Liberia, a textile mill in Sudan, a pulp factory in Tunisia, an automotive parts plant in Indonesia, cement, nylon and chemical plants in Korea, pulp, cement and explosives plants in the Philippines, a cement plant and glass factory in Taiwan, a meat processing plant in Thailand, 2 sugar refineries in Bolivia, a sissal plantation in Haiti, a S&L in Peru, a housing project in Venezuela, 2 development banks in Israel, an electric power plant and a phosphate mine in Jordan, an aluminum plant in Lebanon, a steel mill in Turkey, a canning and freezing plant in Egypt, a textile mill in Syria, a thermal power plant in India, and a gas treatment plant and 3 loans to a major development bank in Pakistan. Loans were made at 5-3/4% to profit-making firms.

Despite the impressive inventory of projects, the results of the DLF direct loan program are generally considered mediocre, although little formal data exists on the success rate of the various loans. One of the more notable successes is the Korean Hyundai Construction Company which received DLF assistance in 1959 and is now a thriving enterprise with sales in excess of $2 billion per year.

Two convertible debenture projects which were successful are the Sui Gas Company in Pakistan and an abattoir project in Thailand. (In both cases, DLF elected not to convert its local currency debentures nor to sell them on the grounds that to do so would adversely affect the companies and the economies of the host countries. DLF felt that future dollar dividend payments would make a greater demand on the companies and the host country foreign exchange position than would servicing the loans.)

Some of the more notable failures include the Liberian-American sawmill project which failured primarily due to poor management. The Sudan American Textile Industries project also failed. The local management was inexperienced and the project became insolvent in two years. DLF resold the equipment to private interests in other countries. DLF had committed $10MM. It sold its interests to the Arabian Textile Company and wrote off $6MM.

Two other failures involve the 2 sugar refineries in Bolivia, in which both loans were defaulted. One ultimately was repaid after rescheduling while the other was written off.

Generally, DLF failures are attributed to the lack of experience of the investors on whose judgement DLF relied and to the degree of capitalization of the project. As a program mechanism, the DLF direct loans appear to have been extremely time-consuming from the standpoint of the limited staff available and did little to provide any institutional benefits to the countries in which the projects were implemented. The LAC, Near East and Asia bureaus all noted that their comparative experience with ICIs has been more favorable from the standpoint of loan monitoring and institutional development. However, one of the primary goals of DLF was to transfer capital resources, which it did accomplish.

2. Productivity and Industrial Development Centers

During the DLF period, a certain number of Productivity Centers and Industrial Development Centers were also developed, including one in Pakistan and five in LAC (Chile, Guatemala, Panama, Jamaica and Mexico). The project in Panama appears to have been the most comprehensive and successful, including economic investigation and promotion, technical consultation, management seminars in operational practices, training in local plants, information dissemination on technical matters and participant training in the U.S. and other countries.

The results of these initiatives were mixed, with a number of 'indifferent results' indicated. The centers could not exist without other government programs, a very active promotional program and close ties to the business community. Start-up subsidies were essential and longer term commitments were often necessary to ensure institutionalization.

C. FOREIGN EXCHANGE ACCESS OR SAVINGS

Since 1952, AID has made available over $7.7 billion in special loans to LDC's to permit them to overcome foreign exchange constraints. (This amount includes $1.8 billion in LAC, $5.4 billion in the Near East, $295 million in Africa and $222 million in Asia). Three instruments are involved: program loans, commodity import programs (CIP's) and cash transfers. (However, since the 1970's, only a small portion of these funds can be classified as 'private sector assistance').

The program loan provides dollar-denominated loans to LDC's which are normally conditioned, i.e., certain policy modifications are expected in exchange for the loan. (Program loans as an instrument for influencing public policy will be dealt with in Section II.D).

The commodity import program provides financing to meet the foreign exchange cost of imported goods and services. (Since 1981, they are increasingly being used to support the private sector.)

Cash transfers are effected in the context of the Economic Support Fund to assist with balance of payments or economic development problems in countries where the U.S. has special security or foreign policy objectives.

Leading recipients of these types of assistance include Brazil, Chile, Columbia, Dominican Republic, India, Pakistan, Turkey, Tunisia, Egypt, Korea, Israel, Nigeria, Zaire and Zambia.

Most of these programs made foreign exchange available for imports from the United States, over and beyond an agreed upon base level. Generally, targeting of use of the funds for specific import requirements was not done, especially when private sector groups were involved.

Difficulties in negotiating these loans, the lack of a directed impact and a scarcity of funds, particularly in LAC where Alliance for Progress funds had been used in the 60's, caused this type of program to be less widely used in the 70's. However, in at least the case of LAC and for Egypt, they are beginning to be used again on a more selective basis, with a focus on use of the imports for private sector use. (The ultimate use of these funds, however, is regulated by the host government and cannot be considered responsive to free market forces.)

A mechanism for saving foreign exchange is the PL480 program which permits payment in local currency for imported U.S. agricultural commodities. Although this program itself does not directly benefit the private sector, local currency funds thus generated have been used generally for infrastructure, education, intermediate credit and industry. Very recently, certain of these funds are being used for private sector support. (In El Salvador, local currency generations have recently been used for an industrial working capital fund).

>D. POLICY DIALOGUE>

Finding effective means of influencing public policy in areas related to private sector interests is a difficult task. Past experience has involved 2 primary mechanisms: the more formal conditioned program loans and the more informal continuing policy dialogue. A few scattered projects dealt with policy formulation but their impact was far more limited than that intended by the two primary mechanisms.

A 1970 study of the use of program loans to influence public policy concludes that over the period 1962 to 1968, program loans did effectively influence policy. (Countries studied included those which consistently received program loans over those 7 years: Brazil, Chile, Columbia, India, Korea, Pakistan, Tunisia and Turkey.) The two primary mechanisms were clearly evidenced in the sample population: AID missions in the LAC countries and Korea used formal conditioning with regular performance reviews and tranche releases of the loans, whereas those in the Near East countries adopted the informal approach. (Tunisia switched to a more formal approach after 2 years).

In spite of definite policy modifications achieved, the results obtained, when evaluated against loan conditions or Mission goals, were considered moderately encouraging at best. (Only in Korea were the results considered impressive.)

The report concluded that the program loan should be maintained as a major element of the assistance package in countries where the U.S. wants to influence overall policies and will supply the human and material resources necessary to do so and where the host government gives hope of success. It was recommended that policy conditions be kept few in number and be clearly defined; that the program loan approach to policy dialogue not become routinized; and that if policy influence is working well and progress is being made, more empahsis be placed on increasing self-help and diminishing aid.

The impact of individual projects geared to influence policy is generally more limited because of their more restricted scope and the more limited amount of funds involved. The two LAC projects described below serve as examples of successful public policy projects.

An employment policy project in the Dominican Republic was undertaken in 1979 to organize an Employment Analysis and Planning Unit whose objective was to formulate recommendations on how to stimulate additional employment in the private sector. Recommendations were made relative to using more labor intensive technology, on fostering small enterprises and on improving rural farm and non-farm employment opportunities. The second project involved a grant in 1978 to the Jamaican National Planning Agency to establish an integrated manpower development and utilization system responsive to labor market needs. LAC concluded that these projects were useful in sensitizing public officials to the need for incentives and disincentives in improving output and employment.

E. CAPITAL MARKET DEVELOPMENT

Capital market development is essential to the private sector to permit it to access the debt and equity capital necessary for its start-up and expansion activities. The objective of capital market development programs is to mobilize savings which can be used for productive investments. AID has been very active in the financing and institution building of intermediate credit institutions (ICI's) and, to a much lesser degree, in the development of local securities markets.

1. ICI's

The period of greatest development activity involving ICI's occured during the 1960's. An evaluative study of ICI investments conducted in 1969 indicated that from 1958 to 1968, AID had granted 61 dollar loans to 45 ICI's in 34 countries, with an average loan amount of $5.2 MM. Three-fourths of these loans were made to the LAC and NESA bureaus, 80% to banks in more developed financial settings and two-thirds to public ICI's for purposes other than seed capital. (The trend, however, was changing by 1969 from financing provided to public ICI's in more financially developed countries to financing provided for seed capital in private ICI's in less developed financial settings.)

The major objectives of the ICI development assistance undertaken by AID were (1) to develop institutional capability for appraisal banking; (2) to extend medium and long term credit and to provide equity financing where it did not exist in sufficient quantities ; (3) to mobilize domestic resources by stimulating complementary investment; (4) to direct investment in high priority development areas, such as agribusiness, to finance start up or expansion of productive facilities; (5) to broaden access to the formal credit system and extend outreach; (6) to foster self-sustaining and financially independent institutions capable of continuing their operations once development assistance was withdrawn.

The study concluded that the great majority of AID's development assistance to ICI's has been successful. Most institutions created with AID seed money are now self-sufficient and provide needed financing and services to new and expanding enterprises, some of which would be unable to obtain credit in the commercial market.

