PROGRESS REPORT JULY 1984

PN-AAV-746

BUREAU FOR PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

BEST AVAILABLE

A Letter from the Administrator

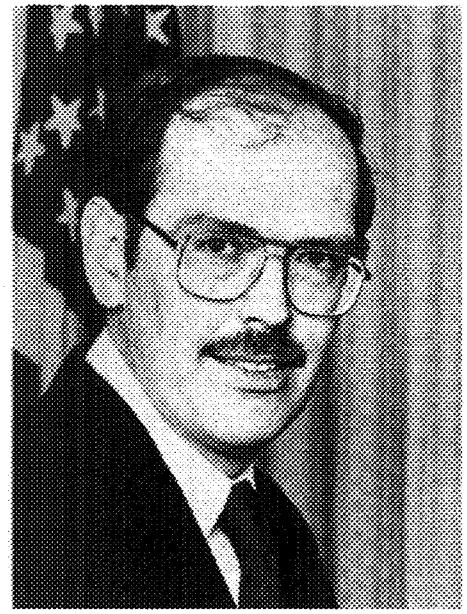
AID's private initiative has passed a major milestone. It is no longer an experiment but is fast becoming an integral part of the U.S. foreign assistance program.

This initiative is based on the premise that greater reliance on market forces holds the key to self-sustaining growth in developing nations. Giving the initiative shape and direction is the Bureau for Private Enterprise. In a relatively short time, the Bureau has crafted an innovative, solutions-oriented program. This is beginning to show results with only a modest investment of tax dollars.

By creating jobs, raising income and helping local entrepreneurs produce to earn foreign exchange, the initiative definitely serves AID's mandate to meet basic human needs of the Third World poor majority.

To pick only one example from its portfolio, the Bureau is promoting a concept to organize small farmers around core private agribusinesses. This holds great promise in spurring farm output and income. American business can and should play a role in this and similar efforts to wed private sector resources and expertise to commercially feasible and yet development-oriented projects.

Increasingly, the private enterprise approach is working its way through our agency, being viewed not as an isolated program but as a new force for development across the board. Its full exploitation is long overdue. By institutionalizing the initiative in AID we make sure that the job of development will be undertaken with every tool at our command.



M. Peter McPherson

M. Peter McPherson
Administrator
Agency for International Development

A Letter from the Assistant Administrator

This report will account for our stewardship during the growth and expansion of AID's private sector program from early 1983 to July 1984.

During this period, the Bureau helped create a variety of investment pools serving small Third World entrepreneurs, implemented a co-financing program with private banks, made its first direct loans to Third World businesses and added health to its sectoral priorities. We greatly increased support to AID field missions.

Requests from selected developing countries to convert state-owned enterprises to private enterprises responding to market forces are on the increase.

New directions will include promotion of Third World exports, especially non-traditional products, outreach to small farmers by private agribusiness firms and investment in Third World businesses that adapt and market appropriate technologies.

In all of our efforts, we welcome and encourage the participation of the American private sector. U.S. business skills, energies and capital are vital to the orderly growth of private enterprise throughout the developing world. This interaction is good business for both parties as well as being in the best interests of global stability and economic development.

Neal Peden

Neal Peden
Assistant Administrator (Designate)
Bureau for Private Enterprise
Agency for International Development

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Bureau for Private Enterprise

We believe that the first responsibility of the Bureau is to provide quality and experienced advice and advisers to AID missions abroad in the formulation and design of strategies, programs and projects that utilize the private sector in providing cost-effective services to increase the productivity of poorer people in developing countries.

We are responsible for investing in projects that meet both developmental and rate-of-return criteria and that are consistent with maintaining the financial integrity of AID's Private Sector Revolving Fund.

We are responsible for collaborating vith private entrepreneurs in developng countries to help them solve their :ountries' social and economic probems. We will work closely with the J.S. private sector to achieve this nd.

We endorse equal opportunity for employment, development and advancement for Bureau staff. We are responsible to our employees and respect their dignity and recognize their merit. Everyone will be considered as a professional and as an individual.

We are responsible both to the President and to Congress for doing our part to make the AID private enterprise initiative an integral part of the AID program and culture.

July 1984

HOW WE ALLOCATE FUNDS

These charts provide a quick reference to how the Bureau allocates resources. The first chart shows the *grant portfolio* for fiscal year 1984. The second chart shows how the *loan portfolio* is allocated. This chart indicates both committed and prospective proposals as of July 1, 1984.

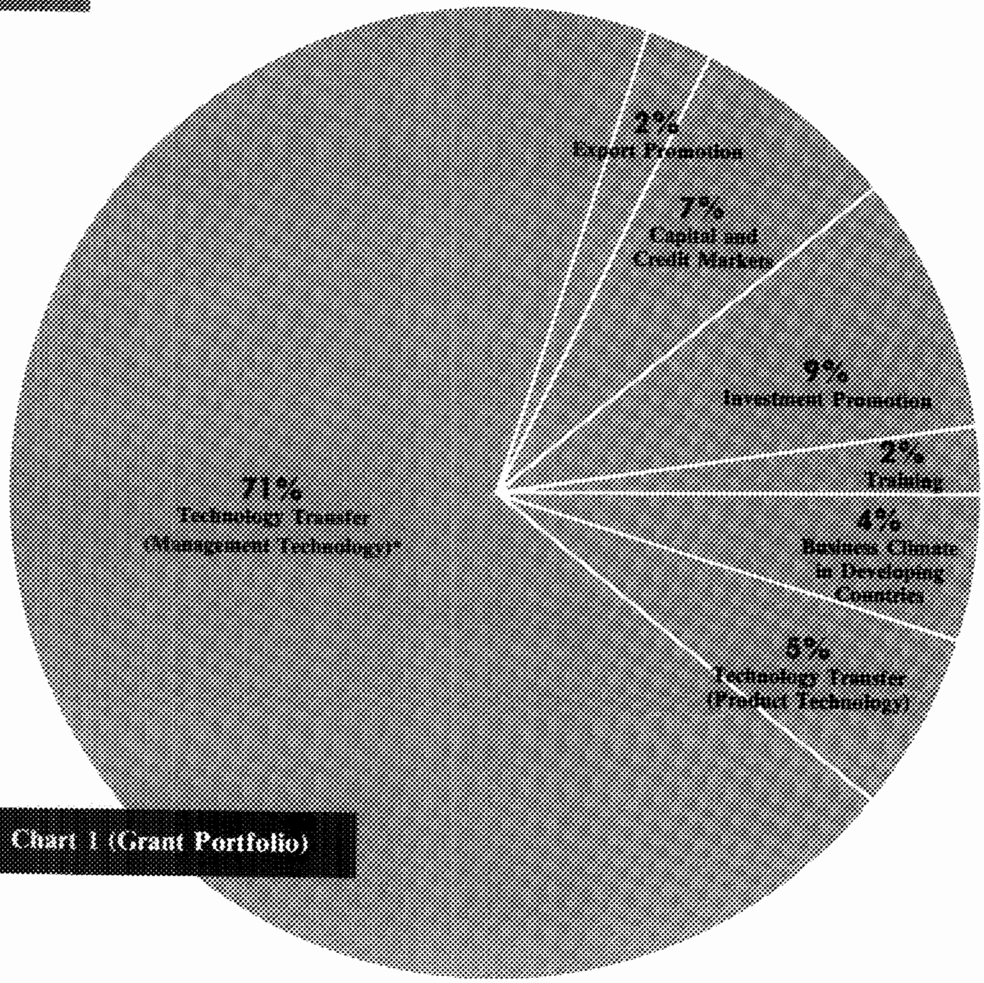


Chart 1 (Grant Portfolio)

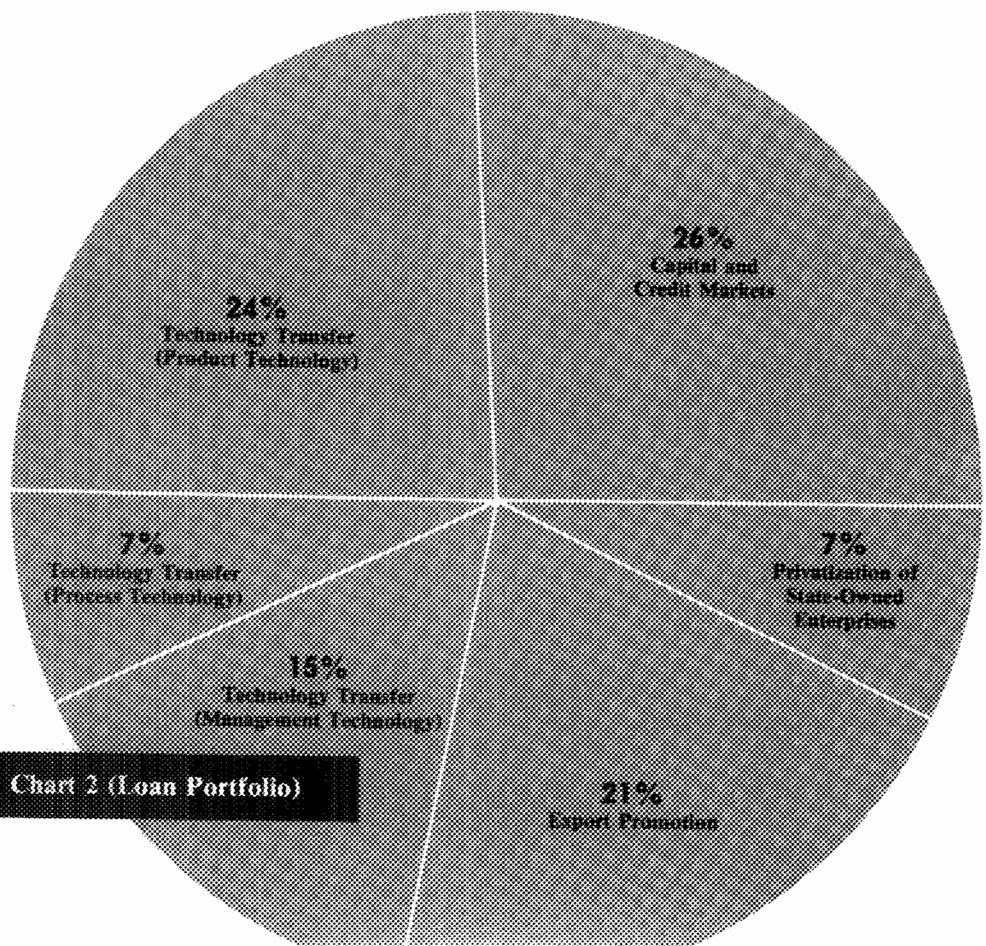


Chart 2 (Loan Portfolio)

*Largely to support the International Executive Service Corps (IESC)

Activities described in this progress report comprise a renewed commitment to the value of market forces and private initiative in solving development problems in the Third World.

The goal of this aid is to build stability and meet basic human needs in countries fighting hunger, poverty and poor health. The key is to generate and sustain broadly based economic growth and development.

Developing nations are struggling to recover from worldwide recession. The downturn has flattened markets for their traditional exports. This has greatly weakened earning power to pay off debts to other nations, now ballooning above $800 billion. A few nations face default. Growth rates overall have slipped below 1970s levels.

Third World leaders are reexamining their domestic policies to find the most effective road to recovery. How well they succeed may depend on how quickly they can diversify and expand narrowly based economies. Activating market forces to produce more jobs, income and new products on a self-sustaining basis—the core of AID's private sector thrust—points the way.

The initiative is starting to show measurable results. As of July 1, 1984, the Bureau for Private Enterprise had funded activities in 34 countries.

