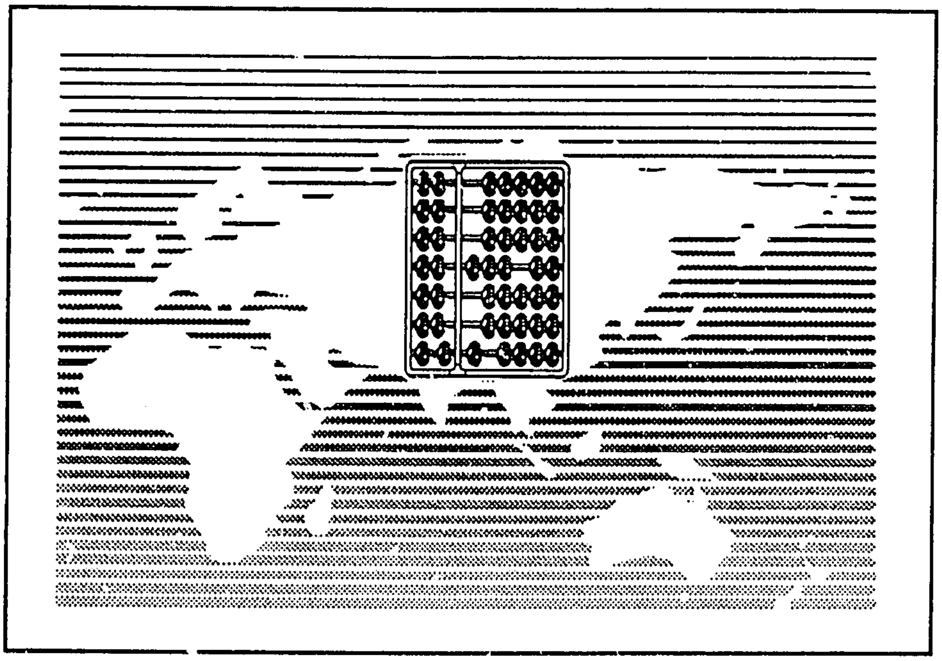
U.S. Agency for International Development
Bureau for Asia, Near East and Europe

The Private Sector Agenda for the 90s: Perspectives from Asia and the Near East



Proceedings from Regional Workshops in Jordan and Thailand, May 1990

PN-ABF-751

1990 ANE BUREAU

REGIONAL PRIVATE SECTOR WORKSHOPS

Jordan May 5-9, 1990

Thailand May 13-17, 1990

REPORT OF THE PROCEEDINGS

Prepared for ANE Private Sector Development Office
Agency for International Development
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July 16, 1990

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FORWARD

The recently completed ANE Regional Private Sector workshops in Amman, Jordan and Pattaya, Thailand marked a major step for our Bureau in operationalizing a key portion of our "open markets and open societies" agenda. In attending briefings on the outcome of the workshops and in reviewing the summary report and appendices, I have been particularly impressed with the breadth and depth of the materials and case studies prepared for the workshops by ANE/PSD and the Missions. While much remains to be done to implement the ANE private sector agenda, the high quality of these case studies suggests to me that many Missions are already forging ahead in this area, with project initiatives ranging from trade and investment, agricultural export marketing and privatization to financial markets support and provision of private sector power.

In my discussions with DAA/ANE John Blackton and ANE/PSD's Lance Marston following the workshop, it is also apparent that ANE/Washington, in cooperation with the PRE Bureau, has a large responsibility to provide field Missions in Asia and the Near East with up-to-date support in identifying appropriate technical assistance, providing information in regional trade and investment trends, and in training Mission and host country personnel in new private sector programming techniques. AID/Washington has an equally important role in working closely with other USG and donor agencies in better coordinating A.I.D. assistance in the private sector area. Finally, we will continue to strengthen our contacts with private businesses and other organizations in the U.S. who offer opportunities for active cooperation and partnership with A.I.D. in expanding our programs of trade and investment, financial markets and policy dialogue in the ANE region.

I wish to congratulate all the speakers, resource personnel and case study presenters who helped to make these two workshops so successful. I especially appreciated the great logistical and programmatic contribution provided by Director Lew Reade and his staff in Jordan and by Director John Eriksson with his staff in Thailand. In the months ahead I will monitor with interest the actions and next steps flowing from the workshops.

Carol Adelman

Carol C. Adelman
Assistant Administrator
Bureau for Asia, Near East
and Europe

PREFACE AND ACKNOWLEDGMENTS

Our aim in sponsoring the two private sector workshops held in Jordan and Thailand was to increase the momentum behind ANE's open markets/open societies development strategy. Although there are many issues left to address -- both internal to the Agency, and in its working environment at the Mission-level -- we are certain that the positive feelings and excitement generated in the workshops will help to extend and strengthen the ANE response capability to facilitate the development of open economies in the region.

An expanding role for the private sector and increased openness and competitiveness of markets are central to the ANE Bureau's emphasis on open markets and open societies. The workshops focused on three of the most important elements of an effective private sector strategy -- promoting trade and investment, improving financial markets, and strengthening the enabling business environment. Through these workshops, we were able to bring together key people from inside and outside the Agency to share knowledge and experience in these three areas, and to draw conclusions on what works and does not work.