In the area of mobilization of resources, it was found that most ICI's provide between 1/3 to 2/5 of the total investment required. The remainder is mobilized externally.

The study concluded that the loan application procedures of many ICI's serve to improve the financial and business practices of firms applying for assistance. In addition, certain of the ICI's offer technical assistance to their subborrowers, although the general conclusion is that there is always a need for more.

Additionally, the allocation of scarce AID resources to loan review has not been necessary since the ICI's perform this function.

There are, however, certain problems with ICI programs. ICI operations may be ineffective due to distortions in the price structure in markets in which they operate. Government policies of protectionism, overvalued currency or lack of investment incentives, among other things, can distort the allocation of the scarce medium and long term resources available to ICI's.

There is a tendancy for ICI subloans to be directed to larger or better established enterprises. Small-scale enterprises (SSE's) may receive little attention, due primarily to the higher risk, the higher relative cost of loan admininstration and the need for more extensive TA to these enterprises. (A solution adopted for this latter problem was the establishment, primarily in the late 60's and 70's, of specialized SMSE promotion offices to assist entrepreneurs with loan applications and to provide ongoing management training. Section II.K discusses the SSE development programs, both industrial and agricultural, in more detail).

Inadequate appraisal banking capabilities were also identified as a problem in certain instances, resulting in excessive reliance on high collateral or very short loans to compensate for the risk factors involved. This problem was generally solved by the provision of additional technical assistance to the ICI staff.

The specific instances of successful projects are numerous. India's ICICI, which received dollar loans from AID in the early 60's, is frequently quoted as a prime example. The AID loan effectively increased the foreign exchange available for relending to the private sector and provided an incentive for the purchase of American equipment (subloans were made to private sector companies which intended to use U.S. goods in their projects). A considerable amount of supervision of the relending operation was provided by the AID Mission in New Delhi. The project also served as a source of information to the Mission on the operations and problems encountered by private companies. This information was useful in the policy dialogue being carried on between AID and the Indian government, relative to investment, regulatory and fiscal policies for the private sector.

In Korea in the 60's, capital and technical assistance were provided to 2 public banks, the Medium Industry Bank and the Korea Development Bank and to one new private bank, the Korea Development Finance Corporation. These 3 projects were all considered highly successful from the standpoint of subprojects financed, increased availability of investment credit for the private sector and the upgrading of the banks' appraisal banking capability.

Another very successful project involved the Philippines Private Development Corporation (PPDC) to which AID furnished $10MM in resources which were subordinated to both debt and equity as a means of attracting additional equity to the project. (AID held, in fact, quasi-equity in PPDC). The PPDC has become an energetic and important force in private sector support. The subordinated position of AID encouraged several US and foreign commercial banks to take equity holdings in the PPDC.

LAC has been very active in ICI assistance, providing over $1 billion in development loan financing to 91 ICI's since 1961. In addition to assistance to development banks, LAC also supported credit unions and S&L's. Savings mobilized by credit unions grew in LAC countries from $78 MM in 1962 to $600 MM in 1978. Membership grew during the same period from 300,000 to 2,500,000 while the number of credit unions almost tripled. Savings and Loan Association figures are similar to those for credit unions.

LAC helped establish COLAC, a private, regional confederation of credit unions and provided considerable support to BIAPE, a private inter-american S&L Bank. Both institutions are successful.

In Africa, major development loans to ICI's were made to the Ivory Coast Development Bank, the Credito Somalo and the West African Development Bank, all of which were considered generally successful.

As concerns project failures, it is difficult to identify any project as a total failure since credit is supplied to a large number of subborrowers in all instances and there are individual successes among that population. However, it would appear that the loan to the Entente Fund's African Enterprises Program was a 'lesser' success than most other ICI loans. Technical assistance was not readily available to the subborrowers since the TA office for the Fund was separate from the development banks (the Entente Fund was the recipient of the AID loan and then on-lent funds to national development banks in the 5 Entente countries). The loan was also used to fund too many projects in the most developed of the 5 countries (Ivory Coast) rather than being spread evenly among all countries. Larger firms were generally favored over smaller ones and insider contacts were used to obtain funds.

A development bank project in Afghanistan failed in the early 70's due primarily to the lack of a supportive political climate for an institution serving small private industrial companies. The lack of trained staff for subproject selection was also identified as a problem.

On the whole, evaluations of ICI projects indicate acceptable results from the standpoint of resources transfered and jobs created.

>2. Securities Markets>

The development of securities markets in LDC's is a difficult task since it requires a fairly sophisticated financial system and acceptance locally of the concept of selling equity to 'outsiders'. Data is available on 2 projects only: a failed attempt to provide technical assistance to the Karachi stock exchange in the 1970's and successful technical assistance from the New York Stock Exchange to Korea to revitalize the Korean stock exchange operations. The lack of projects in this area, as well as the conclusion from ICI evaluations that attempts to sell down equity purchased by the ICI's have failed, are indicative of the limited prospects of securities markets development in most LDC's at their current stage of development.

>F. FOREIGN PRIVATE INVESTMENT PROMOTION>

Successful foreign private investment promotion began in the late 50's with the Cooley loan program. (DLF, on the whole, was not successful in attracting large private investments.) Foreign private investment was pursued most actively through the 60's and again since 1980. The types of instruments used in this initiative include Cooley loans, investment guaranties, investment centers and groups, project identification and cofinancing arrangements.

>1. Cooley Loans>

The Cooley loan program was established by a 1957 amendment to the 1954 Agricultural Trade Development and Assistance Act, sponsored by Rep. Cooley to 'promote balanced economic development and trade among nations' by permitting local currency loans to U.S. firms or their affiliates for business development and trade expansion. The loans were to be used to establish facilities to aid in the use, distribution or marketing of U.S. agricultural products. Funds for the Cooley program derived from local currency proceeds from the sale of U.S. agricultural products under PL 480. Table 3 shows the breakdown of Cooley loans according to geographic bureau.

Loan terms involved maturities set according to the nature of the project and the recipient's projected cash flow with grace

TABLE 3

BREAKDOWN OF COOLEY LOANS BY BUREAU

BUREAU	NUMBER	AMOUNT
AFRICA	4	$4,755,000
ASIA	196	$279,639,000
LAC	83	$25,496,000
NE	144	$120,600,000
TOTAL:	227	$430,490,000

SAMPLE: LAC BUREAU COOLEY LOAN EXPERIENCE

COUNTRY	TYPES OF PROJECTS	YEAR OF AUTHORIZATION	AMOUNT LENT (Dollar Equivalent)
Bolivia	Cement plant	1965-1969	$1,494,000
Chile	Corn Processing, radio plant, textiles, poultry, pharmaceuticals, liquid carbonic	1961-1967	$1,218,000
Columbia	Chemicals, animal feeds, aluminum, paperboard, pharmaceuticals, containers, starch, hotel, tires, razors, ceramics, corn, poultry, sewing machine, pipe	1959-1968	$7,228,000
Ecuador	Electronics, carbon	1963	$ 867,000
Mexico	Retailing, textiles, warehousing, farm machinery, electronics, pharmaceuticals, paper, chemicals, air conditioning, apparel, balanced feeds	1958-1959	$7,175,000
Paraguay	Cattle ranch	1963-1964	$1,204,000
Peru	Retailing, footwear, dairy, matling, poultry, jute, salt, lab, animal feeds	1959-1966	$2,979,000
Paraguay	Appliances, textiles, farm machinery, corn processing, tobacco, vegetable oils	1959-1963	$3,331,000
TOTAL:			$25,496,000

allowed until the facilities became productive. Interest was set for each country based on the locally available rate from development lending institutions. (However, Cooley rates were usually lower than local rates for longterm financing). Repayment was in local currency with no maintenance of value requirement.

Greater priority was given to capital investment needs than to working capital requirements because of scarcity of resources for the former.

Complaints from U.S. firms included the unavailability of sufficient funds in certain markets (particularly LAC), delays in processing which occured when Missions had only limited staff, high interest rates and few available working capital loans. From the standpoint of the local missions, the Cooley loan program required extensive staff time for application review and approval.

The development benefits derived included the creation of productive industries; export of U.S. private capital, management skills and technology to countries where most U.S. firms would not have gone; encouragement of private enterprise development.

The benefits to the U.S. included dollar reflows created from fees, royalties, dividends; expansion of U.S. capital goods and raw materials exports; political value of establishing good working relationships between U.S. investors and local businessmen.

The overall program evaluation indicates that the program was highly successful. Despite the fact that Cooley loans, unlike dollar loans, were often made without security or guaranty, the program's loan repayment record is good. Although the risks accepted under the program were high in comparison with commercial lending, the loss record is comparable to that experienced by U.S. commercial lenders in their international lending activities.