Four Objectives

The Bureau focuses on four key objectives:

- To clear roadblocks to productive private business investment;

- To provide credit not locally available so small and medium-sized businesses can start up or expand;

- To support sectors such as agribusiness, health, rural manufacturing and financial institution-building which are vital to developing countries;

- To help AID field missions design their own private sector projects, multiplying the impact of the Bureau's lean budget and spreading the initiative throughout the agency.

Businesslike Approach

In helping Third World businesses and institutions, projects are designed to encourage their survival in a competitive market. Self-propelling growth cannot rest on subsidies. Bureau loans are at market, or near-market rates, a departure from AID's customary terms.

Bureau investments use limited amounts of AID money to attract outside money and stretch tax dollars. Thus, private funds are drawn into development through co-financing with private banks and capitalization of firms with other investors. The Bureau's leveraging ratio averages better than three to one—that is, three outside dollars for every AID dollar.

We have also streamlined and speeded up the project approval procedure. In several cases, we have turned around proposals in 70 days.

Investments in Self-Reliance

The Bureau's $30 million annual budget generates a portfolio of both loan and grant activities. These help Third World entrepreneurs stand on their own, expand, hire and train new workers and energize their local economies.

The grant portfolio has totaled $29.5 million over the three years ending September 30, 1984. Basically, it is used to research and develop new ideas and to build the climate needed to encourage Third World businesses and investors. Our grants fund programs related to training, technology transfer, investment and export promotion, and capital market development. A large share of the grant budget helps fund the International Executive Service Corps (IESC). Bureau grants also support private sector programs in AID missions overseas.

Bureau loans have totaled $33.4 million over three years. They provide credit not otherwise available to Third World businesses either through banks and other private lending pools, or directly. Since April 1984, loans have been funneled through AID's Private Sector Revolving Fund. A small portion of the grant portfolio is linked to loan projects. These technical assistance components counsel borrowers on running their businesses and train institutions to serve small business clients more effectively.

What We Don't Do

In making Third World business stronger, the Bureau relies heavily on American business. U.S. firms are sources of expertise, ideas, training, business climate assessment and—in cases of joint ventures we help promote—capital and technology. However, providing a range of services geared specifically to U.S. companies seeking opportunities overseas is not our job. We do not duplicate activities by the Overseas Private Investment Corp. (OPIC), the Commerce Department, the Export-Import Bank (EXIM), Trade and Development Program (TDP) and other agencies.

The Bureau, among other things, does not:

—Finance U.S. exports or feasibility studies to promote U.S. exports (EXIM, TDP);

—Finance, guarantee or insure U.S. investments abroad (OPIC);

—Pay for or lead investment trips overseas by U.S. firms (OPIC);

—Finance feasibility studies for investments that don't involve a Third World partner (OPIC);

—Organize trade missions to or trade fairs in foreign countries (Commerce).

The Bureau's mission support program is managed, along with most of the rest of the grant portfolio, by the *Office of Policy and Program Review*.

The chief aim of this program is to help AID offices in the field use private enterprise to promote development. These activities have shown considerable growth during the Bureau's three-year life. In its first year, the Bureau assisted five AID missions. In the second year, we aided 20 missions on 30 specific assignments. The upswing continues. By July 1984, the Bureau had assisted 30 missions on more than 80 assignments.

These assignments tend to be short-term (four to six weeks). They address specific opportunities or problems related to private enterprise development. Frequently this includes helping missions in the concept and design stages of projects. This service is provided through a variety of mechanisms, including:

1. Indefinite Quantity Contracts (IQCs) in agribusiness analysis and financial analysis services. Under these, outside experts are available for short-term assignments. The IQC mechanism cuts through the delays and red tape of negotiating specific work agreements. This is especially useful when an AID bureau needs advice in a hurry. IQCs are awarded competitively.

2. Other short-term private business consultants with technical expertise in one or more of our product/service areas.

3. Private organizations supported by the Bureau which can draw on technical experts.

4. Selected, qualified minority-owned firms [Section 8(a) of the Small Business Act].

5. Bureau staff.

Examples are:

Investment Promotion—We have funded analyses of selected country activities to (a) help establish a methodology to evaluate investment promotion programs and (b) provide guidance on establishing cost-effective programs.

Business Climate in Developing Countries—Bureau staff established an AID strategy for the development of private enterprise in Grenada, a major foreign policy objective.

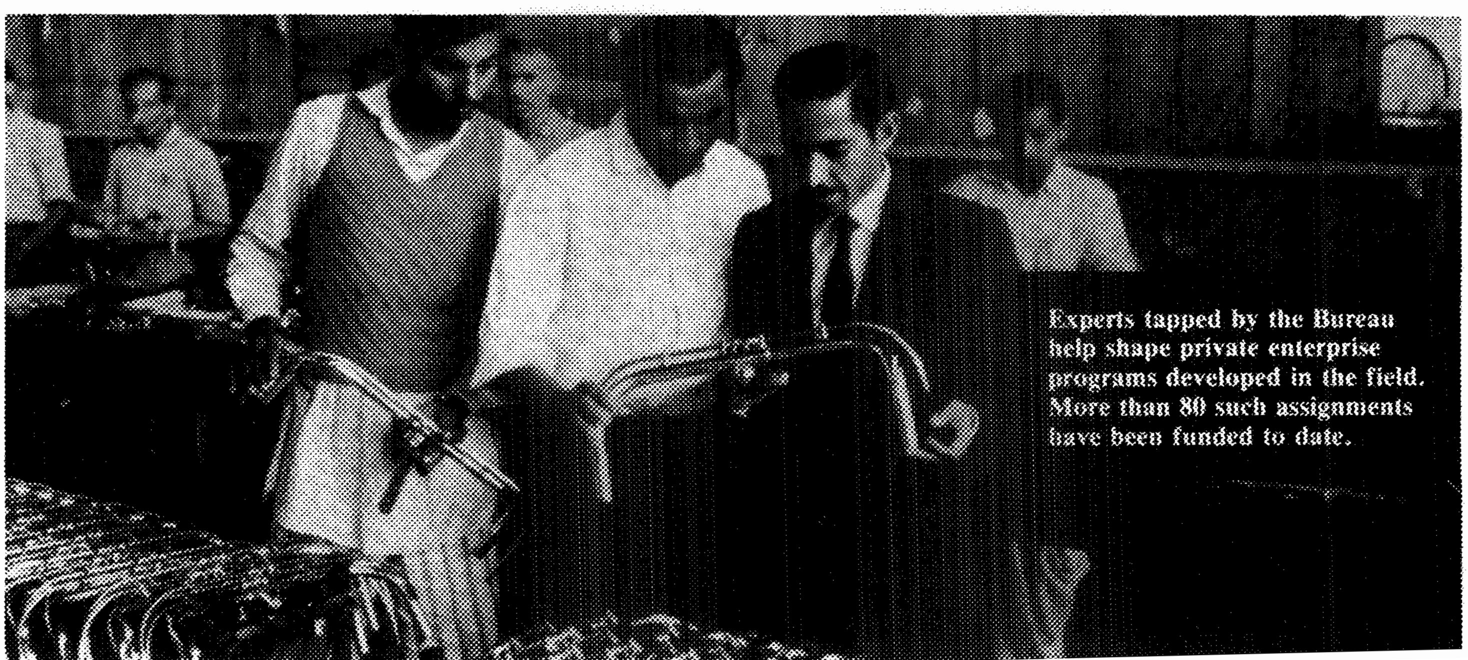
Capital Markets—We have funded initial work by a technical expert on the framework required to further develop capital markets in Kenya. Other experts recommended changes in Liberia's investment code for that government's consideration.

Technology Transfer—A technology transfer science adviser was sent for discussions with Indonesia's minister for research and technology. A lobstering expert advised Belize manufacturers on making better traps.

Managerial/Vocational Training—We funded a venture capital training seminar for officials of venture capital institutions in the Philippines. Young President's Organization (YPO) teams are holding management problem-solving seminars in several countries.

Export Promotion—We financed a mission to Bolivia by specialists in non-traditional export promotion. The emphasis was on the crafts skills area. They developed a comprehensive proposal which would use existing skills to manufacture products for the high-fashion market.

The surge in field requests is a useful measure of the diffusion of the private sector initiative throughout AID and its growing acceptability on the front lines. As with our establishment at AID's Washington headquarters of the Private Enterprise Council, a liaison group, and enactment of the Private Sector Revolving Fund, mission support activities are a necessary factor in institutionalizing the private sector program.



Experts tapped by the Bureau help shape private enterprise programs developed in the field. More than 80 such assignments have been funded to date.

REVOLVING FUND

Enactment in November 1983 of the Private Sector Revolving Fund was a major step in putting AID's private enterprise initiative on a continuing basis.

The purpose is to provide a flexible, businesslike and self-replenishing mechanism for channeling the $15-20 million annually in Bureau loans into commercially viable projects with strong development payoff. These loans are managed by the Bureau's *Office of Investment.*

Appropriations should build the fund to $60 million over the three years ending September 30, 1986. Then the fund will depend on reflows—repayments from borrowers, return on investments and other income. In other words, the program will stand or fall on the soundness of its projects. Similarly, bad projects can be discarded more quickly, not being locked in by the appropriations process. The fund is capped when it reaches $100 million; any reflows above that revert to the Treasury.

Congressional supporters agree with AID that such a mechanism will provide orderly management and accountability for Bureau investments. They point out this will help attract increased participation of American business, further leveraging scarce AID funds. A Loan Review Board composed of six U.S. financial executives considers each new Bureau investment before a penny is committed, a procedure that was set up by the Bureau even before enactment of the fund.

The 1983 statute calls private enterprise "a vital factor in the stable growth of developing countries." It emphasizes that U.S. interests are served when Third World private sectors are strengthened, thus promoting stability, and when the U.S. private sector is engaged in the process.

The statute sets certain requirements for projects. For example, they must:

- Be consistent with U.S. aid policies and host-country priorities;
- Have a "demonstration effect," that is, serve as models for replication in other countries;
- Be innovative and financially viable;
- Carry development impact, especially in employment and appropriate technology, tailored to the country involved;
- Be directed primarily to small businesses and cooperatives, providing services not otherwise available;
- Provide no more than $3 million in AID money per project and generally finance no more than 25 percent of the total cost. A "substantial" amount of the funding has to come from private sources inside the country involved;
- Commit no more than 20 percent of the fund's assets in any one country;
- Provide loans primarily to intermediate institutions serving the private sector. This furthers AID's long-standing emphasis on institution-building;
- Charge interest rates at or near those otherwise available to the borrower, a Bureau practice from the outset.

Under the statute, AID will advise Congress of projects to be financed from the fund in its annual presentation on Capitol Hill. Congress will also be notified of projects not included in the presentation. An annual report from the President on Revolving Fund projects during a given year is required before the end of that year.

Who May Borrow, And on What Terms

1. Most of our loans go to Third World private intermediate financial institutions.
2. Loans directly to businesses must have exceptionally strong development impact. U.S. companies may be involved so long as the project has *substantial* local (developing country) private ownership.
3. Development impact means the project must do at least some of the following: create jobs; earn or save foreign exchange; transfer technology; upgrade management or labor skills; support agribusiness, services to farmers, health outreach programs, or other Bureau priorities; involve U.S. firms and technologies; attract outside dollars, e.g., through co-financing with private banks; or help improve the local climate for business activity.
4. We provide only loans, not equity, though a profit-sharing feature—convertible debentures, warrants, etc.—may be included.
5. Loans generally range from $300,000 to $2.5 million.
6. Our loans can't exceed one-fourth of the total money invested in a project.
7. Terms are up to 10 years.
8. Interest is pegged near the rate of Treasury Notes with corresponding maturities. Lower rates are possible, especially where profit-sharing is present.

In spearheading the private sector initiative, the Bureau chose a few specific areas to avoid spreading resources too thin.

