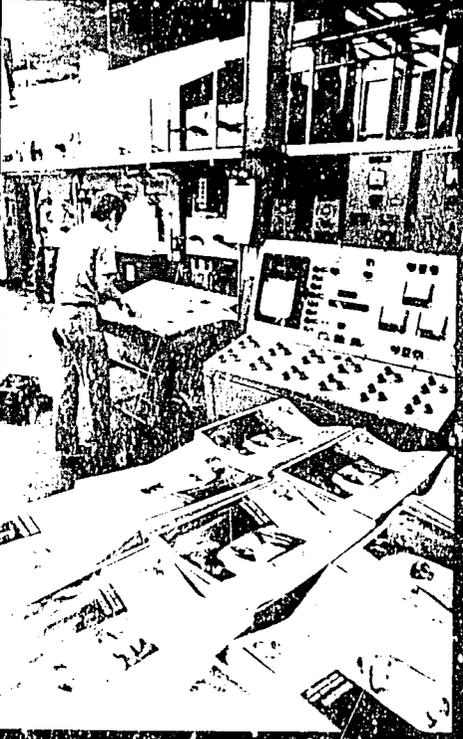


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# Economic Growth and the Third World



*A Report on  
the AID Private Enterprise  
Initiative*



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# Economic Growth and the Third World

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## Executive Summary

**T**he Private Enterprise Initiative of the Agency for International Development (AID) has proven itself to be an increasingly effective means of helping less developed countries (LDCs) achieve durable growth through the use of market forces.

Under the Reagan administration, AID has made a systemic commitment to private enterprise as a key vehicle to help Third World countries improve their economic performance. This is consistent with the legal requirement that U.S. assistance be implemented through the private sector to the greatest extent possible. The Private Enterprise Initiative has enabled AID to leverage its scarce taxpayer dollars by attract-

ing the private sector in the Third World into development efforts.

Perhaps the single most important undertaking of the Private Enterprise Initiative is to build a favorable climate for private enterprise in the developing world. AID missions are engaged daily in crucial policy discussions with host governments. For example, following AID discussions with government officials, Bangladesh decontrolled fertilizer prices. The Government of Guinea requested AID counseling in carrying out a reorganization of its economic and financial structure. The Dominican Republic, with AID financial support, took steps to achieve greater economic stability and decentralized its banking practices. And in Egypt, many small farmers now use AID-financed credit to buy production and technical assistance from private suppliers, resulting in a substantial rise in their income.

There has been an increasing shift in developing countries, particularly during the last five years, away from statism and toward private enterprise approaches to economic development.

Many Third World countries have joined industrialized nations in privatizing—turning state-owned enterprises over to private ownership. For example, parastatals are being sold to the private sector in Bangladesh, Turkey, Mexico, Sri Lanka and other countries. A February 1986 international conference on privatization, sponsored

by AID, drew nearly 500 government and private sector participants from around the world.

In this rapidly changing climate, AID is helping to forge a complex partnership of government and the private sector in the total development process. The Agency is making the most efficient possible use of a relatively limited amount of funds. Two-thirds of AID's total budget is generally not available for private enterprise development due to the Agency's necessary government-to-government approach in emergency aid, Food for Peace and the focused role of the Economic Support Fund. AID is working through its four policy pillars, particularly policy dialogue, to reduce constraints and remove obstacles to private enterprise development in LDCs.

AID has excellent resources to meet and solve development problems. The Agency can call upon substantial in-country knowledge, expertise in agricultural and rural development and strong cooperation with U.S. private sector development organizations.

Based on the record of the first six years of the Private Enterprise Initiative, AID is succeeding in making the private sector a vital partner in economic development throughout the Third World.

Sixty-three successful projects in more than 30 nations were selected as representative of the diversity of countries, mechanisms, objectives and



effects of AID's private enterprise development efforts. Examples from the seven different project categories are:

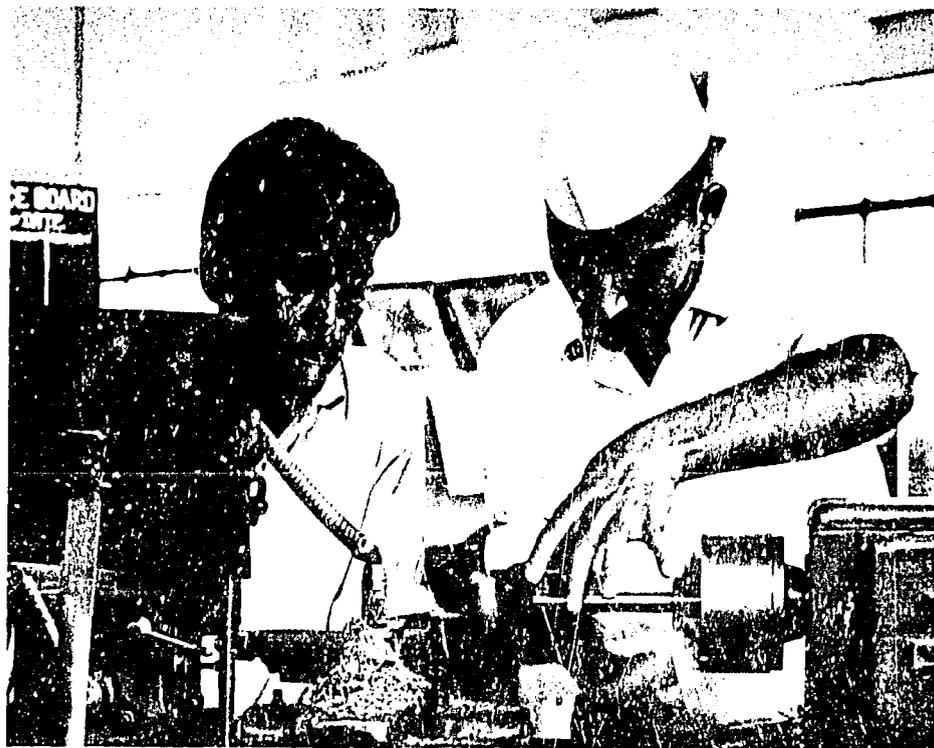
- **Policy reform.** With AID encouragement, the Bangladesh government is relying increasingly on the private sector in the distribution and sale of fertilizer, a key factor in foodgrain production. In Ecuador, the AID mission is significantly involved in the promotion of exports and investment, the removal of constraints to the development of small firms and the increase of free and more functional capital markets.

- **Credit to private enterprise.** Women's World Banking, with AID support, has strengthened women's participation in the private sector of developing countries, guaranteeing more than 800 small business loans in 27 countries, with no defaults. In Kenya, the Bureau for Private Enterprise helped the Kenya Commercial Bank and the Kenya Commercial Finance Company secure business expansion loans to small and medium-size enterprises.

- **Agribusiness.** Small farmers in Kenya, because of AID's Rural Private Enterprise Project, are growing, harvesting and selling oil seeds for the first time; higher income is being created for about 6,000 families. The Latin American Agribusiness Development Corporation, with AID funds, has stimulated production and investment in private agribusiness throughout Latin America.

- **Business development.** Through the Central Java Enterprise Development Project, supported by AID, small Indonesian enterprises are being created and developed, including shrimp hatcheries, small metal firms and rattan exporters. AID's Bureau for Science and Technology has been testing the feasibility of joint ventures between U.S. and developing country firms; through its Market and Technology Access Program, over \$30 million in foreign exchange earnings is expected to be generated in Costa Rica this year.

- **Investment promotion.** The Private Investment Corporation, established in Costa Rica with AID backing, is



the first merchant bank of its kind in Latin America, providing medium- and long-term financing and other services to the private sector. AID is underwriting a two-year promotion project to identify investment opportunities and facilitate new U.S. ventures in Thailand.

- **Export development.** In Honduras, an AID-backed group promotes the country's agricultural and livestock exports and expects to generate 4,300 jobs and \$16 million in export earnings through 1990. In Peru, AID leveraged grants of less than \$100,000 into \$1.2 million in exports in two years.

- **Management development and technology transfer.** With AID support over the last 20 years, the International Executive Service Corps, composed of retired U.S. businessmen, has been involved in more than 9,000 projects with some 1,500 resulting in ventures with U.S. firms. The U.S.-Asian Center for Technology Exchange, supported by an AID grant, expects to train some 400 managers, involve 125 firms in technical missions to the United States and provide technical information and training to 100 firms.

The Foreign Assistance Act of 1961 states that one of the four principal goals of U.S. foreign economic assis-

tance is "the alleviation of the worst physical manifestations of poverty among the world's poor majority." The act further declares that the principal purpose of U.S. assistance is to help the people of developing countries "participate in a process of equitable growth" and to influence the decisions that shape their lives.

The goals of the Private Enterprise Initiative are alleviating poverty, encouraging equitable growth and giving people the power to make their own economic choices. The initiative is based on the philosophy that a private enterprise economy is the most efficient means of achieving broad-based economic development. Private enterprises, by responding to the opportunities of a free market, produce jobs, managerial skills and economic growth, and, in turn, private entrepreneurs increase the wealth of a society and improve the quality of life.

AID cannot and does not expect to change the developing world overnight. Development is a long, painstaking and complex process. But the Agency is determined to experiment, learn from its mistakes and keep working through policy dialogue, the private sector, technology transfer and institution building to bring the dynamic power of private enterprise to people and nations everywhere.

# The Third World and Private Enterprise

## *A Report on AID's Private Enterprise Initiative*



### Foreword

by Peter McPherson

**T**he central message of this special report is simple: AID's Private Enterprise Initiative is an increasingly effective strategy to help developing countries realize the benefits of sustained economic growth by relying on free market forces and the private sector.

This new initiative is based on the simple truth that a vigorous private enterprise economy has always served as the most efficient force for economic growth. As President Reagan said in 1981, shortly before the launching of the Private Enterprise Initiative:

"The societies that have achieved the most spectacular, broad-based economic progress in the shortest period of time are not the tightly-controlled, nor necessarily the biggest in size, nor the wealthiest in natural resources. No, what unites them is their willingness to believe in the magic of the marketplace."

Foreign aid legislation always has required that U.S. assistance be implemented through the private sector to the greatest extent possible. In the past, however, AID has not always

accorded this congressional mandate the highest priority. Under the Reagan administration, AID has increased its program links with the private sector and made a systemic commitment to private enterprise as a key vehicle for helping Third World countries improve their economic performance. The Private Enterprise Initiative also has enabled AID to leverage its modest resources by stimulating the private sector in the United States and in the Third World to greater activity by providing Agency funds and expertise.

The gains of the Private Enterprise

Initiative already have been significant, as in Kenya, where a broad-based market-oriented economy is emerging, and in Bangladesh, where the government is vigorously experimenting with the privatization of government-controlled enterprises.

Mistakes also have been made in attempting to carry out the initiative, as, for example, when it relied too heavily on public sector institutions to reach private sector targets or when it tried to impose strict controls that are usually necessary in the public sector but are invariably harmful and counterproductive in the private sector. Nevertheless, in all cases, AID has sought concrete, measurable results such as the elimination of constraints, the creation of jobs, the mobilization of savings, the generation of exports and the increase of investments. When these results are not forthcoming, a new approach is tried. Gradually, a pattern for success has emerged.

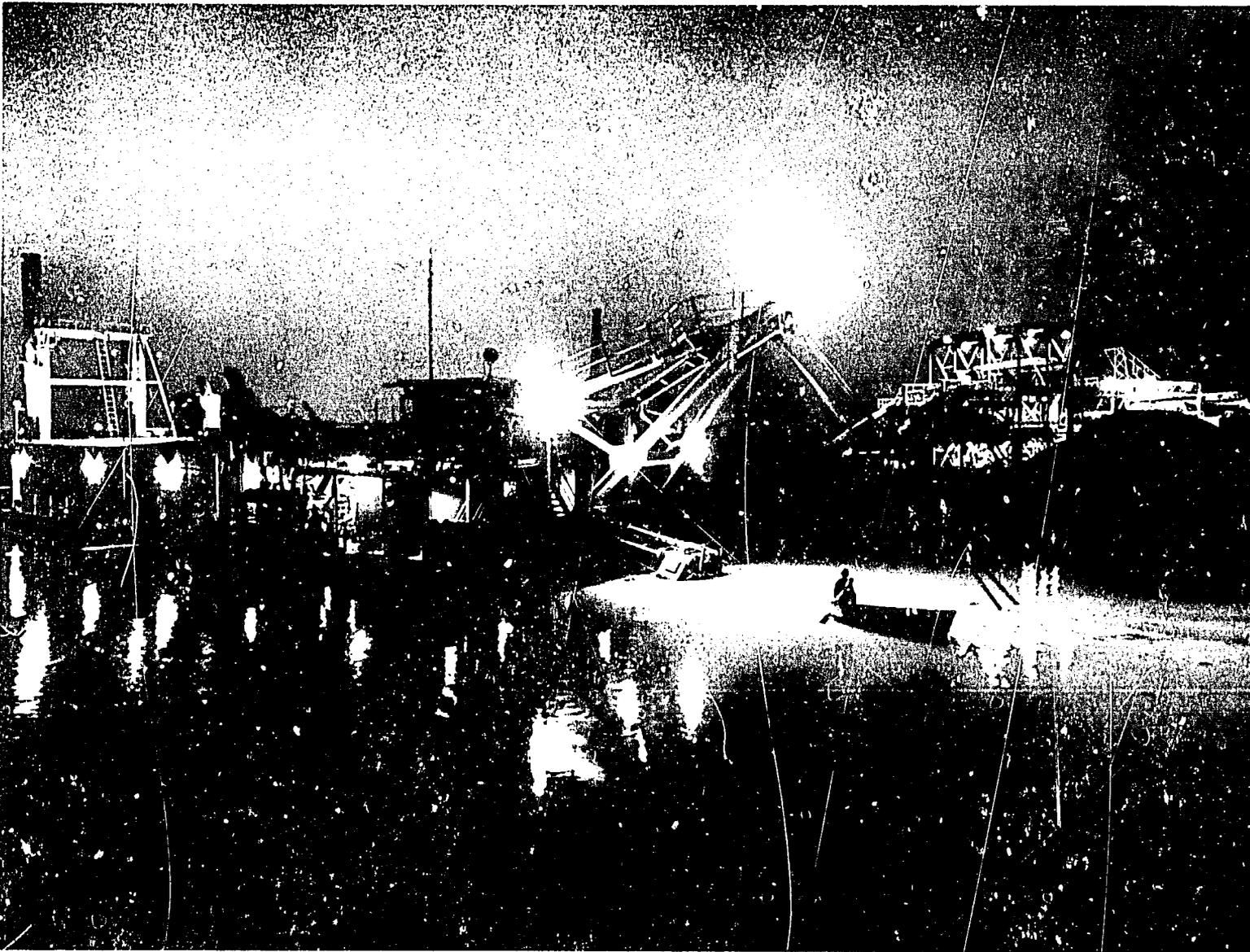
Although not having the resources of such institutions as the World Bank and the International Monetary Fund, AID did channel almost half of its resources in 1985 into private enter-

prise activities in over 60 developing countries. This was more than the total amount of \$900 million spent on the private sector, excluding the Economic Support Fund, in the three years from fiscal year 1982 through fiscal year 1984. Despite continuing budget constraints, the Agency is seeking to expand the amount of funding for private enterprise programs in LDCs in Latin America and the Caribbean, Africa, the Near East and Asia. This is proof, indeed, of the Agency-wide commitment to the Private Enterprise Initiative and the continuing impact that the initiative is having on the economies of developing countries around the world.

The Agency's first steps in carrying out the Private Enterprise Initiative were organizational. Policy guidelines were issued to the Washington headquarters and the missions abroad, instructing them to use business as an instrument for achieving development objectives across the board. Next, in July 1981, AID established the Bureau for Private Enterprise (PRE) to help drive the initiative. PRE has two main tasks: As an educator, it provides expertise to the overseas missions and other AID bureaus, usually by drawing on specialists in U.S. business; as an innovator, PRE designs and tests project ideas to stimulate businesses overseas and provide models.

The Agency's four policy pillars provide the Private Enterprise Initiative a firm philosophical foundation. The first pillar is policy dialogue. When our help is requested, we assist a country's leaders to draw up and implement economic policies that will allow development to succeed.

A key part of policy dialogue is the strengthening of the private sector and reliance on market forces. A combination of failed and centralized planning schemes, rapid population growth and high unemployment in LDCs has helped spawn intense entrepreneurial activity, starting at the grassroots. AID is using all of its available tools and knowledge to encourage the mul-



**There has been an increasing shift in developing countries, particularly during the last five years, away from government-owned enterprises toward private enterprise approaches to economic development.**

tiplication of small-scale businesses that are a key part of this new trend.

The third policy pillar is the creation and transfer of technologies such as the "Green Revolution" that we are now trying to extend to dry-land regions. Improved crop production gives birth to a wide variety of jobs and entrepreneurial opportunities.

The fourth policy pillar is the building and reinforcing of institutions that are private sector-oriented and democratic. History clearly has shown a strong link between political freedom and economic growth as well as democracy and social progress.

Creating the right business climate for private enterprise in developing countries is perhaps the single most important undertaking of our initiative. If a country erects barriers in the form of laws, regulations or red tape, then the money and knowledge avail-

able will have little or no impact. We have, therefore, placed the highest priority on removing such barriers, and our missions are engaged daily in crucial policy discussions with host governments. I can report with confidence that their persuasive dialogue has produced tangible results in all of our geographic regions.