However, the Cooley loan program was subject to inherent constraints- the most significant being that availabilities of funds could not be generated to respond to the expressed need. Countries with the largest supply of local currency were usually those in which the investment climate did not attract U.S. private investment, and vice versa. Therefore, the program as designed and implemented was not a generally applicable solution to the problem of providing local currency funding for private projects at reasonable rates.

Examples of successful Cooley loans include over 100 different loans made in India, Pakistan and Turkey in the 1960's to joint ventures between U.S. firms and local, privately owned companies. The Korean Cooley loan program was also highly successful, involving 3 stages: initial projects for U.S./Korean joint venture industrial plants; second stage projects involving Korean firms using PL480 products (bakeries and fats and oils projects); third stage projects involving U.S. branch banks in Korea which sublent the funds and provided portfolio adminstration in return for a fee (this latter stage was necessary due to the reduction in the Korean AID Mission staff).

The Cooley loan program in Taiwan and the Philippines was also very successful, involving manufacturing, fisheries and chemical projects.

In Latin America, Cooley loan borrowers included affiliates of such firms as Ralston Purina, Goodyear Tire, Gillette, Quaker Oats, Singer, General Telephone and Electronics, Sears Roebuck, Grace and Co., General Electric, Monsanto Chemical, John Deere and International Harvester.

The primary example of an unsuccessful project is that of the Ejura Pioneer Farm, the largest farm in Ghana in 1969 when the loan was implemented. $2MM in local currency were made available to Ejura, which was 60% owned by U.S. intersts (Republic Steel) and 40% owned by the Government of Ghana. The project operated at a loss from inception, due to absentee management and excessive overhead costs. It also encountered several technical and marketing problems. The project was never able to meet its repayment schedule, although it did continue to operate since its produce was essential to the food supply for the poor in Ghana. Additional AID financing was provided in 1974 in an effort to recapitalize the project but the effort was unsuccessful. The U.S. participants ultimately gave up their interest and the government assumed control and the Cooley loan indebtedness. AID wrote off all of the capitalized and accrued interest.

2. Investment Guaranties

During the 1960's AID managed a number of incentive programs to encourage private U.S. investment in Asia, Africa and LAC. Under the Specific Risk Guaranty Program, AID insured U.S. investors against specific risks involved in investing in LDC's, including repayment of principal, inconvertibility of earnings, losses due to expropriation, war or revolution. In the early 60's, coverage in the amount of $500MM per year was provided. This authority was transferred to OPIC in 1971.

In the mid-60's, the Extended Risk Guaranty Program was initiated, offering greater protection for investors than that provided by the Specific Risk program. Under this program, the investor was guaranteed against a certain percentage of loss of investment from any cause other than the investor's own misconduct or risks covered by normally available commercial insurance, such as fire, theft or flood. This authority was also transferred to OPIC in 1971.

One of the more publicized investment guarantees was the Calabrian project which involved the storage and milling of maize in Thailand. An investment guaranty was provided to an American investor by AID in 1968. The investor created a Thai corporation and borrowed money from N.Y. banks to finance the project. Repayment of the loans was guaranteed by AID. The investor's common stock was placed in escrow as security for the extension of the AID guaranty. The loans were defaulted. AID paid off the N.Y. banks and assumed ownership of the investor's shares, making AID in effect the operator of a Thai corporation in competition with local businessmen. AID tried unsuccessfully to sell the company as a going concern to several U.S. companies. AID was later sued by the investor who claimed that the default had been contrived by AID. AID submitted to the jurisdiction of the Thai courts, where its position eventually was upheld.

Both risk guaranty programs resulted in a total of $2.6 billion in investment guaranties outstanding by 1965. The programs apparently had a substantial impact on the rate of U.S. direct investment in LDC's during their lifetime, although it is not possible to determine the exact amount of additional direct investment due to the guaranties.

Since 1961, AID has managed the Housing Guaranty Program which promotes basic shelter and related services and facilities for low income people in LDC's by mobilizing U.S. private sector resources in the form of loans made to foreign governments or their agents. AID provides a full faith and credit U.S. government guaranty of the loans made.

Although there have been a few problem cases, the Housing Guaranty program is generally considered an outstanding success, with over $1 billion of guaranties outstanding and a default rate of less than 1%.

The AID evaluation of 2 housing guaranty programs in Panama (one for $3.5MM to build new low income housing and the second for $15 MM to upgrade existing slum projects) attests to both the effectiveness of the guaranty itself, as well as the considerable improvement in quality of life factors for the beneficiaries (in one project, the living space available increased by 150%).

A final type of guaranty program is the Productive Credit Guaranty Program (PCGP). The goal of the PCGP is to increase opportunities for profitable investment by facilitating access of small entrepreneurs to the services of the formal credit system, via guaranteed loans. Programs have been initiated by LAC in Bolivia, Costa Rica, Paraguay and Nicaragua. As of the end of calendar year 1980, over $16MM in guaranties had been issued, with the vast majority going to Paraguay ($12.5MM). Although the number of loans extended under the PCGP has been impressive, a number of problems have arisen as regards operational and administrative issues. Results are considered mixed at best. The program has now been taken over by PRE.

It should be noted that in 1979 LAC commissioned a study by Peat, Marwick and Mitchell entitled "Selection and Development of a Private Sector Financing Mechanism". The study was conducted to recommend an alternative financing instrument for facilitating private sector investment in projects, especially those in middle income LAC countries. Two instruments were selected- one guaranteed and the other not. Both involved loans from private lenders (most probably large commercial banks) which were to be matched by a loan from AID.

The preferred instrument was a loan by a private lender to a LDC project with a full U.S. government guaranty. Although new legislation would have been necessary to implement this instrument, it was felt that it would appeal to a broader market, would allow significant leverage of AID resources, would be available for use on a recurrent basis and could be used for financing a full range of development programs in virtually all of the LAC countries.

Recognizing that the new legislation required might not be attainable, PMM also recommended a second instrument- an unguaranteed loan from private lenders to only the most creditworthy of AID borrowers. PMM felt that the private lenders would require an automatic cross default clause from AID with respect to its matching loan, and a full personal guarantee as well as 25% of the project capitalization from the project sponsors.

Anticipating objections from OMB and Treasury, the previous Administrator did not take action on the recommendations.

3. Investment Centers and Groups

The purpose of investment centers and groups was to attract direct U.S. private sector investment in specific investment opportunities. AID was instrumental in establishing the India Investment Center in New York, assisting with a loan and technical assistance. That operation has since expanded its activities to include Europe.

AID also provided technical assistance to investment centers for Korea, Taiwan, Thailand and Indonesia.

An Investment Information Center is being organized for Egypt, to identify investment opportunities and priorities, develop data, publicize the investment opportunities and facilitate the investment process for potential investors.

LAC has provided grant assistance to the Caribbean Association of Industry and Commerce which provides investment promotion services to its members. Additional assistance is provided to local Chambers of Commerce and business associations to publicize investment opportunities.

A recent, well-known investment promotion initiative was Project ICONE, or the International Conference on New Enterprises, implemented in Manila in June, 1979. Although AID did not initiate the project, it did participate in its funding, along with the U.S. private sector and the World Bank. The project concept was developed by the Enterprise Institute of Ohio, a nonprofit economic development corporation. The goal of the conference was to stimulate international cooperative efforts to establish SMSE's in LDC's to expand employment at a reasonable cost. In an evaluation conducted in 1981, the attendees interviewed strongly recommended continuing the concept, on the basis that it provided good information on co-ventures and served as excellent U.S. public relations and as a platform for advocating public policy advantageous to small business. The conference resulted in 19 business ventures by 9 individuals, amounting to $27-31MM in potential investments and between 750 to 1150 jobs.

An example of a failed investment promotion initiative is the Inter-American Investment Development Center, a business clearing house, which was designed to stimulate U.S. private investment in LAC countries by screening and presenting potential investments to U.S. investors. The center was in New York but the investment proposals were prepared in-country. An evaluation stated that the project concept oversimplified the problems of developing viable projects to meet U.S. standards and those of LAC entrepreneurs. The proposals were not well prepared and the LAC staff was not sufficiently qualified. The evaluation emphasized that entrepreneurs need assistance in developing investment proposals and that, in fact, it is probably best to direct developed country firms interested in foreign investment to LDC's so that, with proper assistance, they can find their own local partners.

4. Investment Project Identification

AID has employed several mechanisms over the years to identify and develop projects, including pre-investment surveys, feasibility studies and project identification units.

a. Pre-investment surveys

In the 1960's the Investment Survey Program encouraged private U.S. investment in developing countries by sharing the costs of surveying potential investments overseas. In this program, AID paid 50% of the cost of the survey if the investment was not made. A 1966 evaluation stated: "experience to date suggests the program is justifying its cost: AID is obligated for nearly $500,000 or its share of 56 completed surveys in which the investment decision was negative compared with 19 affirmative decisions, which will bring up to $50 million in American private capital into less-developed countries."