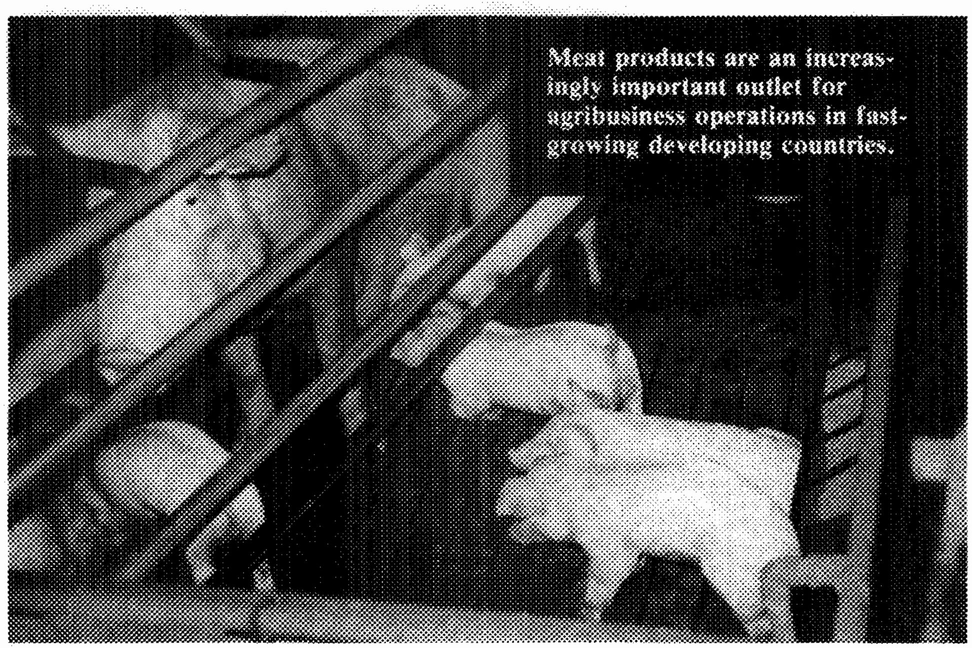
Ten target countries—later expanded to 13 and a region, the Caribbean Basin—were selected for our major investments. The countries are Indonesia, Pakistan, Sri Lanka and Thailand in Asia; Ivory Coast, Kenya, Sudan and Zimbabwe in Africa; Egypt in the Near East and Costa Rica, Haiti, Jamaica and Peru in this hemisphere. Other countries, depending on project payoff and budget considerations, may be included. This is especially true in the case of field support activities described on page 6.

A Focused Approach

This pinpointing approach led to the choice of certain sectors in which to operate. Currently the Bureau concentrates on three: *Agribusiness* (with attention also to small rural manufacturing), *Intermediate Financial Institutions,* and *Health.* AID has experience in each although there is room for further attention. These also are sectors in which American private business has outstanding expertise that can be and is being enlisted by AID.

Working with American Business

From the beginning, AID has drawn on the planning, marketing and training skills of U.S. business firms in shaping its private sector activities. Symbolizing this was appointment of the President's Task Force on International Private Enterprise in May 1983. A blue-ribbon group of 23 private sector leaders, the Task Force is examining the Government's private enterprise thrust across the board. Its recommendations later in 1984 will have wide ramifications for U.S. trade and investment as well as foreign aid.



Meat products are an increasingly important outlet for agribusiness operations in fast-growing developing countries.

The Bureau for Private Enterprise taps U.S. business experts routinely in implementing its program. Additionally, Bureau personnel may serve as *ad hoc,* informal contacts for smaller Third World entrepreneurs and American business people seeking joint opportunities. This is possible given a Bureau staff recruited from various work experiences, including service abroad with both government and corporations. Staff guidance in obtaining information provides the kind of business-to-business service that may lead to productive joint ventures, trading, licensing, franchising and other commercial arrangements.

Agribusiness

The early choice of agribusiness as a Bureau priority flowed both from AID experience and the demands of developing-country economies.

Few Third World nations can ignore agriculture. It provides livelihoods for rural populations and food for city dwellers. It earns foreign exchange from commodity exports which in turn buys raw materials needed for local industry. Agriculture is the linchpin that can determine economic success or failure.

The World Bank, tracing developing world growth rates in the 1970s, found that most countries with annual growth above 5 percent also reported rapid agricultural growth. On the other hand, those with weak agricultural sectors lagged in overall economic performance. "Few countries," the Bank concluded, "have achieved economic growth without first, or simultaneously, developing their agriculture."

From the beginning AID has emphasized programs that spur agricultural research and production. Roughly half its development dollars go to agriculture. U.S. money was poured into the "Green Revolution" of the 1970s, triggering production breakthroughs for high-yield wheat and rice and helping build the research network that keeps the revolution going.

Agribusiness is a necessary complement to agriculture. Under the right circumstances, it can revolutionize local farming. Agribusinesses provide farmers with new seeds and fertilizers, buy their yield, hire new workers to process it and create and market finished products. Demand for new products then works back from the market to the farm, diversifying and expanding farm output.

A concept being pioneered by the Bureau for Private Enterprise illustrates how the synergism of business/farmer teamwork can lead to striking development payoff. The concept is the organization of small farmers around a "core" business that provides hands-on managerial, marketing and technical services and, at times, credit. The Bureau intends to make this approach a cornerstone of its agribusiness activities.

The Bureau commissioned Business International, a New York-based corporate research and public policy firm, to survey models of this approach in nine developing countries. These varied from production of seed corn in the Philippines to swine breeding in Thailand. Core firms ranged from multinationals to very small businesses, both domestic and foreign or joint ventures between the two.

The case histories showed that the concept not only works but is often the spark needed to move small farmers from bare subsistence to the cash economy. For the farmer, the arrangement offers assured markets, higher income, extension services and increased production. For the company, it usually means faster-than-usual earnings. Firms reported a net profit the first year and a respectable return on investment in two or three years.

The study recommended an active role for governments. This gets to the core of "policy dialogue"—improving the climate for economic growth through private business investment—a major part of AID's overall strategy. For example, the study urges Third World governments to change policies that discourage farm output and distribution and keep farmers' prices too low. Donor governments like the United States were urged to encourage these reforms in daily contacts through embassies and AID missions.

Summing up the potential of the agribusiness/small farmer dynamic, the study commented:

"There are today approximately one billion small farmers in the developing world. If . . . the income of these farmers were raised by only $100 per year, the stimulative effect on the global economy would be staggering, with multiplier effects not only for agricultural output, but for manufactured goods and services as well, both in the developing countries and in the industrialized world."

An early and continuing focus of Bureau efforts is the small and medium-sized entrepreneur who has a multiplier impact in rural areas. Working with local private financial institutions to open credit windows for agribusiness and other entrepreneurs is a major activity. This institution-building is explained below.

Intermediate Financial Institutions

Nurturing robust business activity in developing nations takes capital.

Agribusiness operations, aided by Bureau "seed" money, help Third World farmers improve their products and break into new markets.

Capital is often available. But the mechanisms to amass and direct it to productive targets are not always in place. Access to capital, not shortage of it, is the problem.

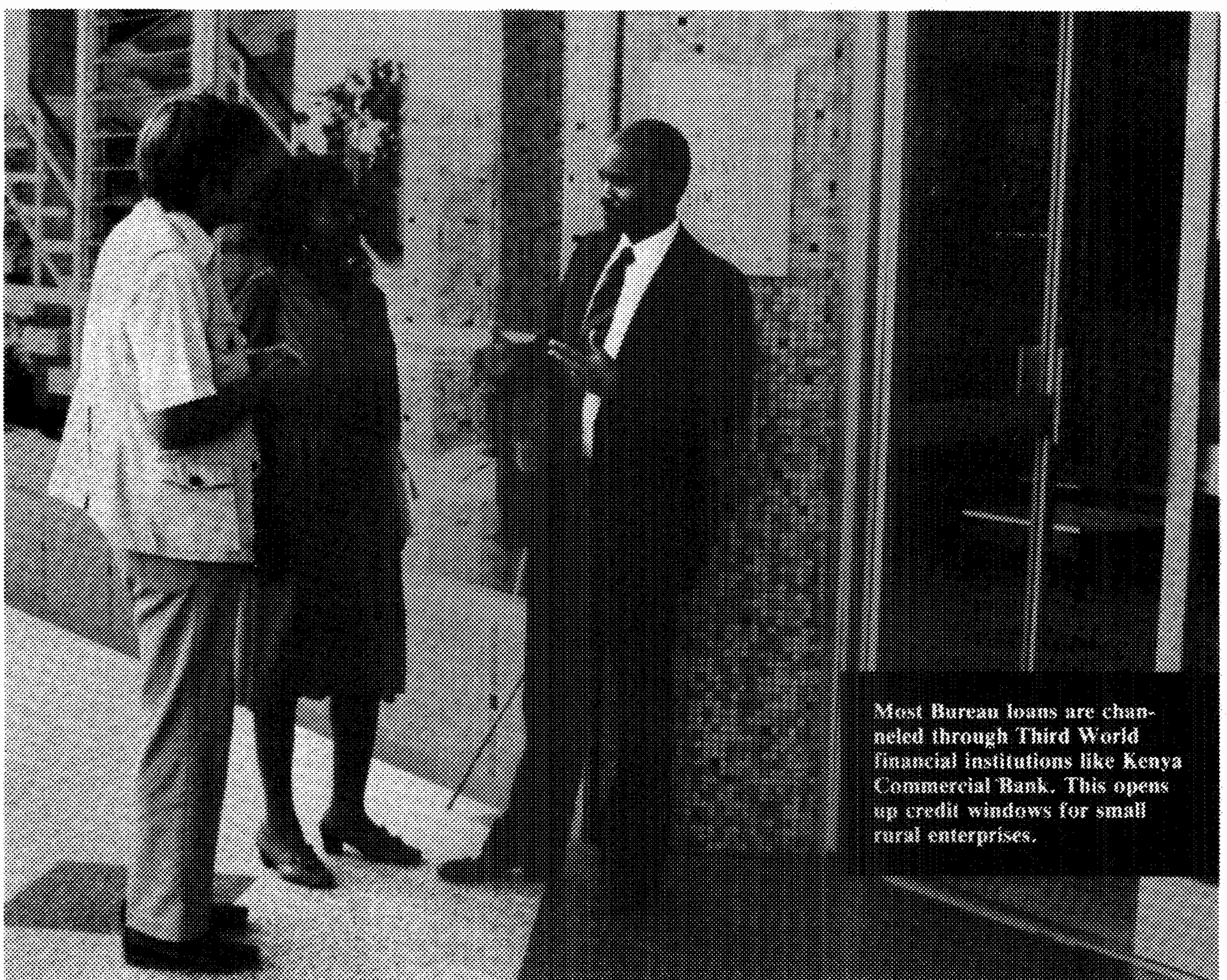
This is particularly so in the case of small entrepreneurs. Keith Marsden, an adviser to the World Bank, wrote in 1981: "Starved of capital, cold-shouldered by the development finance companies, overlooked in development plans and, until recently, ignored by most foreign . . . aid programs, small-scale firms have had to rely largely on internally generated funds for expansion and modernization. To compound the problem, their profitability and incentive to invest are often undermined by both overt and hidden subsidies to large-scale industry."

AID has long been involved in setting up and investing in capital-generating mechanisms—intermediate financial institutions. However, its focus has been largely on public institutions. The Bureau for Private Enterprise, in choosing this sector as one of its priorities, has moved to broaden the agency's experience to include private financial institutions. These often respond more quickly to commercial opportunities.

Such institutions include commercial banks, leasing companies, venture capital firms, savings and loan institutions, insurance and trading companies. In other words, the Bureau is looking at a whole range of private loan and equity pools that can be established or restructured to encourage entrepreneurship in the Third World.