A central theme throughout the workshops was to increase substantially the exchange of information and ideas of alternative approaches to design, develop, and implement the open markets project and program agenda. The message has been received and ANE/PSD, PD, DP and TR staffs here in Washington, with support from PRE, are moving in innovative and responsive ways to meet the demands of the Missions. During the next year, A.I.D/W and the Missions are committed to three objectives: working "smarter" internally through a better exchange of information (on technical and procedural approaches to private sector programming); finding ways to collaborate more effectively with other U.S. government agencies, and bilateral and multilateral donors; and being entrepreneurial and creative in promoting U.S. commercial interests in our economic development strategies.

There are many people who contributed to the success of these workshops. We would especially like to thank the participants for their efforts in the workshop, and in particular those participants who made case presentations. We also very much appreciated the long hours contributed by the support staff members of the two hosting Missions. Finally, we wish to give special recognition to Lew Reade, Director, USAID/Jordan, and to John Eriksson, Director, USAID/Thailand, for hosting the workshop. Their efforts before and during the workshops are greatly appreciated.

Lance Marston

Lance Marston, Director
ANE Private Sector Development Office

Chapter 1

INTRODUCTION

1.1 Background

From the start of the planning process, the two private sector workshops were seen as an opportunity for Missions and A.I.D/ Washington to jointly frame the broad strategy objectives and operational guidelines needed to implement the open markets/open societies direction set by ANE.

Originally, one Bureau-wide conference had been proposed. But because of a recognized need on the part of many people in Washington and in the field for greater exchange at Mission-to-Mission and Mission-to-Washington levels, it was decided that two workshops would keep participant size down, enabling more group interaction. The regional Near East and Asia workshops approach also allowed Missions to assess applicability of new private sector strategies within their particular region.

It was also decided to broaden participant composition -- from the private sector officer conferences of the past -- to include senior Mission management, other Mission office representatives, and representatives from the local business community. This participant mix, it was hoped, would result in a much more dynamic appraisal of program and Mission opportunities, needs and issues.
The workshop design process, stretching over a three month planning period, was very collaborative. The initial workshop design was developed by the ANE Private Sector Development Office, with assistance from Training Resources Group (TRG). It was based on interviews in Washington and on numerous telephone conversations with Mission representatives. Before it was finalized, the design was presented to senior Bureau management, as well as to a Washington resource group that included key Agency and non-Agency technical expertise.

Missions also participated very actively in the workshop design process. Ten Missions prepared case presentations on trade and investment, financial markets and privatization in advance of the workshops, and four Missions prepared presentations on policy dialogue. USAID/Jordan and USAID/Thailand, in particular, played key planning roles in identifying local participants and panel members. The workshops were facilitated by TRG.

1.2 Profile of Attendance

As noted above, participants in the two workshops included Mission directors, deputy directors, private sector officers, other Mission representatives, foreign service nationals (FSNs), personal services contractors (PSCs), and private businessmen. A profile of attendance for the two workshops is included below.

	Jordan	Thailand
Mission Directors	4	4
Deputy Mission Directors	-	5
Private Sector Officers	6	9
Other Mission Officers	2	5
Mission FSNs	1	2
Mission PSCs	3	3
Private Sector Participants	4	2
Country IESC Director	1	-
Total	21	30

Others attending the workshop included resource people from A.I.D/Washington and other U.S. organizations, as well as government representatives and other interested parties invited by the hosting Missions. (See List of Participants, Appendix A.)

Chapter 2

WORKSHOP DESIGN

2.1 Overview

The design and delivery of the two workshops was essentially identical. Key differences were as follows: participants in the Jordan workshop had the option of visiting project field sites prior to the start of the workshop; the financial markets opening presentation was delivered by different technical experts; and there were more Mission case presentations in the Thailand workshop, which required participants on two occasions to choose between two simultaneous presentations.

The overall character of each workshop, however, was somewhat different, the result of several factors: there were more participants in the Thailand workshop, which had total numbers ranging from 40-48 people on any given day, as compared to a range of 30-38 in the Jordan workshop; there was more "front office" attendance at the Thailand workshop; and there was a more informal atmosphere at the Thailand workshop, due in large part to its location outside the capital city.

Finally, the hosting A.I.D. Mission and country environments varied, and in their variations illustrated both the regional diversity within the Bureau, as well as the relative evolution of "open markets and open societies" programming within ANE field Missions. USAID/Amman, for example, is already a program for which private sector-related activities constitute a dominant theme throughout the Mission's portfolio. USAID/Bangkok, on the other hand, has just launched a redirection of its strategy and portfolio more toward open markets and open societies objectives, thus bringing the A.I.D. program more in line with Thailand's advanced developing country status.

2.2 Participant Expectations

In the opening session of the two workshops, prior to the presentation of the workshop goals and schedule, participants were asked to reflect on the question, "What do you expect to get out of the workshop?" This question was asked for three reasons:

- to enable the workshop planners to gauge how well the workshop goals matched participant needs;

- to clarify at the start of the workshop which participant expectations would be addressed in formal sessions; and

- to identify resource people within the group who could address in optional evening session or on a one-on-one basis those participant expectations not covered in formal sessions.

Participant expectations for the two workshops are included in Figure 1.

2.3 Workshop Goals

The following goals were developed for the two workshops:

- To enable participants to gain a better understanding of "open markets/open societies" development strategies.

- To provide country teams an opportunity to assess how their current mission portfolio measures up to these new development strategies.