The program usually involved in-country visits by U.S. businessmen to survey the potential market, availability of raw materials, communications, labor and applicable foreign government regulations. This program was eliminated from the AID scope of authorization in 1969 but similar programs are now under OPIC's authority.

b. Feasibility studies

During the 1960's the LAC Bureau authorized 23 feasibility study loans totalling $67.7 million of which $51.5 million were expended. A study conducted in the early 70's found that $12 of investment was made for every $1 of LAC Bureau funding for feasibility studies, although the report indicated that several large investment projects skewed this ratio upwards. The general feeling, however, regarding these loans is that many of them were slow-moving and produced voluminous reports which sat on the shelves of various LDC ministries. Although the studies identified needs, they remained academic exercises in the absence of private investor interest.

(The Reimbursable Development Program and the PRE Feasibility Cost Sharing Program both appear to be far more cost-effective since they finance studies in response to existing demand, rather than for the purpose of building an inventory of bankable projects, as was the case with the 1960 LAC feasibility study program.)

c. Project Identification Units

There are 2 examples of project identification units among recent projects. The first is the Caribbean Project

Development Unit, jointly funded by AID, IFC and UNIDO. The unit is designed to identify projects in the Caribbean in the $500,000 to $5MM range. Although the unit is still in a start-up phase, it has identified several projects (one of them was selected for funding by PRE).

The second example is the Eastern Caribbean Development Program, involving project development advisors in several Eastern Caribbean LDCs to develop projects in the productive sector. The contractor is also required to find external investors at times, as well as markets and technology for specific projects.

5. Cofinancing

Cofinancing with private sector institutions is a relatively new mechanism for AID. The efforts undertaken most recently by PRE will be discussed under Section III of this report. Other than those initiatives, the only other recent cofinancing projects with private sector institutions have been implemented by LAC. (Some 16 others have been implemented with public sector institutions since 1961).

The most frequently mentioned cofinancing project of the 1970's involved a LAC loan agreement with the Latin American Agribusiness Development Corporation (LAAD). AID had been instrumental in organizing LAAD in the early 1970's. LAAD has served as a private sector intermediary for identifying new small- and medium-sized agribusiness projects and for introducing new technology to these same enterprises. The development impacts of the LAAD subprojects include employment generation, linkages to small agricultural producers and expansion of non-traditional exports which generate foreign exchange.

In the most recent LAAD project, LAAD matched the $6 million AID loan with $6 million in private sector borrowings and supplied $7.3 million of their own resources.

Another example of cofinancing in AID's recent past involves a $10 million loan to BANEX, a private Costa Rica export bank, made in September 1981 to support a private sector alternative to state-owned banks. The loan will allow BANEX to provide export-oriented banking services, to make credit available to export producers and to create a trading company to assist exporters in Costa Rica. The project envisions the possibility of cofinancing eventually from private sources, although the current economic constraints are not favorable at this time. To provide for this possibility, however, the loan agreement makes provision for a cross default clause.

It is generally felt that the leverage obtained for AID funds from a cofinancing arrangement, as well as the assumption of the subloan administration and monitoring responsibilities by the cofinancing partner, make this mechanism an extremely attractive one in light of very limited AID human and financial resources. While there is some disagreement on the effectiveness of the LAAD program, particularly as concerns its level of equity participations, it has achieved a high degree of outreach to the local smallholders and a very satisfactory degree of leverage.

G. EXPORT PROMOTION AND DEVELOPMENT

Many of the early industrialization projects tended to emphasize import substitution in areas such as the manufacture of steel, pulp, and automotive parts. While this economic policy could be justified as long as there was a relatively sizeable market for the product (either nationally or regionally) and as long as excessive price distortion or protectionism did not occur, this approach no longer enjoys the solid endorsement it once did due. A more complete approach to market development, including both internal and external orientations, has proven the most viable solution. While the domestic market should not be ignored, export development has demonstrated good economic growth potential (e.g., Korea, Taiwan, Brazil) and further serves to generate needed foreign exchange. Export promotion became increasingly frequent as of the mid-70's.

A major effort was undertaken in India in the 70's to assist local export promotion by establishing industry groups (including agricultural producers), organizing and financing trade group visits to the U.S. and Europe and contracting for market studies. The goal of the program was two-fold: to influence the Indian government, via the market studies and research effort, to allow export industries to develop in the private sector rather than considering nationalization; and to promote the export marketing of future production. Although no specific evaluation of project impact was conducted, it is assumed that it had a direct bearing on the later expansion of Indian exports.

In Korea, AID funded a long-term advisor to assist the Korean trade promotion office (KOTRA) an example of highly effective export promotion. In Taiwan, AID funded an advisor and participant training.

The one major PPC operational program geared to Private Sector activities is the World Trade Institute project which has been supported by AID since 1973 to expand its educational, training and technical services for export development and trade promotion assistance to LDC's. The rationale for the program is that most LDC's need increased foreign exchange to finance growing imports and external debt, to create jobs and train local personnel in production and management practices. However, most LDC's do not have specialized institutions with trained manpower to assume responsibility for a comprehensive export promotion program (project identification, marketing, transportation, cooperation between government and business, etc.). Evaluation of this project indicates success, which can be measured by the increasing number of clients who are willing to pay for these services.

An export promotion program in LAC begun fairly recently involves the development of business associations, Chambers of Commerce and a project identification unit for the Caribbean. The first project involves a grant to the Caribbean Association of Industry and Commerce for export promotion services. Another project involves the pairing of LAC and U.S. Chambers of Commerce to assist in promoting exports.

While these efforts have been helpful, it is generally felt that the area of export development and promotion is one that merits greater attention due to its record of success in inducing economic development.

H. TOURISM

Tourism projects were financed during the 60's and early 70's. Several privately owned hotels were financed in India and Pakistan with Cooley loans. All of these projects were apparently successful.

A tourism program with assistance provided to the government was implemented over several years in Jordan to develop touristic sites. The implementation of this program had beneficial effects for private business (private funds were always available at that time for hotel construction or establishment of related service industries).

A 1967 project in Africa involved a $2.5MM loan to the Grands Hotels du Congo to assist in the construction of an intercontinental hotel in Kinshasa. The major investment was made by an international hotel chain. The project was successful and the hotel is in operation today.

Tourism was also assisted in Egypt where funds were made available under the CIP to finance equipment for hotels.

A large regional program under ROCAP was implemented in 1973 to develop tourism in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica.

Although these programs were generally successful, the 1974 New Directions mandate effectively terminated the undertakings in this area due to its emphasis on programs directed at the poor majorities in LDC's.

I. TRAINING

Training to support the private sector has taken the form of vocational skills training and management training (both long term and short term training). AID was very active in training, particularly in the 1970's, but has been less active in the 1980's.

1. Vocational skills training

Vocational skills training programs provide semi-skilled and skilled personnel to fill job requirements for the public and the private sector. AID has been fairly active in technical assistance and funding to existing training institutes and has also helped establish a number of new institutes.

In Korea, AID provided technical assistance and funding for equipment for the Korean Institute of Science and Technology.

In Jordan, a vocational training project has contributed to the construction, equipping and staffing of an institute which will turn out approximately 300 workers per year for the private sector.

In Morocco, AID is financing a project which will provide industrial and commercial job training for women. Inputs include advisors, training in the U.S. and training equipment. Students are being trained in drafting, electricity, electronics, accounting and secretarial skills.

Two projects in Egypt which benefit the private sector are a vocational training program to develop a regional model for a national vocational training system to provide skilled labor for private and public sector companies and a vehicle maintenance training program to train mechanics.

In LAC, vocational training projects have served to provide direct support to the private sector to enable it to meet its own training requirements, via assistance to employer organizations, Chambers of Commerce and Industry and other private sector groups.

Development assistance has been provided to LAC private sector training firms which provide services to participating firms. PVO's have also received assistance allowing them to provide skills training to the poor.

Examples of the above initiatives include AID assistance in

1965 to CONEP (National Private Sector Council of Panama) to survey the training needs of the Panamaniam private sector and to assist in the creation of a semi-autunomous training organization. In 1967, the National Industrial Apprenticeship Training Service (SENAI) in Brazil received technical assistance to improve its ability to estimate training requirements and to enhance its in-plant training support capability. From 1977 to 1978, AID financing was provided to the Federation of Voluntary Organization (FOV) in Costa Rica to permit them to strengthen their efforts in training poor women. Approximately 200 volunteer workers have trained 1550 poor women in skills such as industrial sewing, preparation of Christmas ornaments and baking.

It is generally felt that most of the vocational skills training programs servicing the private sector have been successful. The more closely a training program is tailored to meet a specific demand based on a well designed training needs analysis, the more useful the program to the private sector. At the time of this writing, little data was readily available on a significant population of vocational training projects but general Agency opinion tended to be favorable.

