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REVIEW OF ACTIVITIES DESIGNED TO ENCOURAGE INTERNATIONAL TRADE AND DIRECT FOREIGN INVESTMENT IN ANE CLIENT COUNTRIES

by

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SCOPE AND OBJECTIVE

This review examines AID/W and ANE Mission Trade and Investment (T &I) strategies and activities in the context of U. S. Government policies, activities of other AID Bureaus and special T & I related programs of other U. S. Government (USTR, OPIC, EXIM, COMMERCE, TDP) and non-government (U.S. Chamber of Commerce, IESC, VITA) organizations.

T & I is defined herein as "an LDC's imports from the U.S., its exports to the U.S. and other markets, and direct foreign private investment in the LDC". The review is intended to offer guidance to ANE management and Missions in designing and implementing activities to overcome obstacles which inhibit the flow of private investment resources to AID client Less Developed Countries (LDCs), and the employment of international trade as a means of stimulating economic growth.

SUMMARY, CONCLUSIONS AND IDENTIFICATION OF WORKABLE INTERVENTIONS

ANE MISSION STRATEGIES FOR T&I

The activities contained in the ANE Mission portfolios directed at T&I objectives are, by and large, consistant with AID policies. The overall strategies pursued by these Missions seem to be sound. There are few surprises to be found among the diagnostic list of problems, obstacles and constraints existing in client LDCs to the utilization of T&I for development. The same obstacles and impediments to T&I have plagued most of these LDCs since they achieved political independence. These obstacles have not changed significantly during the past thirty years in most of AID'S current list of client countries.

The AID professional staff has responded to the Administration's guidelines and has selected interventions for inclusion in the programs that address those obstacles that can reasonably be attacked, given the local setting, the resources available, the competing claims on the Mission's resources and the willingness of the respective host government to devote resources out of its annual country aid level for this politically sensitive policy area.

Are there errors of omission in the Mission programs? Should the Missions have made T&I a more significant focus of their program at an earlier point in time? Quite possibly. Clearly the LAC Bureau is further along. This review did not allow for an in-depth evaluation of the strategy for each Mission program. Yet one senses that the degree to which a Mission will focus its resources on T&I is largely dependent on the attitudes of the respective

Mission's senior staff, and the developmental priorities they accord to T&I. This is confirmed by a careful reading of Mission responses to the ANE Bureau's request for information on T&I activities in connection with this study. (i.e., compare BANGKOK 42853 with COLOMBO 6363 and CAIRO 22619.)

It would be worth some effort by ANE management to review each Mission strategy from that standpoint. In terms of priority groupings among ANE clients, (from the perspective of T & I relevance to AID goals and objectives) we recommend early attention be given to Egypt, Jordan, Thailand, Indonesia, Sri Lanka and Philippines.

USAID ACTIVITIES IN PURSUIT OF MISSION STRATEGIES

The less than hoped for results from these activities is indicative of the difficulties of designing and implementing cost- effective interventions. The problem for the Missions seems to be one of pursuing effective tactics to accomplish their strategy. Many of the activities funded by the Missions have not achieved their anticipated impact.

One explanation, as USAID Egypt observed, is that T&I projects are labor intensive efforts. To do it right requires considerable attention of Mission management, and the structuring of a set of interventions that are mutually supportive so that the whole effort becomes greater than the sum of its parts.

AID'S COMPARATIVE ADVANTAGES IN PROMOTING LDC T&I

Based on the review of the eight categories of interventions as presented in Chapter V, we offer the following observations, which may have relevance to future activity design.

Information and Networking

ANE Missions have had poor experience so far with projects directed at these obstacles. Nevertheless, we believe interventions can be made to work if:

- the entity in the LDC is rooted in the private sector;
- operating funds are assured initially until user charges can be increased to make the service self sustaining;

- the entity is linked to a low cost network in the U.S. that promises continuity of operations and enjoys good access to U.S. industry;

- the operation focusses on targeted investments, searching for partners for specific projects among mid-sized U.S. firms.

The Investment and Technology Access Center (ITAC) design study (June 30, 1986), may offer an attractive, low-cost option to meet a portion of these requirements.

Investor contact meetings and trade missions have not yielded satisfactory returns. These efforts are highly labor intensive because they require extensive preparation on both sides. The selection process is also difficult. And yet, one is drawn to the conclusion that a large portion of the blame for failure lies with the inadequacies of implementation. If a Mission chooses to pursue such activities, it should assure itself that implementing agents are adequate to the task.

Institutional Development

A wide range of institutions receive support under the Mission activities described here. Some of these are educational institutions to provide training in business management. Others are research organizations to delve into policy issues and add to the information available for a policy dialogue. Still other institutions, such as stock exchanges, perform service functions to allow for smooth market operation.

But the institutions that serve a critical function for T&I are those that have a promotional responsibility. These are the institutions that have been the most difficult to bring to a satisfactory performance level. AID and its predecessor agencies have made valiant efforts at building new institutions in LDCs, often in the quasi-public sector, dating back to the establishment of the Asian Productivity Organization in the mid 1950's.

Support for existing private sector organizations and business associations, and efforts to link such organizations to existing active networks in the U.S. seems to be a more productive approach with potential for a better success rate. Successful investment promotion organizations need to be aggressive/active while most quasi-governmental organizations seem to become reactive /passive after the initial flurry of activity following their creation.

Moreover, support for local business organizations strengthens the local business community's ability to lobby with their government for policy reform measures. It is far more palatable for governments to accept recommendations for policy change from their own citizenry than from foreign agents.

In a number of LDCs, however, quasi-government promotion organizations are a "second best" solution because nothing else is available. The considerable investment made by AID in establishing these organizations gives AID a stake in assuring that the organizations perform. Contracting with major consulting firms or one of the "big eight" accounting firms to provide access to U.S. industry has not yielded success. It may be more effective to link these LDC institutions with existing U.S. networks (such as VITA or IESC) , that have a vitality of their own and an interest in continuity of effort, on a partnership basis, rather than allow control of the promotion effort (and its funding) to reside with the local institutions as buttressed by a short term U.S. contractor. If the local organization does not perform, the U.S. partner will find an alternative.

Mobilizing Financial Resources

ANE projects dealing with support for targeted credit facilities are among the more successful interventions. Credit acts as a magnet for entrepreneurs and, when linked with improved business services and information networks, can direct the energies of the private sector into T&I related areas.

With the advent of section 108 in the PL 480 legislation it is feasible to reactivate the Cooley loan program, now managed by OPIC. The Cooley Loan program, whereby excess local currencies owned by the U.S. government are used to make loans to U.S. firms who invest in the LDCs was very sucessful during the 1960's to stimulate U.S. investment in LDCs.

Legislative authority exists whereby these local currencies can now be generated from PL 480 sales. It is a powerful tool to attract U.S. firms to invest in the ANE client countries. Action in Washington is required to determine which ANE Missions can generate these local currency resources to fund Cooley loan programs.

Facilitating Intermediaries

Experience with MTAP and the LAC Joint Venture Fund suggests that this approach (partial funding of travel costs and preliminary search efforts for intermediaries and principals), holds promise for stimulating international joint ventures. ANE Missions that have received proposals from IESC to perform this function may wish to undertake a pilot project to test this approach.

Training

Training, on a targeted, selective basis, can be used effectively as a part of a T&I intervention. In certain circumstances (Burma) it is the only access point for the Mission.

Balance of Payments Support/Trade Financing

U.S. funding under a CIP does not bear the equivalent value to a private sector LDC importer, dollar for dollar, compared with free exchange. Unless arrangements are made with the foreign exchange allocating authority to restrict exchange availabilities in competition with CIP financing, AID funds will not be drawn down.

In an effort to make CIP financing more attractive, Missions have added "financing packages" to link credit facilities with the foreign exchange draw down.

It is not a happy thought that U.S. dollars are viewed in LDCs as a discount currency. If the CIP cannot be freed of the restrictions that reduce its value, other means should be found to transfer these resources to the client LDC, as is being done by the LAC Bureau. CIPs, as presently constructed, are not an effective intervention to promote private sector trade with the U.S.

Use of the CIP for "mixed credits" has some serious drawbacks if it comes out of a previously committed aid level. Perhaps AID can devise a mechanism whereby funds are set aside for this purpose (i.e. an agency account into which would flow all deobligations), to meet mixed credit needs. But a far more effective tool for instances in which OECD countries violate "The Arrangement" is use of the Ex-Im "war chest."

Privatization

The link of T&I to privatization occurs at two levels: a) foreign investors can be attracted to the business opportunities generated by the proposed divestiture, and b) U.S. firms can contribute to the assessment and valuation process to prepare the production unit for divestiture. ANE Missions have not undertaken interventions of any significant proportion on which to make an assessment of the possibilities offered. One would assume, however, in those client countries which have established institutions that can search for U.S. investors through existing linkages and networks, Missions could utilize these facilities for privatization programs.

Policy Dialogue and Donor Coordination

Since the policy framework in LDCs has been identified as a major obstacle to T&I, policy dialogue must be continued by ANE Missions at all levels. This demands that adequate Mission management time be devoted to it.

Support of local analytical work to assist LDC policy makers understand the options available to them, is an intervention that USAIDs can effectively implement. To the extent it is possible to strengthen local business associations and make them more effective advocates for policy reform, it eases the burden on the Mission to be out in front on these sensitive issues.

Donor coordination in the field seems to be effective. There is an opportunity in the offing for AID/W to support these efforts in Washington with the IBRD. The IBRD Board intends to take a more active role in examining, periodically, the policy environments and development programs for individual LDCs. These country reviews should provide AID/W with an opportunity to participate and coordinate its efforts with the IBRD. A more intensive involvement by AID in the workings of the NAC will be required to allow AID inputs to the U.S. board member of IBRD.

AID's coordination with the international financial institutions, such as the IBRD, can be leveraged to allow AID a significant input to a major MFI funded project because AID has access to grant funds. In most cases the MFI does not, while project implementation would be enhanced by a small amount of grant funding.

One ANE client country has established coordinating mechanisms in the U.S. for its T&I promotion efforts. The Indonesian Ambassador in Washington has set up trade and investment committees attended by representatives of the U.S. Chamber of Commerce, the Department of Commerce, representatives of the ANE Bureau and Washington representatives of contractors working on the USAID investment promotion project. ANE may wish to encourage other LDCs to follow suit.

Modification of AID Procedures in Programming T&I Activities

One has the sense, in reviewing Mission T&I activities, that AID procedures get in the way of effective project design and implementation. T&I activities require a sustained effort, and a great deal of flexibility because it is not possible to plan every detail of the activity to its conclusion. Often it is not feasible to gain host government approval for all aspects of the activity. And quick responses for new opportunities to intervene do not allow for AID project approval through the normal cycle.

Missions have attempted to adapt standard AID procedures to meet T&I needs with the result that they find themselves criticized for imprecise objectives, establishing "grab bag" or slush fund projects, and implementing "unfocussed" activities. We have seen evaluations that totally missed the point, and faulted Missions for pursuing what we think was the correct approach. We believe that procedure, in this case, tends to distort project content. While it is possible for AID procedures to be made to accomodate virtually anything the Agency sets its mind to do, these exceptions become burdensome, time consuming and discourage personnel from seeking to do things out of the ordinary.

The following departures from normal project approval and implementation procedures might offer Missions a better framework for T&I interventions:

- Funds might be set aside for T&I activities in the ANE Bureau and made available to Missions to draw on, outside of the country aid levels. The Missions should have ample flexibility to access these funds once they have developed a T&I strategy that ANE management finds acceptable.

- Contracting regulations should be relaxed to the maximum extent to avoid undue delays and rigidities in selecting an implementing agent for an activity. Personal services contracts should be used when Missions feel the need to maintain control over the implementing agent. This will also allow for recruitment of individuals from the private sector to assist Mission staff.

- o ANE should staff itself with project backstopping officers with capability to provide support to Mission T&I activities during the implementation phase. The time frame for responding to Mission requests should be severely reduced from the current norm and should be rigidly adhered to.

AID's COMPARATIVE ADVANTAGES IN PROMOTING U.S. T&I

U.S. exports to all 17 ANE countries represents less than five percent of total U.S. exports. Thus the potential for short term impact on the U.S. trade deficit is minimal. AID's primary responsibilities are with U.S. long term interests to these countries. Nevertheless, AID has unique capabilities and responsibilities, relative to other U.S. government agencies who are major actors in T&I, in the following areas:

1. Unlike other agencies, AID can fund activities that serve the client country's development interests while, at the same time, they contribute to U.S T&I objectives. Examples of such activities include:

a) training for LDC public sector and private sector persons that have responsibilities for design and/or administration of trade policies, import and export controls, patent registration, customs, etc.

b) short term consultants to the agencies involved in a) above.

c) commodities and equipment for project demonstration purposes that would generate follow-on purchases. This is particularly relevant when providing support to LDC private or public sector institutions that have a role in commercial T&I information flows or in facilitating linkages between LDC and U.S. firms. The U.S. as a source of supply should always be included in the data base.

d) mixed credits can be provided by AID in conjunction with Ex-Im Bank, but only if the AID funds to be used are additive to the announced country aid level. On the other hand, AID can assist Ex-Im Bank to make the case to Treasury to authorize use of the Ex-Im Bank's War Chest. The use of the War Chest would have the same effect as use of AID funds.

e) to the extent that Mission program structure allows, blocks of AID financing linked with Ex-Im Bank can be allocated for the host government's in-budget, in-plan infrastructure projects.

f) if ANE decides to make T&I a major focus of Mission programs, it might be useful to present a private sector workshop/training program (as suggested by USAID/Jakarta), to include presentations on OPIC, TDP, and Ex-Im Bank, so that USAID officers will better understand how these programs can work together.

2. In the interagency coordinating mechanisms such as the EPC and the NAC (see Chapter VII), AID, as the dominant agency in IDCA, should strongly represent the U.S. long term economic development objectives with respect to our relations with the LDCs. The U.S. has a multitude of interests vis-a-vis the LDCs and it is clear that some short term interests may conflict with equally valid and important longer term interests. AID and IDCA must assure that the longer term interests are adequately represented. This point was specifically made by representatives of Commerce Department and Ex-Im Bank with respect to AID's participation at the NAC. AID's most valuable contribution to U.S. export promotion is to facilitate economic growth in the LDCs so as to increase market demand for U.S. products.

3. AID representatives should avoid appearances to LDC counterparts that AID has responsibilities for advancing U.S. commercial interests. Policy dialogue is too important an instrument to debase its currency in that way. In all of my discussions with officials of Commerce, Treasury, OMB, USTR, OPIC and State on AID's role in supporting U.S. Government efforts to obtain agreements by LDCs to reduce trade barriers, not one professional thought it would be beneficial or effective for AID to take an active role. Trade negotiations are normally carried out by parties, each of which may offer the other a quid for a quo. AID is not in a position where it can usefully participate in such negotiations. There seemed to be general consensus that AID's time horizon is much longer and could contribute to U.S. T&I objectives by bringing about more rapid growth in LDC purchasing power for U.S. goods.