- To work collaboratively to identify opportunities and issues or problems in being responsive to this new development approach.

- To explore opportunities for increased A.I.D. involvement in areas of trade and investment, financial markets, agro-business, and other sectoral initiatives designed to engage local private sector response.

- To develop "next steps" for how mission portfolios can respond more to "open markets/open societies" development approach (and to prioritize project and non-project areas).

- To clarify and prioritize Mission and A.I.D/W resources and other assistance available to support Mission "next steps."

In the opening session of both workshops, most participants felt that their expectations closely matched the workshop goals and schedule.

2.4 Workshop Sessions

Each workshop took place over a five-day period. In Jordan, the workshop began at 5:30 p.m. on Saturday, May 5, and concluded at 1:00 p.m. on Wednesday, May 9. In Thailand, the workshop began at 4:00 p.m. on Sunday, May 13, and concluded at 1:00 p.m. on Thursday, May 17.

Figure 1 **Participant Expectations**

Jordan

- To hear what others have done to promote U.S. trade and investment linkages -- to learn how to do it.
- To hear how people have approached libralization of the financial sector, new ANE strategies, and resource availability.
- To understand A.I.D. overall goals, how they relate to private sector goals, and whether the two really work together.
- To better understand A.I.D's open market strategy.
- To clarify acronyms and other specialized terms for non-A.I.D. people
- To develop effective working relationships with ANE/PSD and other A.I.D/W participants -- to help us access good technical assistance and resources.
- To learn how we can react faster to countries that want our help -- what are appropriate time-tables.
- Privatization -- what are good strategies, sequencing of events.

Thailand

- To hear examples/lessons learned of other Missions on their private sector activities.
- To learn the "state-of-the-art" from A.I.D/W people who might be more current on finance, trade and so on.
- To learn how to help my private sector office more, and how to integrate more into the community.
- A hope that the workshop will get away from kneejerking and posturing, and get to good ideas that work.
- To hear what A.I.D/W is doing to address implementation issues the Missions are facing.
- To find out what others are doing in trade and investment -- where does A.I.D/W fit into U.S. trade and investment policy, and the Washington debate (among government departments and Congress).
- To understand A.I.D/W expectations for private sector development, how it is different from two years ago, and how Missions are dealing with it.
- To understand A.I.D/W's position on capital projects and mixed credits.
- To generate ideas that haven't been thought of before for using theprivate sector.
- To learn where the U.S. private sector fits into A.I.D's objectives.
- To learn how to communicate successfully lessons learned and successes to host government people who are avowed Marxists.
- To gain more understanding of pitfalls vis-a-vis conflict of interest, selection of firms, and A.I.D. partnerships with the private sector.
- To learn how to better define the relationship between A.I.D. and State (i.e., the commercial section).

Workshop Introduction

The first session introduced the rationale for the workshop, and provided an overview of the workshop planning and design process. Participant expectations for the workshop were recorded and discussed (see 2.2), and the workshop goals and schedule were presented.

Overall Policy Presentation

The primary objective of this session was to provide an overall policy framework for A.I.D's "open markets/open societies" strategies -- and an overall framework for the workshop. This presentation was made by John Blackton, Deputy Assistant Administrator for the ANE Bureau. Mr. Blackton focussed his presentation around Secretary Baker's recent charge to Administrator Roskens to address five challenges: consolidate the world-wide trend to democracy; help build strong free market economies; support regional peacemakers; work with the world community to address transnational threats; and join other free market democracies and multilateral donors in responding to developing countries' needs.

Opportunities, Needs and Issues

There were two objectives for this session: to provide an opportunity for Missions to share what they are already doing to respond to the "open markets/open societies" strategy; and to identify some of the needs and issues they have encountered along the way.

Participants were asked to work in three small groups: a private sector group, comprised of private sector officers and invited host country business people; a non-private sector group, comprised of Mission directors, deputy directors, and other Mission officers; and a Washington resource group, that included A.I.D/W representatives and workshop resource people from other organizations. This session concluded with plenary presentations from each group. See Figure 2 for a summary of needs and issues generated in the session.

Trade and Investment

The major objectives of this session were to provide participants with information on trade and investment -- both globally and country-specific -- and to solicit participant input on the draft ANE Trade and Investment Strategy Paper (see executive summary in Appendix C).

The session included three activities: a presentation by Harvey Wallender on "Trade and Investment Global Perspective" (see Appendix D); two case presentations, by USAID/Jordan (agricultural portfolio) and USAID/Egypt (trade

Figure 2

The Open Markets/Open Societies Strategy
Needs and Issues

Summary of Needs

* New program initiatives.
* Clarification of A.I.D/W staff roles re: backstopping, linkages outside and U.S. business.
* Clear guidance from A.I.D/Washington on Mission of A.I.D.
* New breed of consultants to provide appropriate technical assistance.
* Early involvement in multilateral initiatives.
* Support from A.I.D's control system.
* A clearly defined A.I.D. role vis-a-vis other agencies, donors and constituents.
* Private sector counterparts from host governments with the institutional will to participate in developmental activities.