2. Management training.

Management training has been provided in the United States for selected foreign students, such as those participating in the LASPAU, ASPAU and AFGRAD programs. Large scale reimbursable activities have been conducted in Brazil and Guatemala. While these projects have not been evaluated from the standpoint of their impact on the local private sector, it is generally agreed that exposure to U.S. management techniques through U.S. university programs is beneficial. It is generally acknowledged, however, that better coordination between the area of studies and actual employment demand in the host country is needed to ensure greater program efficiency.

Management training programs have also been developed and implemented in-country. Most results are positive although a program implemented in Turkey in the mid-60's was evaluated as having given no indication of noticeable results.

LAC loan and grant funding from 1972 to 1976 was instrumental in developing INCAE (Central American Institute of Management) in Nicaragua. This private, non-profit multinational institution offers both MBA studies and specific training programs built around special requirements. It also provides consulting services on a fee basis to private and public institutions. However, the recent political turmoil in Nicaragua has necessitated the funding of a second campus in Costa Rica. An evaluation of INCAE (which received its AID-financed technical assistance from Harvard) conducted in

1976 noted that INCAE has a justified international reputation for high quality in its educational programs.

AID also provided assistance to APEDE, the Panamanian Association of Business Executives, as early as the late 50's to allow APEDE to upgrade the quality of its management skills of its members. In 1977, CESA (Center for Graduate Studies in Management) was started to formalize graduate management studies. AID is now providing APEDE with assistance to provide management training to small entrepreneurs.

In 1963, with AID funding, ESAN, the graduate school of business administration in Lima, Peru, was initiated. It is a private, independent graduate school of business, offering an MBA and specialized executive programs. With AID assistance, it received technical support from Stanford University. ESAN is considered one of the best business schools in South America, graduating 70 students annnually from its MBA program.

In Egypt, a Management Development for Productivity Program is intended to improve management in both the public and private sector industrial organizations. Approximately 200 managers from the private sector will be trained.

Management training programs are generally regarded as useful provided they respond to specific needs and are capable of becoming self-sustaining institutions over time, supported by trainees and employers. One means of expanding the management training institute's activities and income base is that of external consulting, including operational practices (accounting, bookkeeping), pre-investment or feasibility studies and market research. Several of the more successful AID-supported management institutes provide these services (INCAE and ESAN).

J. TECHNOLOGY TRANSFER

The transfer of productive technology to LDC enterprises serves to enhance productivity, improve product quality and promote competitiveness in the world market.

Means of capitalizing on U.S. technology have included facilitating of joint ventures, the provision of assistance to technology-oriented PVO's and support to specialized technology transfer organizations such as the Joint Agricultural Consultative Corp. (JACC) and the International Executive Service Corps (IESC).

1. Joint Ventures

The establishment of joint ventures in LDC's was facilitated primarily during the Cooley loan period when local currency loans at somewhat concessional rates were made to U.S. corporations or their affiliates who intended to establish joint ventures or foreign branches in LDC's (see Section II.F.1). In these instances, U.S. technology was provided by the American partner, along with his equity investment in the firm. This combination of equity investment and 'vested interest' technical assistance appears to have been instrumental in the success rate of the Cooley loan projects on the whole.

Since 1974 and the New Directions mandate, there have been few instances of AID-facilitated joint ventures, although the recent PRE efforts to provide more equity funding via cofinancing arrangements and support of the JACC are aimed at increasing U.S. overseas partnerships.

2. PVO's

Private Voluntary Organizations (PVO's) such as ATI (Appropriate Technology, Inc.), Technoserve, Inc., ACCION, Institute for International Development and the Partnership for Productivity have all been helpful in providing some technical assistance to small enterprises to ensure the transfer of appropriate managerial and production technology. These efforts are more fully described under Section II.K (SSE Development) since most of their efforts are aimed at assisting smaller enterprises with basic managerial and operational skills, such as bookkeeping.

In the area of appropriate agricultural or production technology, ATI has been particularly active since its creation in 1977. ATI's stated goal is to implement appropriate technology projects which combine technology, financial support, technical assistance and knowledge of development methods to produce positive direct effects on employment, income, savings, capital formation and productivity. Since its creation, ATI has provided over $11MM in financial and technical assistance through more than 200 grants to organizations in Latin America, the Caribbean, the Middle East and the South Pacific.

Examples of ATI projects include the development of a charcoal briquetting process in Kenya where the Kilifi Plantations, Ltd. built pulverizers from used oil drums and starch from the cassava plant was used as a binder for the briquettes. A fish farming technique recently introduced in a large-scale capital intensive way in Africa is being scaled down to local conditions in the coastal lagoon areas of Togo. The adapted technology involves raising fish in nylon net enclosures in the lagoons rather than in man-made ponds and replacing food pellets used in large commercial operations by agricultural and household wastes present in the lagoon. Members of farm cooperatives are trained in these techniques.

As of 1983, ATI has focused on 3 technology areas: agricultural product processing, local mineral resource development and farm-related technology. ATI has current projects in 28 countries. The 1982 grant from AID to ATI amounted to $6.6MM. The results of its projects are generally considered very satisfactory.

3. Agribusiness technology

During the 1970's, rural development programs became priority areas, particularly in light of the New Directions mandate with its emphasis on BHN. However, most of these programs were geared to the individual farmer through university or government programs, rather than private sector firms.

One exception was the LAAD agribusiness program in the 70's. It was found in the LAAD program that outreach operations to local smallholders could improve their economic and social well-being, particularly if backward linkages existed and if technical assistance and agricultural credit were provided by the agribusiness rather than by the host government. The ALCOSA project in Guatemala was an outstanding success in the area of agribusiness outreach to local smallholders.

In the 1980's with the renewed emphasis on private sector programs, technology transfer in the agribusiness area was recognized as a strong potential vehicle for private sector development. To facilitate the technology transfer process and to attract private U.S. investment in LDC agribusinesses, the Joint Agricultural Consultative Corporation (JACC) was established and has received financial support from PRE. The JACC represents a number of medium-sized U.S. agribusinesses which, without the JACC, would most probably not be involved in LDC agribusiness projects.

4. Management technology

A key technology transfer agent in the area of management and other technology has been the International Executive Service Corps (IESC), a PVO serving primarily local private enterprise and some government agencies in over 30 countries in South and Central America, Africa, East Asia and the Middle East. Approximately 40 to 50% of its funding comes from AID (PRE has recently taken over management of AID's funding to IESC). IESC's clients are all charged fees for the services provided by IESC's corps of retired executives.

The program is administered abroad by full-time country directors who reside in areas of greatest IESC activity. Country directors generate assistance requests and service both clients and volunteers in connection with assignments. Advisory councils are made up of local leaders whose knowledge of the host country's needs helps to focus and speed the applications of IESC's services in that country. IESC has Advisory Councils in 49 cities with a total of over 300 business leader members.

Projects approved in IESC's Stamford headquarters go to the Executive Recruiters there who match retired American businessmen with the overseas client requesting specific advice. There is a file of over 8500 registered volunteers.

IESC to date has engaged in nearly 9000 technology transfer projects over 20 years, which have resulted in increased employment, increased foreign private sector investments and, in about 1500 cases, enduring relationships with U.S. firms.

The IESC program was very favorably evaluated. It is endorsed by AID, State, Commerce, USAIDS, U.S. ambassadors, host governments and U.S. and LDC private companies. It enjoys an excellent reputation within the Agency for providing prompt and effective assistance to a variety of management and production problems and for instilling sound problem solving techniques in the local managers with whom the IESC executives work.

Two other important management technology transfer projects of the late 60's and early 70's are the National Bureau of Standards (NBS) project and the Denver Research Institute project. The former was a 9 year effort that was very successful in helping countries develop standards institutions suitable to support domestic and external commerces. The latter was a longterm project to upgrade the management capability of industrial research institutes.

The list of other management technology transfer projects supportive of the private sector is extensive but the above are generally accepted as representative of the more successful initiatives, all designed to fill a specific need in given LDC's.

K. SSE DEVELOPMENT

A 1981 study of Small-Scale Enterprise (SSE) development as undertaken by AID and other funding agencies reports that SSE programs have been considered effective tools to assist the poor majorities in LDC's in line with the New Directions mandate since they are generally labor-intensive, have a lower per-job cost and lower capital costs and often offer job opportunities for the very poor and women. However, it was only as of 1980 that SSE's became a major target of donor assistance (employment generation had not been one of the original targets of the BHN program- in fact, the Small Enterprise and Employment Unit in AID was not created until March 1980 and was not given divisional status until 1981). Until 1980, SSE activities were supported only when they had a role in implementing BHN.

Between 1952 and 1980, over 775 AID SSE projects (or projects with SSE components) were initiatied in LDC's. Most were in Asia and LAC and had been initiated prior to 1973.