4. AID should avoid being drawn into ideological positions that will not bear fruit and will make its programs more difficult to manage. For example, consider the issue of intellectual property rights protection. This is an issue in Thailand's Science and Technology project. The Mission indicated that it intends to address this matter as an issue in its policy dialogue. Because of the magnitude of the project, and its focus on the development of an indigenous capacity to perform commercializable R&D, there is a suitable forum and intellectual basis for this intervention.

In fact, countries have not established enforceable protection of intellectual property until they have themselves developed such property and realize a need to protect it. The Thai S&T project, if successful in developing technology that will be purchased by the private producing sector, may contribute to the necessary conditions for establishing intellectual property rights. In past discussions with Thai officials, they were not at all bashful to tell me that, at this stage in their development, they are better off copying foreign technology.

5. We have received conflicting reports with regard to the prevalence of concessional trade financing offered by other OECD countries to AID client countries. Cables from the field routinely cite disparities between the terms of U.S. export financing and those provided by Canada, Japan, U.K., France, etc. Yet Ex-Im Bank officials claim "The Arrangement" is working quite well and that U.S. trade financing is competitive. It may be useful to investigate further to determine the accuracy of these field reports.

II - SOME HYPOTHESES FOR FURTHER EXPLORATION

It might be useful for ANE management and its Mission Directors to consider the following hypotheses and, perhaps test them in designing interventions to achieve T&I objectives.

A) The linkage of Trade with Foreign investment - Foreign investment by U.S. companies tends to follow satisfactory trading experiences by them. U.S. companies, particularly mid-sized companies, seem to want to learn about local operating conditions and business practices, and need a chance to identify suitable local partners, before exposing themselves to the risks of equity investment. Direct foreign investment promotion programs by LDCs that focus on quote equity deal making unquote in new sectors and/or for companies new on the local scene, tend to have disappointing results, although these efforts occasionally yield important successes.

B) The size of firms - Multinationals and Fortune 500 companies pursue sophisticated but rigid long range investment strategies which are difficult to modify. These large firms also pose difficulties in the deal-making process because they tend to overshadow the local partners (indeed sometimes the government itself). T and I promotion programs tend to be more effective in inducing serious interest from mid-sized companies, particularly those that have had some exposure to the local market.

C) Developmental vs. U.S. commercial interests - Policy dialogues on T and I are generally suspect by LDC officials for advancing U.S. commercial interests. Consequently such dialogues tend to have limited impact on the LDCs trade policy. Assistance projects which focus on technical and administrative improvements in the absence of policy changes have disappointing results. USAID efforts to raise the level of sophistication of the public debate on T and I policies, encourage local interest groups to argue for policy changes or provide data and analysis to policy makers to demonstrate the efficacy of policy change, may contribute to locally self-generated policy changes. These limitations argue for long and sustained efforts by senior mission personnel, and flexibility to respond quickly but thoughtfully to opportunities.

D) Rationale for USAID activities that encourage T and I - The developmental objectives of T and I activities are typically to foster market development, improve resource allocation, increase production and revenues, transfer technology etc. These tend to have long-term positive impact on U.S. trading interests in that they build local purchasing power for U.S. products, services technology and capital, assuming such U.S. products are competitive and the local market does not discriminate against the U.S. Business linkages between U.S. and local firms which lead to enhancement of the U.S. firms' competitiveness, meet the quote mutuality of benefit unquote criterion.

E) In light of the magnitude of the U.S. trade deficit, AID's T and I programs would appear to have no significant positive or negative impact on the overall U.S. trade problem in the short or medium term. Its major positive impact would be as described in (d) above. But the U.S. public perception of the program's negative impact on U.S. trade and employment tends to generate operational restrictions on AID that impedes the effective utilization of its resources. It is therefore essential that the implications of each USAID T and I activity on U.S. trade be understood and described.

F) Country Settings for T and I Activities - Conditions in different LDCs vary and T and I activities must be tailored to those conditions. Not all LDCs have conditions that would reward a particular T and I effort. Most USAIDs, recognizing the need for a long and sustained effort, have undertaken some T and I activities.

While conditions may not be ripe in a specific LDC for development and negotiation of a full scale T and I activity, it may still be in the U.S. interest to undertake a minimal effort to put a T and I focus into the USAID program.

G) AID standard project design formats seem too rigid and often are not best suited to the operation of proactive T and I activities. The long lead time required for AID project design and approval, and the uncertainties caused by often rapidly changing local conditions affecting T and I programs, tends to encourage quote grab bag unquote or comprehensive projects to provide for USAID flexibility. Such project design often sets targets that are vague and not realistic and makes it difficult to assess progress.

The AID project review and approval system is difficult to adapt to private sector projects which tend to require greater flexibility than physical construction or institutional development projects due to changing conditions during the life of the project and inability to anticipate the timing and form of such changes.

The time frame for completion of standard AID projects (3 to 5 years) is too short for T and I activities which require a sustained effort. These internal agency procedural requirements tend to discourage long term efforts in favor of short term quote quick fixes unquote that can yield visible results, even though these results may be more image than substance. On the other hand, there is some evidence that a long term approach can be linked to some quote fast track unquote activities designed to yield some quick and meaningful results.

Private sector projects are sometimes asked to serve many AID objectives (equity, micro enterprise impacts, environmental soundness). In some instances the project design becomes skewed as a result. It would be interesting to learn how a USAID would design a T and I project if it were free from the AID restrictions described above.

Some T and I activities deal with politically sensitive issues for the host government and therefore may be difficult to describe in public documents (i.e., strengthening intellectual property rights; contract enforceability in the judicial system, etc.). Vested interests within and outside of government may be hostile to reform of these policies. Timing and discretion are important to success. The AID project system and its approval process, which requires formal host government concurrence, may not lend themselves to this type of operation.

H) In discussing T and I activities with host governments, USAID leverage is limited because T and I activities often have low priority on the part of the host government when they are competitive with other public sector activities for funding out of the AID country aid level. If true, this would suggest the utility of reserving, on a regional basis, funds which could be tapped by missions for T and I activities but would be seen as additive to country aid levels by the host government.

I) Project Design - There may be some degree of conflict in the expenditure of public funds for activities designed to generate profit for firms or individuals based on the perception that market forces and competition for profits will lead to private funding of these activities if they are indeed worthwhile. This makes it difficult to design T and I activities, particularly those with a high degree of risk of failure.

J) There is often a lack of capability within the LDC private sector to take advantage of the full range of T and I opportunities (manufacturers' representation, dealerships, licensees, franchisees, turnkey technology transfer, co-ventures, etc.). It can be argued that market forces will eventually lead to dissemination and adoption of these innovations if they are worthwhile, by rewarding those who undertake them. The acceleration of this process might have a positive impact on U.S. trade and investment while also serving LDC development goals. To what extent is there a need to train or educate businessmen, lawyers, local business consultants, etc., to understand and participate in these international business transactions and relationships? Can private sector intermediaries be established or upgraded to facilitate these functions?

K) Project Implementation - Personnel ceiling limitations encourage USAIDs to use the contracting procedure to implement T and I projects even though they may lose a measure of control and make direction of the project more difficult. The federal contracting regulations and audit procedures are specifically designed to prevent the diversion of public funds for profit, often reducing the effectiveness with which the funds can be employed for T and I project purposes. This is less of a problem when contracting with, or granting funds to not-for-profit organizations.

Components of T and I activities that require access to the U.S. business community to generate investment interest have utilized such business service organizations as the quote big eight unquote accounting firms, in the hope that they would offer access to their client base. These firms may fear alienating their clients. Systematic access to the U.S. business community to locate firms with a needed technology or an interest in developing a business relationship in an LDC is a major problem for T and I projects.

Several T and I projects have been subject to excessive friction and hostility between the contractor and the responsible local institution's leadership. To what extent is this a reflection of local resistance to change in an extremely sensitive policy area marked by entrenched socio-political practices? Does the absence of friction in a T and I project that does not meet expectations indicate that the contractor was not pressing for change hard enough?

L) CIP Programs - CIPs have been used by AID and predecessor agencies as an implementation mechanism to provide needed imports for the LDC economies that have severe foreign exchange shortages. If the CIP finances commodities in which the U.S. is competitive, the CIP does not generate additionality to U.S. exports unless the host government would have been unable or unwilling to provide foreign exchange for the import of those industrial groupings, absent the CIP. If the CIP finances commodities in which the U.S. is not competitive, the funds will not be drawn down unless the host government limits import of that product grouping from other sources. In India, during the 1960's, the government allocated its various country specific foreign exchange credits by commodity and country so as to use the credits to finance those products that were more nearly competitive from each source. Inevitably that restricted allocation procedure resulted in the payment of higher prices as suppliers realized that they did not have to cope with international competition. In a number of ANE programs the CIP has not been drawn down, indicating that the importing community had access to more competitively prices sources, or that some other restrictions imposed by the USAID or the host government made the use of these funds uneconomic or infeasible.

III INTERNATIONAL TRADE AND INVESTMENT PROCESSES, FUNCTIONS AND POLICIES

AID's interest in encouraging International trade and investment (T&I) stems from a recognition that T&I provides a vehicle for the efficient transfer of resources, (such as technology, capital, etc.) needed by its client LDCs for sustained and efficient economic growth. T&I is often referred to as an instrument of growth. The main theme of the World Bank's "World Development Report 1987" is growth through trade. It demonstrates that free trading policies usually work better than the protectionism preferred by most governments in giving LDCs the best chance for rapid economic growth.

A) DEFINITION OF T&I

T&I is defined in this review of the ANE Bureau's activities, as an LDC's imports from the U.S., its exports to the U.S. and other markets, and direct private foreign investment in the LDC. (For a discussion of U.S. policies relevant to T&I see chapter II, below.)

Trade and Investment can be considered the opposite sides of the same coin, in the sense that they derive from a "buy or make" decision. Products or services needed in the local market can be purchased abroad (assuming foreign exchange is available). At such time as the market demand justifies local production, trade will be replaced by indigenous production, assuming the country enjoys a comparative advantage.

If the producing sector has the indigenous capability (technology, know-how, capital, etc.) to initiate production, and local market prices and other conditions make it attractive to undertake the required investment, it will probably do so. Often, the local producing sector lacks some ingredient, and will seek a foreign collaborator. With respect to large scale capital and technology intensive projects, direct foreign investment by multinational firms may take place, often in partnership with the LDC government, because no local partner is willing or capable of participating.

B) THE RATIONALE FOR AID INTERVENTIONS

In theory, if all markets throughout the world enjoyed the same investment conditions, and if there were global complete and free knowledge about all trade and investment opportunities, the demand by investors to maximize their rate of return would result in continued equilibrium adjustments so that capital, technology and other investment would flow wherever the investment opportunity of the moment yielded a marginally higher rate of return. In practice the international marketplace is segregated by very sharp differences in conditions and market imperfections. These differences derive from national sovereignty together with individual government policies and laws, enforceability of contracts, business practices, limitations and restrictions on the convertability of foreign exchange, movement of capital, labor and intellectual property, etc.

Additionally, imperfect knowledge of market conditions by foreign investors and traders, and imperfect knowledge about available technologies and production processes in LDCs, adds to the impediments to the efficient flow of goods and consumation of business transactions.

International trading of goods usually represents discrete short term transactions. Trading practices and procedures have evolved over centuries to reduce transaction risks for buyers and sellers. These include irrevocable letters of credit, negotiable bills of lading, international inspection services, trade arbitration procedures, etc. Direct foreign investment involves a much longer transaction time, reliance on the stability of government policies during that time horizon and a more complex set of arrangements and conditions among the interested parties.

Even with respect to international trade transactions, differing conditions in different countries will result in different perceived risks by buyers and sellers or cause restricted competition and different prices for the same product in different markets.

A typical investor, looking around the world for investment opportunities, would seek a higher return on his investment in an LDC than he would in an industrialized, open market country to compensate him for his perceived barriers to entry and higher business risks. Even among LDCs, the rates of return needed to attract foreign investment will vary, depending on local conditions (political stability, corrupt practices, government restrictions, etc).

AID project activities, policy dialogue and conditionality are interventions designed to reduce the severity of these market imperfections, thereby increasing the flow and reducing the cost of capital, technology, goods and services for its LDC client countries. Expanded T&I offers the potential for each LDC to tap into additional available private sector resources to contribute to its economic development goals.

C) U.S. GOVERNMENT POLICIES GOVERNING TRADE AND INVESTMENT

The President's Trade Policy Action Plan, released by the White House on September 23, 1985, describes the five principles of the U.S. Trade Policy. These principles focus on the establishment of a set of conditions in which the U.S. and its major industrialized competitors (or trading partners) would operate within a framework of open and fair competition. It does not refer specifically to trading conditions with the LDCs, except to "...encourage debt burdened LDCs to reduce government impediments to the functioning of markets...." The statement emphasized support for U.S. exports by enhanced protection of intellectual property rights and mixed credits.

The President's action plan does not specifically mention the U.S. Generalized System of Preferences program enacted in 1974 to provide LDCs with preferential access to the U.S. market. The existence of this legislation, however, is a clear statement of U.S. policy to give special trade considerations to the needs of LDCs.

The 1986 Report on Foreign Trade Barriers, prepared by the Office of the U.S. Trade Representative, examines the barriers to U.S. exports existing in 40 countries that represent 78 percent of U.S. exports for 1985. That list contains six AID recipient countries in the ANE region. These are India, Indonesia, Pakistan, Philippines, Thailand and Turkey and represent three percent of total U.S. exports for 1985.

Attachment 1 abstracts from the report the description of existing trade barriers for the six ANE countries.

A summary description of the different categories of "trade barriers" is abstracted herewith from that report:

This report does not intend to imply that only the countries it covers have trade barriers. All nations have trade barriers, including the United States. Countries were excluded from the report primarily because of the relatively small size of their markets or the absence of trade complaints by U.S. industry and agriculture. Most nonmarket economies were also excluded because the barriers to trade in those countries are qualitatively different from those found in other economies.