The majority of current loans go to intermediate financial institutions for sub-lending to private firms. In some cases, as in a risk capital firm serving the Caribbean, our participation triggered creation of the institution itself. In other cases, such as with commercial banks in Thailand and Kenya, we nudged existing institutions in new directions—e.g., to provide fixed-rate, longer-term credit to small rural businesses. In serving these customers, we've also taught loan officers to look beyond collateral to prospective cash flow.

This activity follows AID's traditional path of institution-building. Aid money won't help without efficient delivery and support systems. Institution-building helps ensure momentum and self renewal so the process can continue after foreign aid dollars are phased out.



Most Bureau loans are channeled through Third World financial institutions like Kenya Commercial Bank. This opens up credit windows for small rural enterprises.

Health

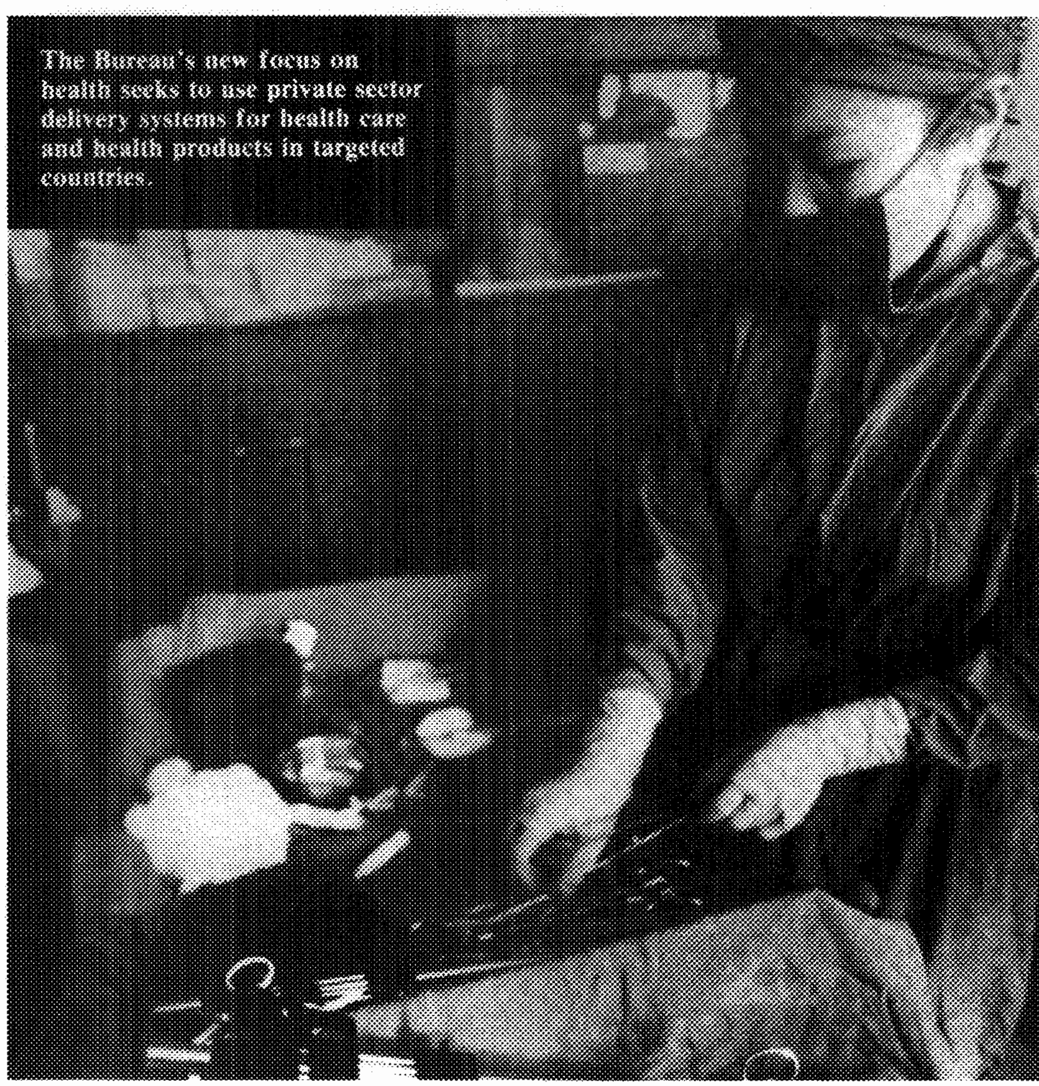
Because economic growth depends on a strong, productive population, health is fundamental to development. Yet health in the Third World, despite gains in recent decades, remains an enormous problem. One of three children dies before age five. Life expectancy overall is nearly a generation shorter than in the United States.

At present the public sector dominates the health area in the Third World. Services and sale of pharmaceuticals are often legal monopolies. Yet health ministries can't do the job alone. The heaviest spending normally goes for doctor/nurse care in expensively equipped hospitals in major cities. Farther into the countryside the facilities thin out and problems multiply—lack of trained personnel, shortage of supplies, deteriorating equipment, inefficiencies, overcrowding.

Government spending for health in developing countries runs about 3 to 5 percent of gross national product—that's less than a dollar per person in some countries—compared with 8 percent of GNP in industrial countries like the U.S. These amounts cannot increase significantly. Domestic Third World needs are in sharp competition for budgets slimmed by recession and the outflow to foreign creditors. Nor can foreign donors, including the U.S., provide more than a small supplement to local efforts. The Bureau for Private Enterprise, in choosing its latest priority sector, seeks to reinforce AID's efforts to provide community-based primary health care, preventive as well as curative, by expanding the role for private enterprise.

The Bureau's first major health project was a $2 million loan in September 1983 to help Bolivia's private savings and loan system provide safe drinking water and sanitation facilities to lower-income families. A $250,000 grant provides technical assistance.

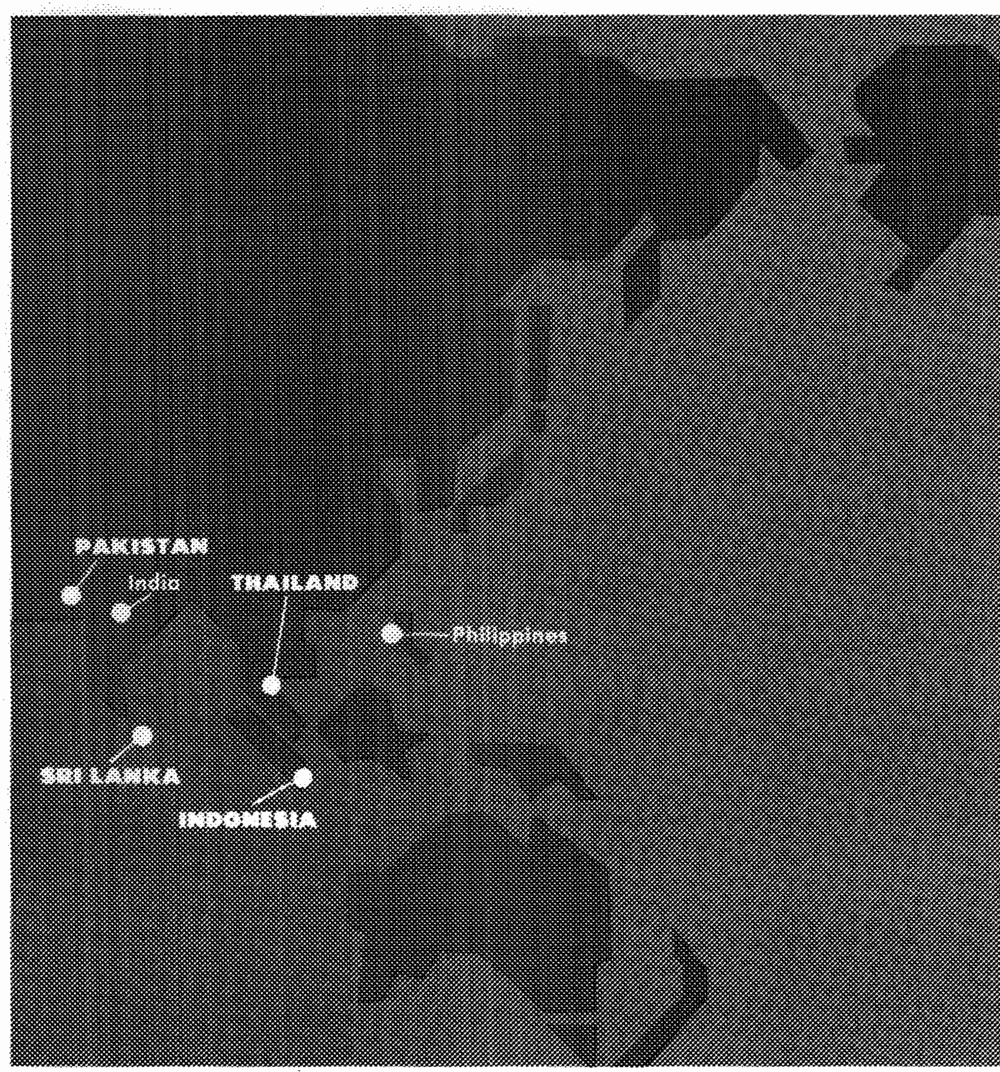
In mid-1984, the Bureau was putting final touches on another proposal to create business investment pools for health projects in Indonesia and Thailand. A private voluntary organization with broad experience in Asia will identify business and product lines to meet health needs of poor people which these pools can finance. This is discussed further on page 19.



The Bureau's new focus on health seeks to use private sector delivery systems for health care and health products in targeted countries.

The Bureau drafted a health paper on the need for private sector mechanisms to deliver low-cost health care to the working poor and others on a self-sustaining basis. Possibilities include production, packaging and marketing by private firms of oral rehydration therapy (ORT) packets—a cheap and simple means of fighting the dehydration from diarrhea that kills several million children in the Third World every year. Another possibility is the establishment by local private entrepreneurs of clinical lab centers to train paramedics and nurses, helping to make up for the severe shortage of doctors in rural areas. We are beginning to work with AID field missions in developing such programs.

The Bureau recently contracted for a detailed case study of the Chilean experience in health maintenance organizations (HMOs). This will provide valuable data for the expansion of private reimbursement mechanisms in developing countries.



Thirteen target countries and one region (the Caribbean Basin) have been identified by the Bureau for Private Enterprise as major arenas for private sector action. However, in pursuing mission support and other activities to promote economic growth through private enterprise, we frequently go beyond the target list. The map indicates our full outreach to 34 countries. Target countries are in bold type.

Below is a list of major activities as of July 1, 1984.

Grants

1. Agribusiness Workshops—Conducted by Fund for Multinational Management Education (FMME). Identifies joint venture, other private agribusiness investment opportunities. Promotes ties with low-income farmers. Countries: Costa Rica, Panama, Peru.

2. Agribusiness Outreach to Small Farmers—Case studies by Business International Corp. Successful examples of how small "satellite" farms are organized around core private firms. Synergism promotes farm income, output. Countries: Dominican Republic, India, Kenya, Mexico, Philippines, Sudan, Swaziland, Thailand, Turkey.

3. Feasibility Studies—Refundable grants pay up to $50,000 for studies of potential business investments with high development impact. Countries: Costa Rica, Dominican Republic, Egypt, Kenya, Malawi, Pakistan, Panama, Zambia.

4. Grant Components of Major Loans—Grants interlock with some Bureau investments to help lenders serve new customers and help borrowers use loans. Countries: Bolivia, Dominican Republic, Jamaica, Kenya, Pakistan, Thailand.

5. Institute for Management Education for Thailand (IMET)—Begun with Bureau grant. Trains mid-level Thai business managers. Local business will continue support after our aid phases out. Country: Thailand.