For example, following AID discussions with government officials, Bangladesh decontrolled fertilizer prices. The government of Guinea has requested AID counseling in carrying out a reorganization of its economic and financial structure. The Dominican Republic, with AID financial support, has achieved greater economic stability and decentralized its banking practices. In Egypt, many small farmers now use AID-financed credit to buy production and technical assistance from private suppliers, which has

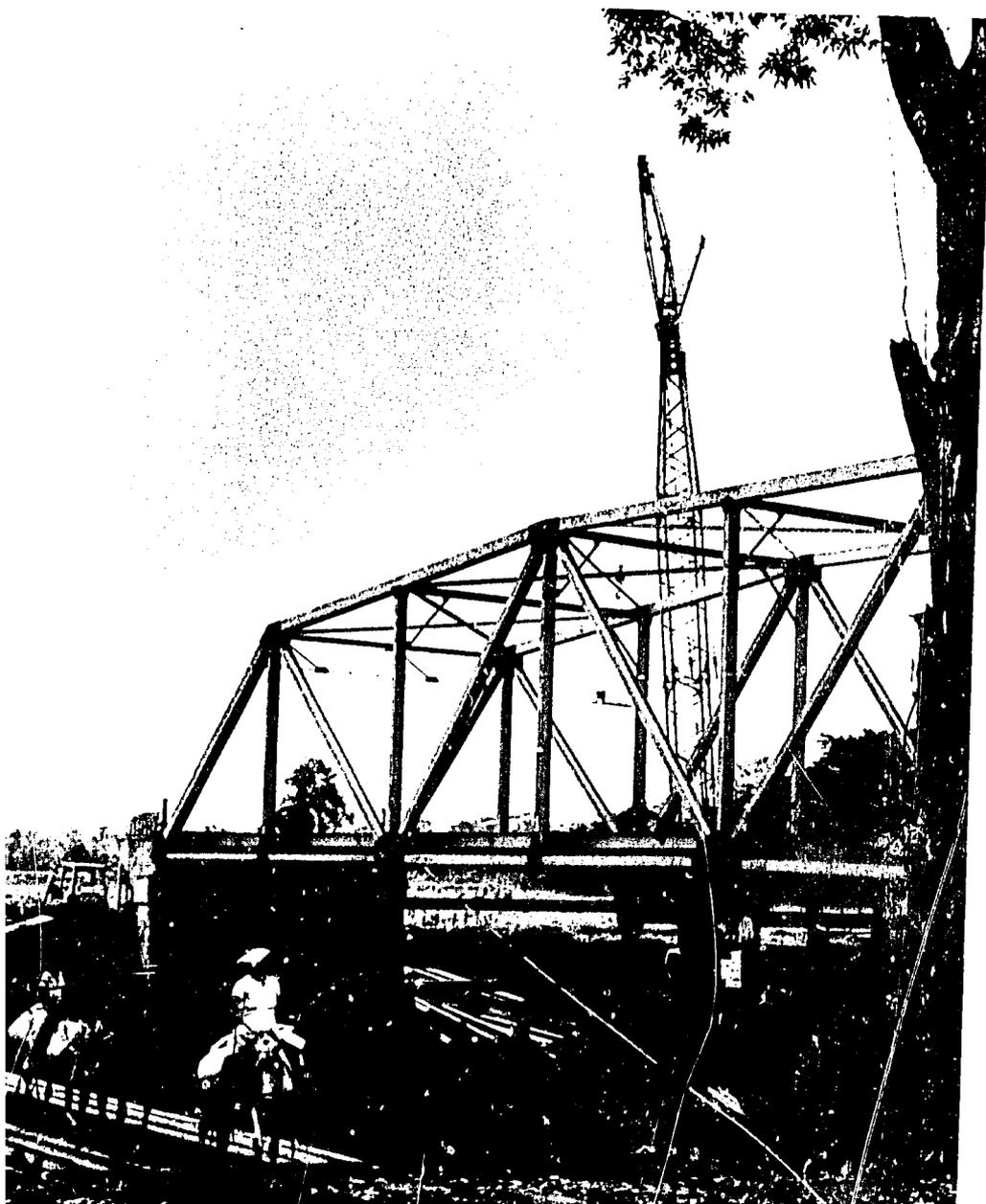
resulted in a substantial increase in their income.

A key AID goal is to encourage host governments to privatize their economies by divesting themselves of economic "albatrosses" such as state-owned corporations and marketing boards. In order to advance this program rapidly, we have directed 40 AID missions to carry out an average of two privatization activities annually, beginning this year.

We have also made important breakthroughs in the use of private enterprise mechanisms in traditional AID programs. In a number of countries, our field staffs are using private businesses to deliver services in health care, housing, education, training and transportation.

We believe, and the economic record of private enterprise versus centrally-planned economies proves, that a healthy private sector is the best vehicle for expanding Third World economic growth. It helps to diversify LDC economies and break their over-dependence on a few crops, minerals or other commodities for their jobs and their income. Economic expansion based on the private sector benefits the people and fosters political stability as well. By now, most Third World governments and peoples have discovered that statism simply does not work. They have experienced firsthand that it does not create prosperity but poverty, not equitable distribution but economic dislocation, not a brighter future but a darker present.

It is the general objective of the Agency for International Development and the specific goal of the Private Enterprise Initiative to help developing countries move out of the shadows of regimentation and regulation into the sunlight of enterprise and initiative. We cannot and we do not expect to change the developing world overnight. Development is a long, painstaking and complex process. But we do intend to experiment, learn from our mistakes and keep working through policy dialogue, the private sector, technology transfer and institution-building to bring the dynamic liberating power of private enterprise to people and nations everywhere.



# The Private Enterprise Trend

## Introduction

**S**ince 1961, when the U.S. Agency for International Development was established, Third World governments have experimented with numerous ways to foster the development of their economies. These experiments have ranged from import substitution to large-scale industrialization and collectivism. In virtually every instance, the primary tool of development was government. But statist economic development policies/strategies have, by and large, been unsuccessful. Consequently, there has been an increasing shift in developing countries, particularly during the last six years, away from statism and toward private enterprise approaches to economic development.

For example, many Third World countries have joined industrialized nations in privatizing—turning over state-owned enterprises to private ownership. Parastatals are being sold to the private sector in Bangladesh, Turkey, Mexico, Sri Lanka and many other countries.

A February 1986 international conference on privatization, sponsored by AID, drew nearly 500 government and private sector participants from around the world. At that meeting, AID Ad-

ministrator Peter McPherson declared that the accelerating interest in reducing the role of the public sector in national economies "is a new phenomenon . . . which results from the pragmatic realization that statism has failed in most parts of the world." McPherson went on to say that for privatization to be successful, several things need to be present in a country: (1) a receptive policy structure; (2) adequate capital markets; (3) credit facilities; and, (4) an expanding private sector. AID's Private Enterprise Ini-



tiative helps produce these conditions in developing countries.

The challenges to AID are substantial. First, the Agency is seeking to involve the private sector in the total development process, not just the implementation stage. In a very real sense, AID is developing the private sector in the United States and abroad as a constituency and as a client base.

Second, AID is striving to make the most effective use of a relatively limited amount of funds. Two-thirds of AID's total budget is generally not available for private enterprise development due to the Agency's necessary government-to-government approach in emergency aid, Food for Peace and the focused role of the Economic Support Fund (ESF). ESF is used extensively for security purposes and balance-of-payments support of host governments, as in Egypt and El Salvador, and the private sector does not determine how funds should be spent.

Third, there are the inevitable and numerous constraints and obstacles to private enterprise that are found in every developing country. There are legal and political constraints such as

unreasonable import and export controls, a negative attitude toward growth and entrepreneurship and lack of protection of private ownership and property. There are physical and economic obstacles such as poor roads and communications, a small and inefficient labor force and unpredictable exchange and currency policies. AID works through its four policy pillars, particularly policy dialogue, to reduce constraints and remove obstacles to private enterprise development in LDCs.

Fortunately, AID has excellent resources to meet and solve these challenges. The Agency can call upon:

- Substantial in-country knowledge. AID missions in host countries give

developing countries a corps of consultants and advisers in the field of private enterprise development that other major providers of technical assistance simply do not have.

- Expertise in agricultural and rural development. Over the decades, AID has accumulated an unequalled knowledge of agriculture and agricultural support services that it provides through private channels.

- Strong cooperation with U.S. private sector development organizations. Such organizations as the International Executive Service Corps have worked closely with AID for years to help small- and medium-size entrepreneurs in the developing world.

At the same time, AID does have

several weaknesses in the field of private enterprise development, including not enough experience by the professional staff in business and entrepreneurship, a generally no-risk disbursement system that often prevents investment in promising commercial ventures and the inevitable conflict between risk-taking, profit-seeking businessmen in developing countries and regulation-conscious AID officials responsible for the expenditure of U.S. taxpayer dollars.

Nevertheless, based on the overall record of the first five years of the Private Enterprise Initiative, AID is succeeding in making the private sector a vital partner in economic development throughout the Third World.



**AID helps small entrepreneurs in developing countries make the most of their unique natural resources.**

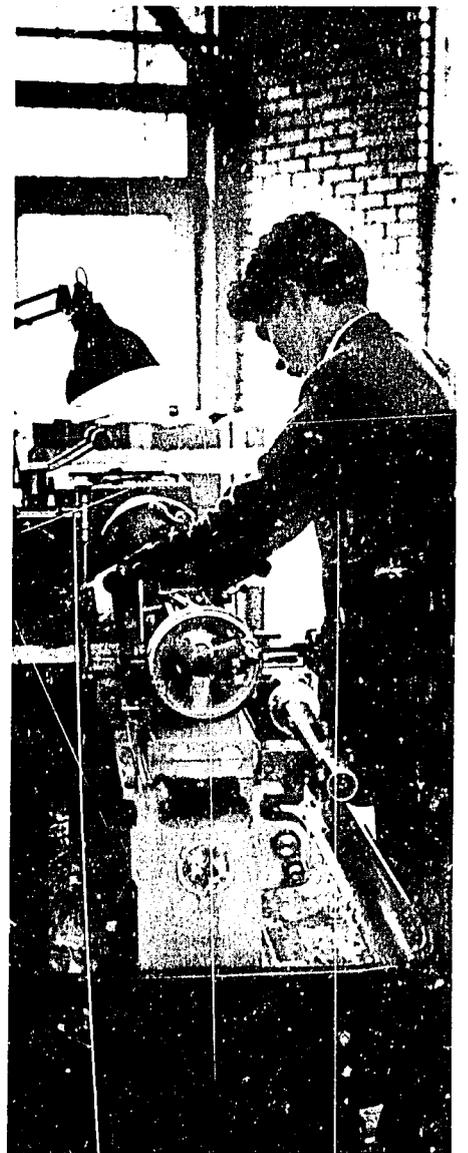
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# Private Enterprise Around the World:

## *The AID Experience*

**S**ince 1981, AID has initiated private enterprise projects in almost all of the countries in which it has missions. The projects have ranged from policy reform to export promotion to technology transfer. The following 63 successful projects in more than 30 nations are representative of the diversity of countries, mechanisms, objectives and impacts of AID's private enterprise development efforts. They have been divided into the following categories: (1) policy reform; (2) credit to private enterprise; (3) agribusiness; (4) business development; (5) investment promotion; (6) export development; and, (7) management development and technology transfer.

The projects vary greatly in size and impact, with the larger activities occurring in Latin America and Asia where the economic climate is historically more receptive to private enterprise than in Africa or the Middle East. However, there is a growing interest in and acceptance of the private sector in Africa. The policy reform category has the most examples because it is essential to the expansion of private enterprise in developing countries and because it is one of the Agency's four policy pillars.



# Policy Reform



**G**overnments can act in numerous ways to constrain or promote economic growth and development through the private sector. In economies that have been largely state-run, AID uses its resources, often, in conjunction with other international agencies, to help governments create more favorable environments for business expansion.

Policy reform, coupled with targeted financial support and technical assistance, is one of AID's most effective levers for working with host country governments to change their domestic environments and allow private enterprise to flourish. AID frequently provides loans that are tied to the recipient

government's goal of privatizing economic activity.

The Agency uses all possible institutions, including local and U.S. non-governmental organizations (NGOs) and private voluntary organizations (PVOs), to advance the business and basic human needs of micro- and small-scale entrepreneurs.

Following are some examples of how AID uses policy dialogue to persuade LDC governments to carry out such structural changes as lower taxes, less government red tape, freer ex-

change rates and market-level interest rates.

• **Bangladesh:** Since coming to power in 1982, the government of Bangladesh has moved away from several of its statist economic policies, often in consultation with AID. In the area of privatization, the government has withdrawn a significant investment in the jute and textile industries and may sell a large share of the national airline, shipping lines and telephone system. Denationalization of banking and more liberal banking reg-

ulations have resulted in new private banks competing with state banks.

Self-reliance in food grain production is a major national goal. In the past, the Bangladeshi government subsidized prices and relied on a distribution system run by the public sector. But the subsidy was a heavy burden on the national budget, the rationing system was neither equitable nor efficient, and the private sector played no role. One of the key areas of food grain production is fertilizer marketing and distribution, long controlled by the government.

AID has been instrumental in negotiating the removal of government constraints on the operations of private sector fertilizer retailers, eliminating officially-administered retail prices and closing more than half of the government fertilizer sales centers. Currently, the mission is encouraging the entry of private sector wholesalers into large-scale fertilizer distribution and marketing. AID also has recommended further adjustment of fertilizer prices and development of a network of dealers and sales promotion.

In contrast to the old government-

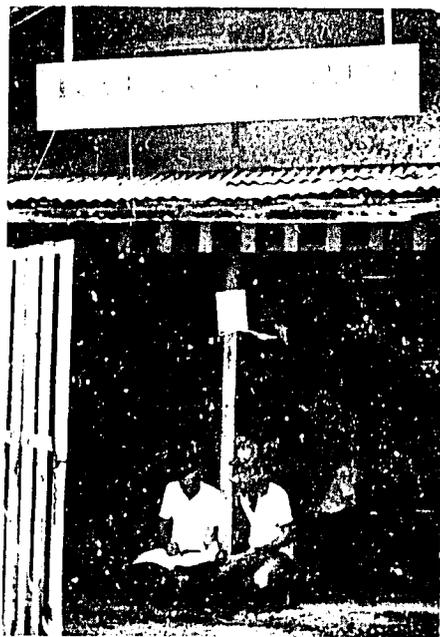
run system, now anyone can be a fertilizer dealer, sell anywhere in the nation and charge whatever the market will bear.

Another part of the Fertilizer Distribution Improvement Project has been the construction of warehouses, port handling facilities and other elements of a distribution infrastructure, previously almost nonexistent in the country. The mission also persuaded other donors to help finance the import of some one million tons of fertilizer annually into Bangladesh, which has little or no potash or potassium. All these changes did not occur overnight but were the result of years of careful experimentation and negotiation among the government of Bangladesh, its private sector and AID.

Since 1978, AID has provided \$244 million to improve the Bangladeshi fertilizer distribution system; another \$51 million is scheduled to be spent. During this period, fertilizer sales have increased over 41% in spite of a 70% increase in prices caused by the removal of overall fertilizer subsidies. Government costs of distributing fertilizer have fallen sharply. These results support the government's decision to rely more on market forces rather than central allocating systems in the distribution of fertilizer in Bangladesh.

• **Guinea:** The new government of Guinea, once ruled by one of the most committed socialist regimes in Africa, is carrying out a complete reorganization of its economic and financial structure, including closing down all state banks, changing investment rules to encourage private investment, privatizing state-owned enterprises and removing price controls. Seven parastatals have been closed permanently by President Lansana Conte. Thirteen others have been closed temporarily until they can be re-established under private sector management. A fund will be started to finance start-ups and development of private companies. These activities are being implemented in close consultation with the AID mission in Guinea.

• **Dominican Republic:** AID's Economic Support Fund has helped the Dominican Republic to change policies to achieve economic stability. The inflation rate has been reduced from



AID is working through its four policy pillars, particularly policy dialogue, to remove obstacles to private enterprise development in developing countries.

an annual rate of 70% per year in 1985 to 15% in 1986; the exchange rate is stabilizing and net credit to the public sector has been trimmed significantly. Other administrative reforms encouraged by AID include the establishment of the Investment Promotion Council, which recommends policy changes and seeks to improve exporter/investor services. Also, negotiations regarding agribusiness are fostering major changes in the operating procedures of the Central Bank. Increased responsibility for sub-loan approvals was given to private banks. Capitalization of these banks was improved by allowing funds to remain with the banks for a 12-year period rather than reverting to the Central Bank. In addition, former communal farms have been broken into individual holdings to permit private farming.

• **Ecuador:** AID has recommended significant reforms in Ecuador that are critical to the expanding private enterprise system, such as the promotion of exports and investment; the removal of constraints to the development of 8,000 firms in small industry; and, the increase of free and more functional capital markets. As a result, in the first half of 1985, 4,000 jobs were created and 400 financial sector personnel were trained. The government has begun the privatization of nine enterprise areas, including fertilizer, seeds, grain storage, tea production and milk pasteurization. Price controls are being removed from 12 of 17 agricultural products. AID's success in Ecuador has been enhanced by its close working relationship with President Febres Cordero, an eloquent and effective advocate of private enterprise.

• **Sierra Leone:** Through continuing policy dialogue, the AID mission achieved two significant gains in the application of food aid in Sierra Le-



one. The government agreed to allow the marketing and distribution of wheat and rice by the private sector only, with sales at non-subsidized prices. This policy was so successful that the government began eliminating the subsidy on all imported rice, thereby starting a return to private market forces. The new incentive will stimulate domestic production of rice, the country's most important food staple.

• **Bolivia:** In August 1985, after years of hyperinflation, spiraling national debt, declining growth and increasing unemployment, the government of Bolivia, working closely with the AID mission, undertook a series of policy reforms designed to halt runaway inflation, provide free-market incentives for reactivating domestic production, eliminate price distortions in the economy and stabilize the national economy. AID assisted by allotting \$10 million for an emergency agricultural credit program, which provided funds to small farmer organizations for recapitalization purposes. Over 430 rural villages representing more than 24,000 families received assistance under the program. AID provided \$32 million for private sec-

tor activities such as agro-industrial and small farmer credit, support to producers associations, productive infrastructure and rural development. The Agency also earmarked \$3 million to supplement food-for-work and maternal-child health activities in 348 rural villages; specific activities were micro-irrigation, soil conservation, forestation, potable water systems, access roads and greenhouses.