Summary of Issues

* The mind-set of many host country government officials – their control/regulatory orientation needs balance.
* Overly complex A.I.D. regulations must be dramatically revised.
* Accessing expertise: pay scale and contracting procedures.
* Source/ origin: extent to which A.I.D. contracting and procurement should favor U.S. firms.
* Local currency: extent to which it can support private sector programming
* More mechanisms, less guidance
* Field post cannot proceed independently with creative private interventions without parallel flexibility/cooperation from A.I.D. auditors and lawyers
* Missions need adequate OE resources to carry out private sector programming.
* Challenge to reconcile technical and economic focus of private sector interventions with political goals of large and highly visible A.I.D. programs.
* Need to develop new relationships and institutional mechanisms for A.I.D. interaction with the U.S. and local business community.

and investment portfolio) in the Jordan workshop, and by USAID/India (commercialization of technology) and a local Thai venture capitalist in the Thailand workshop (see Appendix E); and small group assignments to address the issues presented in the draft ANE Trade and Investment Strategy Paper: Executive Summary.

Financial Markets and Privatization

The purpose of this session was to provide a technical explanation and policy framework for financial markets activities, and regional and global trends in this area; and to enable participants to explore opportunities and issues in privatization and financial markets.

The session included three activities:

- a theme-setting presentation on financial markets, by Leigh Miller in Jordan, and by Richard Breen in Thailand (see Appendix D);

- case presentations, with Tunisia (privatization) and Morocco (banking) examples in the Jordan workshop, and with examples from Bangladesh (privatization), Indonesia (financial markets support), Philippines (banking) and Pakistan (private sector power) in the Thailand workshop (see Appendix E); and

- small group assignments to address the issues presented in the draft ANE Financial Markets Strategy Paper: Executive Summary (Appendix C).

Collaboration with Other Organizations

This session provided a transition from the technical sessions on trade and investment and financial markets to the session on policy reform. In the Jordan workshop, Ken Lussier presented a "case model" on Pakistan Power; and in Thailand, Ken Locklin presented a "case model" on the Africa Growth Fund and the promotion of venture capital (see Appendix D).

Policy Reform and Business Regulatory Agenda

This session included two activities: Mission presentations on their policy reform initiatives; and a panel presentation/ discussion on the "open markets enabling environment."

In the Jordan workshop, Lew Reade, Director, USAID/Jordan, and George Carner, Director, USAID/Tunisia, made presentations on their policy dialogue efforts; and in the Thailand workshop, similar presentations were made by Lee Twentyman, Deputy Director, USAID/Indonesia, and Richard Johnson, Deputy Director, USAID/Philippines.

Where do A.I.D. Mission and A.I.D/W Go From Here

The major purpose for this last session of the workshop was to provide an opportunity for country-specific and A.I.D/W-specific planning regarding "where do we go from here." Participants were first given time for individual planning of next steps; they then met as country teams to share their individual next steps, and to develop a mission plan of "where we would like to go from here, given what we have learned in the workshop."

Workshop Closure/Evaluation

Closing remarks on the workshop were made by John Blackton, ANE Deputy Assistant Administrator, Lance Marston, Director, ANE Private Sector Development Office, and by hosting Mission Directors, Lew Reade (Jordan) and John Eriksson (Thailand). The evaluation results are summarized below.

2.5 Summary of Participant Evaluations

At the closure of the workshop, participants were asked to evaluate the degree to which workshop objectives had been achieved. They rated each workshop objective against a 1-5 scale, with 1 being "not well achieved" and 5 being "very well achieved." A summary of scores is included here. Detailed comments from evaluation forms are available on request from the ANE/PSD office.

	Jordan	Thailand
Gain better understanding of open markets/open societies development strategy	3.85	3.80
Identify issues and opportunities to meet new developmental approach	4.31	4.05
Exchange ideas to expand/strengthen interventions on trade and investment, financial markets, privatization and other areas	4.46	4.10

Create "next steps" agenda	4.31	3.70
Participant critique: over-all workshop effectiveness	4.43	4.25

The last evaluation scores was in response to the question, "How would you rate the overall effectiveness of this workshop?"

Chapter 3

WORKSHOP CONCLUSIONS, RECOMMENDATIONS AND NEXT STEPS

The workshop participants were asked to identify conclusions vis-a-vis A.I.D. at the completion of the trade and investment and financial markets sessions. This chapter summarizes these conclusions, and participant conclusions on the open markets theme. It also summarizes participant feedback for future planning, and ANE/Washington next steps.

3.1 Trade and Investment

Participant conclusions at the completion of the trade and investment session are summarized below.

- Trade and investment has a legitimate role in the ANE development strategy, particularly in countries where the policy is improving and the country can develop a competitive advantage.

- U.S. business is a legitimate partner in this process; but operational issues exist (e.g., the need to set standards and create intermediaries).

- Trade and investment interventions can have substantial developmental consequences, particularly in joint venture relationships.

- A.I.D. must work collaboratively with other federal agencies and donor organizations to fully optimize on its trade and investment interventions.

- ANE/W needs to adopt more flexible, quick response service and funding capabilities to meet Mission needs.

- A renewed emphasis on the business environment and policy dialogue at the country-level is essential for sustainable trade and investment interventions.

3.2 Financial Markets and Privatization

Participant conclusions at the completion of the financial markets and privatization session are summarized below.

- Financial markets are an essential means to facilitate economic development.

- Private sector role: savings/credit mobilization and allocation. Public sector role: monitoring and oversight (e.g., regulation).

- A.I.D. is moving from a directed credit approach to a financial markets approach, which will lead to macro-economic policy reform and a strengthening of private sector intermediation.