The report classifies foreign trade barriers into 12 different categories. These categories include government-imposed measures and policies that restrict, prevent or impede the international exchange of goods and services as well as the absence of appropriate policies. They include:

- Tariff and other import charges (e.g., high tariffs, surtaxes and other import duties);
- Quantitative restrictions (e.g., quotas or embargoes on imports);
- Import licensing (e.g., restrictive licensing practices);
- Customs barriers (e.g., uplift of invoice value for duty assessment purposes and certain practices related to rules of origin);
- Standards, testing, labeling and certification (e.g., use of regional rather than international product standards, unnecessarily restrictive application of phytosanitary standards, refusal to accept U.S. manufacturers' self-certification of conformance to foreign product standards);
- Government procurement (e.g., "buy national" policies and closed bidding);
- Export subsidies (e.g., export financing on preferential terms and agricultural export subsidies that displace U.S. exports in third country markets);
- Lack of intellectual property protection (e.g., "piracy" of U.S.-copyrighted works, inadequate patent protection and counterfeiting U.S. trademarks);
- Countertrade and offsets (e.g., foreign government-mandated barter agreements that displace U.S. exports in third country markets and government requirements for company exports as a condition for allowing imports);
- Services barriers (e.g., prohibitions on imports, screen time quotas for foreign films and requirements that imports be carried by national flag vessels);
- Investment barriers (e.g, limitations on foreign equity participation, local content and export performance requirements and restrictions on transferring earnings and capital); and

- Other barriers (e.g., barriers that encompass more than one category listed above, e.g., telecommunications).

Appendix A provides a more detailed definition of the nature of these foreign trade barriers. It describes each barrier, its impact on U.S. exporters, the international rules now applicable to the barrier and U.S. objectives for upcoming Uruguay Round negotiations.

The report covers significant barriers whether they are consistent or inconsistent with international trading rules. Many barriers to U.S. exports are consistent with existing international trade agreements. Tariffs, for example, are an accepted method of protection under the General Agreement on Tariffs and Trade (GATT). Even a very high tariff does not violate international rules unless a country has made a specific commitment or "binding" to a lower rate.

On the other hand, where measures are inconsistent with international rules, they are actionable under U.S. trade law and through the GATT. Under Section 301 of the Trade Act of 1974, as amended, the President is authorized to take all appropriate action, including retaliation, to obtain the removal of any foreign government's act, policy or practice that violates an international agreement or is unjustifiable, unreasonable or discriminatory and burdens or restricts U.S. commerce.

In the case of many barriers, there are no applicable international rules. For example, current GATT disciplines do not currently cover barriers to trade in services, impediments to direct foreign investment or shortcomings in intellectual property protection referred to in this report. Launching the Uruguay Round should help build an international commitment to cover major sectors not now under GATT discipline. Those negotiations will not, however, preclude our using other trade remedies to address unfair trade practices in these "new" areas of interest.

The President's Statement on International Investment, released by the White House on September 9, 1983, declares foreign investment as "... the Opposite of a zero-sum game. We believe there are only winners, no losers, and all participants gain from it.... The U.S. welcomes foreign direct investment that flows according to market forces. The U.S. accords foreign investors the same fair, equitable, and non-discriminatory treatment it believes all governments should accord foreign direct investment under international law. The U.S. opposes continued and increasing government intervention that impedes or distorts investment flows or attempts to shift artificially the benefits of these flows. These measures include trade related or other performance requirements, fiscal or financial incentives, and discriminatory treatment of foreign investment."

In addition, the President's statement singles out for emphasis, support for private direct investment in developing countries, recognition of intellectual property rights, and reduction in barriers to data flows.

D) AID POLICIES FOR T&I

AID's policy for trade development, as described in the AID Policy Paper, "Trade Development" dated July 1986, "...is designed to encourage LDCs to utilize international trade as a key instrument in the process of achieving broad based, sustained economic growth, and place a greater reliance on complementary domestic competitive markets that support more open trade policies. A major focus of the trade development policy is on building developed country and LDC private enterprise ties on a continuing, long term basis, consistent with broad American objectives of trade liberalization.

"...the policy directs that AID policy dialogue, programs, and projects (1) establish a policy environment that is conducive to private enterprise and expanded participation in international trade; (2) encourage the transfer of technology, skills, and information required to expand and diversify LDC agricultural and industrial bases for export production in areas with comparative advantages; (3) support trade and investment promotion efforts; (4) introduce or expand private sector competition in the export or import of essential or economically important commodities; (5) broaden the scope of export development projects to provide for greater U.S. - LDC two way trade opportunities; and (6) encourage prudent investments in infrastructure to improve an LDC's trade position.

"...even if program or project interventions may not be called for, policy dialogue activities should be considered and carried out if at all possible...."

The same policy paper also gives guidance on investment promotion. It states, "Missions should encourage LDCs to adopt a market oriented investment climate so these countries will be able to attract the investment capital essential for private sector development.... AID should undertake efforts to assure LDC governments that proper enforcement of copyright, trademark, and patent conventions is essential to strategies intended to increase the transfer of technologies and expand LDC access to information.... Where appropriate, Missions should direct program and project resources to encourage the transfer of technology, skills, and information required to overcome the limitations that threaten the comparative advantage of LDC exports or inhibit the emergence of new areas of comparative advantage in production.... Missions should encourage joint ventures (as well as other forms of cooperative business relationships) as additional sources of technical assistance for LDC enterprises..."

Other AID policy documents, which elaborate on these basic guidelines, may be found in:

- AID Policy Paper - Private Enterprise Development, revised March 1985;
- AID Policy Determination - Mixed Credits, dated September 1982;
- AID Policy Paper - Approaches to the Polcy Dialogue, dated December 1982;
- AID Policy Determination - Implementing the AID Privatization Objectives, dated June 1986.

IV ANE MISSION STRATEGIES FOR TRADE AND INVESTMENT

With rare exception, each ANE Mission has incorporated private sector development in its development strategy. Usually there is a recognition that T&I is an important, or at least a relevant, component of such a strategy in that it offers opportunities for additional resources (technology and capital) and channels to acquire them. The key Mission program documents contain ample discussions of major obstacles to the effective acquisition and employment of these resources. These discussions reveal that there is a broad understanding of the obstacles to T&I which prevail in AID client countries, and the general strategies neeeded to attack the obstacles. Indeed, the categories of obstacles identified by Missions in different ANE countries are surprisingly similar.

The more common obstacles or constraints to T&I, as identified by Missions or AID program documents, and supplemented by knowledgeable persons, are:

a) Governmental operations: policies, laws and practices.
The role taken by government in rationing scarce resources, protecting property rights, establishing non-market determinants to prices, wages and the allocation of scarce resources (i.e. credit),
The political system and its stability. The LDC governmental procedures and the ease or difficulty of securing necessary licenses (including the level of corruption).
The dominance of the government's role in the economic system, as an operator of monopoly enterprises and provider of subsidies.

b) Capital mobilization: the availability and efficient operation of capital markets (equity and credit).

c) Information flows: access by LDC firms to information about international markets, technology choices, and investors. Information available to the international marketplace about investment and trade opportunities, local market conditions, business capability and interest in the LDCs.

d) Adequacy of infrastructure: availability and reliability of power, utilities, transport etc. for efficient production. The availability of foreign enclaves (free trade zones) as a mechanism to circumvent this obstacle.

e) The available pool of technical and managerial labor.

f) Cultural impact on business practices that makes for differences with internationally accepted practices.

It is interesting to note that every USAID response to our request for their assessment on the obstacles to T&I, focused almost exclusively on the inadequacies of LDC governmental policies even though the Missions are financing activities directed at other obstacles. It may be that our inquiry was, in every instance, interpreted too narrowly. On the other hand we have some concerns that Missions may, in some instances, have oversimplified the problems impeding the full utilization of T&I as a contributor to LDC developmental goals.

The policy framework in LDCs derives from a complex set of conflicting pressures and problems facing the government. If an LDC government made every policy change a USAID were to propose, (let us assume that the USAID's proposals were in every instance valid), there would be profound and often unanticipated consequences in other sectors of the political and economic structure, some of which might work counter to other developmental objectives. There is no question that there would be trade offs, some of which we would not like to see.

But, perhaps more to the point, even if all the proposed policy reforms were adopted by the LDC government without serious disruption to other interests, there would still be other obstacles (such as categories b through f, above) to the full utilization of T&I. Attacking those obstacles is a long term and labor intensive task for USAIDs and their LDC counterparts.

We shall discuss, further along in this analysis, the difficulties experienced by Missions with the design and implementation of interventions (the tactics) to carry out USAID strategies aimed at overcomming these obstacles.

The ACTION PLANS submitted by each ANE Mission in early 1987 contain a description of its private sector strategies and identify the Policy Dialogue Agenda and Close Donor Coordination on the major issues to be addressed during 1987. The following abstract, drawn from the respective Action Plans, summarizes those issues of most direct relevance to T&I.

AFGHANISTAN - No T&I strategy

BANGLADESH - The Mission will focus on energy pricing, agricultural credit recoveries, foodgrain subsidies, policy constraints to small scale enterprise development, privatization, and capital formation through the Dhaka Stock Exchange. Of major concern is government policy that AID commitments of funds to non- governmental organizations and private sector activities must be additional to ODA pledges.

BURMA - The Mission will assist in expanding U.S./Burma commercial relations. Government policies are hostile to private sector development but show some signs of receptivity to private sector activity in export production and marketing. The Mission will finance training of civil servants and mid level managers in computer science, finance, engineering and marketing. It designs programs to give trainees exposure to free market operations to encourage a shift in government policies, and to exploit such a shift when policy change occurs.

EGYPT - The Mission provides balance of payments support in the form of cash transfers, CIPs, and PL 480, and attempts to facilitate structural economic reforms. It seeks to equalize interest rates for public and private sectors, eliminate subsidies, free up agricultural market forces and encourage a shift of resources from the public to the private sector. Congressional earmarking of funds for Egypt diminishes USAID leverage to bring this about. The program contains specific activities designed to promote direct foreign investment in Egypt including a targeted investment promotion activity with direct involvement of the AID Administrator's Private Enterprise Adviser.

INDIA - Two out of three major Mission strategy foci (Improving Agricultural Productivity, and Science and Technology for Development), are in areas that directly impact on T&I. The programs encourage a broadened engagement of the private sector in the development efforts of the country in spite of decades of reliance on government research laboratories. Three activities, Program for Advancement of Commercial Technology (PACT), Program for Acceleration of Commercial Energy Research (PACER), and State Technology Development and Enterprise in Karnatika (STE), are intended to move technology into the productive (private) sector by developing linkages with U.S. firms to adapt research findings into commercializable products suited to Indian conditions. The Mission's policy agenda is to focus attention on the prevailing industrial policy environment as an important constraining factor in the implementation of these projects.

INDONESIA - The Mission encourages the GOI to incorporate the private sector in such government functions as family planning, health services, trade inspection, etc. Program focus is on generating off-farm employment via the private sector. It concentrates on rural credit, services to small enterprises, investment promotion, marketing training and an examination of the policy and institutional constraints to enterprise development and T&I. The GOI investment promotion policy package of October 25, 1986, and its trade policy package of January 15, 1987 (which reduced non-tariff trade barriers) were the fruits of earlier policy dialogue and are now being followed up with support activities. There is close donor coordination between the Mission, IBRD and Ex-Im Bank, particularly with regard to divestiture programs. The Mission program contains activities designed to provide support services to local businesses and promote direct foreign investment. Currently the Mission is focusing on leveraging policy changes in the agricultural sector.

JORDAN - The Mission provides balance of payments assistance and focuses on private sector development. Policy areas deal with regulations governing business operations, investment incentives, the trade and exchange regime, economic policies affecting SSEs, efficiency and cost of services used by businesses, and financial markets liberalization. The Mission is attempting to move the GOJ from rhetoric to implementation of these policies.

MOROCCO The Mission policy agenda is to encourage a more liberalized economy and reduction in the budgetary deficit. The GOM recently reversed some of the trade restrictions it imposed in 1983, cut tariffs, applied for admission to GATT and raised interest rates to more closely approach market rates. The Mission is focussing on agriculture to liberalize the cereals markets, privatization, energy and family planning policies.

NEPAL - The Mission encourages private sector involvement in all development sectors, particularly in the Rapti Zone. It recognizes that "quick fixes'' are not available but is focussing on liberalization of agricultural inputs and privatization, particularly for the forest products industry. There is close donor coordination with IBRD on its structural adjustment credit to bring efficiencies to state owned enterprises. PEDS (AID/PRE) is funding a study to identify further opportunities in this area.

OMAN - The Mission program focusses on water, education and fisheries. Policy dialogue seeks further opportunities for private sector development. The Action Plan contains a curious statement that commercial interests tend to impede some of the programs.

PAKISTAN - The Mission program provides balance of payments support through CIPs and also supports U.S. efforts in Afghanistan. Two formal policy discussions were held between the GOP and the Mission (August 1986 and February 1987) dealing with domestic resource mobilization, efficiencies in the economy and stimulation of private sector investment. There is also an effort at privatization.

PHILIPPINES - The Mission focus is to increase productivity and profitability in non-farm enterprises. Its policy dialogue agenda is to reduce government involvement, improve basic market institutions, and mobilize long term financial resources for investment. Its efforts to assist the GOP in its retionalization of public enterprises includes setting up a private company to provide financial and management services to turn around existing troubled businesses. It is working closely with the IBRD in the establishment by the President of a committee on privatization. That committee has recomended that 125 out of the existing 296 state corporations be privatized and an Asset Privatization Trust has been established to implement that program. Technical assistance in investment banking, legal, accounting and engineering will be provided to value the assets of these 125 firms, and to assist in the financial restructuring of governmental financial institutions.

THAILAND - The Mission considers Thailand's economic policies to be sound. It is coordinating with, and supportive of the IBRD on the two structural adjustment loans which have generated new policies in agriculture and rural development, industry, energy, fiscal policy and institutional development. Its major project, Science and Technology for Development is focussed on developing linkages between the Science and Technology producers and the productive sectors. It is also attempting to focus attention on the need to establish protection of intellectual property rights. Its other major project, Private Sector in Rural Development, encourages generation of non-farm employment outside of Bangkok.

SRI LANKA - The Mission's policy agenda is to diminish the role of the Government in the productive sector. It encourages reliance on market forces, reduction of subsidies, rationalization of the capital markets to provide capital at market rates, and to increase rural credit. The Mission has activities to provide services to SMEs and to facilitate direct foreign investment and collaborations.

TUNISIA - The Mission is focusing on agricultural price policy, reduction of subsidies, privatization and phaseout of restriction on imports. It will arrange for an assessment of the role of the private sector in development and the obstacles it faces so as to develop a strategy.

YEMEN - The Mission is encouraging the more active participation of the private sector in agriculture, education, water and health.

V - AID/ANE ACTIVITIES IN TRADE AND INVESTMENT

A very considerable array of projects, activities and policy dialogue, focussed on T&I, are included in ANE Mission programs. As might be expected, the degree of focus on T&I in each country program varies with local conditions and the opportunities and resources available to the Mission. Very few projects are primarily or solely devoted to trade and investment promotion. More commonly, trade and investment promotion is an objective of one or more project components within a project serving broader purposes, such as overall development of the private sector or channeling private sector resources for economic growth.