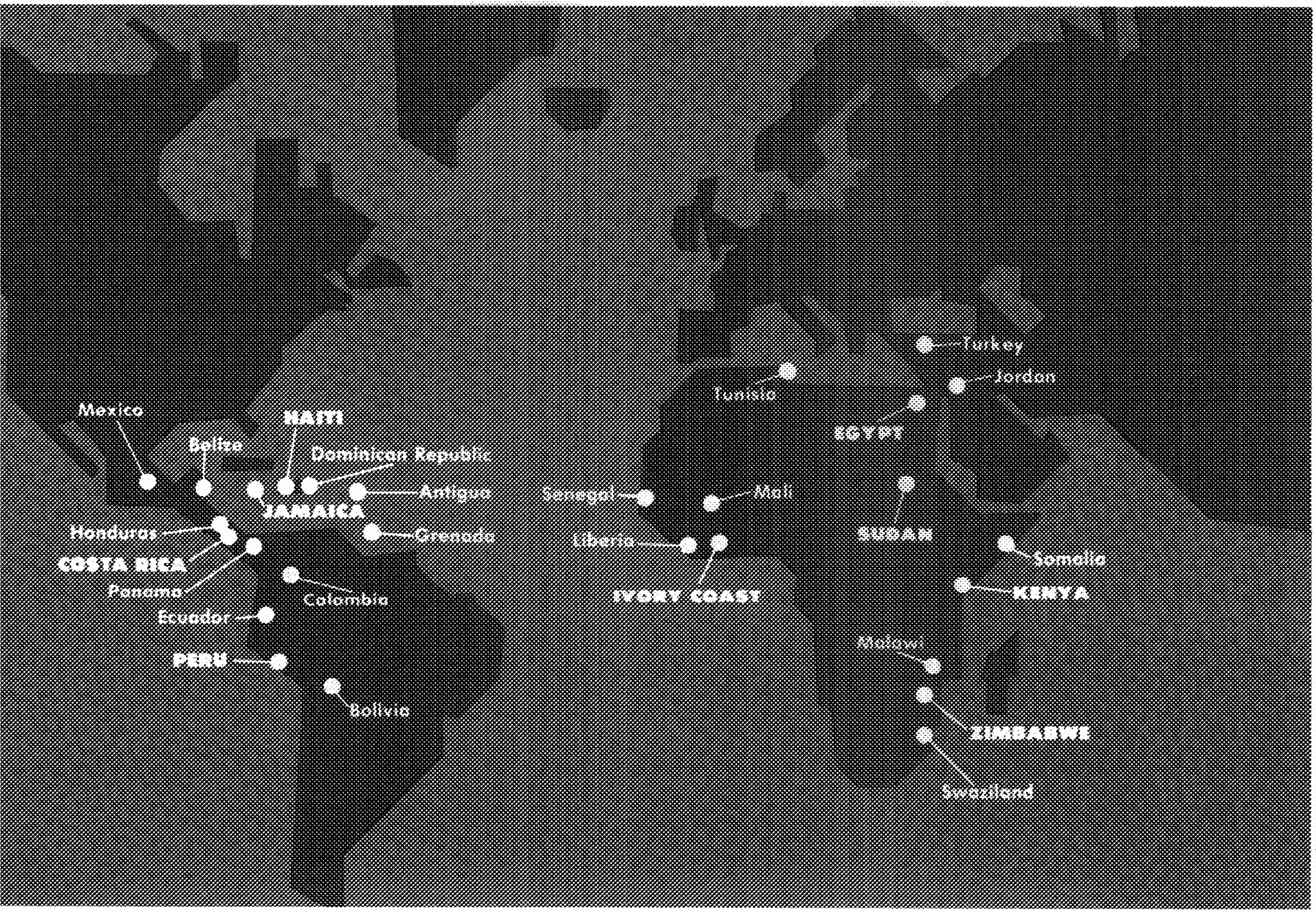
6. International Executive Service Corps (IESC)—Retired U.S. business volunteers serve small business, other clients overseas. Under partial AID funding, IESC focuses on smaller agribusiness firms in Third World countries, dovetails activities with agency's field missions. Countries: worldwide.

7. Joint Agricultural Consultative Corp. (JAC Corp.)—Establishes private binational agribusiness committees to spur technology transfer, investment promotion, business climate-building. Partly funded by AID. Countries: Belize, Costa Rica, Dominican Republic, Honduras, Indonesia, Ivory Coast, Nigeria, Panama, Philippines, Sri Lanka, Thailand.

8. Mission Support—Bureau support for field activities on a fast-response basis spreads initiative to "front lines." Countries: worldwide (see map).

9. Privatization of State-Owned Enterprises—Expertise provided by Bureau helps Third World governments phase out expensive, inefficient "parastatals". Countries: on request.

10. TECSUP (Instituto Tecnológico Superior)—Bureau grant combined with local business support started this vocational training school. Geared to private sector needs. Country: Peru.



11. Young President's Organization (YPO)—Bureau is funding seminars on problem-solving for Third World entrepreneurs. Countries: Indonesia, Jamaica, Kenya, Sri Lanka, Thailand.

Loans

1. Agribusiness Loan Pool—Creates loan pool for farmer outreach. Co-financed with two private lenders. Country: Sri Lanka.

2. Antigua Shrimpery—Direct business loan to build shrimp ponds so local production can replace imports, produce exports. Co-financed with private lender. Country: Antigua.

3. Bolivia Water and Sanitation—Injects credit into private savings and loan system. Will provide drinking water and sanitation needs for low-income families. Country: Bolivia.

4. FINADE (Banco de Desarrollo FINADE)—Creates loan pool for smaller businesses making non-traditional goods for export. Country: Dominican Republic.

5. Kenya Commercial Bank—Creates loan pool in local private bank for rural small enterprises. Country: Kenya.

6. Leather Industries of Kenya—Direct business loan to build modern tannery to produce finished exports, give new market to cattle farmers. Country: Kenya.

7. Life of Jamaica—Creates loan pool in local private insurance firm for rural enterprises. Country: Jamaica.

8. Productive Credit Guaranty—Partly guarantees loans by local bank to very small rural businesses. Country: Jamaica.

9. Sayyed Machinery Ltd.—Direct business loan to make improved farm implements and machinery. Aimed at higher yields, output-per-worker. Country: Pakistan.

10. Siam Commercial Bank—Creates loan pool in local private bank for rural small agribusinesses. Country: Thailand.

11. Sogewiese Leasing, S.A.—Creates leasing firm to provide credit to smaller, mainly rural enterprises. Country: Peru.

12. Women's World Banking (WWB)—Provides loans for guaranty collateral for very small women-run businesses identified by local affiliates. Countries: Colombia, Dominican Republic, Kenya, Thailand.

Working in the target sectors described on pages 8–11, the Bureau for Private Enterprise seeks fresh solutions, using market forces, to problems that frustrate developing countries. For each problem, we have developed a product or service—a solution base on which we can build specific loan and grant projects. For example, low income is a nagging Third World problem, a major roadblock to progress. Our product, or solution, is creation of jobs through new private sector investment. Around this approach we construct the actual projects to do the job. Examples of this and other problem areas are discussed on this and the following pages.

Problem #1: *Jobs*

Low investment restricts jobs and income. This prevents many in the Third World from providing adequately for themselves and their families.

The solution is to encourage both domestic and foreign private investment to create new jobs, leading to increased individual earning power. Without productive jobs (as opposed to dead-end subsidized jobs or welfare), development as a sustainable, self-help process will fail. That is why investment of private funds in job-creating new and expanding businesses is a unifying thread in Bureau projects. This section focuses on the tool of investment promotion.

Bureau efforts are in two categories, investment promotion by governments and investment promotion involving firms or individuals. Both complement the longer-term effort to improve the host-country business climate, described on the next page.

In the first category, early Bureau projects included support for a one-year program to train investment advisers serving several Caribbean governments. This was undertaken by the **United Nations Industrial Development Organization** (UNIDO). Increasingly, AID field missions have designed programs to help governments attract foreign investments, often with Bureau assistance. Sri Lanka, Thailand, Jamaica and, on a regional basis, Africa are examples.

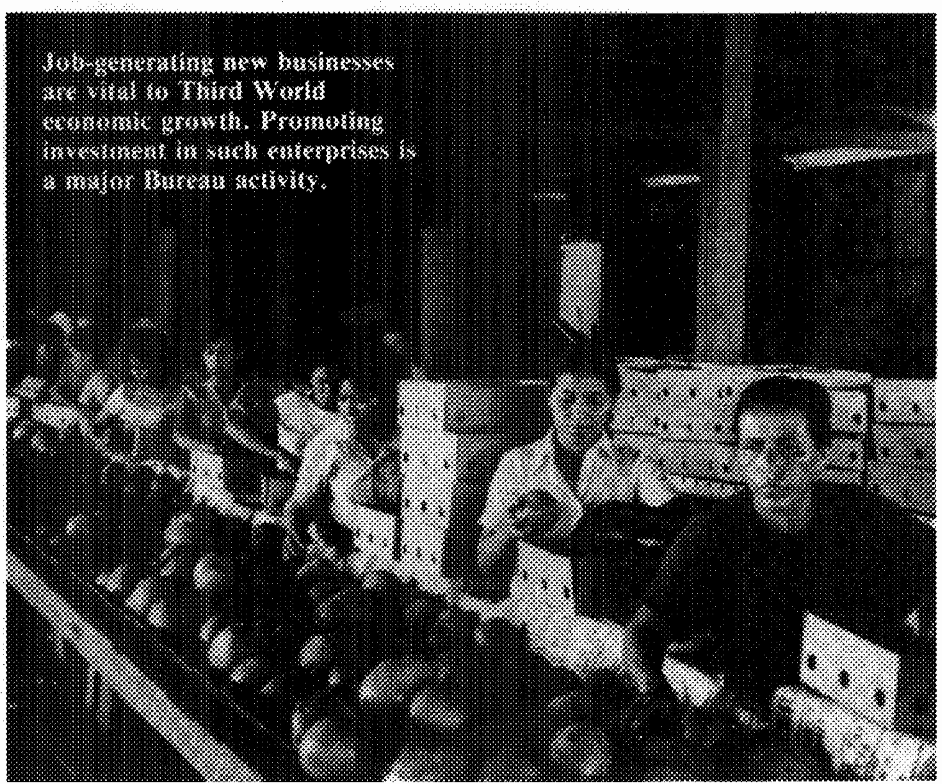
However, experience has exposed an information gap as to why some investment promotion programs work and some do not. To fill this gap we commissioned **SRI International** to conduct case studies in five countries. That analysis provides guidance to governments and AID missions, and gives us a frame of reference for designing future efforts and evaluating past efforts. SRI International agreed to provide staff for follow-up work in developing countries.

In the second category—investment promotion involving companies and individuals—the Bureau has helped fund two programs in collaboration with the **Overseas Private Investment Corporation.** OPIC provides political risk insurance and other services to U.S. investors. Our interest in Third World business growth makes for a natural partnership.

The first program was the Caribbean Investment Opportunities Program in late 1982-early 1983. This featured a seven-city "telemission" hookup by satellite to inform potential U.S. investors of opportunities in this strategically important region. Follow-up teams to several Caribbean countries brought U.S. business people together with Caribbean counterparts. Investors expected projects totaling $85 million, producing 1200 jobs, in Jamaica. Investments are expected to total $37 million and generate more than 2400 jobs in the Eastern Caribbean. Some $44 million in investments were forecast for Haiti.

The Bureau and OPIC also collaborated on "Operation Opportunity" in November 1983. Again using satellite communication, the program informed American companies about U.S. Government programs that help them do business abroad. About 5,000 executives in 44 cities participated.