- The U.S. has a comparative advantage in financial services, technology and capital.

- A viable financial markets environment is essential to long-term privatization objectives; this relationship is highly interdependent.

- A.I.D. must:

  - Train in-house/counterpart staff
  - Recruit appropriate staff (mainly PSCs)
  - Facilitate access to services/experts
  - Develop analytical tools

3.3 Open Market Themes

Throughout both workshops, participants reached conclusions related to open market themes. These conclusions are included below.

- A.I.D's approach to open markets is still evolving, and requires considerable initiative and creativity from both A.I.D/Washington and Missions.

- The next generation of A.I.D. projects will emphasize private sector growth.

- In response to this re-direction, private sector initiatives/organizational capabilities will be a driving force in the 1990s.

- Good policy is essential but not sufficient. A.I.D. also needs to facilitate the expansion of business transactions through the development of private business services.

- Given the transactional costs and institutional constraints at most Missions, wholesaling and intermediation support is a more effective form of private sector intervention.

- Employment of mixed credits has a strategic role in carrying out ANE's open markets/open societies development strategy.

- A.I.D. needs a major reform in private sector contracting, financing and access to experts.

3.4 Participant Feedback for Future Planning

The following conclusions were reached by participants in response to questions on future workshops:

- Most participants would like annual private sector workshops.

  As part of the workshop evaluation form, participants were asked the question, "Should we do an annual Private Sector Workshop?" All participants who completed the evaluation said "yes." When asked if the workshop should have a similar regional orientation (i.e., Near East and Asia), most people said "yes," although two people suggested a mix of bureaus, and five people suggested that countries be grouped by similarity of program portfolio and level of development. Four participants suggested that the workshop be held every 18-24 months, as opposed to annually.

- Participants recommend the same participant composition.

  All participants responded "yes" on the evaluation form to the question, "Should the next private sector workshop have a similar participant composition?"

3.5 ANE/Washington Next Steps

The following "next steps" were developed by the ANE Private Sector Development (PSD) Office at the two workshops:

- <u>Report Preparation and Action Agenda</u>

  - ANE/PSD will make available to all field posts copies of workshops proceedings, as well as copies of briefing package provided to A.I.D/W attendees at the May 24, 1990, workshop debriefing meeting.

- <u>Trade and Investment</u>

  - ANE/PSD will work with other Bureau and A.I.D. offices in finalizing the trade and investment strategy paper and operational guide (including a summary reference publications list and directory of trade and investment focussed institutions and consulting organizations).

  - PSD, with support of PRE, will design a pilot trade and investment short field course, and will review draft designs for such course with selected field posts in the near future.

  - PSD will support the extension (and modification, as appropriate) of the TIMS trade and investment data base services to all ANE Missions.

  - PSD, in collaboration with PRE and other organizations, will provide general guidance and reference regarding appropriate technical assistance support for the development of demonstration trade and investment projects.

- <u>Financial Markets</u>

  - PSD will work with other Bureau and A.I.D. offices in revising and finalizing the financial markets strategy paper and operational guide, including a summary publication list and directory of financial markets-focussed institutions and consulting organizations.

  - PSD, with support from PRE, will design a pilot financial markets field short course, and review the draft design with selected field posts in the near future.

  - PSD will provide general guidance and references regarding appropriate technical assistance support for the development of financial markets reconnaissance/assessments.

- <u>Privatization</u>

  - PSD will continue to keep field posts informed regarding U.S. and overseas training events in this area, as well as progress on renewal of the PRE privatization contract.

- <u>A.I.D/W Resource Directory</u>

  - Based on comments gathered at the Jordan and Thailand workshops, PRE/PD will finalize this draft directory within an A.I.D-wide directory of such projects. Distribution to field posts of final copies is anticipated for July 1990.

- <u>MAI Support</u>

  - ANE/PSD, desk, and DAA/ANE David Merrill held a briefing on MAI Philippines reconnaissance visit for U.S. media, corporations, and interested Capitol Hill staff in Washington on June 4, 1990, with follow-up briefings for U.S. companies interested in specific sectors to be held by the U.S. Philippines Business Committee in other U.S. cities. In late June, PSD will advise posts of U.S. private sector reactions to this initiative, given MAI's importance, not only to Philippines, but also as a testing ground in using similar trade and investment identification and promotional techniques elsewhere in the ANE region.

- <u>PSD Information Exchange</u>

  - Several participants at the workshops suggested that a periodic private sector informal bulletin would be a valuable information resource to field Missions. Consequently, ANE/PSD will produce this month an information exchange document (by fax to all field posts) that will provide timely and useful private sector related information from Washington and the field.

- <u>Waivers/Handbook Restrictions</u>

  - Following suggestions by DAA John Blackton at the workshops, ANE/PD's Bob Nachtrieb, with support by GC/ANE and ANE/PSD will be reviewing mechanisms to facilitate and streamline private sector program A.I.D. actions.

- Training

  - PRE, OIT and PFM/TD, in cooperation with ANE/PSD will finalize information available on short-term private sector training opportunities, as well as conduct activities to further assess specific Mission training needs.

- Information Requested at Workshops

  - ANE/PSD will pouch in June-July to all field posts copies of the 1989 IBRD World Development Report on financial markets, the speech on assisting U.S. business by Deputy Secretary of State Eagleburger, and the Economist's article on Third World economies. PSD will continue to search for other current and relevant articles and services in trade and investment and financial markets, and will make them available to the field.