The extent of a particular Mission's focus on T&I seems to depend on the receptivity of the LDC government, the availability of resources, the competing demands for mission attention, and the opportunities for fruitful activities. Even in the most inhospitable environment for foreign direct investment and trade, (Burma,) the Mission has found a suitable mechanism to encourage momentum towards preparing for what it believes to be the inevitable shift from an autarchic and governmentally managed economy to a more liberal, market society. (See "training" below)

Notwithstanding the foregoing factors, one senses, in reviewing Mission program documents, that the degreee to which a Mission will focus its resources on T&I is largely dependent on the attitudes of the respective Mission's senior staff, and the developmental priorities they accord to T&I. This is confirmed by a careful reading of Mission responses to the ANE Bureau's request for information on T&I activities in connection with this study.

General equilibrium theory teaches us that everything impacts on everything else. In effect, all development activities can be said to have some marginal impact on the general milieu in which T&I functions. For example, many AID activities in the agriculture and energy sectors bring together local entrepreneurs with US technology, equipment suppliers and investors. In this review we will examine only those programs and activities that are intended to intervene quite directly on the T&I function.

A) MAJOR T&I PROJECTS

The ANE/DP Evaluation Division has identified seven projects (which have been evaluated) in which trade and investment constitute a major element. These major T&I projects are briefly summarized in attachment 2. In addition, trade and investment related components of other projects for which information was available have been examined in our analysis.

It should be noted that there are a number of ANE projects with trade and investment components that are currently in the design or start up phases but have not yet generated enough experience to justify inclusion here. This review is based on project evaluations, (some of which are mid-term evaluations and are quite dated.) AID/W project documents, Mission cables (in response to State 271827), and interviews with AID/W backstops.

B) REVIEW OF ANE PROJECT AND ACTIVITY EXPERIENCE

Trade and investment promotion activities undertaken by ANE Missions fit loosely into the following categories:

1) <u>information and networking</u> - to develop and improve international information flows and facilitate linkages between firms;

2) <u>institutional development</u> - to improve business services for LDC entrepreneurs;

3) <u>mobilizing financial resources</u> - to provide capital (equity/debt) for T&I;

4) <u>facilitating intermediaries</u> - to undertake joint venture dealmaking;

5) <u>training</u> - to improve the capacity of LDC entrepreneurs to participate in trade and investment deals and to expose them to international business practices and contacts;

6) <u>balance of payments support/trade financing</u> - to alleviate foreign exchange constraints;

7) <u>privatization</u> - to reduce government dominance in the economy; and,

8) <u>policy dialogue</u> - to improve the business climate.

Each of these categories is dealt with separately below, despite the obvious overlap between them and the inherent problems of categorizing activities that support multiple goals or produce multiple outputs. Our analysis is hampered by the absence of a standard monitoring system or evaluation methodology applied to our past efforts. In fact, we have some reservations with regard to the validity of a number of conclusions drawn by the evaluators.

Furthermore, it is often difficult to determine the causal linkages of our experiences. To what extent did a) project design, b) implementation, c) changed local conditions, d) USAID management, e) AID/W regulations and legislative requirements, f) host government support, etc., contribute to the activity's achievements? For example, a well designed project could fail because the contractor charged with implementation executed poorly, and vice versa.

We have completed our analysis without the required response from the following Philippines Mission. On the whole, however, we are comfortable with the following analysis and the conclusions (chapter II) drawn therefrom.

1) Information and Networking

Information and networking activities, designed to increase knowledge and provide access for LDC businesses to US investors, technology and markets, are among the most common components of investment related projects. Information and networking activities serve two different but related goals, 1) to facilitate the flow of information between LDC and developed country private sectors, and 2) to facilitate direct linkages, partnerships and joint ventures with foreign investors.

The former category is served by activities such as creating databases, tying local users into global data networks, general feasibility studies, sector and industry studies, investment conferences and seminars. general advertising and promotion of an LDC's investment climate. The latter category contains international trade and industry shows, investment feasibility studies with identified clients, and investment missions (in either direction). Many projects link these activities in succession, beginning, for example, with sector studies and promotional activities to stimulate general interest, before progressing to client-directed feasibility studies and investment missions to solidify new investments.

Evaluations show that experience with the information and networking approach usually produces results, but often not in a cost-effective manner and not in sufficient magnitudes to be relevant. Some typical project experiences and evaluator's findings follow:

- In Thailand, (Private Sector in Development Project, 493-0329) one of the functions performed by A.D. Little for the Thai Board of Investments was the arrangement of three investment promotion missions to the U.S. A considerable amount of work was performed by the contractor in Thailand to identify the industrial sectors that offered the greatest promise for foreign investment and screening of the Thai firms that might be suitable for joint ventures. These missions resulted in one plant start and about five government approved investment applications. Taking into consideration the relatively high level of US investor activity in Thailand that takes place normally, the evaluators suggested that strengthening existing Thai Board of Investment offices in New York and elsewhere would be more cost effective than funding this type of short- term contract activity.

- In Sri Lanka (Private Enteprise Promotion, 383-0082) the evaluators were unable to quantify the economic effectiveness of the various investment profiles and feasibility studies that were undertaken, but indicated that, despite a lack of targeting to priority sectors and the absence of meaningful performance measures, overall impact was probably positive. A major C&L marketing study was completely ignored by a public sector client, bringing into question the value of free information to non-paying clients. Both the investment missions and US promotion efforts were also deemed to be productive, but the evaluators concluded, as in Thailand, that the latter assistance would have been better directed through relevant government agencies rather than US-based intermediaries who ceased their activities as soon as project funds ran out.

  The Joint Agricultural Consultative Committee (JACC) did not operate long enough to produce significant results (only one significant investment venture materialized). The local JACC continues to exist but cannot serve its clients without a link to the US.

  IESC also provides trade and investment services through its American Business Linkage (ABLE) program. Sri Lankan firms pay the full cost ($1500) of this service for technology and joint venture partner searches.

- Tunisia's two US investment conferences (Private Sector Development and Technology Transfer, 664-0328) produced dismal results. Apparently the Tunisian participants were poorly prepared and had unrealistic expectations of the level of interest among US investors. The lesson was obvious - it is not enough to put people together. Participants need to be carefully selected, well-prepared, and motivated by a clear and specific purpose, with a clear understanding of what they "bring to the table," and what they need from a business collaborator.

- The Indonesia project (Private Sector Development Project 497- 0329), which pays for investor's initial consulting time for services from the local affiliates of two US firms, appears likely to yield impressive results - $10 million in four new investments (three of them US) 550 new jobs - at a low cost ($240,000). The final results are not in yet but the experience should be monitored to see whether it is cost effective.

- In Egypt, (Private Sector Feasibility Studies, 263-0112) the preparation and distribution of ten sector studies and other materials cost about $1 million. Subsequently, eight feasibility studies and five reconnaisance visits from US investors were undertaken with the result that three of them are seeking to establish joint ventures. The Mission now believes it would have been more efficient to locate this project within the private sector (with the banks) than in the government's Investment Authority (GAFI).

  In Egypt's Industrial Productivity Improvement Program (IPIP, 263-0090) technical information was made available through a US University contractor (Georgia Tech). According to the evaluator, this arrangement proved cumbersome and inefficient compared to building a better information resource base in-country.

- In Yemen the US National Technical Information Service (NTIS) established a reference service at the Yemeni Federation of Chambers of Commerce and Industry. The effort was not successful.

- In Oman, USAID has helped develop contacts between the commercial fishing industry and a regional and international marketing/information system operating out of Bahrein.

- In Jordan, the Joint Venture Service of the IESC has recently become operational and USAID is cooperating with the GOJ in sponsoring a trade and investment mission to the US under the patronage of HRH Crown Prince Hassan.

- In Portugal, the Mission funded a contract with Price, Waterhouse to promote T&I through the Foreign Investment Institute of Portugal by identifying projects that would be suitable for US/Portugese joint business ventures. Fifteen Portugese firms with projects were identified, investment profiles were prepared and 150 firms in the US and Canada were contacted. Follow-up with contacts was inadequate and no investments were completed.

Common denominators of success or failure are not readily apparent. In general, efforts to use US-based and AID financed contractors to make investment contacts for LDCs appears to have met with limited success at significant expense. Such firms are usually compensated for their time and expense regardless of their success at making matches. Moreover, these contractors must start up their networks when an AID contract is executed and wind them down when funding terminates. There is no continuity and follow-on effort in the US after the contractor is terminated. However, there are low-cost networks in place (VITA, IESC) that have continuing access to US industry, investors, technology and markets. These networks should offer a more favorable cost-effectiveness ratio.

The provision of consulting services, feasibility studies, etc. to investors who have already evidenced some interest in a specific investment proposal (as distinct from generic sectoral studies) appears to pay higher dividends. It is difficult to determine the degree to which such assistance makes a difference or simply subsidizes pre-investment services to clients who would have eventually invested anyway.

Investment missions seem to be useful when sufficient groundwork has been laid on both sides for productive discussions to ensue. It is possible that the reverse investment mission (US to LDC) may be a more efficient vehicle as US investors are not likely to make such trips, even with a subsidy, without strong investment intentions, (i.e., they self-select,) whereas the same investors are likely to take a more passive approach towards a delegation of LDC entrepreneurs visiting them in the US.

2) Institutional Development

Institutional development as a technique for achieving investment promotion objectives typically includes such activities as technical assistance, support for program budgets, and commodities and equipment. The distinguishing characteristic in the present context is not the activity itself, which is quite common to many AID projects, but the nature of the institutions being served.

These include private companies, stock exchanges, financial institutions, business associations, schools of management, and regulatory agencies responsible for controlling the investment environment.

Technical assistance is a frequently utilized method for institutional development. Unfortunately, the quality of technical assistance varied widely, as did the receptivity of institutions to utilizing it.

Support for program budgets and provision of commodities and equipment is frequently desirable and necessary despite the issue of recurring costs. Such support may be provided to establish new institutions as well as to rejuvenate or expand existing ones. Whether program support to existing institutions is more effective than supporting the creation of new ones is a question deserving of further exploration.

- In Tunisia, nineteen IESC volunteer consultants were provided to eleven firms and one Ministry. One firm went bankrupt and another chose not to pay for the consultant's services. In the other engagements it was felt that USAID funds had been usefully leveraged and significant networking had occurred. Problems included difficulties finding French speaking volunteers and the perceived high luxury life-styles they maintained compared with that of the local community.

- In Egypt, support for the Egyptian Accounting Institute, the Investment Authority and the Capital Markets Authority is provided through the Business Support and Investment Project. The project also supports IESC operations and utilizes their services. The Mission reports that progress at the two Egyptian government authorities is slow, but private sector interest is high.

  In Egypt's IPIP, diagnostic services were provided by a US contractor to identify action issues and short-term consulting needs. However, the diagnostic and short-term consulting services were frequently ineffective because of inadequate or inappropriate contractor skills.

- In Yemen, a University based "Policy Analysis Center" is proposed to provide studies that will facilitate a policy dialogue. The Mission also plans to create a network of private industry associations that will interact constructively to present their case to their government.

- The ASEAN Small and Medium Business Improvement Project, an ANE regionally funded activity, supports business administration and training at the Asian Institute of Management in Manila; the establishment and operation of the US-ASEAN Center for Technology Exchange; and linkage to a regional information network (Technonet - Singapore). It is interesting to note that the Singapore government's Trade Ministry building, in which the US-ASEAN Center is housed, was exceptionally well equipped by the Japanese under their aid program. It has extensive tape libraries and other facilities that teach users everything about locating Japanese producers and products (but not how to sell to Japan).

- In Bangladesh, USAID has supported the establishment of the US-Bangladesh Business Association, which has activities planned for both countries. The USAID will provide technical assistance to develop the Council's plan of action.

3) Mobilizing Financial Resources

Scarce credit for the private sector in LDCs, if allowed to flow unchecked by governmental interventions, generally tends to go to those who need it the least. Collateral requirements (often reflecting the lender's inability to enforce collection), high interest rates and other LDC banking practices keep resources from being readily accessible to fledgling entrepreneurs for growth related projects. AID has intervened in this sector with a considerable amount of success.

The availability of US owned local currency in the 1960s for lending to US investors in LDCs (know as Cooley Amendment loans) provided a major stimulus for US investment in such countries as India. (See discussion in chapter VII, section C.)

- In Egypt, the Private Investment Encouragement Fund, located in the government's Investment Authority, is operated by twelve agent banks. Unfortunately, the Investment Authority has established cumbersome application/documentation requirements and retained loan analysis/approval authority. The Mission hopes to shift the locus of this activity into the private sector.

  The Private Enterprise Credit finances imports of raw materials and capital goods via the CIP (discussed further below) and provides medium and longer term credit for plant start-up, expansion and modernization. There is provision to establish a small scale enterprise credit guarantee fund. No experience to evaluate yet.

- The Enterprise Development Project (388-0066) in Bangladesh provides financing and technical assistance to innovative, labor-intensive small and medium enterprises through the Micro Industry Development Assistance Society (MIDAS) which was created with support from a prior USAID project. About 30 percent of enterprises supported are export oriented and virtually all of them involve import of machinery or raw materials.

- USAID/Morocco is setting up a new Export Credit Insurance Company to encourage Moroccan exporters to develop new markets by reducing the risks of dealing with new customers. The Mission emphasizes that the effort is highly complex and should only be undertaken as part of a concerted Mission strategy for trade expansion.

- USAID/Pakistan intends to capitalize a privately owned investment company while simultaneously helping the GOP to develop a set of regulations governing establishment and operation of such companies, in hope of attracting foreign investment capital.

- India's Program for Advancement of Commercial Technology (PACT) is establishing a $10 million fund managed by the Industrial Credit and Investment Company of India (ICICI) to finance joint ventures between US and Indian firms for commercialization of technology. The funds are lent to US-Indian joint ventures to meet up to 50% of the cost of developing commercial technology. Once the program was announced there was a strong expression of interest by the US and Indian business community (130 US inquiries; 300 Indian inquiries). These inquiries were reduced to 75 project profiles. To date, eight proposals have been approved for funding by ICICI, most of which had already developed a joint venture linkage between the US and Indian firms at the time the proposals were submitted.

- Most PRE Revolving Fund (RF) loans go to intermediate financial institutions (IFIs), frequently with a sub-lending emphasis which includes production for export and trade finance. Loans are at international market rates for periods usually not exceeding six years.