**In 1985, AID began a \$60 million policy reform campaign in four African states that already is creating a more favorable climate for small businesses.**



• **African Economic Policy Reform Programs:** In fiscal year 1985, AID's Bureau for Africa began a \$60 million policy reform campaign in four African states that is already creating a more favorable climate for the private sector in those countries.

In Rwanda, \$10 million in AID funds supports a small- and medium-enterprise credit fund. Technical assistance is being provided to examine and improve the whole incentive structure for private enterprise, including a comprehensive review of tariff and trade policy. The Rwandan government, which is concentrating on policy reform for the first time, has set up a special committee to develop and review economic proposals. Also in Rwanda, work is being done on analyzing food systems, including pricing, which will help the government adjust its policies to promote private sector participation.

In Mali, \$18 million is being spent to reduce government involvement in the economy. This plan includes tax reform, reduction of the civil service payroll, revision of the commercial code and relaxation of price controls. As part of this program, AID has established a research program to analyze the impact of these reform efforts. Preliminary findings indicate that access to animal traction is a key factor in farmer effectiveness, suggesting that additional policy adjustments may be needed to improve the input marketing sector.

In Zambia, \$25 million is being directed to liberalize marketing of the two major commodities still controlled by the government: maize and fertilizer. Local currency generated by the sale of U.S. food aid to Zambian organizations will be used to extend credit to private sector traders and the cooperative sector and to provide targeted subsidies for the poorest groups hurt by food price increases.

In Mauritius, \$5 million is helping the country to implement substantial reform in its industrial incentive program. Among the contemplated reforms are a ceiling of 100% on all tariffs, reduction of marginal personal tax rates and improvement of export incentives. The Mauritian finance minister has praised the United States for

showing far greater awareness than other major donors of the demands of adopting economic reform measures within a changeable world economy and a democratic country.

Important lessons have already been learned from these economic programs: (1) the process is as important as the product; (2) donor coordination has been an important by-product; (3) Economic Policy Reform Programs (EPRP) are high-risk, high-gain propositions; (4) EPRP designs must be comprehensive if they are to implement reforms; and, (5) analytical staffing requirements are high. The Africa Bureau is convinced EPRPs offer a unique opportunity to provide a new and independent voice in policy dialogue in Africa.

• **Costa Rica:** In consultation with the AID mission, the government of

Costa Rica has implemented a new monetary law which permits the contracting of foreign loans in dollars or other convertible currencies, thus reopening the flow of private, international credit to Costa Rica. These loans have to be repaid with the same currency as contracted and may not be repaid in a local currency at an artificial exchange rate. The law also permits AID to channel Economic Support Fund local currency monies to private banks rather than only to the state-owned banks, as in the past. The Costa Rican government also adopted a new free zones law, permitting private

Entrepreneurs are benefiting from a new monetary law, executed in consultation with AID, to reopen the flow of private international credit to Costa Rica.



developers to create new export processing zones, with an emphasis on drawback and subcontracting companies. A new Ministry of Exports and Investments, charged with improving the investment climate, also has been established.

• **Egypt:** Many small farmers—Egypt's largest group of entrepreneurs—are now able to obtain credit and technical assistance because of a new service funded by AID and coordinated by Agriculture Cooperative Development International (ACDI) through 38 village banks in three jurisdictions. AID has provided \$49 million for the project, for which the Egyptian government allotted \$30 million. The service provides farmers with improved technology and enables them to buy improved seeds, fertilizers and equipment to increase their production and income. Credit availability is based on a farmer's ability to repay.

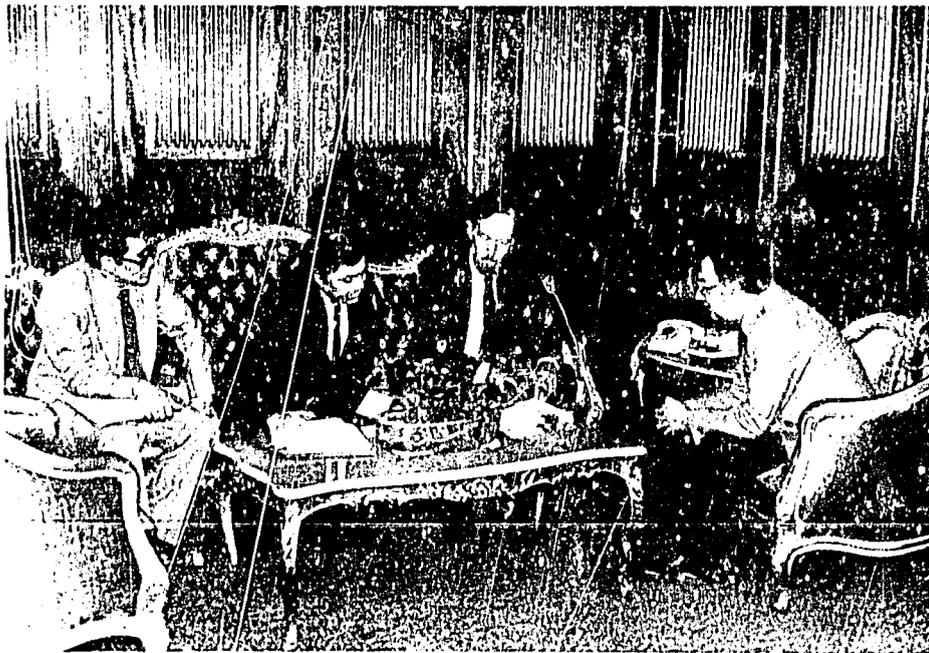
The targeted population—farmers with less than five acres—was quick to respond. Through March 1986, the project made 74,509 loans for a total of \$67.8 million to 43,042 farmers with a repayment rate of 99%. Because of this successful activity, interest subsidies for loans under this project were eliminated (the project charges 14% simple interest), and production as well as personal income increased dramatically. The success of this innovative project has led the government of Egypt to duplicate the program in eight additional jurisdictions. The mission is designing a \$120 million agricultural production credit project to support the expansion.

• **Haiti:** The AID mission has continued to focus on establishing an institutional framework for long-term industrial and agro-industrial expansion and employment. It is working to develop intermediate credit institu-

tions, non-traditional exports, private sector support projects and policy reform activities. Special projects include support of the Consultative Mixed Committee for Industrial Development. As a result of the committee's examination of the constraints affecting the industrial sector and investment climate, a new industrial investment code has been implemented, and the government has permitted the committee to review other policy matters affecting industrial expansion. In other AID-supported areas, the Development Finance Corporation, which provides financial services to small- and medium-size industrial and agro-industrial enterprises, has created 2,200 jobs over the last two years. The Haitian Mortgage Bank has been offering long-term housing construction loans, including a low-cost housing pilot project, for the first time in Haiti's history. An estimated 1,900

The Agency uses many institutions to advance micro- and small-scale entrepreneurs, who help meet basic human needs in developing countries.





AID uses policy dialogue to persuade governments in developing countries to achieve such structural changes as lower taxes, less government red tape, freer exchange rates and market-level interest rates.

jobs will be created. The Management and Productivity Center is providing management training and technical assistance to managers, supervisors and micro-entrepreneurs. The Crafts Export Resources Center institutionalizes the more sophisticated elements of product design, packaging and export marketing and integrates local manufacturing capabilities with rural crafts skills. The center is expected to generate over 1,000 mostly rural jobs in the next 18 months. The mission also encouraged the creation of Haiti's first Agricultural Producers Association (APA) and is providing technical assistance to APA members for a pilot project to export vegetables to the United States.

• **Kenya:** AID has helped Kenya increase productivity on its small farms by supporting policy changes such as reducing government involvement in the economy and providing access to agricultural supplies and markets. For example, the Kenyan government's policy of limiting fertilizer imports was reversed, thereby substantially increasing maize output and reducing food imports. Begun in 1983, the ESF effort promotes the kind of structural economic reforms Kenya needs but has been slow to adopt. The program,

which cost an estimated \$30 million in fiscal year 1986, provides balance-of-payments and budget support through private commodity imports. The program also supplies technical and administrative assistance. Through commercial banks and other local organizations, small, low-interest loans are made to rural enterprises that are labor-intensive, export-oriented and linked strongly to agriculture. The goal: 10,000 new jobs over the next several years.

• **Indonesia:** Following several years of declining foreign investment and decreased earnings from oil exports, in May 1986 the government of Indonesia liberalized its foreign investment and trade rules dramatically. The government's action followed the AID-sponsored visit of a team of U.S. consultants that conducted a comparative study of Indonesia and other Southeast Asian nations in the area of foreign investment. The team's recommendations of fiscal and monetary reforms were studied closely by Indonesian officials and incorporated as part of the official May announcement. The impact of the recommendations, combined with the continuing efforts of the AID mission, demonstrates that policy dialogue can and does work in

developing countries. The new rules allow a foreign company, after it has met certain divestiture alternatives, to operate with all the rights given to a local company. The rules also permit foreign investors to invest in and even assume control of other companies. Also, the government will expand the number of areas open to foreign investment, create an export processing zone in Jakarta and possibly extend the zone concept to other major cities. The Indonesia study was part of PRE's Private Enterprise Development Support Project (PEDS), which is being implemented worldwide under a \$1.2 million contract. A similar PEDS report on El Salvador resulted in the rewriting of that country's export law.

• **Pakistan:** Pakistan's Federal Cabinet has accepted recommendations of the National Deregulation Commission for decontrol of the fertilizer industry. This entailed removing all price and distribution controls on urea and other nitrogenous fertilizers "in order to improve the efficiency of the fertilizer industry." With deregulation, the development surcharge and the resultant cross-subsidization of inefficient plants by efficient ones will stop. These deregulation measures are a modest but important step in the direction of reducing government interference in decisions best left to the marketplace and in making the economy more efficient, more market-responsive and more attractive to domestic and foreign private investment. The reforms were supported by AID in its continuing policy dialogue with Pakistan.

• **Jamaica:** As one element of the Agency's private enterprise program, the Bureau for Science and Technology, through Syracuse University, is helping the Seaga government establish and implement new tax policies that lower income tax rates to 33% and broaden the base of collections. The reform simplifies the tax structure, sharply reduces "special interest" provisions of the tax law and eliminates economic distortions affecting business and industry. In short, it helps establish a "level playing field" on which business decisions can be made on their merits without serious distortion for reasons of tax avoidance.

# Credit to Private Enterprise

**M**obilization of savings and access to credit for all economic sectors in a developing country are important activities for AID worldwide. AID frequently provides consulting services and financing to help establish, modify or expand credit facilities to serve indigenous private businesses. Usually the credit agencies or credit windows service small and rural enterprises along with larger companies.

Such loans are almost always linked with policy dialogue aimed at persuading governments to allow markets to operate more freely and with technical assistance and training that try to ensure that borrowers and lenders use the funds effectively.

Often, such loans have multiple economic purposes and positive impact in the private sector, even when the funds flow through state organizations. AID first looks for opportunities to establish or expand private banks or credit sources. If state organizations are the only avenue present, AID usually requires that the U.S. grant or loan leads eventually to privatization of the credit operation.

Following are typical examples of AID projects in banking and finance:

- **Women's World Banking:** Women entrepreneurs in developing countries often find it difficult to obtain credit in the formal banking sector. Traditional banking rules usually require borrowers to show proof of substantial assets to obtain financing for business projects. Small enterprises, in general, and women-owned businesses, in particular, often do not have such collateral. Yet, studies show that women-owned or -operated small enterprises have extremely good payback

records in the credit markets they enter.

With grants totaling \$1 million from AID, Women's World Banking has become an effective catalyst for strengthening women's participation in the private sector of developing countries. Its network has guaranteed more than 800 small business loans in 27 countries, with an enviable record of no defaults. Borrowers must have an established enterprise with growth potential within a market and a sound





**Studies show that women-owned or -operated small enterprises have extremely good payback records in the credit markets they enter.**

financial track record.

Loans guaranteed by Women's World Banking are made in local currency. Borrowers pay a 3% surcharge over and above the interest on their loans. This surcharge is earmarked by Women's World Banking to cover management and training costs. A fund has been created from the proceeds of these fees that serves as the first resort in case of loss.

Women's World Banking intends to raise \$5 million for its capital fund through contributions, grants and sale of debentures with an interest rate of 8% payable in 1990.

The lives of many women entrepreneurs have been changed by loans guaranteed by the association. For example, Women in Finance and Entrepreneurship, the Philippine affiliate of Women's World Banking, has designed several programs to increase Filipino women's participation in their economy. One program teaches po-

tential entrepreneurs a variety of skills, including fruit and vegetable processing, goat raising, bookkeeping, accounting and sales. After successfully completing the training course of their choice, the women receive proficiency certificates that help them obtain start-up loans from local financial institutions.

In Thailand, the local affiliate, Friends of Women's World Banking Thailand, is helping women develop, expand and improve their small businesses to create jobs and raise living standards. It has become involved in establishing small dairy farms, recommending 85 households to the Bangkok Bank for financial assistance. The new businesses created by the loans will purchase livestock and receive training in all aspects of dairy farming, from milking cattle to artificial insemination.

Another strong affiliate of Women's World Banking is the Self-Employed

Women's Association (SEWA) in India. SEWA, an independent organization of more than 8,000 micro-entrepreneurs, established its own cooperative bank. Women's World Banking loaned the SEWA bank the funds to expand its loan program for low-income women entrepreneurs. Borrowers included cart pullers who wanted to purchase their own carts, vegetable sellers who sought to increase their daily incomes and patch workers who intended to buy their own scraps rather than work for middlemen at low piecework rates.

• **Kenya:** The Bureau for Private Enterprise has been particularly active in this East African country, traditionally friendly to the private sector. PRE provided \$2.75 million to the Kenya Commercial Bank and the Kenya Commercial Finance Company to secure business expansion loans to small- and medium-size enterprises. One beneficiary was Kenby Cables, a small firm that makes about 20 types of copper

cables for residential and industrial wiring. The loan enabled the firm to expand to the point where export to nearby countries such as Uganda and Tanzania is being considered. Kenby Cables now employs 25 more people and produces cable for customers who formerly relied on imports. Of 38 bank loans made by Kenya Commercial Bank through the first half of 1985, 27 were to food processors, seven to agribusiness and related services and the others to light manufacturing. Loans ranged from \$2,000 to \$321,000. Twenty-eight loans went to new businesses with an average asset base of \$60,000. Ten expanding businesses received the other loans, which

almost doubled average assets from \$125,800 to \$217,000 and created an average of 17.5 jobs per firm.

• **Honduras:** A new \$25 million Housing Guaranty loan is a continuation of a previously authorized program, enabling private developers and bankers to discount mortgage loans to eligible low-income families. Under this loan, the public sector assists the private sector in efficiently providing housing. Approximately 40% of project funding will be made available to private developers. Under the \$25 million loan, of which \$20 million was authorized in fiscal year 1984, a total of 5,300 new shelter units are to be constructed and 2,600 home improve-

ment loans are to be made available. In addition, a \$10 million loan, with supplemental grant funding for technical assistance, is promoting the establishment of a trial rural land market, based on individual title, to foster the availability of agriculture credit.

• **Cameroon:** With AID funding of \$1.6 million, the Cameroon Cooperative Credit Union League offers training and related financial services in financial management, savings, membership building and credit administration. As a result, membership has grown by 18% to its current 53,000 members, savings have increased 81% to its current level of approximately \$14 million and loans have increased by 81%. Furthermore, over 3,000 credit union board members, managers, committee members, presidents and bookkeepers have been trained in management, planning, promotion, loan analysis, policy formulation and accounting.

• **Zimbabwe:** Since 1982, AID has provided \$97 million for the Zimbabwe Commodity Import Program (CIP), 80% of which has been channeled through private sector importers. The CIP has two goals: (1) to stimulate national rebuilding and employment by making available foreign exchange that will, in turn, permit the import of U.S. materials and goods; and (2) to use the local currency generated to finance a wide range of programs in education, health, agriculture and small-scale industry. All commercial and merchant banks in Zimbabwe have been involved through the issuing of letters of credit to U.S. suppliers as well as by arranging the required local currency financing for importers. A 1984 evaluation estimated that the CIP generated a 3.5% increase in industrial output. The evaluation also indicated that 21 companies that received CIP funds said that without the program, their productivity and employment would have dropped as much as 50%. With regard to local currency generation, a number of activities have been funded that have had a considerable impact on the private sector, such as two bulk grain storage depots that increased the country's storage capacity by 100,000 metric tons. Under the initial CIP, 30% of

**AID is working to make the private sector a vital partner in economic development throughout the Third World.**



the private sector funds were used for industrial raw materials, principally in tire manufacturing, packaging and textiles. Under the recent CIP, 53% is being allocated for raw materials.

Since 1981, in Zimbabwe the Agency has guaranteed two private sector loans worth \$50 million under the Housing Guaranty Program for low-income community development in eight urban centers. So far, five programs are at an advanced stage of implementation with over 10,000 housing units sold to eligible families. Each purchaser has received a plot of land and either a core house or a loan to finance the construction of a dwelling. Preliminary work has been carried out by private sector civil engineering contractors at a total cost of \$12 million, while community facilities valued at \$8 million have been built by private building contractors. Recently, many beneficiaries have chosen to build their own homes by managing the construction process themselves and contracting out the actual work to the informal private sector. This self-help scheme in Harare, composed of 7,000 units, is the largest of its kind in sub-Saharan Africa. Over 2,000 small builders are participating in the project. Construction loans valued at \$9 million have purchased building materials, transport and the services of small contractors in the private sector. The investment has mobilized an additional \$5 million from private sources such as savings, informal loans and "sweat equity" (work done by the new homeowners themselves). The mission estimates that 3,900 person-years of employment have been created by the Harare self-help housing project. Similar programs are being carried out on a smaller scale in six secondary towns in Zimbabwe.