- Personnel/Consulting Support

  - A major theme at the regional workshops was the need for field expert personnel to work with Missions in such innovative areas as trade and investment and financial markets. DAA John Blackton has instructed ANE/PSD to explore with Missions some innovative ways in which ANE and PRE may be able to assist the field in identifying and screening personnel for such opportunities.

Appendix A

List of Participants

1. Jordan Participants
2. Thailand Participants

1990 ANE BUREAU REGIONAL PRIVATE SECTOR WORKSHOPS
PARTICIPANT LIST

JORDAN WORKSHOP

MISSION	PARTICIPANTS	TITLE
Egypt	Gregory Huger	Associate Director, T&I
	Michael McWherter	PSC in Banking/Finance
	Hatem Moustafa	Desert Agriculturalist & Investor
Jordan	Lewis Reade	Mission Director
	James Dempsey	Project Development Officer
	Kelly Harrison	PSC, Agricultural Marketing Project
	Randy Cummings	Chief, Rural Development Office
	Richard Rousseau	Project Development Officer
	Barry MacDonald	Project Development Officer
	Mike Foster	Project Development Officer
Morocco	Richard Burns	Chief, Project Dev. & Private Enterprise
Oman	Duncan Miller	Mission Director
	Anjab Sajwani	Director of Projects
Pakistan	Gordon West	Chief, Project Design & Monitoring
	Richard Goldman	Chief, Private Enterprise Office
	Kenneth Lussier	PSC in Private Sector Power
Tunisia	George Carner	Mission Director
	Monica McKnight	Private Sector Officer (PSC)
Yemen	Kenneth Sherper	Mission Director
	Robert Mitchell	General Development Officer

Resource People - Jordan

Harvey W. Wallender III	Senior Partner, Burkholder Wallender International
Leigh Miller	Consultant, L. Miller & Associates
Steve Strauss	President, Trans-Atlantic Consulting Services, Inc.
Kelly Harrison	PSC, Agricultural Marketing Project
Russ Anderson	Director, PRE/PD
Bob Nachtrieb	Deputy Director, ANE/PD
John Blackton	Deputy Assistant Administrator/ANE Bureau
Lance Marston	Director, ANE/PSD
Gary Vaughan	Acting Deputy Director, ANE/PSD
Steve Joyce	Workshop Facilitator, TRG

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1990 ANE BUREAU REGIONAL PRIVATE SECTOR WORKSHOPS PARTICIPANT LIST

THAILAND WORKSHOP

MISSION	PARTICIPANTS	TITLE
Bangladesh	Malcolm Purvis	Mission Director
	Bill Duncan	Private Sector Officer
	Ken Moots	Food & Ag. Contractor
India	Dale Pfeiffer	Deputy Mission Director
	Robert Beckman	Private Sector Officer
Indonesia	Lee Twentyman	Deputy Director
	James Watson	Private Sector Officer
	John Rogers	Project Officer for T&I and FM
	Steve Parker	Contract Economist/T&I
Nepal	Neal Cohen	Economist/Private Sector
	Mike Calavan	Chief, Program & Project Development Office
Pakistan	David Johnston	Office of Energy
Philippines	Richard Johnson	Deputy Director
	Bruno Cornelio	Chief, PESO
	Manny Villanueva	Project Manager, PESO
	Gil S. Garcia	Project Manager, PIF
	Raul Tanchoco	Project Officer, PBSB
South Pacific	John Woods	Mission Director
	Amy Nolan Osborn	Regional Program Officer
Sri Lanka	George Jones	Acting Mission Director
	Talbot Penner	Chief, Private Sector Dev.

Thailand		
	John Eriksson	Mission Director
	Steve Mintz	Deputy Mission Director
	James Grossman	Private Sector Officer
	Don Reese	Project Development Officer
	Peter Thormann	Project Officer
	Judy Kocher	Private Sector Officer
	Sudhisakdi Manibhandu	Director of Manistee Limited
ASEAN	Lawrence Ervin	ASEAN Representative
	Robert Dakan	Deputy ASEAN Representative

Resource People - Thailand

Kenneth Locklin	Manager, Africa Growth Fund
Harvey W. Wallender III	Senior Partner, Burkholder Wallender International
J. Richard Breen	Senior Manager, Price Waterhouse
John Evans	Consultant, Price Waterhouse
John Blackton	Deputy Assistant Administrator /AN Bureau
Bob Archer	Deputy Chief, ANE/TR/EN
Russ Anderson	Director, PRE/PD
Judith Evans	Assistant Investment Officer, PRE/I
Joseph Battat	Advisor, FIAS
Gary Vaughan	Acting Deputy Director, ANE/PSD
Lance Marston	Director, ANE/PSD
Steve Joyce	Workshop Facilitator, TRG

Appendix B

Workshop Agendas

1. Agenda for Jordan
2. Agenda for Thailand

Schedule of Events for Jordan

Conference Site: **Marriot Hotel** - Amman
Phone #: 962-6-660100
Fax #: 962-6-670100

Saturday, May 5

5:30 P.M. **SESSION 1:** INTRODUCTION TO THE WORKSHOP

- Informal Opening Activities
- Workshop Goals and Schedule
- Logistics
- Informal Reception
- Dinner hosted by Lew Reade, Mission Director

Sunday, May 6

8:15 FORMAL WORKSHOP OPENING

SESSION 2: OVERALL POLICY PRESENTATION

- John Blackton - DAA/ANE

SESSION 3: OPPORTUNITIES, NEEDS, AND ISSUES

Small Group Discussion Leaders

- George Carner - Director, Tunisia
- Greg Huger - Associate Director, T&I, Egypt
- Harvey Wallender, Senior Partner, Burkholder Wallender International

Small Group Activity

- What are missions already doing to respond to new policy themes.