Of the 240 SSE projects initiated in Asia, 95% were initiated between 1952 and 1973. 50% of that number were implemented in Korea and Taiwan.

LAC has been the second most active bureau in SSE projects, with a total of some 230 projects implemented in 23 countries since 1952. 75% of LAC's projects were implemented pre-1974. Most of LAC's projects involve financial and technical assistance provided through ICI's. LAC's ability to successfully implement these programs has been attributed in part to the presence of more extensive physical infrastructure, more developed human resources and a policy climate generally favorable to the private sector among the host countries, as compared to conditions in Africa or the Near East.

In the Near East, the only current SSE activity is in Egypt. (Pre-1974 activity involved larger industrial projects with small SSE components in countries such as Greece, Iran, Israel, Lebanon and Tunisia.)

In Africa, many SSE projects are part of a larger rural development program. PVO's are the most frequent delivery vehicles and the most successful programs have been in the more developed countries such as Kenya and Nigeria.

Many SSE technical assistance projects are implemented by PVO's. There are 4 centrally funded PVO's (in addition to ATI and IESC, discussed previously) who receive matching grants from AID.

Technoserve, Inc. (TNS) works with low income personnel and development institutions in Africa and Latin America. It was started in 1968 and has assisted more than 150 enterprises in more than a dozen countries, most with fixed assets between $25,000 and $250,000. Many efforts have involved S&L's, cooperatives and enterprises involved in livestock or primary agricultural production. Sixty percent of TNS financing comes from AID. It would appear that its approach to institutional development is successful, particularly as concerns management and accounting systems, policy advice and training.

ACCION International/AITEC was created in 1965 to provide longterm technical assistance to rural/urban socio-economic development programs in Latin America. It has been active in experimental programs in community development, cooperatives, S&L's, industrial development and management. ACCION has recently begun to concentrate on microenterprises. It was not successful in a program of equity financing to SSE's.

Partnership for Productivity (PFP) was founded in 1969 as a nonprofit corporation to support SSE's in developing countries and was converted to a foundation in 1980. PFP is generally considered successful in their projects and is appreciated for the time they take to fully research project problems which gives them a high degree of acceptance in the local communities with their clients and the public. PFP relies heavily on a 'bicycle brigade' of trained local representatives which has proven a cost effective delivery mechanism.

International Institute for Development, Inc. (IIDI) was founded as a PVO in 1971 with the purpose of creating jobs in LDC's through entrepreneurial enterprise. Most businesses which it helps establish are agricultural or food-related. In 1980 IIDI had 56 projects, most of which involved matching local entrepreneurs with U.S. investors/sponsors. IIDI has a generally successful record, although it has been criticized for inadequate local/U.S. communications and insufficient service to its U.S. investors/sponsors.

The AID Office of Urban Development devised the PISCES program, or Program for Investment in Small Capital Enterprise Sector which is aimed at the smallest scale economic activities of the urban poor. Its results are considered satisfactory.

The summary conclusions of the SSE program evaluation report (which the report emphasizes as being directional but not definitive since the data available on the SSE programs is limited) indicate that a combination of financial and technical assistance is needed to support SSE's; that financial assistance works best when explicit standards for subloans exist and are respected; that financial resources tend to be allocated to better-established SSE's as is technical assistance when it is provided along with the funding; that there is generally too little technical assistance in SSE projects; that technical assistance as an approach 'fails' more often than other approaches since it goes more slowly than projected; that PVO's appear to be effective means of providing technical assistance to SSE's.

Examples of successful SSE projects include the Paraguay Productive Credit Guaranty Program whose goal was to establish a self-sustaining guaranty fund to lessen risks in lending to SSE's (the fund by 1980 was 20 times larger than that targeted in the P.P.). The project generated over 600 subprojects and some 3900 new jobs, and helped to improve the profitability of firms which were assisted. (Despite this impressive success, the Bank of Paraguay inexplicably withdrew its support in 1980).

The Nigerian Industrial Development Project (1961-1972) was another successful project. It is considered the most ambitious enterprise and industrial development project in the region and enjoyed considerable success in expanding sales, improving operations and increasing profits of the companies it assisted, along with the creation of numerous jobs. The Nigerian project was especially effective in strengthening SSE's by integrating technical advisory services and financial assistance, which resulted in the more rapid self-sufficiency of the companies assisted.

The Ecuador Small Enterprise Assistance Project (1970-1977) provided 295 subloans to SSE's, especially in the areas of metalworking, plastics products, small appliances, furniture, clothing and wood products. The project was evaluated as an excellent resource transfer mechanism and as having contributed to strengthening the Government of Ecuador's institutional funding mechanism. The small industrial sector was expanded to 22 cities in Ecuador with 535 new jobs created in the 162 small companies sampled in the evaluation. Total production in the sampled firms increased by 31% over the previous year with an average increase of 72% in the use of raw materials.

Examples of poor SSE projects incl Bolivia Small Farmer Organization Project in which the p ed credit system was poorly designed and the project imple cation was not efficient. The cooperative staff was not qualified and there were frequent conflicts between the cooperative and the ICI designated to assist them. No evaluation was made, however, of the impact of the project on the rural poor- the evaluation was limited to the effectiveness of the institutional operations.

The results of the Entente Fund African Enterprises Project were considered adequate from the standpoint of the number of enterprises assisted financially, but it was less successful in its technical assistance efforts since the technical assistance office was maintained separate from the development banks which were receivng the SSE funds. It was also found that the Entente Fund project was using too many of its AID-supplied funds in the most developed of the 5 Entente Fund countries. Larger firms were favored over the smaller ones and insider contacts were used to obtain funds. The requirement for more specific loan criteria was emphasized, as well as the need for enforcement of those criteria. The key recommendation, however, was the provision of good and easily accessible technical assistance.

Generally, the SSE Development programs are considered very useful in meeting the goals of the BHN mandate through increased employment of the urban and rural poor. The costs of implementing a truly effective program can be relatively high on a per subloan basis since considerable technical assistance is required to increase the chances of long-term sustainability of the enterprises established. However, these costs are less onerous when they are calculated on the basis of the total number of new jobs created.

Agency monitoring of the ICI implementing the SSE loan program is necessary since a certain tendancy to assist the larger scale firms does exist. Many of the problems in the subloan process can be resolved by more specific subloan criteria.

It appears that sufficient debt financing now exists for SSE's and that the increasing need is one of equity financing for the small entrepreneur without access to capital.

On the whole, the employment benefits derived from SSE programs and the reasonable per job cost make this program a key area for economic development, provided sufficient technical assistance is provided.

III. CURRENT PRE POLICY AND PROGRAMS

A. POLICY

As set out in the Bureau for Private Enterprise Policy Paper, dated May 1982, the goal of the Agency's private enterprise initiative is to "foster the growth of productive, self-sustaining income and job producing private sectors in developing countries using the financial, technological and management expertise of the U.S. private sector, indigenous resources, multilateral institutions and Agency resources where appropriate." PRE is to spearhead that program.

The objectives of the private enterprise initiative include: (1) along with host country, international financial institutions and U.S. private investors, assist in financing productive and developmentally desirable private enterprises in priority sectors in LDC's; (2) bring together LDC investment opportunities, U.S. and host country capital and experienced management in order to transfer technical, managerial and marketing expertise from the U.S. to LDC's; (3) stimulate conditions conducive to the flow of U.S. and host country private capital into productive investments in LDC priority sectors.

The methods for accomplishing the above include (1) facilitating LDC project identification, development, promotion and financing; (2) helping to establish, finance and improve private development finance corporations; (3) encouraging the growth of LDC capital markets; (4) providing counsel to host countries on how to create climates conducive to the growth of private investment; (5) creating in capital-exporting countries interest in portfolio investments in LDC enterprises; (6) helping establish managerial and technical training institutions to support the private sector; (7) promoting and financing business relationships between U.S. and LDC groups with similar private sector interests.

The challenges identified as facing AID in achieving these objectives included the limited amount of AID expertise in private sector finance and business management; limited contact with U.S. firms; limited knowledge of capital and marketing needs of LDC private firms; lack of AID policy and procedures for identifying and implementing private sector projects in a timely fashion; limited recent experience in counseling host governments on private sector policy.

The role models identified for AID's program included the IFC, with a 25 year track record and a 4:1 average financial leverage; and foreign industrialized country government agencies which promote close trade and aid ties among their own private sectors and LDC firms and which play a catalytic role to assemble financial packages and provide technical assistance.

A natural interface with other U.S. government agencies was also projected, especially with OPIC and the ExIm Bank.

The PRE investment program strategy, as an agent for experimentation in AID private sector development, included three types of investment: cofinancing highly developmental projects with commercial banks and other financial institutions; capitalization of privately owned ICI's which serve the private sector; direct investment in select agribusiness, industrial, leasing or other business ventures in LDC's where replication by other enterprises would assist private sector development.