  An example is the Siam Commercial Bank ($2 million loan, $150,000 grant). Although technically a precursor to, rather than a part of, the Revolving Fund, this loan was matched by $2 million from Siam Commercial Bank (SCM) to establish a fund for small to medium sized enterprises in the agriculture sector located outside of Bangkok. The effective interest rate was slightly below local market rates and the fund was rapidly and efficiently disbursed. 67% of the borrowers were involved in export activities and approximately 8I7 jobs were created as a result of activities financed by these loans.

An evaluation found that most of the borrowers were in fact bankable elsewhere - the effect of the loans was primarily to accelerate borrower activities which would probably have occurred anyway. The grant funds were for Business Advisory Services designed to provide assistance to borrowers in identifying opportunities, preparing applications, responding to problems and obtaining special services. Only a third of the grant funds had been utilized. These were expended on four activities - two seminars (one for bank staff, one for borrowers) and travel/training for four bank staff.

4) Joint Venture Dealmaking

AID's role in joint venture deal-making generally provides support for intermediaries who serve as consultants and brokers between joint venture partners. In a few cases, such as MTAP, the intermediaries may also take positions in deals they arrange. There are a number of successful examples thus far, although the cost effectiveness has ranged widely.

- In Indonesia, USAID funds provided up to 25 hours of free consulting time from two Indonesian affiliates of US firms to interested Indonesian and US companies. A number of the US firms went on to purchase additional time and are expected to make investments on the order of $I0 million and create about 550 jobs.

- In Egypt, the US Investment Promotion Office, located with the Egyptian Businessmen's Association, has set up a network of US contacts as a conduit for promotion, information and assistance. Using a highly targeted approach, a project prospectus is developed. Government preliminary approval is obtained, financing interest is assured, and US firms are contacted to identify possible collaborators. Of 100 investment proposals, 30 have had feasibility studies and five are close to joint venture.

- Under the MTAP project, selected US traders and business brokers receive partial funding to put together deals from which they expect to receive future profits through participations or fees. The premise is that firms with existing business networks in the US can profitably expand their activities overseas on the basis of a partial and temporary subsidy.

- In Thailand and Sri Lanka, US consulting firms (A.D. Little and Coopers & Lybrand respectively) were brought in to help local entrepreneurs arrange deals with US partners. Both firms tended to focus on larger US companies through trade shows, direct and indirect promotional efforts and investment missions. Although in both cases some investments were generated, taken as a whole the results were less than anticipated and the efforts ended with the termination of project funds.

Evidence thus far suggests that efforts to promote joint venture dealmaking can make effective use of both LDC and US based intermediaries but the effort required is frequently long term and benefits from some degree of institutionalization of the dealmaking function.

5) Training

Training activities permeate AID projects in general and are a traditional AID project implementation technique for transferring knowledge, skills and technology. The following discussion focusses on training activities targeted to developing entrepreneurship, particularly when it involves exposure to markets, contact with possible US investment partners, or enhancing the ability of the LDC public sector to promote direct foreign investment in the private sector.

Training activities cater to the widely held belief that ultimately it is people that make the difference in any development effort. Through training we create the capacity to make development happen and, when we bring trainees to the US, we establish a cadre of professionals familiar with our ways of thinking. The big drawback to training is the difficulty of measuring its impact - the body count of "personnel trained" is clearly inadequate.

- In Egypt, seven employees of the General Authority for Investment were trained locally before participating in a month long promotional trip to the US following distribution of sector studies to US firms. On their return, five of the seven were assigned to other duties.

- In Sri Lanka, a variety of training programs have been undertaken ranging from half-day marketing forums to two month entrepreneur development programs. The usual caveat regarding the intangibility of benefits applies. Generally however, it was felt that the longer programs were more likely to have a lasting impact.

- In Burma, the Development Training Project is the only available vehicle for the Mission to address issues relating to T&I. By exposing Burmese government officials to external markets that are not subject to extensive government controls, it is hopes the advantages of open markets, foreign investment and establishment of free trade zones may become evident.

AID has extensive experience with training and in many instances this is a highly appropriate activity. However, the paybacks from training activities are clearly long-term and may be less efficient when more direct interventions are available. To see reasonable near-term results, training activities need to be targetted and extensive enough to produce behavioral change.

6) Balance of Payments/Trade Financing

Balance of payments support allows LDC clients to increase their level of imports above that which would otherwise have been possible in light of foreign exchange shortages. In the final analysis, this is also what most PL-480 programs do.

The most common AID trade financing activity is the Commodity Import Program (CIP) which uses grant or loan funds (ESF only) to finance the import of approved US commodities by public or private sector institutions.

- The Pakistan Agricultural Commodity & Equipment Program (391-0468) and the Energy Commodity and Equipment Program (391-0468) both have private sector windows, both of which have sufferred from a near absence of demand. Among the factors cited as causes of failure by evaluators are: lack of familiarity with US products and supplies; lack of manufacturer's representatives in-country; lack of information about the CIP; GOP bureaucracy. The Mission adds interest rates and bank requirements for high collateral to that list. The evaluators suggested that this private sector CIP would benefit from greater marketing and promotion, pressure on the host government to more actively cooperate with the private sector, and more active participation of the US private sector in promoting their products. The Mission intends to discontinue these private sector windows if they remain unused.

- Egypt's Production Credit Project (263-0147) made foreign exchange available to importers through public and private sector banks. Although the CIP achieved its objective of rapid and widespread disbursement through some worthwhile implementation innovations, its developmental and policy goals were not met. In this case, the evaluators concluded, sector specificity would have helped to improve focus on achieving and measuring results.

- Jordan's Commodity Import Program (278-K-643) was designed to support both public and private sector imports with three annual tranches starting in 1985 and totaling $160 million. As of mid 1987, before the third tranche, the public sector and some 35 private/mixed firms had participated almost evenly in ordering about $95 million of goods. Implementing Jordanian banks were encouraged to lend aggressively and were allowed to adjust interest rates to allow for greater risk. However, most of the borrowing firms had government contracts or government part-ownership and were thus regarded as low credit risks. This reflected both a general absence of nongovernment-related capital spending and prevailing economic conditions. The evaluators concluded that most of the imports would have happened anyway, but were probably accelerated and included a larger share of US goods than would otherwise have been the case. The CIP agreement included a covenant that Senior officials would meet biannually with USAID to discuss policy issues. Although three such meetings were held, they had not produced tangible policy results.

  The Mission reports that initial private sector interest in the CIP was limited until a package providing long term financing, low interest rates, favorable exchange rate and minimum down payments was put in place. "Without such a package, most private sector importers would not use the program because of the added cost to them of AID's US flag shipping and other procurement regulations." (Amman 11499) The banks were initially reluctant to market the CIP until provided with incentives, including an administrative fee and the opportunity exploit a "float period" in transferring local currency deposits.

  The Mission also reports that $4 million of the CIP was used as a discount in a tied-aid situation to secure a $13 million contract for a US supplier. The drawbacks to the Mission in this type of arrangement, which may occur again, include: reduction in CIP funds available (by $4 million), reduction in local currency generation ($4 million again - in dinars), and consequent negative impact on US/Jordan relations.

- A PRE Revolving Fund loan to Morocco's WAFA Bank ($2.5 million loan, $50,000 grant) provided short-term hard currency trade credit to small and medium sized Moroccan importers of commodities and equipment, primarily from Europe and the US. The grant funds supported a WAFA bank marketing study to identify eligible sub-borrowers and technical assistance from U.S. institutions in lending to SMEs.

  The structure of the loan is similar to many RF loans where the effect is to provide a loan guarantee rather than a direct loan. Funds were deposited in a WAFA collateral account with the New York branch of Credit du Nord which then lent $5 million to WAFA. To overcome WAFA's credit ceiling allottment by Morocco's Central Bank, the sub-borrowers technically received their loans from Credit du Nord with WAFA administering the transactions.

  The primary effect of the loan was to make foreign exchange available at a time of severe foreign exchange shortage, thus allowing firms (some of which would have been unable to obtain foreign currency during this period) to maintain/expand production levels and import new technology. The Central Bank, as a result of their experience with the program, altered their policy on exporters to permit them to keep a portion of export earnings in overseas accounts to finance imports.

7) Privatization

No examples in ANE were found where privatization was linked to direct foreign investment. However, privatization has loosened some trade restrictions, particularly sourcing requirements imposed on LDC buyers by state monopolies.

- In Pakistan, Mission efforts have resulted in GOP agreement to allow the private sector into power generation. At least half of the new investment in private sector power is expected to involve imports of machinery and project management manpower from the US and elsewhere.

- The Fertilizer Distribution Improvement Project in Ban ladesh requires the GOB to study the impact of permitting private wholesalers to purchase fertilizer directly from foreign suppliers instead of from the government Agricultural Development Corporation. If restrictions on private sector importation are lifted, there may be scope for expanded trade.

8) Policy Dialogue

Policy dialogue utilizes AID funded activities directed at other objectives - research, technical assistance, training - that have identified existing policy constraints. It also is set in motion by project covenants and conditions precedent. Frequently, the policy dialogue activities are intended not only to achieve specific policy changes, but also to build the capacity of both public and private sector institutions to carry out policy related research and participate in domestic policy formation process.

With regard to trade and investment promotion, activities include supporting the policy research budgets of Chambers of Commerce and other private sector groups, establishing joint public/private committees to direct and review AID supported research, support for conferences and seminars on policy issues.

- In Pakistan, a formal policy review is organized between USAID and senior GOP officials, with highly desirable results, but no breakthrough in T&I, although many GOP actions flowing from this dialogue (deregulation of markets) contribute indirectly.

- Under Thailand's Emerging Problems of Development Project, eighteen policy studies were undertaken relating to the business environment. The USAID claims, in its FY88 Action Plan, that Thailand's policy framework is good, yet major investor concerns remain (i.e., intellectual property rights protection). It is not clear that these studies yielded the hoped for results.

- In Sri Lanka the policy dialogue included support for policy studies and an attempt to involve the private sector in initiating dialogue. The evaluators found that the business community prefers to be invited to participate on government committees rather than taking open initiative on policy issues.

- In the South Pacific, USAID facilitated an inter-island conference of coconut producers to explore the feasibility of a regional cococnut products manufacturing facility. By emphasizing USAID's facilitative role and leaving the initiative with the producers, the conference was a success. USAID also funded a seminar where the USTR participant agreed to explore the option of lumping Pacific Island countries together for purposes of value-added considerations, an inititative which would be of great benefit to T&I in the region if implemented.

- In Tunisia, USAID funded the Italy-based International Development Law Institute (IDLI) production of a seminar on financial leasing. The seminar managed to break a two-year impasse with the GOT over the efficacy of allowing financial leasing.

In many LDCs, the major obstacle to growth in trade and investment have to do with public policies on the wide range of issues affecting the business climate - tax policy, currency exchange rules, quotas and duties, property rights. The results of policy dialogue are difficult to detect, except in those rare instances when a given activity produces an immediate and specific policy change.

Support for research occasionally produces beneficial results. Few private sector LDC institutions are capable of sustaining policy oriented research when AID support runs out. This result is assured when outside consultants are paid to do the research without local participation.

In general, the policy dialogue positions USAIDs as political actors - policy dialogue interventions require a high level of understanding and sensitivity to the prevailing patterns of political discourse in a given LDC. Sometimes USAIDs may benefit from involving outside third parties who may be perceived as more objective participants in policy dialogue, as in the IDLI case mentioned above. To the extent that local institutions and business associations can be strengthened to become advocates for policy reform, it is likely to be more acceptable and perhaps more effective in achieving the desired results.

VI - OTHER AID ACTIVITIES IN T&I

A) AID/AFRICA BUREAU

In early 1987 the Africa Bureau issued a Policy and Strategy Statement for Private Sector Development. The statement declares that, "The Africa Bureau views the fostering of market oriented private sector activity as one of the key mechanisms for achieving the Agency's and the African Governments' development objectives... Private sector strategies are to be an integral part of our development approach, not an addendum to the important work we are doing elsewhere... The target of our strategy is primarily the development of the indigenous private sector, not promoting foreign private investment per se. Nonetheless, AID will facilitate foreign, particularly U.S. investment in partnerships with local business when it generates significant developmental benefits including employment, infusion of foreign exchange and technology transfer."

The sixteen Category I and II country Missions are required to develop a private sector profile/strategy which should identify constraints and opportunities with respect to, "...governmental policies and regulations, raw material resources, foreign exchange resources, managerial and entrepreneurial capacity, labor supply and quality, credit availability and information needs...." In support of its Missions, the Bureau has established the Africa Private Enterprise Fund which can be used by its Missions to finance activities in support of these strategies. It also encourages the use of PL480 Title I local currencies for private enterprise credit programs.

Each Mission is to prepare a Policy Reform Dialogue Agenda. Focus of Mission activities will be financial markets development, privatization, developing information services, business advisory services and investment promotion. International Trade is not an area of primary focus for the Africa Bureau.

The Africa Bureau soon intends to perform a major impact evaluation of private sector development programs in selected African countries.

B) AID/LATIN AMERICA BUREAU

T&I has been an important part of the LAC Bureau's programs since the late 1970's. Perhaps for that reason, is has not been found necessary to prepare a policy or strategy paper on that subject.

Each of the 12 LAC country Missions have institutionalized or assisted privately-run investment and export promotion centers or units. Their mandate is to encourage and work with local and foreign investors and exporters by providing a range of business services (i.e., feasibility studies, marketing studies, financial analysis, joint venture brokering, legal, etc.) All of these local institutions are in the private sector.

All LAC Missions have developed a strategy for privatization activities; most have studies and/or programs for valuation and divestiture under way. About 20 firms have been privatized; over 75 privatization activities are proposed for 1987 by LAC Missions. Honduras and Costa Rica have created holding companies to manage the divestiture and sale of state assets.

Two years ago the LAC Bureau regionally funded a pilot project ($700,000) to facilitate business linkages between U.S. businesses and the private sectors in eight Central American countries (The Joint Venture Feasibility Fund). The project, implemented by the International Executive Service Corps (IESC), provided small amounts of money to local and U.S. businessmen to meet costs of initial exploratory work in putting together a business colaboration. The activity was found to be very cost effective, (to date 12 deals have emerged from the pilot effort and others are still in the wind), utilizes existing IESC networks, and is now being funded by several LAC Missions. IESC has offered to implement this activity for five ANE Missions but, to date, Mission funding has not been provided.

The LAC Bureau considers its efforts to create business advisory and T&I promotion organizations to be reasonably successful even though financial support for them out of project funding continues to be required. It has concentrated on installing strong local leadership in these institutions supported by strong business participation. While some institutions have established offices in the U.S., the emphasis is on using existing U.S. business networks for access to the U.S. business community. See attachment 4 (LAC Private Sector Success Cases).

The LAC Bureau effort in T&I has been supported by the Caribbean Basin Initiative (CBI) and Congressional appreciation for U.S. strategic interests in that area.