The Bureau's **feasibility studies program** helps promote Third World investments with substantial development payoff. These may involve only local enterprises or be joint ventures between U.S. and local partners. The Bureau pays half, or $50,000, whichever is less, of studies funded up-front by sponsors. Only if the study



Job-generating new businesses are vital to Third World economic growth. Promoting investment in such enterprises is a major Bureau activity.

proves the project commercially viable must the sponsor reimburse AID. However, the Bureau may decide later to help finance the resulting project on terms described on page 7.

Feasibility studies can be a loan origination device. Focus of the studies is expanding this year to include all sectoral priorities—agribusiness, intermediate financial institutions and health. As of July 1984, the Bureau had funded 15 feasibility studies for projects in eight individual countries and the Caribbean Basin.

The **Joint Agricultural Consultative Corporation** (JAC Corp.), partly funded by the Bureau, serves an investment promotion role. This non-profit organization based in Washington helps identify potential joint ventures through binational private agribusiness committees in selected developing countries. Its other activities are described on page 19.

Finally, the Bureau has explored the option of helping set up "free zones" abroad. These would encourage investments in a particular sector or product area as well as promote exports. This is explained in more detail on page 22.

Problem #2: ***Business Climate***

Business climate in Third World countries often suffers from host-government policies that discourage investment and other private sector activity.

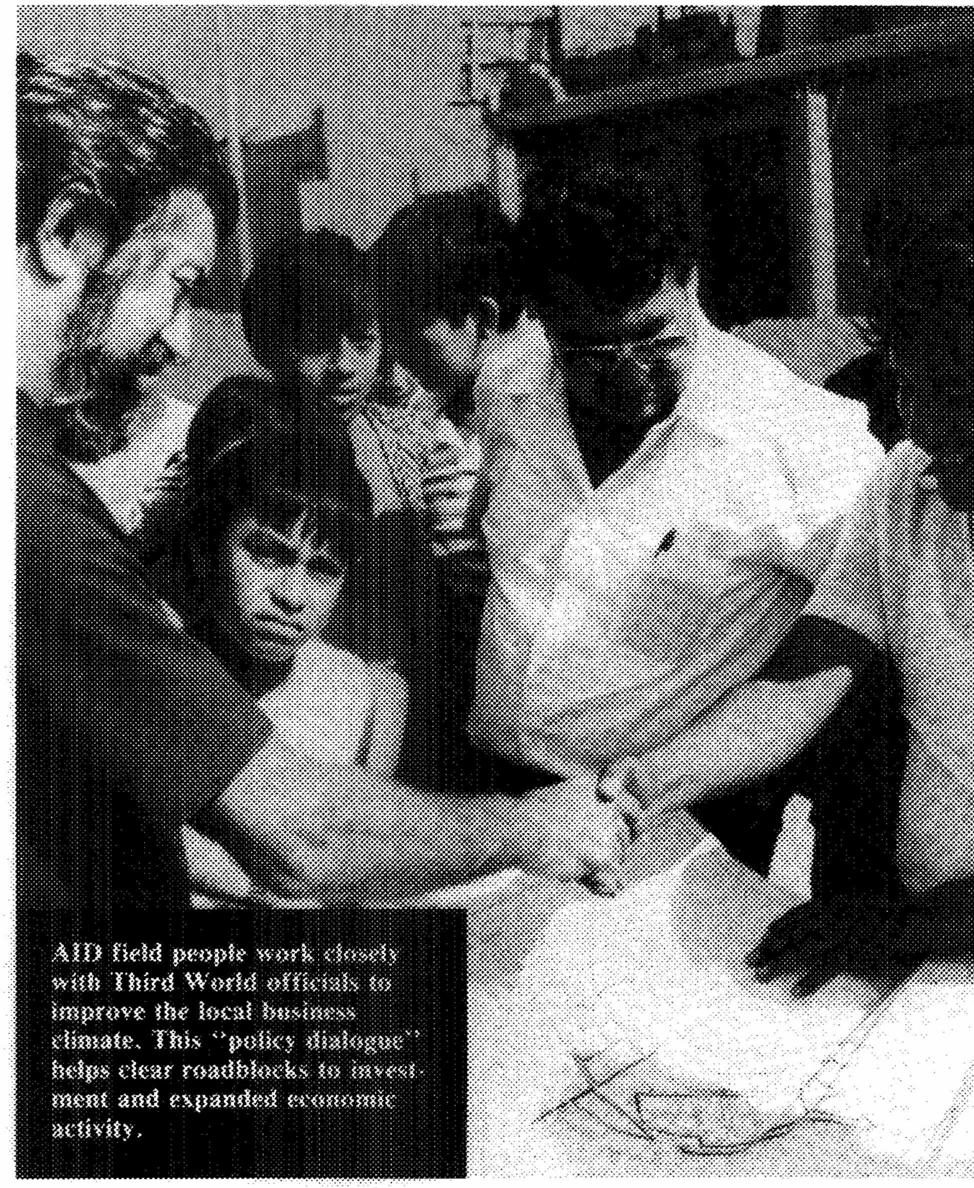
Reviewing wide-ranging national growth patterns since World War II, the World Bank in its 1982 report concluded that "the degree to which countries managed to participate in international economic expansion was determined largely by the policies they pursued."

Policies are signals that governments send to producers in the economy. Policies that force farmers' prices below world levels in order to give city dwellers cheap food may send signals to the farmer that it's not worth the effort to expand production. They may even drive farmers off the land. Similarly, policies that discourage private business activity smother incentive and turn away investors, domestic and foreign.

On the other hand, growth-oriented policies—policies recognizing the contribution the private sector makes to employment and higher living standards—are a developing country's signals to the U.S. and other donor countries that it is trying to help itself. That is why "policy dialogue" is a major activity of American embassies and AID missions overseas. It is aimed at improving laws and regulations and removing red tape that stifle new business investment and that tend to torpedo the host government's own development plans.

Many Third World policies are rooted in a large, active and interventionist public sector. While farmers are by definition in the private sector, governments may control their supplies, outlets to market and the prices they charge. In the case of industry, the government has often moved directly to control investment and production.

One common manifestation is the "parastatal." This is a business activity either owned outright or controlled by government. Parastatals frequently provide monopolies in given industries or businesses. They



AID field people work closely with Third World officials to improve the local business climate. This "policy dialogue" helps clear roadblocks to investment and expanded economic activity.

often effectively freeze out competition from private enterprise. Some respond to market forces; many more do not. In many cases they are inefficient and drain government revenues that should go to activities more appropriate for public sector action, like public health and education. Third World governments increasingly are aware of this.

Divestiture, or "privatization," of parastatals through public sale of shares and other means has drawn increasing attention at AID. The Bureau has been sounded out by a number of developing countries for assistance. In three instances, we are committing funds to set the privatization process in motion.

Arthur Young and Company has been commissioned by the Bureau to conduct financial audits and projections of selected state enterprises, including chemical and fertilizer companies, in a South American nation. This is the first stage. The audits form the basis for developing and carrying out a strategy to interest private investors and phase out government control. As with all privatization activities, the AID mission is in continual touch with government officials of the countries involved.

Coopers and Lybrand is doing similar work for us in regard to government-owned businesses, including aluminum and cement companies, in a Central American country. The first phase, the audit and financial profile, is completed. The results have been presented to the government holding company for state enterprises in that country.

In June 1984, the Bureau made a $2 million "bridge financing" loan to help privatize a state farm historically owned and run by the government of Malawi. The farm had lost money and gone into receivership in 1980. Reorganized by the receiver, the farm has attracted U.S. and Malawi private investors. They intend to introduce rotational row cropping, a livestock operation and other improvements. New workers would be hired and small farmers brought into the scheme.

Because of the time required by investors to raise money for this, the farm needed bridge financing so the next season's crops could be planted. AID is providing nearly half of this. Malawi commercial banks and U.S. investors are providing the rest. The Bureau will consider lending to the investors when the new management team takes over.

Bureau **support to missions** has a strong "policy dialogue" element. A number of countries have been advised on enacting or revising investment codes to attract foreign investment. Capital and credit market advice is another topic. For example:

- In India, we have fielded an expert to analyze laws affecting stock exchange and capital market development;
- In Pakistan, laws and regulations affecting private investment companies were analyzed and recommendations made;
- A Bureau-funded expert reviewed Liberia's draft investment code and provided comments;
- Consultants sent by the Bureau recommended revisions in Kenya's investment laws.

Problem #3: ***Capital***

Lack of access to capital thwarts start-up and expansion of small and medium-sized businesses, a key source of jobs in the Third World.

The solution is to improve local capital markets, the financial structures necessary to mobilize and match private capital to productive uses. Filling gaps in this network was a Bureau concern from the beginning. The choice as a priority sector of intermediate financial institutions—major links in the capital market network—is illustrative. Capital market experts from the U.S. private sector have been a fixture on reconnaissance trips to our target countries to identify business opportunities and roadblocks. Capital and credit market development remains a major use of our loan portfolio. Some examples follow.

The Bureau's first investment, an agreement with **Siam Commercial Bank** in September 1982, is starting to yield measurable results. The bank matched our $2 million loan with an identical amount to form a $4 million loan pool for small and medium-scale rural Thai agribusinesses. These were a new type of client for the bank, especially for medium- and long-term loans at fixed rates, needed for growth. As small firms, they were also the type of client that, statistics indicate, generates more direct and indirect jobs per unit of invested capital than larger firms.

As this report went to press, the bank was about to disburse the last of the AID half of its loan pool and was making prompt interest payments on that loan. Thirteen borrowers had drawn on the fund for start-up or expansion. They ranged from a fish farm in south Thailand to a rice mill in Thailand's underdeveloped northeast. The first six of these borrowers were in the process of adding 144 full-time and 263 part-time workers to their payrolls. Five borrowers are exporting and earning foreign exchange, important in combating Thailand's trade deficit.

Bureau capital market-building has helped spur rural businesses. Small farmers like these African sunflower growers benefit from new markets.

Indirect benefits of these loans—to farmers, manufacturers and others linked to agribusiness—cannot be measured precisely. But an example can give an idea of this ripple effect.

One borrower, Pongsathorn Ltd., a family business, used its loan to buy two new machines to convert raw cassava into pellets for animal feed sold abroad. The new machines doubled production and, because they produced better-grade pellets, more than doubled earnings. This had an impact on employment. The firm is hiring eight additional skilled workers, two new drivers and 10-15 seasonal workers. It expects this to generate about $25,000 in additional annual income in the community at large. The new machines also mean cassava purchases from at least five more farm families in income-hungry northeast Thailand. Finally, the loan gave a boost to the factory south of Bangkok that supplied the new machines.

A similar loan fund was set up in **Kenya Commercial Bank** in January 1983. The Bureau's $2.5 million loan was matched by the bank to create a pool earmarked for Kenya-owned smaller enterprises in agribusiness and rural manufacturing. The poorer western part of the country is a special target. The 27 borrowers so far are creating, or will create, 462 jobs.

Again, the ripple effect will benefit small farmers and other rural Kenyans. For example, one borrower, OCAF Ltd., buys sunflower seeds from local farmers to make cooking oil. The arrangement gives the farm families an assured market. Extension services from the borrower help increase yields. OCAF now deals with 1,000 farms and plans to expand this to 6,000 farms. Two other borrowers haul sugar cane from farms to a central processing plant, giving market outlets to thousands of farmers living far from the plant. In all, some 128,000 rural Kenyans are expected to benefit from employment and income-generating opportunities flowing from loans from the AID fund.

In the case of both the Siam and Kenya banks, our loans contained a small grant component. This pays for technical assistance to help the banks evaluate these new types of loans and provide advisory services so borrowers can use the money productively.

Another kind of capital market, serving largely women-run, very small enterprises, is represented by **Women's World Banking** (WWB).