This investment activity translated into 3 functional activity categories to be pursued with central and regional AID bureaus: identification and screening of investment opportunities for possible AID funding; serving as a catalyst to assemble financing for investment opportunities; providing 3 types of advice and technical assistance: to host countries in the area of investment policy and establishment of financial intermediaries; to prospective investment partners on developing projects for AID consideration; and to public and private host country institutions on building investment infrastructure and providing managerial training.

The investment program's target countries were those with an existing AID mission, which possess a viable private sector and represent strategic importance to the U.S. Sectoral priorities identified for immediate consideration included agribusiness, ICI's and other capital market elements, leasing of capital equipment, manufacturing and management training.

Investment modes recommended in the policy paper, certain being immediately possible while others would require new authority, included: (1) cofinancing with commercial banks; (2) financing the interest rate differential; (3) convertible and subordinated debentures; (4) guaranties provided by AID (this investment mode would require the creation of an authorized reserve fund to back up the guaranty); (5) equity investments (this would also require special authorization); (6) stock options.

The long term budget strategy of PRE was defined as establishing its investment activities on a self-sustaining basis so that yearly appropriations would no longer be necessary and so that the overall private sector program could be run as a business. The recommended means of achieving a self-sustaining budget was the reflow authority once possessed by the Agency in which PRE would take the funds received as loans when repaid and apply them to new loans without Congressional appropriations. To do so the Foreign Assistance Act would require amendment, which has happened recently.

B. PROGRAMS

The following is a summary of the Admininstrator's remarks in his FY 1984 Congressional Presentation, as concerns PRE's strategic focus and its FY 82, 83 and 84 programs.

The PRE bureau's focus has concentrated on the following five areas: (1) investment environment, including financing studies on the investment environment in 5 countries, resulting in recommendations to the concerned governments on changes needed to make the environments more conducive to business development; (2) capital market institutions, including studies and recommendations on how to improve existing capital market systems to attract resources and provide financing for private enterprises; (3) managment/vocational training, including development of programs addressing training needs; (4) technology transfer, including support to JACC and IESC to explore ways of transferring agribusiness technology and management, production and marketing know-how, respectively, to LDC companies for increased productivity and product improvements; (5) investment promotion, including efforts to promote indigenous businesses and joint ventures with U.S. businesses in priority sectors ; e.g., capitalizing private ICI's and direct lending in agribusiness, health/medical services delivery, and small/medium manufacturing enterprises.

The PRE relationships with other regional/central bureaus included coordination of its major investment and grant proposals with the respective regional bureau and country mission; the response to specific mission requests for assistance in private sector development matters; the creation of a formal "private sector officer liaison committee" to discuss policy issues and specific projects; the development of the set-aside program in which PRE provides assistance to selected country missions on private enterprise strategies and projects.

1. FY 1982 Program ($13.5MM)

FY 82 was a start-up year, involving policy development, staff recruitment, reconnaissance missions to certain target countries and development of relationships with the U.S. business community. Reconnaissance missions ($.25MM) included senior U.S. executives sent to make program recommendations in Egypt, Pakistan, Sri Lanka, Indonesia, Thailand, Haiti, Ivory Coast, Kenya and Zimbabwe.

Relationships with the U.S. business community ($1MM) involved U.S. business organizations and associations, including Business International, Young President's Organization and the Conference Board which will, respectively, conduct studies on investment environments in 5 countries, conduct hands-on entrepreneurial problem solving exercises in 7 countries and implement roundtable discussions among medical directors from U.S. companies on providing health and medical services to employees.

The 1982 portfolio of activities included $12.3MM allocated as follows: (1) investment environment- $.23MM- including an analysis of a possible venture capital institution in Peru and a discussion paper on a possible merchant banking institution in Pakistan; (2) investments and capital market development -$4.8 MM- several medium-term loans at fixed, near market rates were negotiated to private ICI's t - the provision of credit to SMSE's, to a leasing company in Peru for seed capital, to a Jamaican life insurance company for equity or debt investments in local rural SMSE's and to the Women's World Bank, a U.S.-based venture capital firm providing high risk capital to microenterprises; (3) management training- $1.1MM- management training consulting teams were sent to 6 countries and a $1 MM grant was provided to the Institute for Management Education of Thailand. The Young Presidents' Organization conducted short-term programs and the Center for Entrepreneurial Management conducted a series of seminars in Pakistan to assist start-up businesses. Similar seminars were scheduled for India and Bangladesh; (4) technology transfer -$5.8MM- PRE provided support ($500,000) to the JACC which represents small and medium sized U.S. agribusinesses and which set up joint agricultural consultative committees for Thailand, Sri Lanka, Indonesia and the Caribbean. The IESC also received $5.3MM for project work in LDC's. With PRE support, IESC has opened an office in Kenya and in the Caribbean. It also added an agribusiness expert to its Thailand office; (5) investment promotion- $.359MM- PRE also supported activities to promote joint venture and indigenous private investment in LDC's including the establishment of the Caribbean Investment Promotion Office with UNIDO and a joint AID/OPIC promotion office with U.S. SMSE's as the target investors; PRE has also set up a feasibility study financing program to promote investment in which PRE finances up to 50% of a feasibility study, up to a maximum of $50,000. During FY 82, PRE financed two such studies, one in Egypt and one in Pakistan.

Bilateral USAID mission programs included emphasis on increasing policy dialogue and private investment promotion. A project in Jamaica provided feasibility study and loan financing to agribusinesses. Another project in Thailand strengthened the capability of a Board of Investment to promote that country's investment potential.

2. FY 1983 Program ($26.8MM)

In addition to managing the FY 82 portfolio, additional programs were undertaken with reconnaissance teams- $.2MM- to send missions to Peru and Sudan, to be followed by Costa Rica. A mini-mission concept was adopted for Africa with a regional focus for a certain number of subject areas. As concerns relationships with U.S. business community- $1MM-Indefinite Quantity Contracts (IQC's) were established which provide expertise available to regional bureaus and country missions in agribusiness analysis and financial services.

The FY 83 portfolio of activities included the following: (1) investment environment- $.6MM- other advisory projects, particularly as concerns Sri Lanka and Jamaica, are being implemented to develop stronger capital markets and a rewrite of an outdated 'companies act', respectively. Assistance was also planned to governments interested in evaluating the possibility of divestiture of government-owned corporations; (2) investments and capital market development -$14 MM- mechanisms including assistance to venture capital firms, particularly in Asia and Latin America; merchant banks in Egypt and Pakistan; cofinancing with U.S. banks in Latin America and the Caribbean were all evaluated with large cofinancing projects implemented in LAC and for Asia; (3) Productive Credit Guaranty Program - PRE began to experiment with more streamlined mechanisms through private institutions for use of this authority in the context of PCGP projects in which AID would extend a guarantee directly to the commercial bank involved which would supervise the loan portfolio, manage the fee income and provide technical assistance to client companies which must be self-help or agricultural-related rural businesses; (4) management/technical training- $2.5MM- support begun in Fy 82 was continued in Pakistan, Kenya and Jamaica, projects with private sector training institutes, notably a techincal training institute in Peru, were implemented along with additional entrepreneurial seminars, particularly an LDC-to-LDC entrepreneurial training program jointly sponsored with UNIDO; (5) technology transfer- $7.5MM- Both JACC and IESC received continuing support and U.S. cooperatives were studied as possible providers of technical assistance to LDC organizations; (6) investment promotion- $1MM- investments were made to support non-traditional export businesses.

Bilateral USAID programs continued support to policy dialogue and to investment promotion activities in key sectors, with attention to ICI's to better service SMSE's and to local business associations and local/regional training institutes.

3. FY 1984 Programs ($26.4 MM)

Exploratory missions are scheduled to taper off in this fiscal year as the focus becomes one of assisting in policy dialogue, ensuring financial institution building to strengthen capital markets and assisting LDC's in developing their own or access to U.S. technical and marketing expertise.

Reconnaissance missions -$.15 MM- will decrease although the mini-mission concept will continue with emphasis on small business start-up/expansion, vocational skills training, revisions in company laws/acts, tax legislation and capital market institutional development. Relationships with the U.S. business community- $.85 MM- will involve increased liaison between U.S. small and medium-sized firms and their LDC counterparts, to encourage particularly joint ventures in agribusiness and health, provision of marketing information, transfer of appropriate technology and strengthening U.S. business ties to LDCS for investment, marketing and technical assistance.