- What are needs and issues encountered in responding to these themes.

12:15 Lunch

1:30 **SESSION 4:** TRADE AND INVESTMENT

- Presentation by Harvey Wallender (Senior Partner, Burkholder Wallender International) on "Trade and Investment Global Perspective."

- Problem-solving small group activity based on "real case" situations:

  - **Jordan**: Ag Marketing (Randy Cummings and Kelly Harrison, PSC, Agricultural Marketing Project)
  - **Egypt**: IESC/USIPO (Greg Huger, Associate Director, T&I)

6:00 End of Day

Monday, May 7

8:30 SESSION 4 (Continued)

- Small Group Activity to review A.I.D/W Trade and Investment Strategy Paper

SESSION 5: FINANCIAL MARKETS AND PRIVATIZATION

- Presentation by Leigh Miller (Consultant, L. Miller & Associates) on Financial Markets

- Presentation on Privatization by Lance Marston (ANE/PSD) and Russ Anderson (PRE/PD).

- Country Presentations

  - **Tunisia**: Privatization (Monica McKnight, Private Sector Office)
  - **Morocco**: Banking (Steve Strauss, President, Trans-Atlantic Consulting Services, Inc. & Richard Burns, Chief, Project Development and Private Enterprise)

- "Case Model" on How A.I.D. Works with other Agencies, Companies and Host Government

  - Pakistan Electric Power (Ken Lussier, PSC in Private Sector Power)

5:30 End of Day

Tuesday, May 8

8:30
- Small Group Activity to review A.I.D/W Financial Markets Strategy Paper

SESSION 6: POLICY DIALOGUE AND BUSINESS ENABLING ENVIRONMENT

- Presentations/Discussion on Policy Dialogue

  - Mission Director, Lew Reade

12:15 Lunch

1:30
- Panel Discussion: "Outside" Perspectives on the Enabling Environment (Taher Helmy, Partner, Baker Makenzie International Law Firm & Jordanian Businessman)

SESSION 7: HOW TO OPERATIONALIZE AN OPEN MARKET DEVELOPMENT STRATEGY

- Small Group Activity
  - How to organize and staff to implement an open market development strategy.
  - Resource needs.

6:00 End of Day

Wednesday, May 9

8:30 SESSION 7 (Continued)

SESSION 8: WHERE DO A.I.D. MISSIONS AND A.I.D/W GO FROM HERE

- Individual Planning
- Mission Team Planning
- Mission Report Out

1:30 Workshop Closure

Schedule of Events in Thailand

Conference Site: **Royal Cliff Hotel** - Pattaya
Phone #: 038-421-421
038-421-430
Fax #: 038-428-511

Sunday, May 13

4:30 P.M. **SESSION 1:** INTRODUCTION TO THE WORKSHOP

- Informal Opening Activities
- Workshop Goals and Schedule
- Logistics
- Informal Reception

Monday, May 14

8:15 **SESSION 2:** OVERALL POLICY PRESENTATION

- John Blackton - DAA/ANE

SESSION 3: OPPORTUNITIES, NEEDS, AND ISSUES

Small Group Discussion Leaders:

- Dick Johnson - Deputy Director, Philippines
- Bob Beckman - Private Sector Office
- Harvey Wallender - Senior Partner, Burkholder Wallender International

Small Group Activity

- What are missions already doing to respond to new policy themes.
- What are needs and issues encountered in responding to these themes.

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12:15 Lunch

1:30 **SESSION 4:** TRADE AND INVESTMENT

- Presentation by Harvey Wallender (Senior Partner, Burkholder Wallender International) on "Trade and Investment Global Perspective."

- Problem-solving small group activity based on "real case" situations:

  - India PACT (Bob Beckman, Private Sector Office)
  - Thai Electronics (Sudhisakdi Manibhandu, Director of Manistee Co.)

- Presentation on "How US Business fits into this process of Trade and Investment." (John Baker, Manager of Cargill Philippines)

6:00 End of Day

Tuesday, May 15

8:30 **SESSION 4:** (Continued)

- Small Group Activity to review A.I.D/W Trade and Investment Strategy Paper

SESSION 5: FINANCIAL MARKETS AND PRIVATIZATION

- Presentation by Richard Breen, Senior Manager, Price Waterhouse, on Financial Markets

- Presentation on Privatization by Lance Marston (ANE/PSD) and Russ Anderson (PRE/PD).