C) OTHER AID FUNDED PILOT TEST ACTIVITIES IN TRADE AND INVESTMENT

The Science and Technology Bureau, Office of Rural Development, undertook a research and evaluation effort in 1984 to search for more cost effective interventions by which trade and investment could be promoted by AID Missions and LDCs. It proposed to test, through a series of field trials, the concept of partially funding the activities of selected international traders and brokers to promote business linkages between U.S. firms and LDC firms. Total cost of the field trials came to about $1.8 million. Four countries in the ANE region were selected to participate in the field trials; Tunisia, Thailand, India and Turkey.

MTAP was designed to test alternatives to traditional export and investment approaches, particularly the question of whether decentralized approaches, relying more heavily upon certain types of commercial intermediaries, might be able to perform more effectively than programs managed more directly by public sector agencies.

Companies engaged in international trading and business brokering, that were established in the U.S. and in one of the participating countries were selected by AID on a competitive bidding basis, were given the task of performing the commercial intermediary role, and were authorized to partially fund their promotion and operating costs under the contract. The performance of these firms was carefully monitored over time under a research and evaluation contract by Arthur Young and Co. The results were compared with typical trade and investment promotion efforts sponsored by AID or national governments.

The field trials are still continuing but some conclusions are beginning to emerge. These are:

- Small and medium firms (SMEs) frequently require external agents to assist them in identifying and developing international business opportunities;

- A variety of intermediaries (lawyers, bankers, accountants,) exist who can and do assist firms in their international business dealings. New types of intermediaries are emerging who seek to engage and guide SMEs in international ventures as a principal activity.

- The new class of intermediaries, although it has elements of a new service industry, is characterized by a great deal of diversity and fluidity. A variety of "models" can be discerned, some emphasizing more traditional consulting services, others focusing on financing, still others specializing in trade or investment deals, or finally a combination of these.

- The initial phase of the MTAP field trials has reaffirmed the importance of established networks to the success of intermediary operations. Contractors who came to the project with strong existing networks in the U.S. and the overseas markets in which they are working, have had an easier time in bringing projects into development.

It is interesting to note that there is a parallel between the lessons learned from MTAP and the operation of the Joint Venture Feasibility Fund pilot test funded by the LAC Bureau (see above). Small amounts of money, put into the hands of commercial intermediaries or principals to pay for travel, communications and other operating costs associated with business development, seem to yield a cost effective method of intervening in the T&I promotion process.

VII NEW PROPOSALS FOR CONSIDERATION BY AID/ANE

A) INVESTMENT AND TECHNOLOGY ACCESS CENTER (ITAC)

A design study for the establishment of ITAC was commissioned by ANE Bureau, leading to a report submitted June 30, 1986. The report recommended AID funding for such a Center in the U.S. by advance purchase by AID Missions of services to be provided through ITAC to local businessmen. IESC offered to establish ITAC with its own resources if the USAID advance purchases (or guarantees) could be secured. The ITAC annual operating cost of $I.5 million could be met by advance purchase of 1000 search requests at a cost of $1,500 each. These prepaid search requests could then be sold or distributed by ANE missions to local institutions for resale to members of the local business community.

B) IESC - TRADE AND INVESTMENT SERVICES

IESC capabilities are described in Chapter IX. It has a capability, through its network of over 9000 volunteer executives, to access U.S. firms and locate technology in the U.S. which, together with its overseas network of 34 representatives in LDCs, can serve to overcome one of the most important (and difficult to attack) obstacles for T&I (see "Information and Networking", chapter V above).

In September 1986, IESC made specific proposals to five ANE Missions (Pakistan, Sri Lanka, Indonesia, Philippines, and Thailand) to provide services similar to those they provide to LAC Missions under the LAC Joint Venture Fund and the American Business Linkage service (ABLE) at a cost of $350,000 per year for three years. To date these proposals have not resulted in funding approvals by these ANE Missions. A similar proposal made to USAID Jordan was funded and began operations in September 1987.

C) USE OF U.S. OWNED LOCAL CURRENCIES FOR T&I

A study prepared for AID/PRE entitled "The Feasibility of Local Currency Programing For Private Enterprise Development" (February I984), recommends that AID arrange to utilize local currencies generated under the PL480 program for activities that would address some of the obstacles to T&I identified above (credit facilities, information networks, etc). It also recommended that AID propose changes in the PL480 legislation that would allow for greater U.S. control and flexibility in the programing of local currencies generated under that program.

The PL 480 legislation has since been amended to establish authorities under section 108, whereby a portion of the sale made for local currency becomes owned by the U.S. government. It should now be possible for ANE Missions to utilize these funds in furtherance of T&I objectives. The reactivation of the "Cooley Loan Program" should now be possible. A description of this program is enclosed as attachment 5.

D) BUREAU FOR PRIVATE ENTERPRISE PROPOSALS

AID/PRE has offered the following two proposals for ANE Bureau consideration:

1. Development of Commodity Trading Systems

Revenue generation for LDC economies depends significantly on use of the natural resources base to produce commodities. Some economies are tied into world trading systems for a few traditional commodities. Although there is opportunity for substantial expansion, economies generally suffer from institutional and organizational deficiencies which keep them from generating higher revenue streams. Examples of deficiencies are the absence of standard contractual terms for meeting international specifications, the shortage of storage infrastructure in rural areas, lack of credit systems to support production and storage for the future. ANE may care to develop a country specific and regional commodity trading systems to generate higher revenue streams. Because of the capital requirements necessary to build commodity infrastructure, there may be opportunities here to combine U.S. foreign assistance funds with those of Japan's development program.

2. Country and Regional Investment Pools

New productive investment depends significantly on the availability of risk capital. PRE has started a number of modest experiments in this area with venture capital initiatives in Thailand, Sri Lanka and in the ASEAN region with the Rockefeller Brothers Fund. These investment pools represent efforts to build a capital markets fabric which will support additional investment. ANE may care to address the need to take ANE countries beyond the traditional development finance institutional structure into modern capital markets forms. Specifically, ANE could launch a capital markets development program, concentrating on ASEAN countries, which combines: a) institutional initiatives through regulatory development with b) actual business growth through the organization of investment pools to allocate risk capital in support of new investment.

VIII - U.S. GOVERNMENT ACTIVITIES IN T&I

A) THE INTERAGENCY STRUCTURE - THE KEY ACTORS

Interagency coordination of U.S. trade policy is accomplished through the Economic Policy Council (EPC). Chaired by the Secretary of the Treasury, it is comprised of the U.S. Trade Representative,, the Secretaries of Commerce, Agriculture, Defense, Labor, Interior, Transportation, Energy, State, the Director of the International Development Cooperation Agency, the Attorney General, Director of OMB, Chairman of the Council of Economic Advisors, and the Assistant to the President for National Security Affairs.

Within the EPC the Trade Negotiating Committee (TNC), has responsibility for establishing the U.S. position in trade negotiations. It is comprised of The U.S. Trade Representative, The Secretaries of Commerce, State, Treasury, Labor and Agriculture.

Two staff organizations, The Trade Policy Review Group (TPRG), and the Trade Policy Staff Committee (TPSC), serve the TPC. These staff organizations are comprised of representatives from the same agencies that make up the EPC, together with an adviser from the U.S. International Trade commission.

Another interagency body of long standing, the National Advisory Council on International Monetary and Financial Policy (NAC), serves to coordinate interagency financial and monetary matters on Export-Import Bank lending, OPIC and AID financing (including PL 480 sales) as well as the operations of the Multilateral Financial Institutions (MFI). Established in 1944, it is comprised of seven members; the Secretaries of State, Commerce, Treasury, the U.S. Trade Representative, the Chairman of the Federal Reserve Board, the President of the Export-Import Bank and the Director of IDCA. All Ex-Im loans in excess of $30 million require NAC review. Recently, in accordance with its obligations under sectio 646 of the TDEA of 1983, it has concerned itself with the matter of mixed credits.

Unlike the EPC, the NAC has traditionally dealt with areas of major concern to AID and was a forum in which AID was a prime actor. It was suggested to the writer by officials of other agencies that, in recent times AID seems to have adopted a passive role with regard to NAC matters, (to the regret of other members such as Ex-Im and Commerce), as the spokesman for U.S. long term interests in the LDCs.

B) THE KEY U.S. PROGRAMS IN T&I:

1. Bilateral Investment Treaty Program

A number of nations have "Friendship, Commerce and Navigation" treaties with the U.S. These treaties provide, among other rights, "Most Favored Nation" (MFN) treatment for U.S. investors. Countries that do not have such treaties with the U.S. are now being asked to negotiate a "Bilateral Investment Treaty (BIT). The BIT provides MFN treatment, requires prompt and adequate compensation for expropriation, establishes capital repatriation rights and provides procedures for settlement of disputes. The BIT does not address all investment risks and barriers. See Memorandum to the Executive Staff dated July 31, 1985 from AA/PPC Derham, on Barriers to Foreign Direct Investment, for a detailed discussion of the BIT Program.

To date, 10 BITs have been negotiated, of which 4 are with AID recipient countries in the ANE Bureau (Bangladesh, Egypt, Morocco and Turkey). None of the BITs have been ratified by the U.S. Senate because they contain provisions which would prohibit the U.S. government from restricting investment in the other country. The Congress is not prepared to make that committment at this time since it would preclude U.S. action similar to that taken recently with respect to South Africa.

2. Generalized System of Preferences

The Generalized System of Preferences (GSP), was passed into law in 1974 to provide LDCs with preferential treatment with respect to customs duties for products normally exported by LDCs. There are approximately 3000 customs code items covered by the GSP. It is a recognition that the U.S. considers itself to have a special responsibility with respect to providing access for LDCs to the U.S. market.

The U.S. Special Trade Representative has operational responsibility for the GSP. In recent years the legislation has made it easier for companies, trade unions and industry organizations who feel agrieved by practices of certain LDC governments, to petition the STR for retaliatory action in the form of denial of GSP rights. An interagency group makes the final determination. At the moment, the pharmaceutical industry has an action before the committee against Thailand on the matter of intellectual property rights protection.

3. Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation (OPIC), offers an array of services and support for U.S. investors entering the international marketplace. It is self sustaining, deriving its income from service charges to its business clients. It offers insurance to cover expropriation, inconvertibility and war risks. It has a number of special programs for pre-investment assistance (the OPIC Opportunity Bank, investment missions, Investor Information Service) and to meet special requirements of investors in contracting and exporting, energy exploration and development and leasing.

OPIC also makes direct loans and loan guarantees to U.S. companies who pursue commercially and financially sound ventures in developing countries. Direct loans usually range from $100,000 to $4 million. Loan guarantees range from $1 million to $25 million. The source of funds for the direct loan is OPIC revenues from its insurance and guarantee operations (OPIC does not receive appropriations; nor does it borrow on the capital markets). In FY1987 OpIC made direct loans totaling $23 million and issued loan guarantees totaling $20o million. These limits are established by OMB and the levels fall short of existing demand. OPIC has sufficient resources to double or triple its direct lending levels if it could obtain OMB agreement to raise the levels. The lending and guarantee ceilings are set by OMB each year. For 1988, OMB has indicated tentative reductions in these ceilings.

OPIC's legislation requires it to review all potential projects to insure that no investment receiving OPIC support will negatively affect the U.S. economy or employment. A copy of OPIC's "Procedural Guidelines for Sectoral and Performance Requirements Analysis" is attached (attachment 6).

4. Export-Import Bank (Ex-Im

The Ex-Im Bank provides a host of services to U.S. exporters. The U.S. is a participant to an "arrangement" with the 22 OECD nations that describes the rules and terms under which official export credits are offered for international transactions. Ex-Im complies with The Arrangement and monitors other nations compliance. While some aspects of The Arrangement work quite well, in the opinion of Ex-Im, there are grey areas which occasionally cause conflicts. One area of conflict surrounds the definition of what constitutes a development project as distinguished from a commercial project.

The U.S. tends to draw a hard line in separating these two categories. If the project will yield revenues and can be self sustaining (i.e. power generation, telecommunications), it is a commercial project. Other aid donors may classify these projects as aid and will offer tied aid with concessional terms (with grant elements). When this occurs, U.S. exporters cannot compete.

Other signatories of The Arrangement offer mixed credits to certain LDCs (i.e. Japan to Indonesia). When a major transaction surfaces, in which U.S. exporters are at a disadvantage, efforts are made to improve the U.S. credit terms and this brings AID into the picture. Recently a Japanese credit to India offered 2.75% for 20 years plus a 7 year grace period. The terms were considered to contain a grant element of 55%. Control Data Corporation asked for assistance and an arrangement was made whereby AID provided a $7 million grant (deobligated from the Kenya program and additive to the aid level for India), and the Ex-Im Bank provided the remaining $20 million under normal Arrangement terms.

Ex-Im does not receive appropriations; rather, the Congress provides annual authorizations to commit. Ex-Im then draws down funds as needed for disbursement from the Federal Financing Bank (Treasury), paying the U.S. government rate plus a fraction. Since 1981 it has deVeloped a negative net worth. The Congress has provided Ex-Im with a "war chest", currently at a level in excess of $100 million, which may be used in event of a major conflict with another member of OECD over a transaction. NAC approval is required to use the war chest and Treasury often resists such use. In fact, use of the war chest would have the same result as a mixed credit.

In I982 the Congress enjoined Ex-Im to coordinate with AID in the use of mixed credits. Efforts to do so did not yield easily implementable procedures. A number of experiments, such as the establishment of the "Trade Financing Facility for Egypt" simply did not work and the funds set aside were not drawn down. In large measure the problem derives from a recognition by the aid recipient, that the funds come out of their established country aid level and are not additive to resources the country would receive in any event. The LDC client then opts to accept the favorable credit from the non-U.S. supplier because the grant element is additive to what it would otherwise receive.

5. Trade Development Program

As is the case with OPIC, the Trade Development Program (TDP), operates independently as an entity responsible to the director of the International Development Cooperation Agency.

The Trade Development Program provides conditional grant financing to U.S. firms to pay for feasibility studies of possible co-ventures or direct investment in LDCs. Up to 50% of the cost is paid by TDP with the understanding that it will be repaid only if the company does not go through with the project.

TDP also finances the design engineering, feasibility studies and other initial work associated with major capital projects that have some sort of financing assured for construction, perhaps from a development bank. These projects are always in the public sector. TDP funds are provided on a grant basis, in the hope that a U.S. design firm will draw up the project so that it will be easy for U.S. suppliers to bid.

Total funding committed by TDP to'date is approximately $70 million, of which 10% went for private sector conditional grants. It is estimated that the TDP effort resulted in $600 million in additional U.S. export sales.