WWB is an independent financial institution with offices in New York. Third World women find it particularly hard to get credit. WWB joins with local affiliates in developing countries to guarantee bank loans to promote woman entrepreneurship. The Bureau for Private Enterprise has helped fuel this process with a half-million dollars in loans for guaranty collateral. Of this, $100,000 each has been disbursed for projects in the Dominican Republic, Thailand and Kenya, and $50,000 in Colombia. The remaining $150,000 will go for projects in Jamaica and Haiti. Microbusinesses served range from clothing shops and dollmakers to food vendors. Women's World Banking also provides expertise in buying, marketing and organization.

Thailand provides an illustration of how WWB works. Three women's organizations in Bangkok grouped to form the local affiliate, Friends of WWB, in July 1983. This raised $250,000 in loan guaranty money toward a pilot dairy project and convinced a local bank, Bangkok Bank, to put up $1 million. Another $100,000 came from the Bureau. An AID-assisted private voluntary organization provided more seed money and technical support.

It was up to the local affiliate to provide the push, political muscle and organizational knowhow to get the project off the ground. Two rural project sites were chosen and borrowers screened. Local governors were encouraged to incorporate the two dairy farms in their development plans. This meant official sanction for roads, reservoirs, access canals and other infrastructure. Eighty-two families and a village cooperative borrowed a total $900,000 from Bangkok Bank, which waived some of its regular requirements for clients. Government extension agents were enlisted; cattle was imported from New Zealand. The dairy enterprise is now a working project, thanks not only to seed money from outside but, more importantly, to bootstrap efforts by local women entrepreneurs.

Another project with wide potential geographical impact is our **Agribusiness Loan Pool,** established in September 1983. The pool will make possible outreach programs to small farmers from a private core company. Borrowers in Sri Lanka and, later, other countries will be served. American Express International Banking Corp. and Abu Dhabi International Bank are participating.

Still another source of capital for small business is made possible under AID's **Productive Credit Guaranty Program** (PCGP). Begun in 1974 and presently restricted to Latin America, the program encourages private banks and other local lenders to serve customers they would not otherwise serve by offering a partial guaranty. AID's guaranty is up to half the total portfolio of such loans and no more than three-fourths of any single loan. Given responsibility for the program in early 1983, the Bureau negotiated an arrangement with Royal Bank Jamaica. We streamlined the PCGP process to allow a more direct relationship with the bank and earmarked our guarantees for only very small and micro rural enterprises. As of mid-1984, Royal Bank had made 37 of these loans, totaling $150,000. In this instance, Bureau guaranties are 65 percent of single loans.

Small Jamaican entrepreneurs also were targeted as borrowers from a $5 million loan fund formed in late 1982 by equal amounts from AID and **Life of Jamaica,** the country's largest private insurance firm. This project and another, a Bureau loan in September 1982 to help capitalize **Sogewiese Leasing,** Peru's first leasing company, represented early attempts to mobilize different kinds of intermediate institutions as sources of capital. Both projects are undergoing further review.

Several proposals with capital market-building features are being studied for inclusion in our portfolio this year or next. They include a **capital market access project in South America** and a **leasing project in the Near East.**

The first would match a Bureau loan with funds from two local private development banks (financieras). This would create a pool of medium-term credit, two to seven years, for small-to-medium rural firms. A special feature would place the AID dollars in a U.S. bank rather than in the country. The U.S. bank would issue a standby letter of credit as a virtual guaranty for securities issued locally. These would provide local currency for pool customers, thus cushioning the foreign exchange risk of borrowing dollars.

The second proposal would help establish an independent leasing firm as a mechanism for delivering credit to small local businesses in manufacturing, agriculture, mining, construction and other industries. The pool would be large enough to cover 500 enterprises, a great potential for job generation. The IFC, the World Bank's capital window for private enterprise, would participate.

Problem #4: Technology

Lack of appropriate technology hinders Third World business performance.

The solution is transfer of technology tailored to Third World realities. This can come from the U.S. or other industrialized or developing countries. The process helps local businesses boost output per worker, produce new or improved products and sharpen the ability to compete.

The **commercialization of technology** program, under study since late 1983, is one illustration of Bureau emphasis on technology as a tool in business performance. The program is designed to generate and adapt technology by or for smaller Third World enterprises. This will be achieved through Bureau investments involving production by local firms of U.S. technologies adapted to local markets. The limited R&D (research and development) partnership is one device. The technology commercialization effort will develop further in coming months, especially as we extend activities into the health sector.

Technology transfer is actively promoted by Bureau investments. It is an element, sometimes the main element, in a number of projects. It is also one of the tests of development impact for unsolicited proposals.

Illustratively, the Bureau's three direct loans to Third World businesses, made in the fall of 1983, all have technology transfer components. They are:

- **Antigua Shrimpery**—This smallest loan in our portfolio, $150,000, is for a project using prototype shrimp farming technology to diversify the economy of the Eastern Caribbean nation of Antigua. Co-financed with the Bank of Antigua and involving American and local investors, the project comprises 25 acres of ponds to breed shrimp for a local market now dependent on frozen imports. By replacing those imports in about two years, the locally bred shrimp will save valuable foreign exchange. The basic technology could be replicated elsewhere in the area.

- **Leather Industries of Kenya**—A $2 million Bureau loan is helping start up a tannery using modern technology to produce finished leather goods for export to Europe and the Near East. In adding value to local hides, the process has beneficial fallout in several areas. These include the creation of 400 jobs, a new market for Kenya cattle farmers and generation of foreign exchange.

- **Sayyed Machinery Ltd.**—Technology is one major feature of this project involving an $800,000 Bureau loan to a local firm in Lahore, Pakistan. The technology will be used to produce farm machinery and reapers, harrows and plows adapted to local soil conditions. Higher yields, greater productivity, 120 new jobs, a rise in rural income and skills training for farmers are among the benefits.

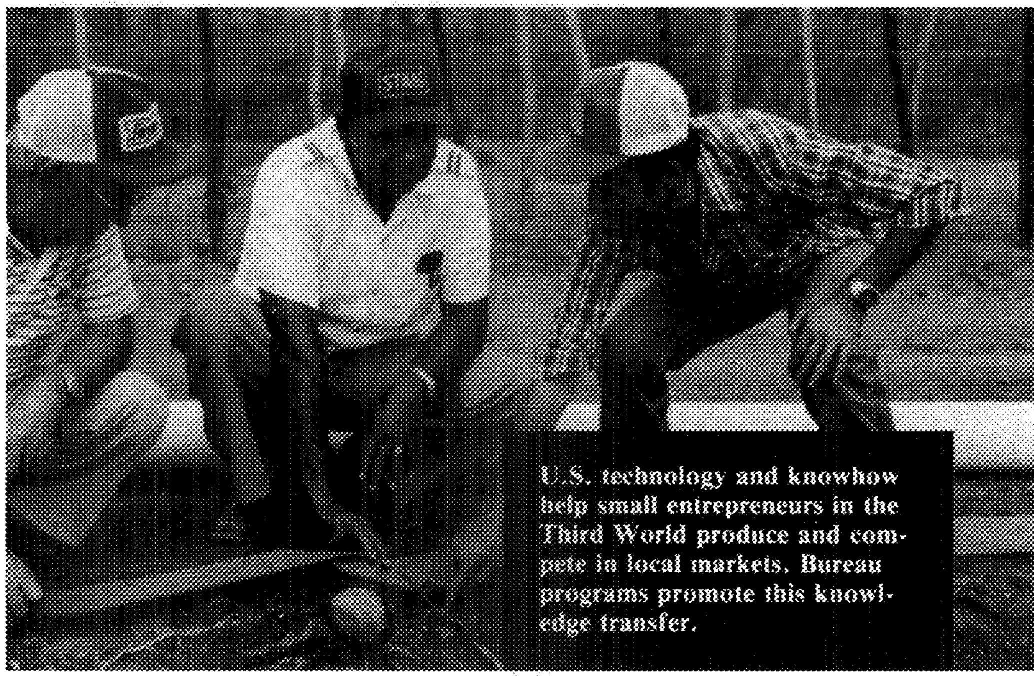
Indonesia and Thailand are locations for a health-related technology proposal undergoing final Bureau negotiation. This would use a U.S.-based private voluntary organization, **Program for Appropriate Technology in Health (PATH),** to identify products and technologies that could be adapted and transferred to developing countries for manufacture and marketing by private firms. PATH's experience throughout the Third World has been that for-profit and other private organizations are often more effective than governments in getting needed health products in the hands of low-income families.

Examples of products already identified by PATH for Indonesia and Thailand are vaccines, vitamin products, anhydrous glucose for oral rehydration salts (used in combating dehydration from diarrhea), and larvicides and mosquito repellents.

A Bureau grant would finance a PATH program to survey the U.S. health industry for transferable technologies and negotiate with local firms for manufacture and marketing. The Bureau could also invest in the production process itself. This product technology project illustrates how the Bureau's grant and loan program can be coordinated for maximum impact.

Also expected to be added to our portfolio is **Subproductos de Café,** another product technology project, to convert coffee pulp waste into animal feed and other commercial uses. The technology was developed by Subproductos, a Costa Rican firm, and a Florida-based company. A Bureau loan would finance improvements in the Costa Rica plant and bring it to full production.

The project not only would transfer technology but add value to a local



U.S. technology and knowhow help small entrepreneurs in the Third World produce and compete in local markets. Bureau programs promote this knowledge transfer.

resource in a non-traditional area, provide extra income to coffee growers and processors, and alleviate pollution from coffee wastes. Caffeine, alcohol, tannin and pectin are also expected to be extracted for commercial purposes. The technology could be reproduced in other coffee-growing countries.

The "core" **agribusiness concept with outreach to small satellite farmers,** described on pages 8-9, is a good illustration of the Bureau's management technology efforts. Farmers receive extension services from the core business as well as act as suppliers, resulting in a synergistic impact on rural production and income. We are developing such a project involving Bureau financing that would benefit Asian small farmers.

On a continuing basis, the Bureau's largest single commitment to technology transfer is represented by an annual grant averaging $6 million to cover about half the costs of the **International Executive Service Corps (IESC).**

In September 1983, we renewed a nearly 20-year AID association with this organization that enlists retired U.S. business executives for short-term assignments abroad. Since its founding, IESC "shirt-sleeve ambassadors" have shared their technical and managerial knowhow with mainly small business entrepreneurs on nearly 9,000 separate assignments in 74 developing and other countries.

Under the new grant agreement, IESC is expanding its activities in key areas such as the Caribbean Basin and Africa. Teamwork between IESC volunteers and AID missions is being strengthened in the field. IESC's long-standing practice of working with small and medium-sized businesses and with agriculture-related businesses will also intensify.

The **Joint Agricultural Consultative Corporation (JAC Corp.),** mentioned earlier, is also a mechanism for technology transfer. This is done through committees set up by JAC Corp. which have both U.S. and Third World components—agribusinesses—who exchange information and pursue joint ventures. These serve as conduits for technology transmission. JAC committees have been established in Nigeria, Indonesia, Sri Lanka and Thailand. Others are being planned in eight or nine additional Third World countries.

Problem #5: *Training*

Lack of skills hurts the growth potential of private enterprise in the Third World.

The greatest needs are managerial and vocational/technical skills. The U.S. private sector excels in both. In developing our product or service (training), we work closely with U.S. businesses and other institutions to mobilize and transfer these skills to managers and employees overseas.

In dynamic economies like Thailand's, the supply of trained business managers can barely keep up with the pace of growth. Survivors in the competition for local and foreign markets are businesses with managers who use modern methods and can recognize and anticipate problems. This need was identified in the Bureau's reconnaissance mission to Thailand in early 1982. One solution, drawing heavily on both the American and Thai private sectors, was the **Institute for Management Education for Thailand (IMET).**

IMET was established in Bangkok in September 1982 with a $1 million AID grant. The money did not go for costly new buildings and grounds and staff. It went for training materials, curriculum and special courses for middle managers that could be developed by existing institutions. Four Thai management institutions, using the AID grant, joined together to design and teach these high-impact training courses, using U.S. business school models. In an 18-month period, seminars had been held for 1,000 men and women entrepreneurs from all of Thailand's 71 provinces.