• **Indonesia:** AID provided \$260,000 in seed capital and management/auditing assistance to the East Java Women's Cooperatives Center, a network of 22 cooperatives run by and for women entrepreneurs. The credit was important to the center's almost 5,000 members, most of whom are informal sector producers and vendors who are not served by formal credit programs. With a 95% repayment rate and high credit volume, the center's



A healthy private sector helps to diversify developing country economies and break their over-dependence on a few crops, minerals or other commodities for their jobs and income.



next step is to try to secure bank loans to supplement its own credit sources.

• **Togo:** The Togo National Credit Union Association, one of the pioneer credit unions in French-speaking Africa, reached a total of more than 10,000 members in its first 13 years. Over the past three years, during which

the association received substantial AID support, loans totaled \$900,000 on the basis of accumulated deposits of over \$1.25 million. An AID grant of \$2.15 million in 1983 strengthened the national association of almost 100 credit unions. For example, the national federation has been able to gen-

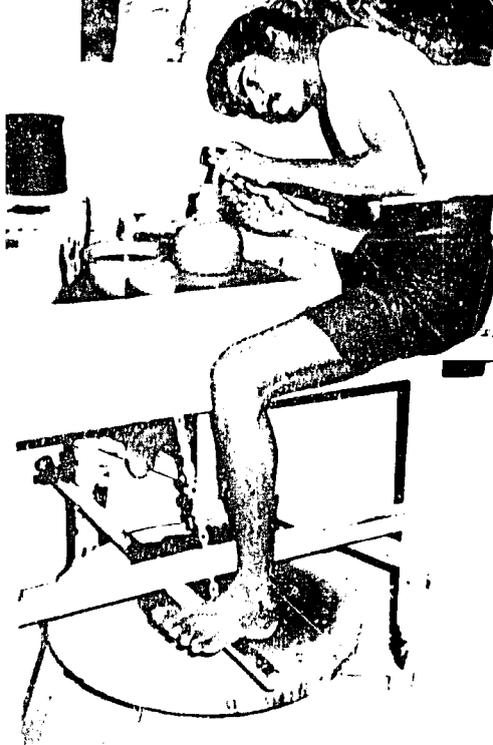
finances and operations. A central lending facility gives members access to a broader pool of resources as well as expert services in money management. Women occupy an increasingly important role as credit union managers and members of the board of directors and the credit committee. In no case are interest rates subsidized; they represent the real cost of credit in Togo. As a result of all these improvements, several credit unions now offer dividends from yearly earnings to their members.

• **Costa Rica:** Founded in 1982, BANCOOP, a private cooperative bank, has more than doubled its membership and accumulated nearly \$19 million in total assets and over \$5 million in equity, making it one of the best capitalized private banks in Costa Rica. With the help of an AID grant of \$500,000, BANCOOP has received valuable management, staff training and technical assistance that made the growth possible. Today it has 34 cooperative member owners, including the major Costa Rican cooperatives. Reflecting its sound financial status, the bank negotiated a \$6 million loan in 1985 from the Inter-American Development Bank and the Central Bank of Costa Rica to improve and develop cocoa production and processing in the San Carlos area and to assist coffee processing cooperatives to improve their operations. BANCOOP also has made significant impact on the credit union sector by lending approximately \$720,000 to the credit union federation. The total number of borrowers more than tripled in 1984-85, and there have been no loan losses to date.

• **Egypt:** A major part of AID strategy is to help Egypt increase its industrial production through private enterprise. An important component of this strategy is the private sector Commodity Import Program (CIP), which, as noted earlier, provides short- and medium-term credit to finance the importation of eligible commodities from the United States. Primary responsibility for the program rests with 12 local private and public banks. Importers pay a down payment of 25% with the balance financed for up to five years at an interest rate of between 11% and 13%. Repayments by



A private enterprise economy is the most efficient means of achieving broad-based economic development.



erate income to cover 8% of operating costs as a step toward institutional development and financial viability. Local credit union managers and credit committee representatives have received intensive training in basic accounting and credit union management and administration. National and local accounting and auditing systems monitor and report on credit union



In Central America, community leaders erect a sign for their newly formed cooperative, which will provide agricultural support services.

the importers are in Egyptian pounds. The private sector CIP is budgeted at \$50 million for its first year.

Another component is the Private Investment Encouragement Fund (PIEF), which provides credit for medium- to large-size private enterprises for building, expanding or modernizing facilities. Funded by AID, PIEF co-finances projects with selected Egyptian banks that at least match the amount of the PIEF loan. Participating banks serve as agents of the fund and managers of the loan portfolio. A bank evaluates the technical, financial and economic merits and creditworthiness of each project and recommends whether PIEF should finance that project under the co-financing arrangement. The first loan ap-

proved was for \$5 million to General Motors Egypt (GME) for construction equipment and technical services needed to manufacture light- and medium-duty trucks and buses. Local banks put up 25 million Egyptian pounds. This combined loan was the largest term loan ever made to a solely private firm in Egypt. Other co-financed loans have been made to Pioneer Seed, a U.S. company, and to an Egyptian-owned hospital corporation. Other loans are being processed for projects in health, agriculture, industrial manufacturing and transportation.

• **Bangladesh:** The Micro Industries Development Assistance Society (MIDAS), a non-governmental group, provides analytical and financial ser-

vices to small- and medium-size enterprises in Bangladesh. Initiated in 1981, MIDAS concentrates on rural industries and stresses the need to increase employment in the rural non-farm sector. MIDAS is a component of AID's Rural Industries Project, which has provided \$2.2 million in grant funding to the Bangladeshi program. MIDAS operates as a lending organization with a small consulting section. In 1985, it approved 19 projects representing over \$1 million in loans.

MIDAS has respected expertise in light engineering, light manufacturing and other activities and has achieved a reputation as a very competent organization. Because of its reputation, MIDAS has attracted the attention of other donors who are considering var-

ious grants and contracts with MIDAS for research, technical assistance and project implementation. This new activity will assist MIDAS to become a self-sustaining organization. Although the Bangladeshi industrial sector is not growing rapidly enough to absorb the increasing labor force, recent reforms in government policies, relative political stability and a gradually diminishing level of central planning have sparked hope that the private sector may help solve this complex problem.

• **Kenya:** Financed in part by a \$2 million loan from the Bureau for Private Enterprise, Leather Industries of Kenya, Ltd. (LIK) is becoming one of Kenya's largest private firms. In full operation, LIK will have the capacity to process 1,000 hides a day, representing 25% of the country's raw leather

production, into finished leather. Initial employment is 400, with additional jobs expected from new intermediate suppliers of "wet blues" (semi-processed) hides. Other new businesses anticipated include makers of leather goods, which had been discouraged by the lack of quality leather. The PRE loan is repayable at 12% over 12 years and is fully secured by plant, equipment, improvements and land.

• **Jamaica:** Trafalgar Development Bank (TDB) is a private Jamaican institution that provides medium- and long-term credit, equity participation and support services to investors in agro-industry, tourism, data entry, electronics and other export sub-sectors. To date, over 100 investors have raised the equivalent of \$3 million in local equity. In August 1986, the Dutch Development Bank (FMO) and the

German Finance Company for Investments in Developing Countries (DEG) became shareholders in Trafalgar and increased the bank's share capital to over \$4 million equivalent. AID has provided Trafalgar with \$20 million for its lending operations. In addition to these loan funds, a grant of \$1.2 million has been provided for technical assistance. Once the bank has loaned the first \$10 million and has had a successful review, the second tranche will be available. Trafalgar has been operational since May 1985 and has approved a total of 18 loans. The bank's portfolio currently has a value of \$5.4 million.

In addition, AID has added \$15 million to a previously authorized Housing Guaranty Program that assists the government of Jamaica to increase the private development of affordable shelter and to reactivate a secondary mortgage market through which housing funds can be channeled to private sector producers. Approximately 8,500 shelter units are expected to be produced or upgraded. Indirect benefits will also accrue to the Jamaican construction industry, which currently has high unemployment and excess capacity. Innovative variable rate mortgages will be available to families with marginal incomes to enable them to afford basic housing.

#### Private Sector Revolving Fund

The Private Sector Revolving Fund, authorized by Congress and administered by the Bureau for Private Enterprise, reflects AID's efforts to activate market forces and create environments friendly to private enterprise. The Revolving Fund supports activities that are innovative and financially viable, maximize employment and provide support and services not otherwise available to small businesses. The fund will permit program growth without the expenditure of additional tax dollars through the recovery of principal, interest and fees. Legislation provides capitalization of \$60 million with eventual growth to a maximum of \$100 million. The Revolving Fund is discussed in greater detail in the section entitled "How the Initiative Is Organized."



Projects in rural areas are carried out through technology transfer.



22

# Agribusiness

**F**inancial and technical assistance for growing and processing food and other agricultural commodities is a key AID program. The goal is to help developing countries meet their own food needs.

The Agency's assistance program is the largest contribution to agricultural development in the Third World today. The following are examples of AID programs in the agricultural sector:

- **Kenya:** Kenya inherited from its colonial period a mixed economy with a strong private sector. After independence, its leaders chose to continue giving a relatively free rein to private enterprise. The result is an economy in which the private sector contributes over 70% of the GNP, about half of which comes from agriculture. Nevertheless, Kenya's private sector has its problems, including relative scarcity of trained manpower, lack of technology, weak domestic purchasing power and an underdeveloped financial system.

Under AID's Rural Private Enterprise Project, commercial banks and other local organizations make small, low-interest loans to qualified rural

enterprises that are labor-intensive, export-oriented or linked strongly to agriculture. The goal is to add a minimum of 7,000 jobs over the next several years. Project money also goes to private voluntary organizations for loans to micro-businesses. Under the Agricultural Management Project, management assistance and training are provided to agricultural organizations, at least half of which are private sector firms. AID's new Agriculture, Rural Development and Nutrition Program is already producing significant benefits, due in large measure to the Kenyan government's traditional support for private enterprise.

For the first time, small farmers in Kenya are growing and harvesting oil



seeds, particularly sunflower seeds, in cooperation with Oil Crops and Allied Foods, Ltd. The farmers buy high-quality hybrid sunflower seed and fertilizer on credit from Oil Crops. They also receive technical advice on sunflower production from the company's field staff. At harvest, they sell their produce to the company for transport and resale to East Africa Industries,



In Africa, an AID-supported finance corporation disburses loans to small enterprises in rural areas, benefiting small farmers.

Ltd., which produces sunflower oil.

East Africa agreed to guarantee purchase of all the seeds in an effort to substitute previously imported palm oil and fats with locally produced oil, saving an estimated \$34 million a year in scarce foreign exchange. Other benefits of the small farmer venture include higher incomes for about 6,000 farm families, improved local diets because of the availability of quality sunflower oil and supplemental feed for cattle.

Operating expenses and the purchase of equipment, storage facilities, raw materials and supplies were subsidized by a \$178,500 loan from AID. This amount was matched by the Kenya Commercial Finance Corporation, a local, essentially private, financial institution that is also supported by AID.

To date, the corporation has concentrated on disbursing loans to small enterprises in rural areas. These funds have supported small milling opera-

tions, sugarcane hauling services, tractor leasing, distribution of animal feeds and farm implements and village bakeries.

• **Somalia:** After almost a decade of statism in the 1970s, the Somali economy is slowly returning to the use of market mechanisms. For example, the AID mission now auctions a portion of its food aid to private sector traders, increasing their re-entry into a market from which they had been virtually excluded. These auctions also have helped the public sector re-examine its proper role in economic decision making. In fiscal year 1985, 40% of commodities were placed on auction, and anyone with a valid trader's license was allowed to participate. Participation was so high that 45% of the food was auctioned in fiscal year 1986. As a result, food aid is being distributed more efficiently throughout the country, government bureaucracy is being reduced and food is no longer being dumped on the market at subsidized prices, a practice that created severe disincentives for farmers. Other donors to Somalia are seriously considering following the AID lead as a way of improving farmer incentives and increasing the private sector role in the Somali economy.

• **Tunisia:** Approximately 8,500 farmers are taking part in Tunisia's agricultural credit program initiated by AID. The Agency is providing \$18.2 million, plus \$3 million in local currency generated by P.L. 480 sales. Annual production loans average \$1,200 with the repayment of loans running at 86%, even in the most rural areas. As a farmer gains experience with credit and pays back his first loan, he usually doubles the loan the second year. In the third year, good-risk farmers often receive medium-term loans for seven years, usually to buy livestock or equipment. Facts show that farmers who stay with the program for four or five years increase their net income by a factor of three or more.

In addition, the mission cooperates with Catholic Relief Services (CRS) and the Union Tunisienne de l'Industrie, Commerce et Artisanat (UTICA) to provide management consulting services to 56 small Tunisian businesses

that employ seven to 20 workers. The mission is providing \$156,000 for the two-year project. The selected companies receive hands-on, on-site consulting services tailored to each company's individual needs. After approximately one year of assistance in areas such as finance, accounting, marketing, banking relations and personnel management, the results are positive. By applying better management, some of these small businesses have expanded their plant, equipment and personnel to increase production. It is even more encouraging that several of these companies are looking at markets beyond the borders of Tunisia. Several companies have exhibited at international trade fairs in Sfax (Tunisia), Algiers and Gabon.

• **Latin American Agribusiness Development Corporation (LAAD):** With an AID loan of \$12 million, LAAD

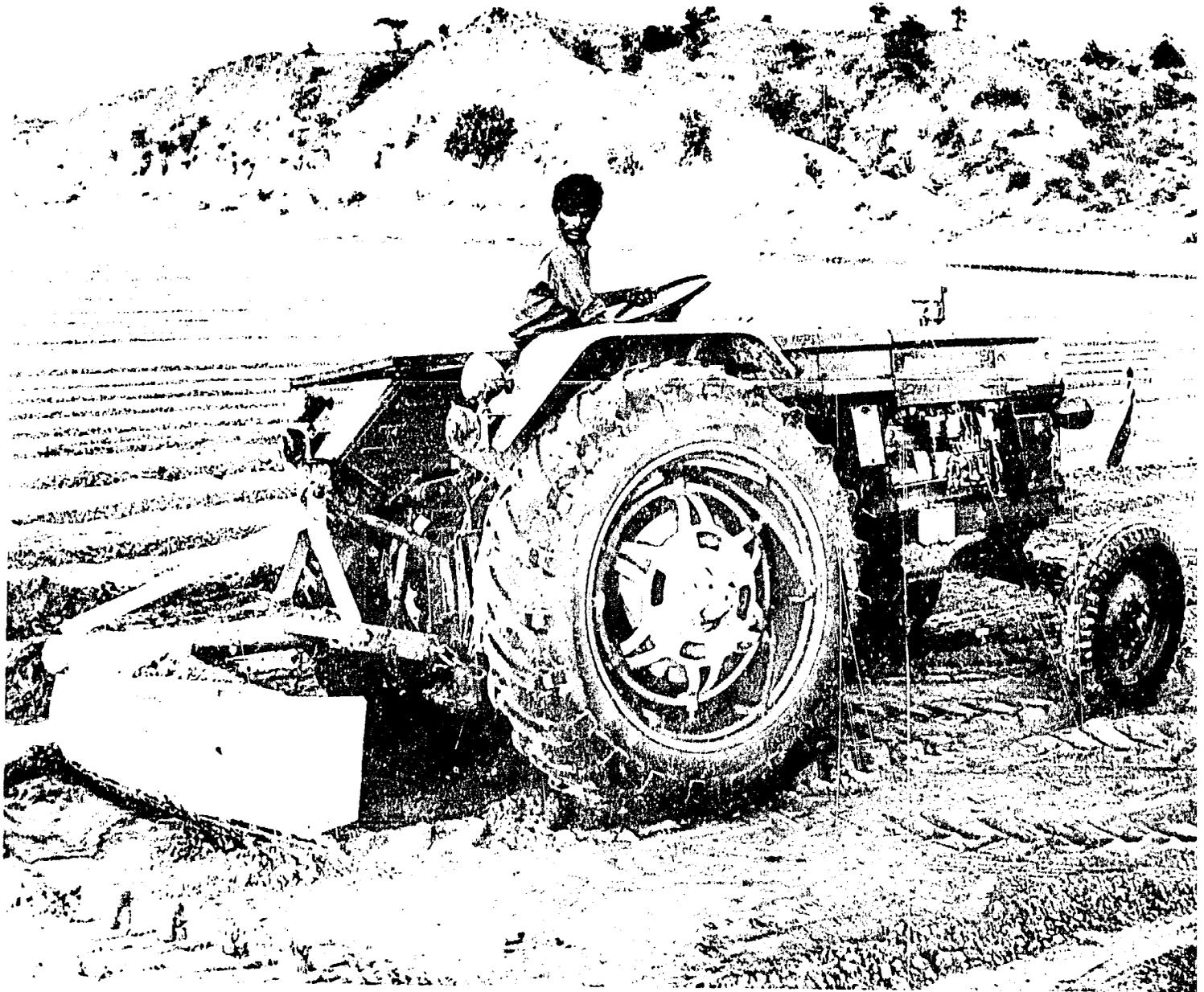
has stimulated production and investment in private agribusiness throughout Latin America. It has developed 210 projects and disbursed over \$75 million in loans. These loans have created more than 14,700 jobs, with a loan/job ratio of approximately \$820 per job, and produced new market opportunities for over 13,000 small farmers. In addition, LAAD has found that its loan program results in three kinds of leverage that produce additional funds: (1) AID loans require, and often enable, the borrower to supplement the AID loan with other debt and equity; (2) LAAD can on-lend its loans from AID, finance 100% of some ventures and tie its loans into other credit providers; and, (3) LAAD can re-lend both interest earnings as well as loan turnovers.