6. Commerce Department

The Commerce Department's International Trade Administration (ITA) is charged with providing the support services to develop the export potential of U.S. firms. ITA includes the Foreign Commercial Service and the operation of 47 district offices in the U.S. It has 2965 authorized permanent positions and a budget of about $200 million in FY1988.

The major services provided by ITA include: participation in World fairs and international expositions, liaison with Industry Sector Advisory Committees (see USTR), analysis of other countries investment climate and trade, identification of foreign market opportunities and dissemination to U.S. industry, the Commercial Information Management System (CIMS) to provide automated information flows to U.S exporters, major projects identification and assistance, etc.

7. U.S Special Trade Representative (STR)

The STR has primary responsibility for trade negotiations, administration of the BIT program and GSP. It also has primary direction of the Advisory Committee System, a group of 47 product specific advisory committees with a membership of about 1000 private sector business representatives that feed information back to STR with regard to the issues being negotiated. This structure is headed by the Presidentially appointed Advisory Committee for Trade Negotiations and six Policy Advisory Committees with members appointed at the Cabinet level. (See attachement 7 for an organization chart depicting the Advisory Committee structure.)

IX NON-GOVERNMENT U.S. PROGRAMS IN SUPPORT OF TRADE AND INVESTMENT

A) U.S. CHAMBER OF COMMERCE - BUSINESS COUNCILS

The U.S. Chamber actively pursues organizational linkages with American Chambers of Commerce abroad, (58 national and 3 regional now in existence), and with similar foreign chambers and associations in the U.S. (39 national and I9 regional now in existence). It has a permanent but small staff which is particularly supportive of LDC commercial representatives in developing networks and linkages with the U.S. business community. For example, the Chamber assisted recently in establishing a Bangladesh - U.S. Business Council. The Chamber staff participates in the regular meetings of the Indonesian - U.S. Joint Investment Committee (set up by the Indonesian Ambassador in Washington) and the Indonesian - U.S. Trade Advisory Committee.

B) INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC)

Since I964, IESC has operated in developing countries to recruit and assign retired executives for 2 - 3 month assignments with private enterprises. Over 10,000 such projects have been completed and IESC maintains contacts with thousands of firms in over 45 LDCs. Currently IESC maintains offices in 34 LDCs.

IESC is supported by AID with a core grant to offset some of the costs of its operations so that the fees it charges LDC firms can be reduced below actual cost. In some instances, particularly in ANE countries where the travel costs for IESC volunteers are high, Missions also contribute support.

During the past two years IESC has developed a new set of "Trade and Investment Services" which utilizes its network of 9,000 volunteers in the U.S. to access the U.S. business community to locate technology and interested companies that might wish to engage in a business collaboration with an LDC firm. It has established regional business councils in major cities of the U.S. and is able to serve as a conduit to link U.S. and LDC private companies that can serve each others needs. Building on its experience with the LAC Bureau's Joint Venture Fund pilot project, it is now funded by Missions to continue that program in about 5 Central American countries.

C) VOLUNTEERS IN TECHNICAL ASSISTANCE (VITA)

VITA has been in existence for more than 20 years. It has a network of 4500 engineers throughout the U.S. that will respond to technical inquiries from LDC private or public sector persons. VITA has amassed a considerable data bank focussed primarily in the "appropriate technology" for small scale production units. In recent years its Executive Director, Henry Norman, has attempted to broaden VITA's scope to make it more relevant to the medium scale production sector but its linkages in the U.S. to the business community are still considerably downscale from that of IESC.

ATTACHMENT TWO

ANE PROJECTS DEALING WITH TRADE AND INVESTMENT

Sri Lanka - Private Enterprise Promotion
383-0082 $4.0 million (L/G) 1983 - 1988

The goal is to help improve the investment climate and increase domestic and foreign investment. Components are: 1) establishment of the Sri Lanka Business Development Center (SLBDC) which would then implement the remaining four components: 2) investor services/investment promotion, 3) economic and business policy, 4) management development and 5) entrepreneur development.

Under component two, investor services/investment promotion, SLBDC and the contractor, Coopers & Lybrand (C&L), undertook to generate ten new investments. A number of "investment profiles" (42) were prepared ranging from industry profiles to studies of specific investment opportunities. C&L attended eight U.S. trade shows and set up a Sri Lanka booth at two of them, resulting in a Sri Lankan firm getting a supply contract with a US buyer. Three individual investment missions were undertaken. SLBDC's Investor Services Division counselled 247 individuals (resulting in 20 "project starts") and the Information Unit responded to 62 inquiries about technology, markets and trade using locally developed resource materials and on-line access to three commercial databases. Nine new investments (including at least one with US participation) were generated/facilitated by these activities, eight of which involved traditional exports or production for local markets.

Component three, economic and business policy, was intended to strengthen the SLBDC's Council of Governors (30 prominent business and government leaders) participation in policy dialogue. The SLBDC Policy Division was to prepare/contract for studies and background papers to support the Council's efforts.

Component four, management development, was intended to improve private sector management capacity. C&L subcontracted to the Coverdale Organization for a series of "Practice of Management Principles" and other courses, primarily for large, Colombo-based firms. The Management Development Division of SLBDC also developed some short courses of their own and provided limited support to the training activities of other insititutions.

Component Five, entrepreneur development, had the objective of establishing District Level programs outside Colombo to stimulate SMEs through entrepreneur development. Both short workshops and longer courses (up to two months) were offered and an attempt was made to develop additional teaching materials through an unsuccessful subcontracting activity.

Indonesia - Private Sector Development
497-0329 $9.6 million (L/G) 1982 - 1988

The goal of the project is to create job opportunities through private enterprise development. There are four project components: 1) facilitate new investment in areas of high employment potential through brokering by Indonesian firms affiliated with US firms to match Indonesian entrepreneurs with potential US investors; 2) establish a management training loan fund to provide loans to Indonesian companies interested in sending mid-level and senior executives to the United States for short-term training at US business schools and internships at US companies; 3) conduct studies at Lhok Seumawe, an area of highly capital intensive investment in North Sumatra, to assess possible ways of integrating capital-intensive industry with the local economy; 4) conduct special studies and provide consulting services related to private sector development; and 5) attract new investment in Central Java to areas offering potential for high employment and profit in agribusiness and light manufacturing for export focussing on shrimp production, rattan and wood products, agroprocessing equipment and metal spare parts.

According to the I986 project amendment, $290,000 was spent under component one to provide up to 25 hours of free consulting time to thirty Indonesian and twenty US firms. In addition, two industry profiles had been completed and three were near completion ($400,000). These activities appeared likely to yield four new investments (three of them US) worth $IO million and creating 550 new jobs.

Under component four a $413,000 consulting contract was established with Pragma for program administration supporting the establishment of a Management Training Loan Fund in the Ministry of Finance for companies interested in short-term training and internships. Between Nov. 1985 and June 1986, sixty Indonesian companies applied.

Component four activities have included workshops on Indonesia's effective use of the US textile quota, participation in AID's conference on privatization, and assistance from the US Federal Reserve Bank to Bank Indonesia (the central bank) in strategic planning, accounting, computerization and bank supervision.

The project was amended in 1984 to add component five and again in 1986 to increase funding for components four and five.

Egypt - Private Sector Feasibility Studies
263-0112 $8.0 million (G) 1979 - 1988

The project was designed to 1) help defray the costs of reconaissance visits and feasibility studies conducted by US investors in Egypt, 2) provide ten sectoral studies to potential US investors, and 3) establish the policy and procedural framework for an investment promotion program.

The project was implemented through the General Authority for Investment and Free Zones (GAFI) and a contract with Chase World Information Service. Promotional materials were mailed to 4500 companies and the ten sector studies were completed and distributed to 365 interested US executives. Executives could then apply and be reimbursed for reconnaisance visits and feasibility studies of investment projects in Egypt. Disappointment with the results of the promotion campaign and problems with processing procedures led to a partial hiatus and redesign during 1984. Nevertheless, of eight feasibility studies and five reconnaisance visits completed by Nov. 1984, three US companies were seeking GOE permission to establish joint ventures with potential to provide over 500 new jobs. The project was amended and extended in 1985.

Thailand - Private Sector in Development
493-0329 $3.5 million (G) 1983 - 1987

The purpose of the project is to increase private sector investment in employment generating, export oriented, resource based ventures in areas outside of Bangkok. The project had three components focussing on 1) investment analysis and promotion, 2) strengthening private sector dialogue with RTG, and 3) promoting US/Thai private sector linkages. The project was implemented by the Thai Board of Investments and a major portion of the project ($2.3 million) was contracted to A.D. Little Inc.

Component one ($2.5 million) was an investment promotion campaign to attract US investment in the priority sectors of electronics, agribusiness, metal fabrication and jewelry. Activities carried out under this component included: ten investment surveys, three investment promotion missions to the US; a public relations campaign directed at US trade journalists; a series of in-country investment promotion seminars; and establishment of a database on Thai companies. The emphasis on resource based ventures in areas outside of Bangkok was largely ignored during implementation. One US investment of $732,000 creating 46 jobs is directly attributable to project activities.

Component two, strengthening private sector analysis capabilities and dialogue with RTG, financed (18) studies and (12) miscellaneous conferences, workshops and seminars conducted by three private sector organizations (e.g., Thai Chamber of Commerce, etc.) and one public sector agency. These activities were overseen and directed by a public/private consultative committee which utilized staff services of the participating public sector agency.

Component three financed staff for the Thai Joint Agricultural Consultative Corporation, Thai counterpart to the AID funded US Joint Agribusiness Coordinating Corporation (JACC). About half way through the project, AID/W dropped support for the USJACC. The Thai JACC did manage to establish some business contacts and partially funded one feasibility study, but the organization has essentially ceased to exist due to lack of US linkage.

Tunisia - Private Sector Development and Technology Transfer
664-0328 $4.7 million (G) 1982 - 1988

The project has two purposes: (a) to encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; and (b) to increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects which affect the local private sector. The project was designed to provide flexible funding in small amounts (average $125,000) to a wide range of activities whenever opportunities arose to address the project's purposes.

The project has been used to fund seminars in Tunisia and abroad; trips to promote joint ventures between Tunisian and U.S. businesses; and technical assistance provided through Catholic Relief Services (CRS), the Institut Superieur de Gestion (ISG), and the International Executive Service Corps (IESC).

India - Program for Advancement of Commercial Technology (PACT)
386-0496 $10 million (G) 1985 - 1990

The program establishes a $10 million fund managed by the Industrial Credit and Investment Company of India (ICICI), Bombay, to finance joint ventures between US and Indian firms for commercialization of technology. Additional funds pay for a contract with Battelle to provide technical services and act as a conduit to US industry to facilitate deal making. The funds are lent to US-Indian joint ventures to meet up to 50% of the cost of developing commercial technology. In the event the R&D fails, the loan is written off.

This project is completing its first year of operation. Once the program was announced there was a strong expression of interest by the US and Indian business community (130 US inquiries; 300 Indian inquiries). These inquiries were reduced to 75 project profiles. To date, eight proposals have been approved for funding by ICICI (see attachment 3).

ICICI has demonstrated a sense of "ownership" of the project and an appreciation for Battelle's contribution, particularly their sense of what will work in achieving a US collaboration.

There is some evidence that PACT is becoming a prototype for similar loan programs being set up by other Indian financial institutions. To date, most proposals submitted to ICICI had already developed a joint venture linkage between the US and Indian firms at the time the proposals were submitted. It remains to be seen whether Battelle can be effective in finding US partners for Indian venturers.

<u>Bangladesh - Technical Resources</u>
388-0027 $11 million (G) 1978 - 1985

This project provides technical assistance and training on a flexible basis to further Mission program objectives not covered by existing projects. Activities include technical assistance to the Dhaka stock exchange through the Asia Foundation and support to the establishment of the US-Bangladesh Business Council.

<u>Jordan - Technical Services Feasibility Studies III & IV</u>

278-0258	$5 million (G)	1982 - 1987
278-0260	$5 million (G)	1984 - 1988

These projects support Mission program objectives by providing funds for feasibility studies, project and program identification and design, technical advisory services, policy reform support, and public sector support of private sector development.

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Market and Technology Access Project

The S&T Bureau's Market and Technology Access Project (MTAP), is active in five ANE countries (Tunisia, Turkey, Yemen, Thailand, India). It provides cost-sharing to US business intermediaries in conducting trade and investment brokering activities between LDC and US firms. These activities include business missions and workshops as well as firm specific services ranging from general business planning to joint venture deal-making. Since the intermediaries also collect fees and participate in deals, there may be a significant leveraging of AID resources. This activity is discussed in greater detail in Chapter VI.

ATTACHMENT THREE

STATUS OF APPROVED PACT PROJECTS

INDIA COMPANY (Turnover, $ millions)	U.S. PARTNER (Turnover, $ millions)	Date Approved	INDUSTRY	Development Planned	Project Cost, ,000 $	Grant Request ,000 $	Project Duration (Months)	3rd Yr. Proj. Sales ,000 $
Globe Scott Motors Bombay (1.4)	Scott Motors Inc. Alamogordo, NM (3.1)	Feb.1987	Transportation	Adv. Permanent Magnet Alternators and Controls	804	402	24	1,130
Infosys Consultants P. Ltd., Bangalore (0.82)	Anco Engineers Inc. Culver City, CA (5.1)	Feb.1987	Health Care	Expert system for Medical Diagnoses	1,055	528	15	640
Pennwalt India Ltd. Bombay (4.00)	Pennwalt Ltd. Sharples-Stokes Div. Warminster, PA (225)	Feb.1987	Food	Dewaxing Rice Bran Oil	500	250	24	440
Pest Control India Ltd. Bombay	Feramone Chemicals, Inc. Phoenix, AZ	June 1987	Chemicals	Control Release Pheromones	860	430	24	2,500
Pond's (India) Ltd Madras (70)	Giorgio Foods Inc Temple, PA (120)	June 1987	Agriculture	High Yielding Mushrooms	636	318	24	2,990
Seshasayee Paper & Boards Ltd. Madras (35.9)	Beloit Corporation Pittsfield, MA	Feb.1987	Paper	Newsprint from Bagasse	300	150	24	120
Southern Electronics Bangalore	Laser Engineering Inc Milford, MA (2.5)	June 1987	Medical	Carbon Dioxide Laser Surgery Device	16	To Be Dete'd	To Be Dete'd	Estimate 780 - 1,320
Sudarshan Chemical Ind. Pune (25.0)	Aevac Chemical Corp Los Angeles, CA (12.0)	June 1987	Agriculture	New Process for Isoproturon (a herbicide)	232	116	24	120
				TOTAL APPROVED FUNDING TO DATE	4,403	2,194		

ATTACHMENT FOUR

July 14, 1987

MEMORANDUM

TO: PPC/PB, George A. Hill

FROM: LAC/DP, William Wheeler

SUBJECT: Private Sector Success Cases

Per your July 10 memorandum, please find below some examples of successful LAC private sector activities funded from the 106 account.