The 1984 portfolio of activities (the balance $25.4 MM) includes (1) Investment environment- $.5MM- attention will be given to assisting LDC governments in divestiture of parastatals, via increased general public and employee ownership; (2) Investments and capital market development- $15 MM- aimed at methods of using PL 480 and commodity import funds available in local currences for private enterprise related activities; at more cofinancing efforts with multilateral, local or U.S. banking institutions; at seeking the authority to create a revolving fund to obtain non-appropriated funds on a self-sustaining basis; at participating in R&D limited partnerships to develop and apply technologies appropriate for LDC's; at experimenting with investments in health/medical services delivery which serve as alternatives to public institutions providing such services; (3) management/technical training- $2 MM- assistance focused on developing formalized relationships between U.S. and host country training institutes, including such U.S. entities as AMA and the American Assembly of Collegiate Schools of Business, with whom curriculum development assistance, student/faculty exchange and special conferences will be developed; (4) technology transfer- $7.4 MM- emphasis will be on the health/medical services sector, including the creation of special advisory councils and the evaluation of limited partnership creation to finance health technology, along with continued support to JACC and IESC; (5) investment promotion - $.5MM- additional agribusiness workshops will be sponsored, particularly in Africa, along with health-related business activity workshops and possible regional investment promotion offices, with priority again given to African nations which have strong pro-private sector policies.

The Bilateral USAID programs will continue with increased set-aside activities.

Table 4 shows the PRE budget by subject area over the past 3 years with a summary of subject area activity for the period.

Based on FY 82-83 experience, which is still quite limited, PRE has generally concluded that a far more focal role is required within the Agency to direct and coordinate private sector efforts; that public policy dialogue is most feasible in three instances- in conjunction with other bilateral or multilateral donors, in instances in which AID assistance is the major portion of the host country's foreign assistance or in instances in which specific requests for policy advice have been received; that local AID missions require considerable guidance in developing private sector programs; that cofinancing arrangements with U.S. private lenders are feasible and present good leverage potential; that good outreach possibilities exist within the context of larger agribusiness projects; that extensive and specialized staff time is required for project development and monitoring; that project identification responsibilities must be clearly defined and monitored in the context of loan agreements; that the relationship with the U.S. private business community (YPO, BI, Conference Board, etc.) have been very profitable; that the IESC represents a very valuable and flexible technical assistance resource; that proper PRE project evaluation guidelines are required to ensure valid subsequent project feedback; that better coordination is needed among the private sector development efforts undertaken by USAIDs, the PRE Investment Office and the PRE Program and Policy Review Office.

TABLE 4

PRE BUDGET BY SUBJECT AREA- FY 82, 83, 84
($000)

SUBJECT AREA	FY 1982	FY 1983	FY 1984
POLICY DIALOGUE	950	1,150	2,500
INSTITUTION BUILDING	4,850	12,200	10,000
TECHNOLOGY TRANSFER	5,900	11,650	12,900
TRAINING	1,600	1,400	500
INVESTMENT PROMOTION	400	400	400
TOTAL	13,700	26,800	26,400

SUMMARY TO DATE

POLICY DIALOGUE efforts focused on providing assistance to Missions and hoste countries on:

- Investment laws/regulations/policies
- Framework for capital market institution development
- Strategy development for divestiture of state enterprises

INSTITUTION BUILDING has been achieved through PRE investment program:

- Creation of new capital market institutions to serve small business (e.g., leasing, venture capital)
- Expanding capabilities of existing institutions into other areas (e.g., commercial banks into agribusiness lending)

TECHNOLOGY TRANSFER principally accomplished through IESC and JACC:

- Utilizing U.S. expertise adapted to LDC environment
- Focus has been agribusiness

TRAINING programs have focused on management/vocational needs supported by local businesses:

- Institute of Management Education in Thailand addresses short-term mid-management course needs
- Vocational training institute in Peru is business community's response to real training needs

INVESTMENT PROMOTION activities are limited, focusing on:

- Investment attraction by selected LDC's, training promotion officers to "market" their respective countries
- Collaboration with OPIC

IV. LESSONS LEARNED

A. MOST SUCCESSFUL PROGRAMS

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

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

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

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

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

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

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

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

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

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

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

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

B. LEAST SUCCESSFUL PROGRAMS

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

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

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

C. GENERAL CONCLUSIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX 1

NON-AID U.S. AGENCY PRIVATE SECTOR PROGRAMS

THE INTERNATIONAL TRADE ADMINISTRATION

The International Trade Administration (ITA) of the U.S. Department of Commerce, through district offices in 48 major U.S. cities and 127 foreign commercial posts in 67 countries, offers a wide range of export promotion programs for U.S. companies interested in pursuing business opportunities in developing nations.

ITA identifies trade leads overseas, investigates foreign markets for U.S. products and services, outlines export documentation requirements, locates overseas agents and distributors, disseminates market information and provides specialized export counseling to U.S. businessmen.

In 1981, ITA programs and counseling services helped over 5,000 companies export for the first time or to a new market. Export shipments by these firms were, on the average, less than $300,000.

In addition to export counseling, ITA hosts trade fairs, exhibitions and trade missions throughout the world. ITA conducts special seminars throughout the country on "How to Form Export Trading Companies" (ETC's), to help U.S. companies learn how to take advantage of the export trading company legislation. ITA makes available to the business community guidelines, rules and application forms for export trading company operations and has set up a clearing house to match up companies interested in forming export trading companies.

OFFICE OF THE U.S. TRADE REPRESENTATIVE

This Cabinet-level agency is responsible for the direction of trade negotiations, formulation of overall trade policy and supervision of bilateral and multilateral negotiations pertaining to trade. It represents the United States at meetings of the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD) and in negotiations with the United Nations Conference on Trade and Development (UNCTAD).

THE OVERSEAS PRIVATE INVESTMENT CORPORATION

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. government agency created by Congress in 1969. Its purpose is to encourage U.S. private investment in friendly developing nations as a means of accelerating the economic and social progress of these countries. OPIC provides incentives to the U.S. business community through its political risk insurance and finance programs, which are available in some 100 developing countries.

OPIC programs are extended for new projects or the expansion of existing enterprises which are financially sound and which significantly benefit the host country in terms of new jobs and skills, capital generation and reduced import dependence.

OPIC's insurance program provides coverage against three contingencies: (1) inconvertibility of local currency and return of capital; (2) expropriation; and (3) damage resulting from war, revolution or insurrection. OPIC policies are generally written for 20 years.

OPIC's finance programs fall into two broad categories: (1) financing through direct loans of up to $4MM to smaller businesses- companies with annual gross sales of $120 million or less- generally on a 7- to 12-year basis; and (2) all-risk loan guaranties of up to $50MM to U.S. lenders providing funds for overseas projects.

OPIC also provides partial funding for pre-investment feasibility studies (up to $100,000) and various special incentives to smaller businesses.

THE EXPORT-IMPORT BANK

The role of the Export-Import Bank of the United States is to aid in financing export sales of U.S. goods and services through a combination of loans, loan guaranties and export credit insurance. The Export-Import Bank Act instructs the Bank to provide financing for U.S. exporters competitive with that offered by foreign governments. Its role is to supplement, but not compete with, private financing. ExIm Bank targets its resources toward those transactions which would not go forward without their involvement.

The Bank's programs are divided into two functional categories: (1) buyer credit programs, comprised of loans from ExIm Bank and guarantees on financing provided by the private sector, generally from commercial banks to foreign buyers of U.S.-made equipment for projects or products which require repayment terms of five or more years; (2) supplier credit programs, covering export transactions funded by the private sector and generally repaid within five years. In the commercial bank guarantee

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program and export credit insurance programs, the private sector extends the financing and ExIm Bank assumes most of the risk of non-payment by the foreign buyer. A standby loan commitment is available from ExIm Bank to U.S. commercial banks that provide fixed-rate financing for medium-term export sales. A large part of the supplier credit program covers transactions with a U.S. value of less than $5 MM.

COMMODITY CREDIT CORPORATION

The Commodity Credit Corporation of the Department of Agriculture administers export sales and donations for foreign use through other agencies. It also provides export guaranties to foreign buyers. Its Foreign Agricultural Service gathers information worldwide through representatives stationed in 70 U.S. embassies, develops export data to support trade and works to reduce trade barriers. Its Office of International Cooperation and Development (OICD) is responsible for international and technical cooperation for development assistance programs.

U.S. TRADE AND DEVELOPMENT PROGRAM

The objective of the Trade and Development Program (TDP), under the International Development Cooperation Agency, Department of State, is to promote overseas trade-based development and U.S. exports of development technology by funding project planning to help U.S. companies compete for, and participate in, major public-sector projects in developing countries.

TDP sponsors a variety of pre-project services, including project identification and mission feasibility studies and workshops, directed at promoting the TDP program or U.S. private sector contracts in support of major development projects. During fiscal years 79-81, TDP financed 661 activities costing $1.8 MM for 164 projects which resulted in contract follow-ons to U.S. business of $521.6 MM.

The TDP Reimbursable Grant Program provides grants to U.S. companies considering an equity investment in a project. The grant enables to U.S. company to analyze the techincal, economic and financial aspects of a proposed investment project and to develop data for planning. If the company decides to invest, the cost of the feasibility study must be reimbursed.