• **Belize:** Due in part to an AID grant of \$615,000, small farmers in

central Belize have the opportunity to claim their own land, build their own houses and produce their own cocoa crop for market. Participating farmers acquire 25 acres of land donated by the government, 10 of which must be used for cocoa production. The remainder of the land can be used at the farmers' discretion—for building homes and growing crops for food and extra income as they develop their cocoa farms. The pilot group of farmers is employed by the Hershey Foods Corporation, which helped develop new cocoa beans, guaranteed stable prices for farm output and encouraged self-sufficient commercial farms rather than a company town. A unique feature of this program is the involvement of private voluntary organizations that provide technical training to small farmers in cocoa production and business practices. This effort is led by the Pan



Over the decades, AID has accumulated an unequalled knowledge of agriculture and agricultural support services that it provides to developing country farmers through private channels.



Equipment exports are needed to improve the quality of horticultural production in less developed countries.

American Development Foundation and funded by AID.

• **Guatemala:** Under a \$1 million pilot project supported by AID, the Fundacion del Centavo, a private and voluntary organization, helps small farmers in Guatemala buy arable land. The foundation buys land on the open market and surveys it for agricultural potential. The land is then sold to the small farmer who pays 10% down and borrows the balance from the foundation for 10 years at 12% interest. The farmer must assure the foundation that 75% of his earnings will be from farming and agree to accept the founda-

tion's advice on what crops should be planted. The foundation has purchased seven farms and sold the land to 300 farmers who are producing a variety of crops. One group of farmers in western Guatemala is producing brussels sprouts and broccoli for export. Another group in Alta Verapaz is planting cardamon and coffee.

• **Thailand:** Barely one decade ago, Thailand's seed industry had only a few indigenous vegetable seed producers. Today, due in large measure to AID efforts, five private seed companies operate separately in joint ventures with major international seed

firms. In 1981, the Agency loaned \$6.1 million to the government of Thailand, which used a major portion of the money to establish six seed centers with technical assistance from Mississippi State University. The centers' initial purpose was to produce improved rice seeds for distribution to drought and flood victims. Now the centers also process improved varieties of corn seed for distribution and sale. They can also process sorghum, soybeans and mung beans. Located in rural areas close to production and markets, they also serve as technology demonstration and training cen-

ters for private sector seed producers. With AID assistance, the Thai government has developed an innovative and effective way to meet the credit needs of farmers. The agricultural bank requires the formation of a group of up to 15 farmers who are jointly responsible for repayment of extended credit. Peer pressure and cooperative teamwork have produced a marked improvement in the collection rate. Seed credit is also provided in-kind. The provision of such credit has been a critical factor in the development of Thailand's modern private seed industry and in the growing prosperity of the country, where 70% of the population is directly involved in agriculture.

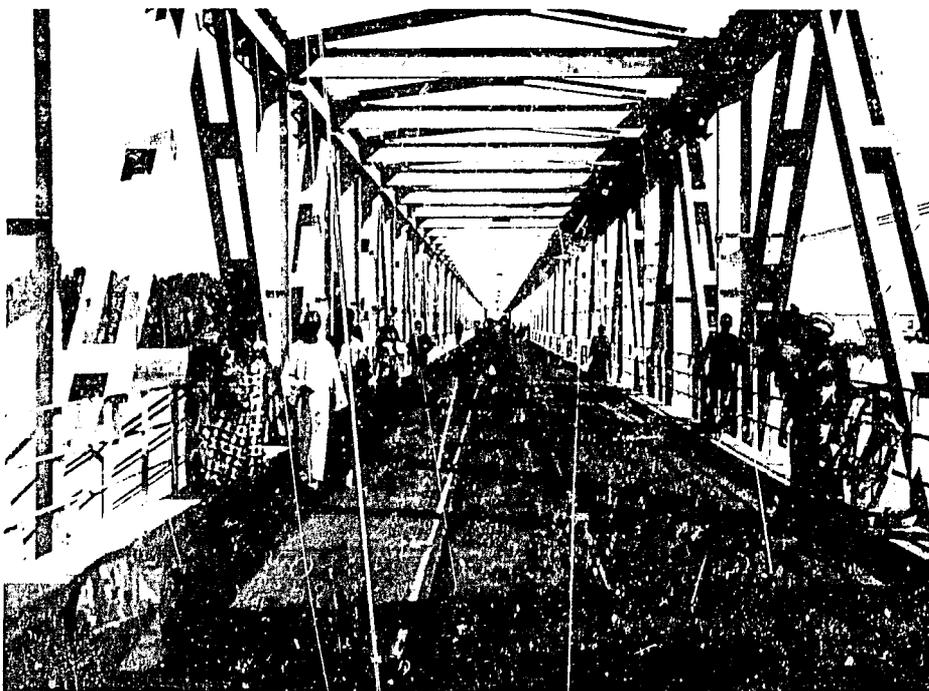
• **Pakistan:** A task force of leading Pakistani agribusiness executives will be named to help implement a national action plan for horticultural development. The task force was a major recommendation of a workshop hosted by the Agricultural Development Bank of Pakistan and the Industry Council for Development (ICD), a non-profit U.S. organization supported by AID. The workshop's summary report stated that the existing horticultural industry is a "low input—low output" system, geared to dumping surplus domestic production in export markets. The action plan spells out

specific tasks that must be performed by both the public and private sectors to upgrade the industry to a higher-volume, higher-value system tailored to individual export markets. According to ICD, the Pakistani government has ambitious agricultural production goals—in the last 20 years, agriculture has slipped from 40% to 27% of the gross national product—and sees the private sector as a vehicle for action in many areas. However, several serious policy problems must be resolved, including: (1) lowering duties on importation of equipment to manufacture packaging material; (2) importing refrigerated trucks; and, (3) providing tax rebates for export products. In particular, equipment exports are needed to improve the quality of horticultural production, processing and packaging in Pakistan.

• **Zaire:** The North Shaba Rural Development Project (PNS) works with more than 15,000 farm families who use improved seed and crop varieties and cultivation practices tested and introduced by the project. The farm families benefit from the nearly 1,000 kilometers of road, 24 bridges and more than 60 culverts the project has installed. Originally started in 1978, PNS was extended in 1983 with an AID contract of \$5 million to the U.S.

firm and Zairian engineering company that administer the project. Major goals have been met, including the marketing of 56,000 metric tons in 1985, compared to 10,000 metric tons before PNS and 31,000 metric tons in 1981. The increased availability of corn for export to the mining centers of southern Shaba represents a foreign exchange savings of \$10-12 million a year. The number of trucks and small vehicles working during the corn marketing season has increased tenfold. In government, donor and business circles, the North Shaba Rural Development Project is generally considered Zaire's most successful agricultural development program since independence.

• **Peru:** Through the Private Sector Agricultural Investment Promotion (PRIDA) Project, AID helps intermediate financial institutions (IFIs) support agricultural development in Peru. With a \$10 million AID loan, the Development Finance Corporation (COFIDE) is on-lending to IFIs. Thus far, 13 private IFIs have entered the medium-term agricultural credit market where there had been no private sector involvement. PRIDA has successfully developed the private sector's institutional capacity to provide medium-term credit to small- and medium-size farmers. Project loans totalling \$5 million were approved over a two and one-half-year period, almost twice as fast as expected. Additional loans of \$5 million will be placed in the next two-year period.



Rural development projects help private sector companies build roads and bridges to benefit farmers.

### PL. 480 Program

Almost every U.S. assistance program is motivated by a combination of humanitarian concerns, economic growth considerations and political policies compatible with U.S. interests. The P.L. 480 Program is a prime example of the multipurpose nature of U.S. aid. It has been an integral part of U.S. economic assistance to the Third World for more than 30 years. Capitalizing on the strengths of U.S. agriculture, P.L. 480 addresses food needs in LDCs, promotes the adoption of market-oriented agricultural policies, develops markets for U.S. goods and bolsters U.S. national security.

# Business Development



**A**ID agrees that the market, when allowed to operate openly, is the most effective way to allocate resources. Where the market mechanism is new to a country, or where AID sees an opportunity to steer national economic decisions toward market-oriented behavior, AID focuses its attention and resources accordingly.

In areas where U.S. firms might not immediately consider developing new business, AID has been creative and effective in building international firm-to-firm contacts.

The following examples are typical of programs aimed at host country firms and the development of ventures between U.S. and developing country firms:

- **Indonesia:** Indonesia suffered major economic setbacks in the early 1980s because of a decline in demand for its traditional agricultural exports and the continuing drop in the price of oil. The resulting deterioration in economic stability required fundamental reforms to get the country, the fifth most populous in the world, back on a sustainable growth path. One significant change has been a far more positive attitude toward the private sector

by the government of Indonesia, a change strongly supported by AID.

For example, the Central Java Enterprise Development Project is a government program designed and implemented with technical and financial support from AID. Its primary objective is to improve the capability of the Indonesian private sector, especially small enterprises, to absorb the nation's rapidly growing labor force.

The project, initiated in October

1985, is directed by a team of enterprise development professionals from a U.S. consulting firm and a private Indonesian foundation, Yayasan Dian Desa. It has a two-year, \$850,000 contract from AID. Subprojects include: (1) building a model shrimp hatchery that will serve as a base for training of hatchery managers and operators; (2) establishing a shrimp feed development program that will evaluate locally available pond feeds; (3) linking the supply of component and spare parts for Central Java's small metal firms; and, (4) helping small household-based rattan makers export their products. Despite raw material and capital problems, rattan furniture is currently being exported from Central Java at a quarterly value rate of only \$24,000; the potential market for such exports is much larger.

One of the serious gaps in the development of the Indonesian private sector has been the shortage of trained business managers. The Management Training and Education Institute is a privately-run Indonesian institution that seeks to raise the quality of business management, particularly among

smaller businesses and entrepreneurs. AID has provided a \$4 million, six-year grant to help the institute's faculty obtain postgraduate degrees and to purchase needed computer and microfiche equipment. Thirty-two faculty members are expected to receive advanced degrees in the United States.

An estimated 200 Indonesian businessmen study full-time at the institute while several hundred attend a two-, four-, or six-week course. As part of its mission to help business man-

ers help others throughout the country, the institute offers training in Surabaya, Java and Medan, Sumatra.

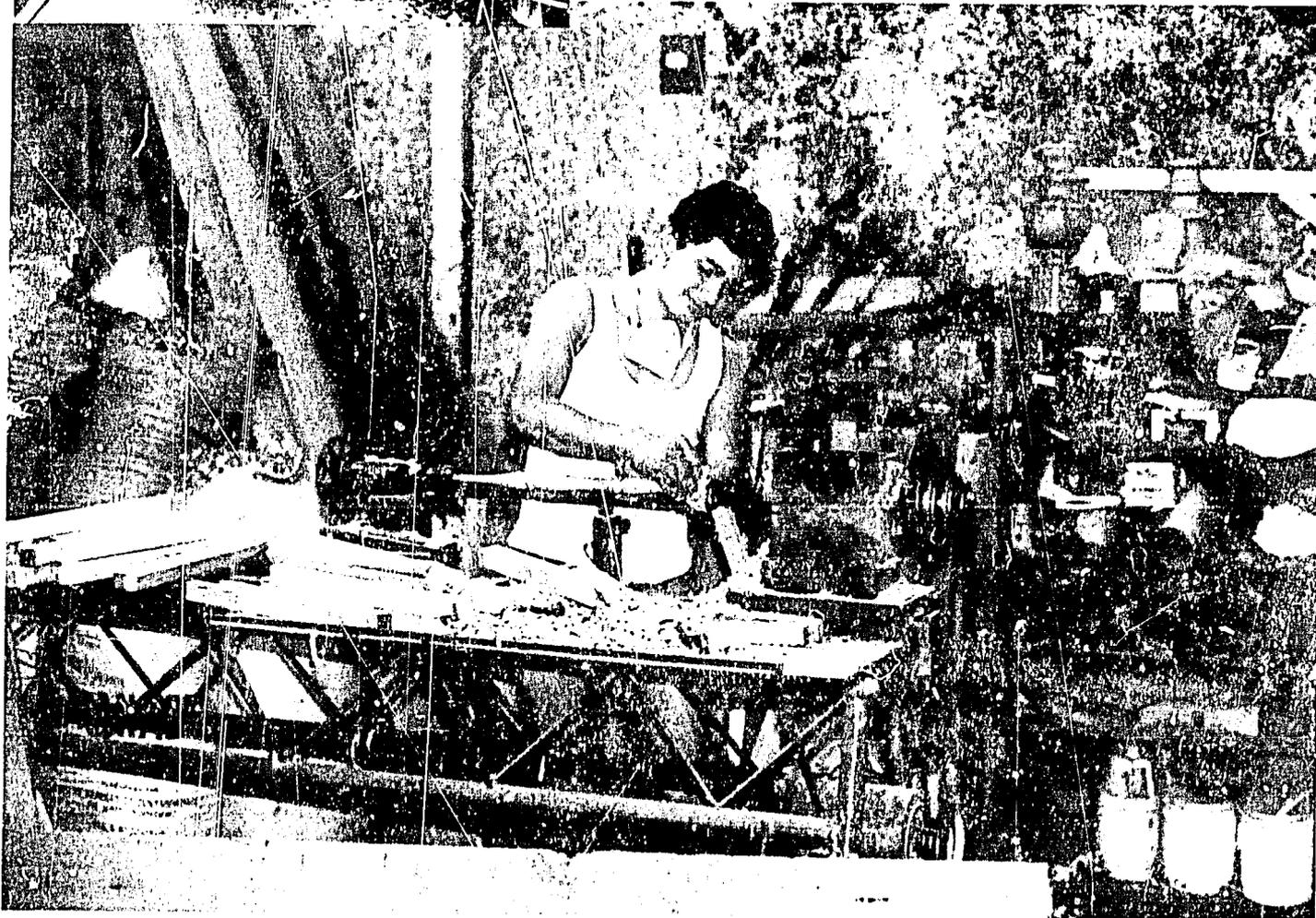
The existence of the Central Java Enterprise Development Project and the Management Training and Education Institute reflects the new elevated status of the private sector in Indonesia, which, like so many other developing countries, is looking more to private enterprise to provide the impetus for sustained and balanced economic growth.

• **Market and Technology Access**

**Program (MTAP):** In 1983, AID's Bureau for Science and Technology initiated a two-part program to test the feasibility of joint ventures between U.S. and developing country firms. A goal of the experimental program is to see if AID can leverage its resources for business development through the use and self-interest of business intermediaries. After careful research, field trials were begun, including one in Costa Rica that already has produced significant results. The second part is a series of field trials that are still under way. The field trial in Costa Rica, begun in 1985, produced significant results in a short time. In 1986, six agreed-to projects were expected to produce 370 jobs and over \$12 million in foreign exchange. Fourteen projects, considered to have a better than 50% chance of completion in 1986, were expected to produce 724 jobs and over \$23 million in foreign exchange earnings. Field trials also are



AID uses its resources to improve the capability of small enterprises to absorb the rapidly growing labor force found in most developing countries.





A \$26 million credit and training program has helped micro-enterprises that have been unable to obtain assistance through conventional sources.

under way in Thailand, India, Turkey, Tunisia and North Yemen.

• **El Salvador:** From 1980 through 1985, AID committed \$26 million to El Salvador to provide credit and training to small producers and technical assistance to intermediary institutions. The intermediary institutions, in turn, provide support to small business. In 1985, the program was expanded to reach micro-businesses that have been unable to gain conventional credit to develop small business associations and to create linkages between large businesses and independent small producers. The AID funds were divided into \$22.3 million for credit, \$1.6 million for training and \$2.1 million for technical assistance. The results included approximately 2,300 technical courses

for nearly 90,000 enterprises at a cost of \$860,000. Nearly 23,000 loans with an average value of \$1,350 have been provided with the initial credit funds and resulting reflows.

• **Eastern Caribbean:** AID's private sector program in the Eastern Caribbean dates from June 1981, with the first grant going to revive the Caribbean Association of Industry and Commerce (CAIC), which was originally founded in the 1950s and has been moribund since the 1970s. This was the beginning of a sustained effort to improve the investment climate in the region, until then predominantly statist. The CAIC today is a federation of 18 chambers of commerce, five manufacturers' associations and over 100 large businesses from French Guiana

to the Bahamas. It is viewed by business groups, regional organizations such as the Caribbean Community and Common Market (CARICOM), and governments as an effective voice for the private sector. For 1985-87, AID will provide \$1.5 million to CAIC.

The Project Development Assistance Program (PDAP) began in 1981 and has evolved into an investment promotion program that has brought over 60 investments to Belize and the seven islands which comprise the Organization of Eastern Caribbean States (OECS). These investments have created 5,000 jobs, with a cost per job of about \$2,400. Among the successful projects: (1) in Antigua, a U.S.-owned company is manufacturing a range of electronic subassemblies for its established markets in the United States; (2) in St. Kitts, two locally-owned companies have entered into arrangements with U.S. companies to produce electronic products for sale in the United States; (3) in Dominica, a U.S.-based company has purchased land on which to grow aloe vera, which will be processed locally for sale to the U.S. market.

• **Liberia:** Funded by a \$4.3 million AID grant in late 1986, private Liberian contractors will begin regravelling and rehabilitating 155 miles of primary roads between Zwedru and the easternmost port town of Harper. The project will provide a target population of over 100,000 with more reliable transportation for marketing agricultural produce and obtaining consumer goods and services. It also will strengthen the capacity of Liberian construction firms to perform major maintenance activities.