JAMAICA

Private Development Bank Project [Project No. 532-0091/ 532-W-028] - In 1982, USAID began working with a group of Jamaican businesspeople to establish a private development bank in Jamaica. In August 1984, Trafalgar Development Bank was established (TDB). To date, A.I.D. has obligated $12.5 million in loan funds and $900,000 in grant funds to support TDB in providing medium and long-term credit, equity participation and support services to investors in agro-industry, tourism data entry, electronics and other export sub-sectors. Results: A.I.D. assistance has done much to leverage the position of this private bank. To date, over 100 investors have raised the equivalent of $3 million in local equity. Trafalgar has been operational since May 1985 and has approved approximately 32 loans. In addition, 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. TDB's stock was listed on the Jamaica stock exchage in February.

National Development Foundation [Project No. 532-0108] - This project has built a National Development Foundation in Jamaica which responds to the need for technical assistance and credit by the small business sector, creates jobs and raises incomes for marginal entrepreneurial groups. A.I.D. has provided $670,000 in support of the NDF. Results: To date the NDF has made a total of 1,282 loans, valued at J$10 million or US$1.8 million since its inception in 1982, and has created approximately 4,500 new jobs.

COSTA RICA

Private Sector Export Credit (COFISA) [Project No. 515-0187] - As part of A.I.D. 's efforts to stabilize the Costa Rican economy, a new line of credit of $10 million was provided to one of the leading private financial institutions, which had been weakened by the economic crisis. The project goal has been to assist in the private sector liquidity crisis, to enhance the sector's capacity to earn foreign exchange, and to reestablish COFISA as a development-oriented financial institution. Results: COFISA's recovery was due to A.I.D.'s assistance in economic policy dialogue with the government to change restrictive monetary law, and assistance to debt settlement that returned COFISA to a positive equity position. COFISA has adopted more aggressive, risk-taking, development-oriented policies that place emphasis on project cash flow projections vs. traditional collateral requirements. This new lending strategy has been critical to the initiation of projects that otherwise might not have been able to secure sufficient financing from the Costa Rican banking system. COFISA has regained financial viability and is engaged in true development lending according to a recent evaluation. Close to 4,000 new jobs have been created and $41 million dollars net foreign exchange per year for Costa Rica has been generated through COFISA loans.

HAITI

Investment and Export Promotion (PROMINEX) [Project No. 521-0186] Newly formed in late 1986, A.I.D. assistance on the order of $7.7 million over 4 years established PROMINEX, the export and investment promotion center for Haiti. The purpose of the project is to improve, expand, and professionalize export and investment promotion services to a wide spectrum of businesses and entrepreneurs involved in manufacturing, agro-industry, and other service industries like tourism. The project also provides support to the Consultative Mixed Committee for Industrial Development (CMCID), a group comprised of Haitian business representatives from the major manufacturing associations in the country. Results: The Haitian customs code was finalized and a new tariff reduction system and income tax law were improved. The Consular Tax Decree was also drafted, which eliminated a serious nuisance for exporters and importers. PROMINEX has represented Haiti in several U.S. trade shows/conferences.

Training for Development [Project No. 521-0203] A.I.D. assistance will strengthen the Haitian private sector through a $2.3 million project over 5 years. The Management and Productivity Center (MPC) created by this project provides management services via three different means: 1) Management Training, 2) Management Consulting Services (loan packaging), and 3) Micro-business training support. The goal of this oject is to improve management and business skills and practices in Haiti by providing training and other management services to private sector enterprises to increase employment and the local entrepreneurial base. Results: In just its first year of operation, MPC trained 124 supervisors, and demand currently exceeds MPC's resources, requiring the center to undertake an expansion of its capacity to meet demand. MPC's income for the first ten months of operations generated $84,719 in revenues, 30% above project projections.

The Development Finance Corporation (SOFIHDES) [Project No. 521-0154] - With an A.I.D. loan of $8.3 million and a grant for technical assistance of $1.7 million over 5 years, SOFIHDES is providing medium and long-term credit and support services to small and medium businesses and industries for industrial and agro-industrial projects in Haiti. Results: The institution has managed to carry out lending activities in a depressed economic environment. With current total A.I.D. obligations at $6.8 million (excluding technical assistance, obligations for the loan component are at approximately $5.4 million), a total of $5.8 million in loans has been disbursed to date.

Crafts Export Center (CERC) [Project No. 521-0179] - The Craft Export Resource Center (CERC) is a handicraft project managed through a $1 million A.I.D. grant with CARE. Through technical assistance, CARE has helped Haitians to adapt traditional Haitian crafts to U.S. market tastes, standards, design and color, and to market them. A small retail store in Port-au-Prince sells some of the crafts domestically, however, most are sold for export. Results: By January 1987 the project had generated more than 600 part-time jobs, 80% of which are rural based. Over 50% of the beneficiaries are women. In the past year, CERC produced a number of export products that are well accepted in the U.S., with combined export and retail sales of $300,000.

EL SALVADOR

FUSADES Association Strengthening [Project No. 519-0316] - A.I.D. has provided $845,000 under this component of a larger program with FUSADES, a local Salvadoran institution which strengthens the ability of private sector business associations to provide their members important information, technical advice and general guidance needed to: a) maintain and increase the operations of their enterprises; and b) to establish the basis for future exports. Results: To date, 54 service activities have been provided by the various associations to members (exceeding the planned 45 activities). Some services provided by the member associations to their clients include vocational/technical education such as an operator training program for the garment industry, and pilot courses for skills improvement. One of the associations is making excellent progress toward meeting its goal of becoming an independent institution. In conjunction with an ESF funded component, FUSADES activities have contributed to a total of 4,057 jobs created in export industries, $9.7 million in foreign exchange earnings generated and $4.6 million in new investments.

DOMINICAN REPUBLIC

Micro Business Development (ADEMI) [Project No. 517-0208] - The purpose of this project is to help Dominican micro-entrepreneurs expand their businesses and create jobs. A.I.D. provided a $499,000 grant for technical assistance and loan funds in local currency ($1 million) to the local Private and Voluntary Organization of ADEMI. Short-term working capital loans are provided at market rates to indigenous micro-enterprises that have a particularly difficult time accessing credit. Very small initial loans are made with little or no collateral, giving lenders the opportunity to display their credit-worthiness through repayment. Results: ADEMI has exceeded all planned objectives and its program has become a model for micro-business lending throughout Latin America. Approximately 3,085 new jobs have been created, 3,010 new businesses were financed and approximately $4 million in loans have been made.

HONDURAS

Export Development and Services [Project No. 522-0207] - The purpose of this project is to increase non-traditional agricultural and industrial exports from Honduras outside the Central American Common Market, and to provide financial services for nontraditional exporters. A.I.D. provided a $16 million loan and a $7.5 million grant for three main components: 1) export policy and promotion (to help develop a policy environment conducive to exports and eliminate disincentives and constraints to the growth of non-traditional exports); 2) export development through two local organizations, FIDE (industrial production) and FEPROEXAAH (non-traditional Agriculture); and 3) financial services consisting of a both a dollar revolving fund and a local currency fund. Results: Industrial clients exported some $13.5 million through March 1987, with increases at an average of $1 million monthly. Agribusiness activities have expanded into new non-traditional export crops, with $900,000 in dollar loans and approximately $11 million equivalent in local currency, made in the last 6 months. Fourteen training activities have reached approximately 450 recipients through assistance to member associations in the past year.

Draft: MBAllen, LAC/PS, Doc 3308Q, 7/14/87

Clearance:
LAC/PS, AWilliams _Draft__

ATTACHMENT FIVE

THE FEASIBILITY OF LOCAL CURRENCY PROGRAMMING FOR PRIVATE ENTERPRISE DEVELOPMENT

February 15, 1984*

Prepared for the Bureau of Private Enterprise
Agency for International Development
Washington, D.C. 20523

Under USDA RSSA BPE-0809-R-GI-3019
Project #20

By Ludwig Rudel

*This report contains suggested modifications made at the Private Sector Liaison Council meeting on February 23, 1984.

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The Cooley Loan Program

Prior to 1971, the Agency for International Development made loans in foreign currencies to eligible borrowers for qualified projects in certain less developed friendly countries. These loans are commonly called "Cooley Loans" after Congressman Harold D. Cooley, who sponsored the amendment (Act of August 13, 1957), to section 104(e) of Public Law 480 pursuant to which the loans are made.

A. Source of Cooley Funds. Public Law 480 of the 83rd Congress, the Agricultural Trade Development and Assistance Act of 1954, is the enactment of the "Food for Peace" program. Title I of the statute, as amended by the Food for Peace Act of 1966, authorizes the United States government to sell agricultural commodities for foreign currencies under agreements with friendly countries. These agreements commonly provide that a specified percentage of the l/c to be paid to the U.S. government as the purchase price of such commodities will be set aside for use under the Cooley loan program. As commodities are sold and paid for, the percentage of the purchase price allocated to the Cooley loan program becomes available for loans to finance projects located in the country (the "host country") in which the commodities were sold.

Since the beginning of the Cooley loan program in mid-1958, 427 loans totaling approximately $433 million have been made to U.S. firms operating in over 31 countries. These loans include those made by the Export/Import Bank and AID prior to the transfer of the program to OPIC in 1971. After that date developing countries entered into dollar credit sales agreements or convertible l/c credit sales agreements under Title I. Therefore U.S. owned l/c generations under Section 104(e) ceased.

B. Purpose and Use of Cooley Loans. A Cooley loan is made in order to finance eligible l/c costs of a qualified project that contributes to the economic development of the host country and is acceptable to the host government. Eligible costs commonly include the cost of capital assets (land, buildings, machinery and equipment, etc.) acquired locally and other capital expenditures (construction, inland transportation and installation charges, customs duties, etc.) payable in l/c. Whether working capital costs are eligible varies from country to country. A Cooley loan usually may not be used to finance or refinance any expenditures or costs which the borrower has made or became obligated to pay prior to the authorization of the loan, unless AID's written agreement to regard such expenditures and costs as eligible was requested and obtained before the borrower made or became liable to pay such expenditures or costs.

C. Qualified Projects. A project contributing to the economic development of the host country qualifies for Cooley loan financing if it involves business development and trade expansion (or private home construction) and if a U.S. business firm invests its own capital and know-how in the project. (See paragraph D below.) In addition, a project contributing to the economic development of the host country qualifies for Cooley loan financing if it involves the establishment of facilities for

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aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural products. Under the statute, however, a project will not qualify if it involves the manufacture of any products intended to be exported to the U.S. in competition with products produced in the U.S.; and due consideration must be given to the continued expansion of markets for U.S. agricultural commodities or the products thereof.

D. Eligible Borrowers. Except in the case of a project involving the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural products, the borrower must be either a U.S. business firm (or a branch of such a firm) or an affiliate (or a subsidiary) of such a firm.

(i) A "U.S. business firm" is a U.S. firm that is actively engaged in activities of a kind customarily engaged in activities of a kind customarily engaged in by profit-making organizations. (Cooperatives qualify as business firms.) A. U.S. firm is a corporation, partnership association or other legal entity (including a sole proprietorship) tht is organized and has its principal place of business within the U.S. and is controlled by U.S. interests. A firm in which the majority of the voting interest is owned beneficially by individual U.S. citizens is automatically regarded as one controlled by U.S. interests

(ii) An "affiliate of a U.S. business firm" is a corporation, partnership, association or other legal entity in respect of which a U.S. business firm has, by virtue of its equity interest in and other commercial and operating ties to the entity, the power to exercise a significant influence on policy and operations. An entity in which the majority of the equity (voting and total) is owned beneficially by a U.S. business firm is automatically regarded as an affiliate of that firm.

In the absence of majority ownership, affiliation may be established through other commercial and operating ties with the U.S. business firm, provided the latter owns a substantial part (in no event less than 20%) of the entity. The entity may be affiliated with a U.S. business firm through one or more majority-owned subsidiaries of such firm. The eligibility requirements of affiliation must, however, be satisfied through reference to a single U.S. business firm; they will not be satisfied if it is necessary to refer to a group of U.S. business firms which are not themselves affiliated (except through their common interest in the borrower).

In the case of a project involving the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of, and markets for, U.S. agricultural projects, the borrower may be any free world firm (including a cooperative) and need not be affiliated with a U.S. business firm.

E. Terms of Cooley Loans. The amount of a Cooley loan and the period of time over which it is repayable depends upon the purpose of the loan and various financial considerations. Interest on a Cooley loan is payable at the rate designated by AID (usually in consultation with the host government) for Cooley loans in the host country at the time the Cooley loan is authorized; in general, the interest rate is comparable to the rates then charged on long-term l/c loans by local development banks. Principal and interest on a Cooley loan are generally payable semi-annually in the foreign currency in which the loan is made, without maintenance of value. Whether security or guarantees will be required is determined on a case-by-case basis in light of applicable financial and economic considerations and of the degree of financial and technical participation by the U.S. affiliate. In general, no restrictions (maximum or minimum) are imposed on the amount of a Cooley loan, although financial considerations, the amount of Cooley funds available, alternative sources of financing (and the cost of obtaining such financing) and other factors may be relevant.

Impact of Cooley Loan Program

AID has not performed a comprehensive evaluation of its Cooley Loan Programs. The most thoroughly documented loans are, as might be expected, the few that went sour, and resulted in judicial proceedings (i.e., NAPCO Bevel Gear in India). Discussions with AID officials who had extensive involvement with the Cooley Loan Program, particularly during its earlier years (1960's), leads to the following generalizations:

1) Reservations of specified amounts of l/c in the Title I sales agreement that could be used for no purposes other than "Cooley lending," tended to call attention of host government officials to U.S. interest in the program and improved the negotiating posture of the AID Mission in reaching agreement with the host government on the program.

2) The program was labor intensive for the AID Mission and placed it in the position of acting as an intermediate lending institution in the host country.

3) On the other hand the program demonstrated the need for aggressive/ responsive banking by local banks. The Cooley Lending program stimulated local banks to adopt more appropriate lending criteria.

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In fact, U.S. owned l/c that was not reserved for Cooley loans, often were injected into the capital structure of local development banks to increase their lending capabilities and serve the needs of local private enterprises, notably small scale enterprises, that were not a subsidiary of a U.S. corporate parent.

4) It is likely that the Cooley Loan Program would continue to be active today and would be sought after by U.S. companies if there were significant levels of l/c availabilities reserved for Cooley loans. However, these availabilities have disappeared, now that Title I sales are made under dollar repayment terms and l/c sales proceeds are not owned by the U.S.

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ATTACHMENT SEVEN

Office of the United States Trade Representative
Advisory Committee System