IMET's board of directors is composed of 20 leaders from business, banking and the universities. There is no government participation or direction. IMET, like many other Bureau activities, is built to be financially self-sustaining. The IMET board is undertaking an energetic drive for additional funds from business, both Thai and Thailand-based American firms, so work can carry on once AID has left the scene. American university professors came to Bangkok to "teach the teachers" in order to build up a cadre of Thai instructors in marketing, accounting, personnel management, finance and other subjects. Feedback from students, who are working mid-level managers, makes sure the curricula match real-world business needs.

On the employee training side, the Bureau, with a $1.2 million grant in late 1982, joined with Peruvian business leaders to start a vocational school in Lima, the **Instituto Tecnológico Superior (TECSUP).**

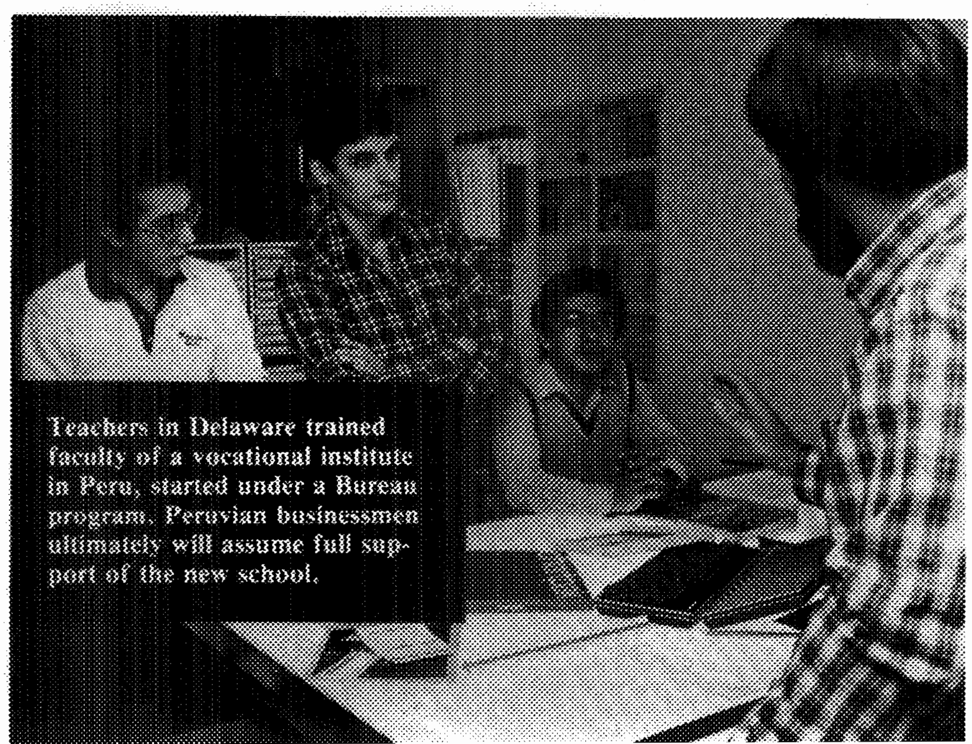
As with the Bangkok institute, TECSUP is structured to be self-sustaining through local business contributions. AID funds are seed money to get it off the ground. Also like IMET, the Peruvian school will use courses designed with business input, to assure relevancy, and structured along U.S. models. Of the grant, $500,000 is going for teacher training and some curriculum development by Delaware Technical and Community College. Nearly all the remaining $700,000 has been spent for needed equipment.

The institute was scheduled to open in August 1984, offering regular and refresher courses both for high-school graduates and working technicians. Training for jobs in the mining, refining, construction and chemical industries is emphasized.

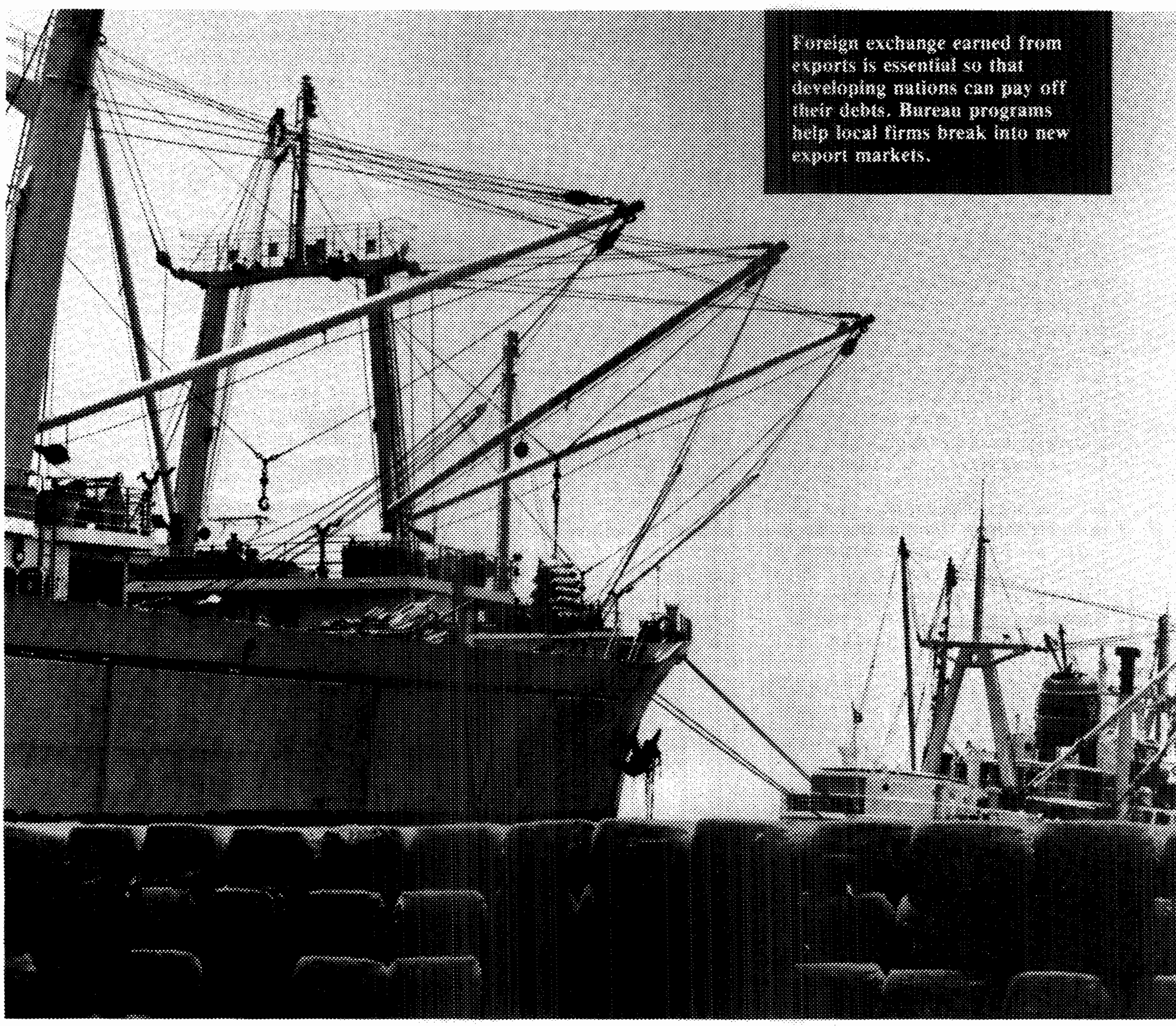
For specialized hands-on training of managers in selected countries, we have drawn on the talents of the **Young President's Organization (YPO).** YPO is made up of 3,600 heads of mainly small and medium-sized U.S. businesses. One out of three of these executives built their businesses from the ground up. All headed their companies by the age of 40. They are an outstanding resource for Third World entrepreneurs just starting up or seeking expansion.

AID's $255,000 grant promotes visits by YPO problem-solving teams to five Bureau target countries—Indonesia, Jamaica, Kenya, Sri Lanka and Thailand. Six to 10 YPO members with diverse industrial expertise and teaching skills are on each team.

The transfer of skills is also worked into a number of Bureau loan investments in the form of business advisory service grants. Training so borrowers can take full advantage of their loans is in our agreements with Kenya Commercial Bank, Life of Jamaica, Siam Commercial Bank, Bolivia Water and Sanitation, and Sayyed Machinery.



Teachers in Delaware trained faculty of a vocational institute in Peru, started under a Bureau program. Peruvian businessmen ultimately will assume full support of the new school.



Foreign exchange earned from exports is essential so that developing nations can pay off their debts. Bureau programs help local firms break into new export markets.

Problem #6: *Exports*

A lagging export base keeps Third World earning power weak, curbing the accumulation of foreign exchange.

The solution is to spur exports through private business activity. This is especially desirable in non-traditional areas, where new markets can be exploited.

Foreign exchange is needed to pay off foreign debts, an enormous burden for many developing countries, and to import parts and materials vital to local industries. Because of its development impact, the foreign exchange factor is a part of several Bureau projects. Our three direct loans, to Antigua Shrimpery, Leather Industries of Kenya, and Sayyed Machinery, all have this feature (see pages 18-19).

We also have designed investments solely or largely as export promotion vehicles. One of these is the FINADE project, signed by AID Administrator McPherson in April 1984. It was the first Bureau loan processed through the Private Sector Revolving Fund.

Banco de Desarrollo FINADE, a private development bank in the Dominican Republic, matched AID's $2 million loan to build a $4 million pool. This is set aside for small and medium-sized Dominican borrowers producing non-traditional products for the U.S. market. Handicrafts and winter vegetables are examples. The project thus supports the country's efforts to diversify exports beyond those usually relied on to earn foreign exchange, such as sugar and tobacco. It also serves the goals of President Reagan's Caribbean Basin Initiative by boosting the economy of an important neighbor.

In addition to the loan, AID is providing a matching grant to help develop a marketing plan for these products. The plan would be put together by a new export trading company, Comercializadora Dominicana (COMEDOM), using U.S. export trading company expertise. COMEDOM is being capitalized by FINADE and other banks and by borrowers from the loan pool. All have a large stake in its success.

Another project designed primarily to promote exports is in the drafting stage. We would join other lenders in setting up a hard currency pool for **"pre-export" business credit in a Caribbean nation.** This would serve exporters who can't get foreign exchange needed to buy packing materials, chemicals, fertilizers and other imported inputs of the production process.

Yet another project under study would stimulate a **short-term export credit facility in a North African country.** AID's loan would be matched by a private commercial bank in the country to serve smaller-scale enterprises. Exports stimulated would be non-traditional agribusiness-related and light manufactured products selling in European markets. The new credit pool would be one alternative to host-government export credit sources. In the case of the country involved, these have been strained to the limit, putting pressure on the national budget and fueling deficits.

Export promotion is a recurring theme in our **assistance to AID field missions.** Examples include Bureau funding for expertise that led to development of a concept paper on African export financing needs, that identified opportunities for fashion industry exports from Costa Rica and that helped the Belize fishing industry develop lobster traps for export.

Increasingly, **free zones** are being used around the world to generate new export-oriented investments that add value to products. Successful experiences in newly industrialized countries such as Taiwan, Hong Kong and Singapore have spurred interest in free zone development in other Third World nations. The needed information, however, is largely uncollected.

In response to this interest, the Bureau for Private Enterprise is funding a guidebook on how to develop and operate an effective free zone. It will include data on management structure, policies and procedures, types of services required, the appropriateness of incentives and marketing practices. The guidebook was scheduled for completion in August 1984.

New sources of jobs are provided by non-traditional Third World exports, one objective of Bureau programs.

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