A product of AID-Liberian government policy dialogue, this project demonstrates the government's new commitment to use the private sector to perform major road maintenance. The road is used heavily by local lumber companies and several rubber plantations and forms a key link in the economic lifeline of the country. Cash crop marketing by small farmers along the road is expected to increase substantially when a major farmer extension and marketing project, sponsored by the European Economic Community, gets under way.

# Investment Promotion

**T**he fact that many LDCs must service heavy debts continues to present major obstacles to business expansion because of the lack of foreign exchange needed to purchase raw materials, equipment and other imports. Also, governments of some host countries are destabilized by economic austerity measures that are imposed to pay foreign debts. In addition, markets for U.S. exports in the Third World have shrunk due to the imbalance of foreign exchange.

While recognizing the need for productive industries in developing countries to acquire capital and expertise from abroad, AID's most important and enduring contribution is

encouraging governments to improve local business climates so that investors will develop in the Third World. One American bank estimates that of the \$451 billion increase in debts incurred by 18 countries in Latin America, Asia and Africa in the past decade, \$198 billion, or 44%, represented capital flight.

The phenomenon of capital flight reflects lack of confidence by a nation's investors in the home economy as a place where private business and investors can realize sufficient profit.

AID works to alert governments to onerous business conditions that might trigger capital flight or deter both local and foreign investment.

On request, AID conducts investment climate assessments, as it has done in Zaire and Indonesia. The findings and recommendations are given to LDC governments, American embassies, AID missions and potential investors.

Where changes in national investment codes, tax structures, labor laws, regulatory requirements and other con-



ditions would improve a country's business climate, AID can provide expert consultants to explore remedies. Embassies and AID missions use AID's business climate assessments in ongoing dialogue with public officials and business leaders to focus attention on reforms that would boost business growth.

AID also promotes private investment in developing countries where local economies can make effective use of foreign capital. The Caribbean Basin is such an area. The Caribbean Basin Economic Recovery Act of 1983 provides incentives to help firms from that region gain access to U.S. mar-

kets. Accordingly, AID has been active in providing expertise and other assistance to encourage and attract private investment in that region.

• **Costa Rica:** AID is working with Costa Rican institutions to enhance the role of private enterprise as the major engine of economic development in the country. The Private Investment Corporation is a prime example. Established in 1985 with an AID loan of \$20 million, the corporation is the first bank of its kind in Latin America. This new merchant bank provides medium- and long-term product financing, equity investments and other activities.

Among the eight projects, totaling almost \$7 million, it has approved are: (1) a \$577,000 loan for the production, marketing and exporting of non-traditional crops (vanilla, spices, etc.) to the United States, Europe and Japan, creating an estimated 75 jobs; (2) a \$400,000 loan to finance the purchase of equipment for freezing

fruits and vegetables to export to the United States, a joint venture between U.S. and Costa Rican investors that will generate 91 jobs; and (3) a \$1.5 million loan for the expansion of a rubber gasket manufacturing plant to increase its capacity to export to the United States, a joint venture between U.S. and local investors that will generate 25 jobs.

Costa Rica has had a number of U.S.-Costa Rican joint ventures that have been active for a decade or more. Now, however, with the advantages provided by the Caribbean Basin Initiative and promotional activities, those numbers are being rapidly expanded. As many as 12,000 new jobs have been created in recently established factories. The mission is optimistic about the future assembly of electronic equipment, sporting goods, medical supplies and other products in joint ventures with U.S. firms currently operating plants in the Far East.

U.S. business organizations also are

helping stimulate the Costa Rican economy. The Chicago Association of Commerce and Industry, one of the largest chambers of commerce in the United States, is developing trade and investment activities between Costa Rica and the Midwest. Since 1984, this effort has generated \$8.3 million in trade deals. The Atlanta Market Center is also engaged in bringing together Costa Rican sellers and U.S. buyers. Costa Rican participation in a 1984 giftware show in Atlanta produced \$270,000 in sales.

The Office of the Coordinator in the Ministry of Export and Investment, which was established in 1983 and serves as the focal point within the Costa Rican government, is complementing private efforts to stimulate investment and export promotion. Together with several private sector organizations, the ministry is working to eliminate policies and practices that present disincentives to the production of non-traditional exports and to



AID is using its available tools and knowledge to encourage the multiplication of small-scale businesses.





AID is encouraging export ventures in the developing world to create thousands of jobs in the private sector.



identify market opportunities for exports under the Caribbean Basin Initiative. A one-stop export and investment promotion center has been set up to expedite government paperwork related to export-oriented projects.

- **Panama:** The National Investment Council of Panama, established with a \$3.9 million AID loan in 1983, is promoting new export-oriented foreign and domestic investments that also create jobs. So far, it has attracted more than 30 firms from all over the world to invest \$32 million in Panama, with a potential of 6,000 new jobs.

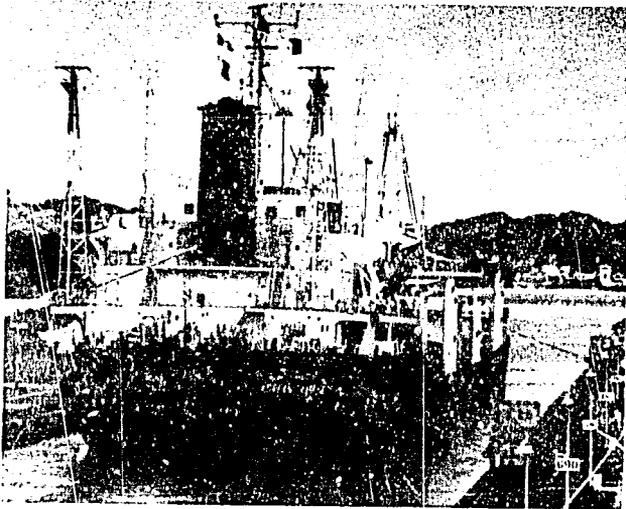
- **El Salvador:** FUSADES, the Salvadoran Foundation for Economic and Social Development, which received an AID grant of \$6.9 million in 1984, has set up an investment promotion

activity in San Salvador and the United States. The goal of the three-year program is to create 11,500 jobs in El Salvador. Approximately 1,700 jobs have been created in less than one year of operation, and over 50 projects hold the possibility of substantial success. FUSADES, a private, non-profit association of business executives, also has developed an economic and social research program that analyzes the macro-economic and social situation of El Salvador and has presented to the government a proposal for an export-led economic model. The association also has proposed an agricultural diversification program that promotes exports of agricultural products and encourages their production in El Salvador. It also has initiated a small- and micro-enterprise promotion program that helps small-scale businesses through technical assistance, training and credit aimed at traditional financial institutions.

- **Belize:** The Belize Export and Investment Promotion Unit (BEIPU), formed in 1986, has already supported investments in mariculture, winter vegetable production, timber products and meat products. BEIPU was established with a \$250,000 AID grant and received \$2 million from the Agency in fiscal year 1986. BEIPU, for example, has helped three shrimp farms, each involving 150 acres. One farm is selling on the local market and will export shortly and another farm has exported post-larvae shrimp to Ecuador. All three farms use processing plants while two have hatcheries. In addition, the Government of Belize, with AID encouragement, has approved construction of an 80-room hotel by a major international hotel firm.

- **Thailand:** AID underwrote a two-year investment promotion project, initiated in October 1984, to identify investment opportunities. To date, this has resulted in three Thai trade missions to the United States for private sector meetings in areas including electronics, fabricated metal, machinery and agribusiness. The exchange of information and the development of Thai-American contacts are expected to lead to long-term, mutually beneficial investments. The AID commitment was \$2.3 million.

# Export Development



**E**xport-led growth has been critical to rapid economic progress in developing countries. Servicing export markets requires a commitment to competition and quality. The private export industries of an LDC have a better chance to grow when the nation's economic policies provide access to imported equipment and spare parts, attractive foreign exchange rates, modern labor laws and a tax structure that stimulates rather than stymies business. These issues are examined when LDC and AID representatives meet to consider joint development projects.

In cooperating countries, AID has coupled its policy dialogue and investment promotion efforts to encourage the private sector to cultivate export opportunities with the objectives of earning foreign exchange and creating jobs.

Following are examples of AID approaches to export development assistance:

- **Honduras:** Although it is the least developed of the Central American nations, Honduras depends increasingly on private enterprise to expand its economy. The Honduran private sector, with AID support, has established

several organizations to strengthen this trend.

A federation of more than 20 Honduran agro-industrial producers and exporters promotes the country's agricultural and livestock exports. Using a modern, computer-based operation, the group facilitates commercial relations between producers and buyers, promotes joint ventures with foreign investors and provides members with technical assistance in marketing, production and quality control for the export market.

Reflecting the power of the private sector, the federation sold all of its 1985 production in industries as varied as cattle, coffee, bananas, poultry, honey and tobacco in the first half of the year. An estimated 4,300 jobs and \$25 million in agricultural export earnings will be generated through 1990. Also, two joint venture agreements have been negotiated with a U.S. firm to finance new shrimp fishing and agricultural storage processing facilities.

Another AID-supported institution is the Foundation for Business Research and Development. The foundation was formed in 1984 by four Honduran private institutions to provide assistance to small- and medium-size businesses, particularly exporters of non-traditional products. The foundation identifies entrepreneurs with development potential, arranges for necessary financial and technical assistance and acts as a communication liaison with U.S. regional and national trade associations. An estimated 2,400 jobs and \$12 million in export earnings were generated through these activities in the first two years of operations.

In addition to helping established companies to export, the Foundation for Business Research and Development is engaged in the promotion of new investments, providing interested investors with one-stop service.

A third AID-backed group is FUNADEH, an organization created by the business community in Honduras' industrial capital of San Pedro Sula. The organization promotes the development of small-scale and micro-enterprises by providing them with credit. The credit needs of small investors are not currently met by commercial banks or government programs. In its first year, the organization made 93 loans, averaging \$3,000 each. Over 150 jobs were created as a result of its activities in the micro-enterprise sector.

• **Dominican Republic:** A \$2 million loan from AID's Private Sector Revolving Fund, matched by \$2 million from a private Dominican development

bank, created a loan pool to stimulate exports from this Caribbean country. The money is earmarked for small- and medium-size borrowers making non-traditional products for export, primarily to the United States. The loan pool fits in with the Dominican Republic's aggressive campaign to reverse a negative trade balance, earn foreign exchange and stimulate the economy.

• **Mauritius:** With an AID grant of \$5 million, the government of Mauritius, located in the Indian Ocean, is substantially reforming its industrial incentive system. Reforms include the unifying and simplifying of five interconnected incentive programs already in place; reducing duties on imports, which can run as high as 824%; and implementing of a unified incentive system for manufacturing development, including a moratorium on the granting of new development certificates for import-substitution industries. The AID funds include a private sec-

tor portion of \$2 million in local currency, which has been placed in a special account of the Development Bank of Mauritius for its small-scale entrepreneur loan program. In addition, \$1 million is being spent to build an additional 80,000 square feet of industrial space for expanding export industries.

• **Peru:** AID provided grants of \$46,000 to the Fund for Multinational Management Education for U.S. marketing assistance and \$25,000 to Peru's National Development Foundation to coordinate the export of fresh and frozen produce from Peru. The central feature of the project is the linkage of Peruvian production to stable, committed buyers in the United States and Europe. AID leveraged its grants into \$1.2 million of exports in the first two years of operations. Additional grants to the two partner organizations will lead to an estimated export value of more than \$4 million during 1986-87.



AID encourages the private sector to cultivate export opportunities that will expand the economies of developing countries.

# Management Development and Technology Transfer



**A**ID has long recognized the importance of building capacity in both the public and private sectors of developing countries. These programs emphasize education, very specific vocational and managerial training and the transfer of “soft” technology—management systems and production processes already in the public domain.

The Private Enterprise Initiative emphasizes that the most creative policies can be successful only if the LDC has the capacity to implement the programs. For a project to be successful, the technicians, managers and engineers responsible for its execution must have the skill to use their nation’s resources efficiently and effectively.

Following are examples of AID’s support for the improvement of managerial and technical skills:

• **International Executive Service Corps (IESC):** Extensive management assistance to the private sector in developing countries is provided by the International Executive Service Corps, funded by the Bureau for Private Enterprise. The corps is composed of retired U.S. business executives who

consult in some 30 countries, predominantly with private business. AID provides about 50% of the organization’s operating funds, with the remainder coming from U.S. corporate contributions and modest service fees.

In a 20-year period, IESC has been involved in over 9,000 projects with about 1,500 resulting in ventures with U.S. firms. The organization has 24 field offices, each headed by a country director—usually a retired U.S. businessman with overseas experience.

They arrange and negotiate contracts with clients, which include private enterprise, government, educational and health institutions.

The country director chairs an advisory council of public and private sector representatives from the host country that provides a local perspective of the country’s development needs.

Once the need has been identified, corps recruiters match the expertise needed with skills registered in the group’s data bank, which lists more than 8,000 volunteers. If an appropriate candidate cannot be matched with a need, the recruiters turn to their contacts in U.S. companies to “borrow” an executive to take on the assignment. This can be particularly helpful when the client needs help with the very latest technology.

Hundreds of U.S. businesses have provided volunteer executives. Since the beginning of the program, over 33 companies have provided 10 or more volunteers. Some 150 U.S. corporations act as sponsors of the corps. These companies are interested in introducing U.S. business management prac-

tices abroad and in creating good will. About 20% of the developing country enterprises assisted have established a business relationship with a U.S. firm.

Because of the linkage back to U.S. companies, AID gave a \$500,000 grant to the organization in 1985 to establish a Joint Venture Feasibility Fund with the purpose of supporting commercially viable joint ventures in the Caribbean Basin. The fund grants up to 50% of certain costs connected with feasibility studies, market research, technical assistance and necessary travel for project development. In the first five months, 133 project proposals were developed with funding approved for 54, for a total contribution of \$352,222. An equal sum was provided by the private sector. Over half of the projects involve light manufacturing while others are agribusiness-related. The overwhelming majority of projects are co-ventures in marketing or production contracting; the rest are investment-type joint ventures. The fund is predicated on the belief that

co-ventures provide rapid trade opportunities for Caribbean Basin firms and cost reduction or market expansion for U.S. companies. Its early success suggests that its premise is valid and its operations are cost-effective.

• **U.S.-Asian Center for Technology Exchange:** A three-year, \$1 million AID grant, awarded in 1984, provides the U.S.-Asian Center with the means to

introduce new technologies for improved productivity and business expansion between private firms in Thailand, Indonesia, Malaysia, Singapore, the Philippines and Brunei and firms in the United States. The center doubled its 1985 budget by direct contributions from U.S. companies and in-kind services of U.S. executives who participated in the center's in-country

**AID supports the improvement of managerial and technical skills by emphasizing education, vocational training and the transfer of appropriate technology.**



seminars and workshops. National Advisory Councils assist the center in identifying such program opportunities as technical missions in key business sectors. Over the life of the AID agreement, approximately 400 managers/technical personnel will be trained, 125 firms will participate in technical missions to the United States and 100 firms will receive technical advice. That education and training led to a \$3 million contract for the sale of banana flour from the Philippines to the United States and a \$5 million sale of produce to the U.S. Subic Naval Station in the Philippines. Also, the workshops and technical sessions often lead to qualitative improve-

ments, as was the case when 35 of 75 Filipino seminar participants made technical changes in food packaging in their businesses.

• **Technoserve:** Starting in mid-1985, AID, in cooperation with Technoserve, a private U.S. company, began providing technical and management assistance to small- and medium-size enterprises in Rwanda. So far, over 100 enterprises have been contacted with 20 companies requesting and nine signing agreements for short-term advisory services. Because accounting has been found to be one of the greatest needs facing smaller firms in Rwanda, Technoserve has initiated several training programs in accounting, including

one with the country's cooperative training center. In the area of policy dialogue, a study is being conducted of the government special guaranty fund that guarantees loans to small- and medium-size enterprises in the country. AID has committed \$4 million to a four-year program.

• **IMET:** To help meet the critical shortage of trained managers for small- and medium-size businesses in Thailand, AID's Bureau for Private Enterprise provided \$1.4 million in grant funds through fiscal year 1986 to establish the Institute for Management Education in Thailand Foundation (IMET). IMET, in turn, has raised over \$1 million in private contributions to support management training programs. IMET institutionalizes for the first time management training planning for Thailand's private sector. Since its founding in 1982, over 3,000 managers of small firms have attended IMET seminars. Village business leaders from 18 provinces attended one seminar on management. A 10-day course on marketing drew managers from 23 provinces. IMET demonstrates how creativity, mixed with technical assistance, seed money and a supportive host-country climate, can help head off potentially damaging problems like a shortage of managerial talent.

• **Indonesia:** The Indonesian Executive Development Fund is part of a two-year, \$2.5 million program sponsored by AID and the Indonesian Ministry of Finance to stimulate private sector development by improving the management of Indonesian firms. Begun in 1986, the program enables selected senior-level Indonesian executives to visit the United States for a formal management training course followed by an internship in their field of interest with a U.S. company. The training program affords the foreign executives an opportunity to study the American management approach. At the same time, it allows participating U.S. companies to become acquainted with possible business partners.

In Jakarta, the Indonesian Institute for Management Development recruits and screens participants for the program. In the United States, the Pragma Corporation, a Virginia-based consulting firm, identifies and arranges man-



Creating the right business climate for private enterprise in developing countries is perhaps the single most important undertaking of AID's private sector initiative.



**For a successful project, a nation's resources must be used efficiently and effectively.**

agement training programs and internships with U.S. corporations interested in hosting the Indonesian executives. Each internship is tailored to match the needs of the Indonesian executive and the U.S. firm. Internships have been arranged in life insurance, real estate, steel, computer sales and services and management consulting. Pragma plans to place up to 70 executives. The program is calculated to have a multiplier effect when the trained executives return to Indonesia and educate others in effective management.

• **Dominican Republic:** Strengthening business schools and business management training has been a significant element of the Private Enterprise Ini-

tiative. The U.S. National Association of Schools of Public Affairs and Administration, working under a cooperative agreement with AID, helped Dominicans identify business management education and training needs. The study also determined which of several possible Dominican institutions was best equipped to meet those needs. As a result, a new graduate business program was developed at the Catholic University, Madre y Maestra, a new business training facility was built on the Santo Domingo campus of the university, and the University of South Carolina College of Business was contracted to provide long-term technical assistance and support to the program. The new business education and train-

ing program is now completing its third year of operation and enjoys the strong support of the Dominican business and industrial community, which, together with key government leaders, provides an advisory council to the school.

• **Appropriate Technology International (ATI):** Under a \$15.5 million cooperative agreement, ATI has for the last three years successfully applied private business practices to the transfer and commercialization of technology in rural and semi-urban areas in developing countries. Its program is carried out through 37 field projects. ATI has broadened the range of financial and credit services available to small-scale enterprises and consumers; adapted venture capital mecha-



Profits depend on free market competition, not government favoritism.

nisms in the Asia region to disseminate science-based technologies in rural areas; provided technical assistance in business planning to private organizations that support indigenous small-scale enterprise development; and focused technology transfer on quality control systems to emphasize product standardization and thereby facilitate the competitive marketing of products. ATI concentrates on identifying and promoting productive technologies for micro- and small-scale entrepreneurs.

#### **PATH/Health Link**

AID looks for U.S.-based organizations that have the capability to work with the private sector on a commercial basis. PATH Health Link provides brokering, feasibility studies and financing services. It identifies U.S. products that could be marketed in developing countries. It works with the U.S. company to find a local private partner in an LDC, assists in obtaining needed regulatory approval, assesses the market and determines if the prod-

uct could be manufactured locally. In fiscal year 1984, the Bureau for Private Enterprise awarded PATH a grant of \$1.46 million and a loan guaranty credit line of \$2.5 million to promote health services for the poor in Thailand and Indonesia through the private sector. In Thailand, a private organization agreed to distribute 1.4 million doses of rabies vaccine valued at \$10 million. A \$2.3 million guaranteed loan is in negotiation with another company for the manufacture of inexpensive eyeglasses. A \$150,000

loan financed the purchase of X-ray equipment. In Indonesia, a \$120,000 loan was made for the manufacture of inexpensive eyeglasses. Another private entity agreed to distribute hepatitis B vaccine with a wholesale value of \$5 million. PATH has completed 15 technical plans for distribution of hypodermic syringes, hepatitis B vaccine, larvicides for malaria control and anhydrous glucose in Thailand and Indonesia and a plan for soy-based weaning foods in Indonesia. PATH estimates it will have processed \$2.2 million in loans, with \$1.1 million in guarantees, by the end of 1987. This project illustrates the substantial role for the private sector in meeting health needs in the Third World.

### **Cooperative Development Organizations**

Locally-organized cooperatives are widespread in the developing world, with more than 365 million people

belonging to cooperatives involving agriculture, crafts, consumer services, credit and savings, electrification, fishing and housing. AID has been a long-time supporter of such groups, providing more than \$85 million in direct grants for cooperative development activities between 1963 and 1980. Although cooperatives do not always operate strictly for profit, agricultural, credit and housing cooperatives introduce competition into otherwise monopolistic or oligopolistic markets. As a study prepared for AID pointed out, credit unions provide alternatives to moneylenders, informal savings societies and local banks. Agricultural cooperatives provide competition to established supply and marketing companies. As the report noted:

**"When local competition is increased by the availability of a cooperative, the benefits to individual members are generally seen in the form of lower costs, a higher return, a higher quality**

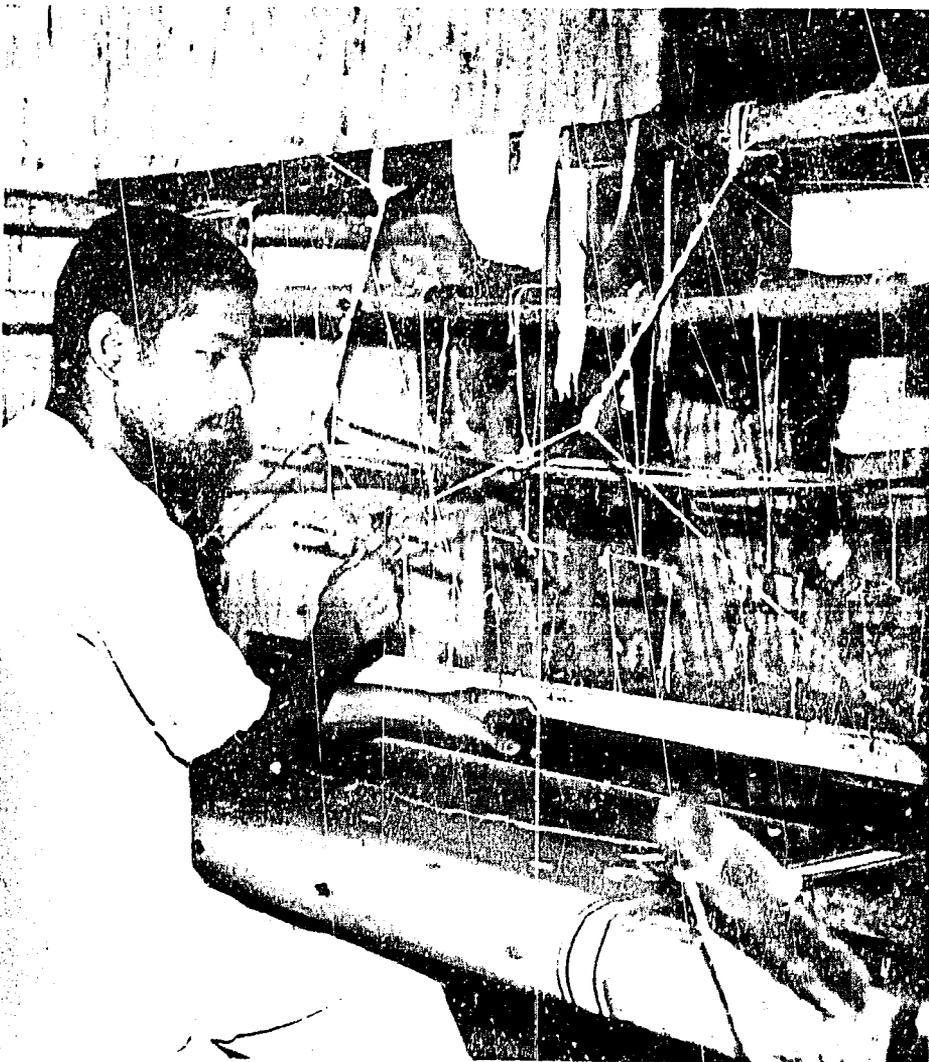
**of goods and services and availability of goods and services previously unavailable."**

In agricultural cooperative development, most U.S. support has been implemented by Agricultural Cooperative Development International (ACDI) and the National Cooperative Business Association (NCBA). For example, ACDI has been active in Uganda since 1982, providing technical assistance and training to rehabilitate the cooperative movement, drastically debilitated during Idi Amin's regime. Many cooperative leaders feel their groups can and should help determine the policies of their governments, by: (1) representing member interests in negotiating quotas, price levels and other economic issues with their central government; (2) pressuring governments to change policies that affect the economic and financial well-being of the cooperatives and their members; (3) supporting policies and actions that lead to an open economy that permits cooperatives to act as independent, private businesses; and (4) opposing restrictive price controls.

On balance, cooperative development organizations are having a significant impact on the expanding role of private enterprise in the global economy.

### **Africa Project Development Facility**

The Africa Project Development Facility is a \$14 million, four-year project that will provide advisory services to emerging small- and medium-scale private African entrepreneurs. The facility is part of AID's continuing efforts to promote private enterprise throughout Africa. Specialists in Abidjan and Nairobi will identify viable West and East African business ventures with a value of \$500,000 to \$5 million and assist with financing. Personnel will work with AID and other development institutions to identify potential sources of U.S. technical and financial assistance. Small- and medium-size businesses that otherwise would never get off the ground will thus be able to start or expand activities. As a result, new jobs and affordable products are created by these enterprises.



# How the Initiative Is Organized



## Bureau for Private Enterprise

**W**ith an annual budget of \$40 million, the Bureau for Private Enterprise (PRE) has served since 1981 as the Agency's experimental laboratory to generate LDC economic development and growth through the private sector. The bureau has developed innovative projects that produce real benefits and serve as models for application by AID field missions.

The Private Enterprise Bureau's purpose is to help AID find the most effective, efficient means of stimulating market-based economic growth. Consistently, the countries which achieve sustained rates of growth over long periods are those

which base their economies on the market system. The market system is effective in bringing about long-term economic growth because its driving force is the energy, innovation and enterprise of the individuals who choose to participate in it. For American foreign assistance to help people lift themselves out of poverty, then, the most effective use of available resources is in expanding the opportunities for individuals to exercise their own enterprise.

For example, the Bureau for Pri-

ate Enterprise introduced new private sector lending institutions into the AID portfolio, thereby enhancing the Agency's institution-building capabilities. Other approaches include arrangements with private commercial banks, leasing companies and other organizations that operate on free market principles.

These lending institutions are being used to reach small- and medium-size, mainly rural private enterprises, a dynamic force for development. The impact of these enterprises on job and

income generation can be enormous in local economies. PRE, for example, has supported projects of the Kenya Commercial Bank and the Siam Commercial Bank in Thailand, which are generating hundreds of new jobs and increased income in rural areas in those countries. By doing this, AID has backed an entrepreneurial, labor-intensive and competitive segment of the private sector of the Third World.

The Bureau's Private Enterprise Development Support Project (PEDS) assists missions in developing effective strategies for private enterprise development, with emphasis on policy reform within LDC governments. PEDS strengthens the Bureau's capacity to provide mechanisms for integrating the private sector into the programs of overseas missions, and to respond to requests for assistance in developing innovative programs and projects. To date, PEDS has funded 36 subprojects in activities such as policy reform, investment law, technology transfer, and free zone development.

The Bureau's financial markets project assists overseas missions in their efforts to help LDC's build needed



Through AID's introduction of new private sector lending institutions, innovative projects that produce real benefits have been developed.

capital market structures. This effort is timely in view of the need in the developing world to turn to capital market development for growth as an alternative to foreign borrowing. To date, technical assistance under the contract has been or is being provided in 25 countries, with 16 others having expressed interest.

Since December 1984, the bureau has sponsored a new training course for AID officers without business back-

grounds who have private sector responsibilities. The course shows how business skills can be applied to development situations and deals with broad policy questions. PRE seeks to create a "critical mass" of professionals who share a common understanding of the intent of the Private Enterprise Initiative and who are committed to implementing its philosophy in their daily efforts.

The International Service Corps

is funded by the Bureau for Private Enterprise.

#### **Center for Privatization**

As part of its commitment to privatization, AID's Bureau for Private Enterprise supports the Center for Privatization, which helps developing countries and their private sectors plan and implement divestiture of government-owned enterprises. The center is made



**A focus on small-scale business and reliance on market-oriented credit policies result in efficient and self-sustaining economic growth and job creation.**



up of six U.S. organizations, including a major certified public accounting firm and an investment bank. For privatization to succeed, according to the center, the following elements must be present: (1) a firm commitment must be made by the host government; (2) enterprises should be reasonably valued, allowing the new investor to make a profit after the purchase; (3) privatization should "spread the wealth;" and (4) creative thinking must be employed to convince opponents of the benefits of privatization. Genuine privatization entails risk of financial loss for the new investor or owner. Profits depend on free market competition, not government favoritism. The return on investment will equal the risks and the alternative uses of the capital involved in the divestiture. As the center points out, privatization is an important alternative for LDCs where state-owned enterprises have contributed to heavy government indebtedness and poor economic performance. The elimination of such losses can free funds for other priorities.

### **Private Sector Revolving Fund**

The Private Sector Revolving Fund, authorized by Congress in 1983, enables the Bureau for Private Enterprise to invest directly in the private

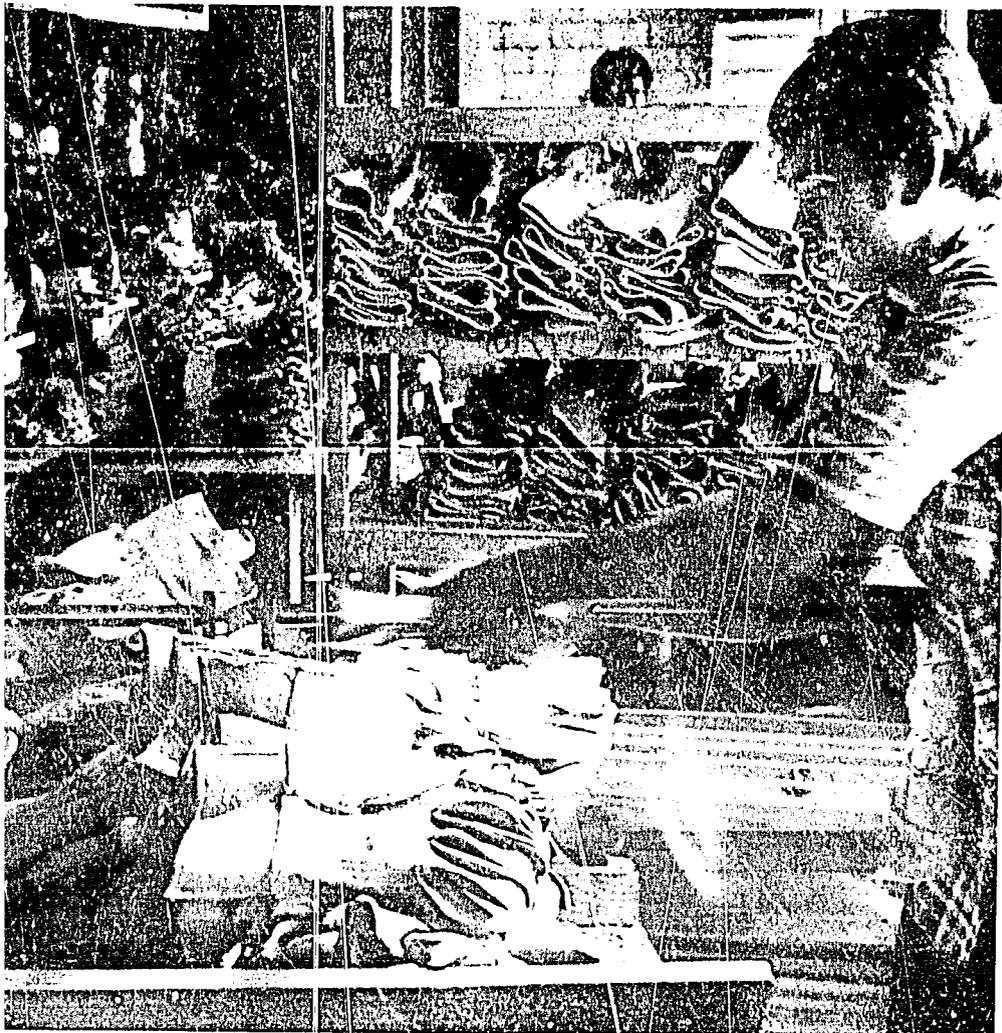
sector in developing countries to foster economic growth and development. The revolving fund is a key program of AID. It demonstrates the capacity of the private sector to address a most basic human need—job creation and income generation—through market-driven, unsubsidized investments. It serves as a catalyst within AID for private sector development and identifies initiatives that can be adopted by AID missions worldwide. It assists the development of the local private sector as a key participant in the economic growth of developing countries. It supports AID's macroeconomic, private sector and free market policy initiatives by specifically promoting investments in the private sector. The revolving fund experience has demonstrated that investments that are market-oriented can fuel business and economic development. This results in the creation of jobs, the generation of foreign exchange and the transfer of technology.

The revolving fund is an investment pool initially funded by Congress. From this pool, 24 loans totaling \$47.3 million have been made worldwide. Revolving fund loans are made at interest rates reflecting the cost of funds to the U.S. government and market rates in the developing countries. A major focus of revolving fund lending is developing indigenous financial markets

and credit for the small- and medium-scale business sector, typically in rural areas. By investing in this sector, AID focuses its resources on that part of the economy that produces the most jobs at the lowest cost. This focus on small-scale business and reliance on market-oriented credit policies results in efficient and self-sustaining economic growth and job creation.

The revolving fund serves as a research and development laboratory for AID and provides models for private sector investment activities that can be replicated by AID missions. It has created a portfolio of diverse investments that demonstrate a broad range of financial instruments, market-oriented terms and conditions, and joint financing arrangements that can be used to achieve AID's developmental objectives. Examples of revolving fund projects follow:

- **Thai Danu:** AID's \$2.34 million loan to Thai Danu Bank Ltd., a private intermediate financial institution,



will expand the bank's operations into rural areas and help stimulate growth of small-scale enterprises in Thailand's rural agro-industrial sector. The AID loan provides a partial guaranty of \$4.7 million of local currency lending by Thai Danu to the target group—businesses with less than \$250,000 in net fixed assets. Subloans will be limited to \$130,000 per borrower. A \$50,000 AID grant will help the bank train its rural branch personnel.

• **Serum Institute of India:** Under a loan to an indigenous pharmaceutical company in India the borrower will develop, produce and market vaccines that prevent diseases prevalent in children.

New investment ideas currently being developed include venture capital, secured financing, employee share ownership and mobilization of indigenous institutional investor resources such as insurance companies and offshore corporations with local currency resources.

In addition, the emphasis on the indigenous private sector creates opportunities for U.S. businesses. Revolving fund projects use U.S. technology, banking and other services.

#### **Office of Housing and Urban Programs**

The Office of Housing and Urban Programs (PRE/H) administers AID's Housing Guaranty (HG) Program, the Agency's principal mechanism for providing housing assistance in developing countries. U.S. private commercial lenders extend loans for HG projects, which are guaranteed by AID and the host government. Over \$2 billion has been authorized by Congress to support AID's work in the shelter sector of developing countries. Additionally, PRE/H has played a key role in establishing private savings and loan systems in most Latin American and Caribbean countries. Similar efforts are under way in Africa.

In most instances, HG projects are designed to encourage the private sec-

tor to build low-cost shelter by eliminating bureaucratic or financial disincentives. In some cases, HG funds are disbursed directly to private institutions or passed through public agencies. HG funds have been an important catalyst to private housing initiatives. Private construction and building materials industries have benefited from HG projects through expanded markets and increased employment.

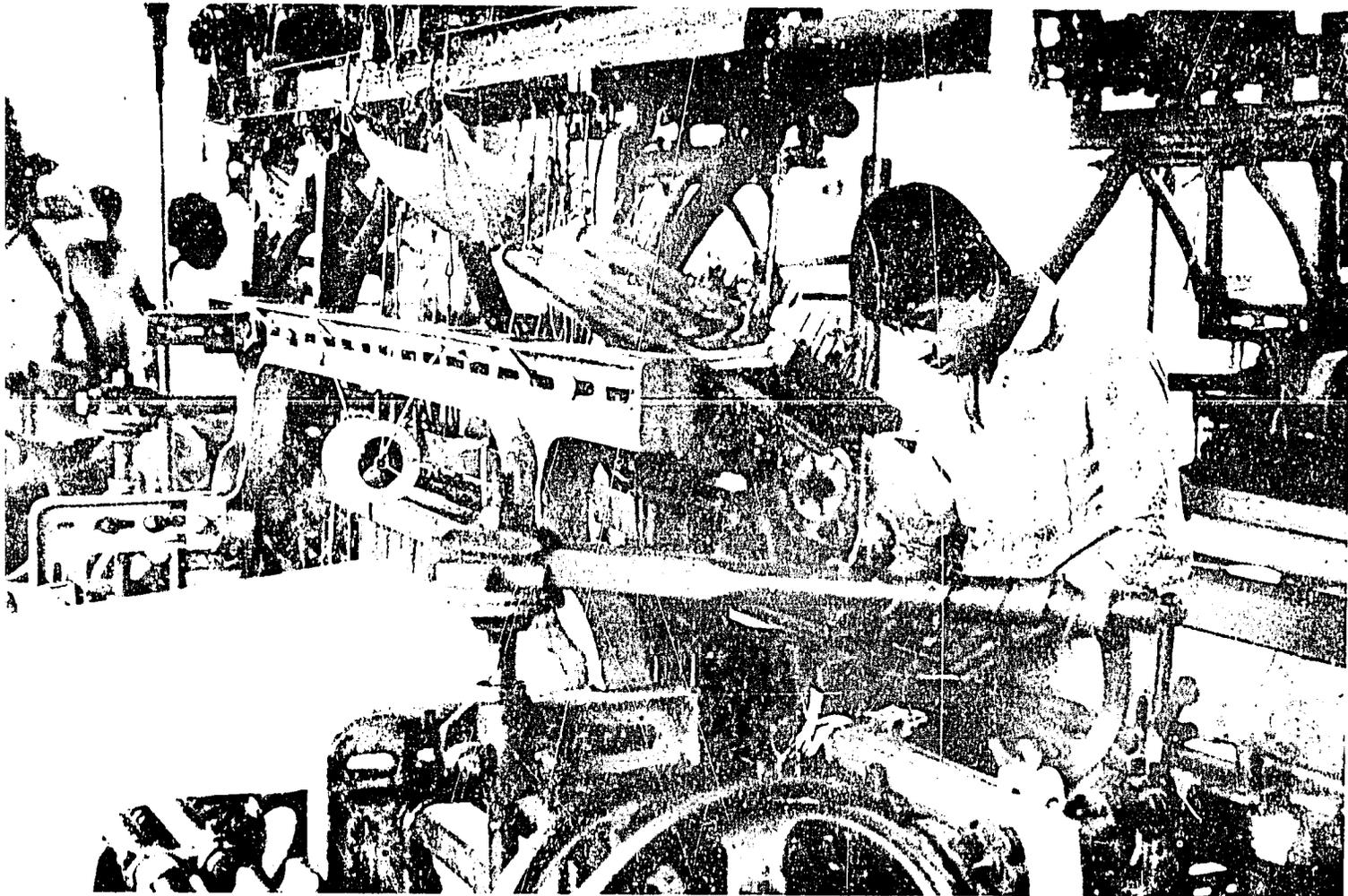
In providing shelter, the HG Program creates an increased role for land developers, credit institutions, cooperatives and other self-help institutions oriented to the homeowner. Such groups play key roles in providing home improvement credit, low-income shelter financing, construction and materials supply and marketing. In the field of urban development, the office encourages increased private sector roles in the operation and maintenance of water supply and wastewater systems; local development planning; improvement to capital markets through the development of private savings and loan systems, savings mobilization and establishment of secondary mortgage markets; and job creation.

Overall, the HG Program strives to promote private sector participation by helping governments withdraw from direct roles in housing production and finance. Long-term loans from the U.S. private sector have helped develop long-term mortgage lending in many countries. The resulting decline in housing subsidies has helped make the low-income housing market more attractive to private developers and financial organizers.

#### **Office of the Private Sector Coordinator**

The newly created Office of the Private Sector Coordinator is responsible for augmenting Agency efforts to promote greater U.S. business and investment activity in developing countries by applying AID's diverse resources.

As the Agency's direct link to the U.S. business and investment communities, the Office of the Private Sector Coordinator advises entrepreneurs and potential investors on structuring joint venture and direct investment projects. In providing such assistance, the of-



The Private Enterprise Initiative emphasizes that creative policies can be successful if the developing country has the capacity to implement the programs.

lice serves as a clearinghouse of information on the various forms of financing available through commercial banks or public multilateral lenders. The innovative private sector coordination staff provides quick access to a wealth of information available on investment opportunities in the developing world.

### **Private Enterprise and the Regional Bureaus**

AID's goal is to help each mission tailor its private sector development initiatives to local needs and conditions and to strengthen policy dialogue with host governments by using expert analysis drawn from the U.S. business and financial community. Distinct private enterprise initiatives are a significant part of new project activity, particularly in the regional bureaus, and in the Bureau for Science and Technol-

ogy. Within each regional bureau a private sector development office coordinates these activities with those of the missions.

### **AID and Its Programs**

AID is responsible for the major U.S. foreign economic aid programs, generally known as development assistance, which help poorer countries raise their standard of living and share in economic progress. AID also administers the Economic Support Fund (ESF), which provides grants and loans to countries of special interest to the United States.

Development assistance (DA) takes the form of capital transfers, technical assistance, food and other commodity shipments and special budgetary aid. DA funds represent about one-third of the fiscal year 1987 AID budget and lend themselves more directly to

the Private Enterprise Initiative than does the Economic Support Fund. DA activities are predominantly bilateral or regional in scope and support specific areas of assistance.

DA functional account subdivisions include: (1) Agriculture, Rural Development and Nutrition; (2) Population Planning; (3) Health; (4) Education and Human Resources Development; and (5) Private Sector, Energy and Private Voluntary Organizations.

In contrast, ESF is administered in cooperation with and under the policy direction of the secretary of state. The fund promotes both short- and long-term economic and political stability and represents about two-thirds of the fiscal year 1987 AID budget. ESF-financed activities include: (1) direct balance-of-payments support; (2) economic and financial policy reform; (3) capital projects; and (4) commodity import programs.

# Future of the Private Enterprise Initiative

In its 1985 World Development Report, the World Bank emphasized that "many developing countries have already made policy reforms that . . . give more scope for private sector activities." The bank declared that to develop their full potential, LDCs need policies "that promote trade, plus a stable economic and political environment that does not discriminate against foreign investment."

The International Monetary Fund, in its 1986 "World Economic Outlook," projected faster growth for most countries in part because of a greater convergence of economic policies. This convergence reflects the recognition by most governments that private enterprise and a market economy are the

primary means of promoting faster, sustained economic growth.

However, because statist approaches to development have been entrenched in many countries for decades, it is unrealistic to expect a reversal of policies in a short period of time. Nevertheless, the Reagan administration is convinced that the present global swing to private enterprise will continue and accelerate in the foreseeable future.

AID, through its Private Enterprise Initiative, intends to play a major role in this international economic trend.

How the Agency will meet this challenge was explained in its 1985 policy paper on private enterprise development.

The overriding goal of the initiative is to promote the establishment of a general climate conducive to LDC private sector development. This involves much more than financing individual business entities. Rather, the Agency seeks to establish viable competitive markets and expand private enterprise in LDCs, leaving most decisions to the local entrepreneurs, who are best qual-



ified to make them.

AID seeks to build up the indigenous private sector and reduce reliance on parastatals. To promote this objective, the Agency requires 40 country missions to conduct an average of two privatization programs annually, starting in 1987.

The Agency's promotion of the private sector should not be confused



**The Office of the Private Sector Coordinator advises entrepreneurs and potential investors in structuring joint ventures or direct investments.**

with monopoly enterprise, oligarchy or "crony capitalism," which have little to do with the free market. AID's campaign to encourage competition and entrepreneurial activity challenges non-competitive "capitalist" as well as statist economies.

There are no restrictions on the types of assistance that the Agency uses in promoting the Private Enterprise Initiative, ESF, development assistance and P.L. 480 loans or grants are all appropriate ways to support private enterprise development. AID also intends to expand its contacts with the U.S. business community and the private sector overseas. AID already has funded programs that link private voluntary organizations with multi-

national corporations in economic development activities. It is expanding the relationship between the Agency and U.S. business in manufacturing and agribusiness as well as such functional areas as productivity improvement, product design, cost accounting and marketing.

Internal training and education of AID staff, in Washington, D.C., and the missions, are key goals of the Private Enterprise Initiative. While AID can and does contract extensively with the private sector, there is no substitute for the full commitment of its professional career staff to the furtherance of economic development through private business. There already is a sizeable cadre of AID personnel who

understand well the intrinsic value of the private sector and how to collaborate with it; their number will be increased through seminars and other training aids.

A better use of development assistance funds will be fostered as the initiative matures. Targeted areas include better coordination with the U.S. directors of multilateral development banks; more coordination of funds and programs with other donor countries whose development goals coincide with those of AID; and a closer partnership arrangement with U.S. corporations in order to assess business opportunities, capabilities and needs in key overseas markets.

A number of lessons have been

learned in the first five years of the Private Enterprise Initiative:

- It is vital for AID to be realistic about the open suspicion and frequent hostility of LDC governments toward their own private businessmen. Throughout the Third World, governments often see private businesses as both economic and political competitors. AID must develop close working relationships with the public and private sectors to bring about sound, long-term economic reforms.

- AID should focus more of its assistance in areas where it has the greatest expertise and the largest resources, e.g., P.L. 480, Commodity Import Programs (CIPs) and Economic Support Funds (ESF). As this report shows, the Agency is becoming more innovative in using traditional funding sources to further private enterprise, but it has just begun to explore the possibilities.

- AID must make a long-term commitment to the Private Enterprise Initiative and be prepared to make mistakes and accept failures. In the United States, four out of five new businesses fail in the first three years. An equally high percentage of the LDC businesses that AID assists will probably fail as well. But the Agency must not falter in the face of such statistics. The notable success of Thailand's seed industry, which came after five years, proves that the long view is absolutely critical to the success of the initiative.

The Foreign Assistance Act of 1961 states that one of the four principal goals of U.S. foreign economic assistance is "the alleviation of the worst physical manifestations of poverty among the world's poor majority." The act further declares that the principal purpose of U.S. assistance is to help the people of developing countries "participate in a process of equitable growth" and to influence the decisions that shape their lives.

The Private Enterprise Initiative is a means to the end of alleviating poverty, producing equitable growth and giving people the power to make their own economic choices. It is based on the conviction that: (1) a private enterprise economy is the most efficient means of achieving broad-based economic development; (2) private enter-

prises, by responding to the opportunities of a free market, produce jobs, managerial skills and economic growth; and (3) private entrepreneurs increase the wealth of a society and improve the quality of life.

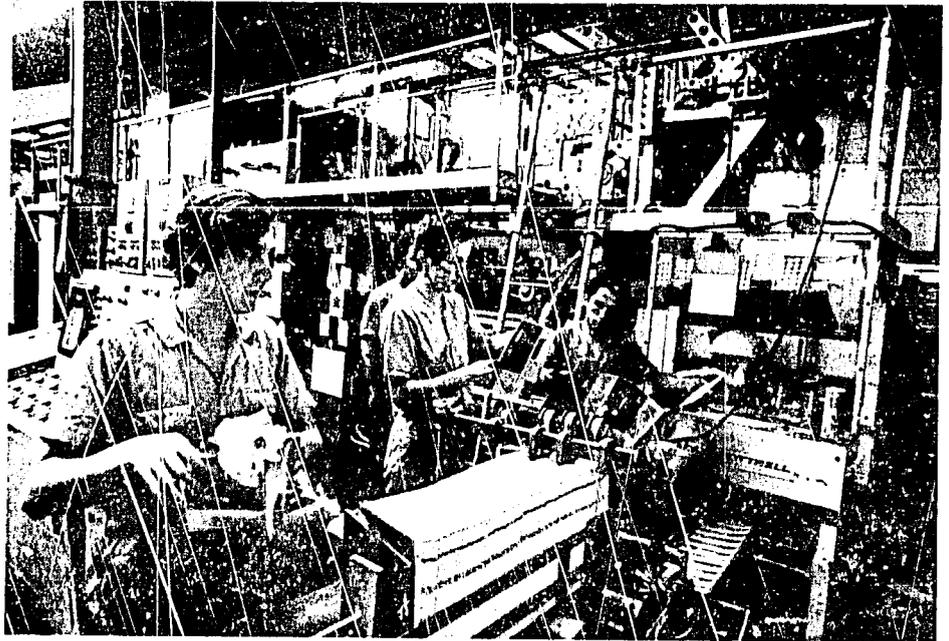
At its core, the Private Enterprise Initiative seeks to create a world in which individuals have the freedom of economic choice—freedom to own

the means of production, freedom to compete in the marketplace, freedom to take economic risks for profit or loss and freedom to receive and retain the rewards of their economic decisions.

In such a world, the basic needs of all peoples will be met, and they will lead lives with decency, dignity and hope.



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“Private enterprise development” generally refers to those activities that encourage and facilitate the development of and equal access to free markets. “Private enterprise development” may also refer to a redefinition of public and private spheres of economic activity. Historically, growth of a productive private sector has usually occurred in the presence of an amenable policy environment as well as relatively free markets. In recent decades, developing countries that permitted some degree of market freedom for public and private enterprises benefited from faster economic growth than others. Hence, AID papers concerning private enterprise often address the effects of public policies on economic growth in LDCs.

AID has published two private enterprise development policy papers, in 1982 (1) and in 1985 (3), based on the economics of free markets.

A brief and lucid characterization of a free market economy and its requirements is given in a paper commissioned by the Office of Policy Development and Program Review from Alvin Rabushka of the Hoover Institute (4). Also, the “Program of Basic Concepts,” published as a Program Evaluation Discussion Paper in 1982, is the only AID paper to examine the scholarly literature available on the effects of

government interventions on market forces in developing economies (5) and includes a broad look at traditional AID concepts such as management training and technology transfer as they relate to private enterprise development.

Probably the most thorough, explicit and organized account of AID’s past institutional experience with programs directed specifically at private enterprises, rather than their policy environment, is Deborah Orsini’s report for the President’s Task Force on International Private Enterprise (6). For the Agency’s statutory authorities relevant to private enterprise development and U.S. private sector investment, a memorandum prepared for the General Counsel’s Office in 1982 is helpful (7).

AID’s Bureau for Program and Policy Coordination (PPC) prepared a series of case studies that focused on the results of market-oriented policies in a sample of AID-assisted countries. A 1981 discussion paper examined the effects of market liberalization in Sri Lanka, Egypt and Sudan (8). Case studies of Malawi and Cameroon showed the effectiveness of market-oriented management of public enterprises (9) and the advantages of a deliberate and pragmatic approach (“tortoise walk”) to market-oriented economic development (10). The successes in these two countries and Thailand were compared in an “interpretive essay” also published as a discussion paper, which, though impressionistic in approach, nevertheless

cites many brief case histories of individual firms (11).

Two other case studies focused on the public policies that restrict economic growth and, with it, private enterprise growth: the negative effects of import substitution policies in Costa Rica (12) and of price policies politically determined in African marketing boards (13). A detailed comparative analysis of the effects these and other policies had on the private sector in the six sample countries is given in a 1983 discussion paper, from a perspective that emphasizes appropriate government roles in private enterprise development (14). A different analysis of these case studies, which integrates free market economic concepts and broadly illuminates the “symbiotic” relationship between public policy and the private sector, is an unpublished paper by David Steinberg for PPC (15).

Another group of case studies published in PPC’s Evaluation Special Studies series examined the impact of certain long-term AID projects on private enterprise growth. A study of the Thai seed industry found a remarkably successful coordination between public and private sector spheres of activity (16). Another traced painstaking efforts to promote small enterprise manufacture and sales of IRRI-developed farm machinery in Indonesia (17). A third, analyzing the impacts of Dominican Republic credit institutions, demonstrates the success of linking training for both lenders and borrowers to credit delivery (18).

Finally, one recent Program Evaluation Report takes into account all of these considerations (free market economics, government policies and AID experience) and suggests appropriate AID interventions based on them. This paper, prepared by Robert Nathan Associates, also describes in detail the dynamics of private enterprise behavior (19).

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