- Country Presentations

  - **Bangladesh**: Privatization (Bill Duncan, Private Sector Office & Ken Moots, Food & Agriculture Contractor)
  - **Pakistan**: Privatization (Bob Archer, ANE/TR and David Johnston, USAID Pakistan)
  - **Philippines**: Far East Bank and Small Enterprise Credit Projects (Bruno Cornelio, Chief PESO)
  - **Indonesia**: Financial Markets and Financial Institutions (Jim Watson, Private Sector Office, and John Evans, Price Waterhouse)

- "Case Model" on How A.I.D. Works with other Agencies, Companies and Host Government

  - Kenneth Locklin (Manager, Africa Growth Fund)

5:30 End of Day

Wednesday, May 16

8:30

- Small Group Activity to review A.I.D/W Financial Markets Strategy Paper

SESSION 6: POLICY REFORM AND BUSINESS ENABLING ENVIRONMENT

- Presentations/Discussion on Policy Dialogue

  - Deputy Mission Director, Lee Twentyman
  - Joseph Battat, FIAS
  - Deputy Mission Director, Richard Johnson

12:15 Lunch

1:30 • Panel Discussion: "Outside" Perspectives on the Enabling Environment (Jim Rooney, Thai Businessman, U.S. Embassy Representative)

SESSION 7: HOW TO OPERATIONALIZE AN OPEN MARKET DEVELOPMENT STRATEGY

- Small Group Activity
  - How to organize and staff to implement an open market development strategy.
  - Resource needs.

6:00 End of Day

Thursday, May 17

8:30 SESSION 7 (Continued)

SESSION 8: WHERE DO A.I.D. MISSIONS AND A.I.D/W GO FROM HERE

- Individual Planning
- Mission Team Planning
- Mission Report Out

1:30 Workshop Closure

Appendix C

1. Executive Summary: Trade and Investment Strategic and Operational Framework (Draft)

2. Executive Summary: Financial Markets Strategy (Draft)

Executive Summary

Trade and Investment Strategic and Operational Framework (Draft)

- 12b

DRAFT TRADE AND INVESTMENT STRATEGIC AND OPERATIONAL FRAMEWORK

EXECUTIVE SUMMARY AND DISCUSSION GUIDE

I. Introduction

This draft document is intended to support mission and Washington staff who are responsible for the conceptualization, development, implementation, and monitoring of trade and investment programs and projects. The document, after incorporating comments and suggestions from both field workshops, will serve as the Bureau's principal reference on trade and investment and will be periodically updated. It will address both strategic and operational issues.

II. Global U.S. and Regional Trade and Investment

The value of world trade has grown rapidly and has doubled between 1985 and 1988. For any country, economic growth is increasingly dependent on integration in international markets and sensitive to repercussions from external events. U.S. trade and investment is important to developing countries. In 1987, $150 billion in U.S. imports were from developing countries (35% of total U.S. imports) and two-thirds of those were manufactured goods. U.S. companies had $60 billion invested in developing countries in the same year.

U.S. business can provide an enormous resource for the open economies of the ANE region. In comparison with the EEC countries and Japan, whose trade and investment patterns in developing countries have been dominated by their need for natural resources, U.S. patterns have been much more diverse and supportive of both technology transfer and manufactured exports. With many ANE countries just emerging from structural adjustment programs, the time is ripe for the encouragement of more open, market-based trade and investment regimes.

III. Policy Framework

U.S. policy on trade and investment is aimed at promoting market liberalization and maintaining free market practices. The USG fully intends to increase developing nation integration and responsibility in the GATT. The USG will work to reduce trade barriers in developing countries and at the same time advance the principles of U.S. trade policies and laws (e.g., intellectual property rights).

This section analyzes briefly the Omnibus Trade and Competitiveness Act of 1988, the GATT Uruguay Round, and A.I.D.'s policy on trade and investment.

A.I.D.'s Trade Development Policy Paper indicates four important contributions the Agency can make to this broader USG effort.

* development of stronger LDC economies based on the efficiency of market-based resource allocation;
* development and strengthening of mutual economic interests between developed countries and LDCs;
* encouragement of entrepreneurship, economic institution building, and reliance on sources of private finance; and
* adoption of appropriate economic policies.

IV. Conceptual Framework

The goal of trade and investment efforts should be sustained economic growth in the developing countries of the region in the context of open markets in an increasingly democratic and pluralistic environment. An open trade and investment regime, engaging the developing country increasingly in international markets, will stimulate greater competitiveness in the local market, improve the efficiency of local firms, and expand market based mechanisms for the transfer of capital, technology, and management systems. The larger and more diversified the external sector of the economy, the broader the range of potential A.I.D. trade and investment interventions.

Priority in the Bureau's trade and investment efforts should be given to reform of the policy environment to level the playing field and remove distortions in key markets. Typically, first priority economic reforms are exchange rates, interest rates, and wage rates. Second, priority should be given to trade barriers, which include tariff and non-tariff barriers, elimination of distorting taxes and subsidies, and rationalization of regulatory regimes. The same logic applies to capital restrictions. Policy induced distortions in markets need to be removed. Government regulatory regimes which attempt to direct investment or restrict capital movement are generally self-defeating.

Government regulatory practices, lack of business services, and weak economic institutions can prohibitively increase transaction costs. Further, classic market failures may abound, such as oligopolistic conditions in the modern sectors, or the high cost of entry into international markets for developing country firms. These conditions can seriously reduce their competitiveness in international markets and reduce the attractiveness of developing country environments for U.S. trade and investment.

V. ANE Trade and Investment Operational Strategy

Trade is defined as a host country's exports and imports. Traditionally, the goal has been to put in place a set of policies and institutions which will allow trade to move freely and find the country's comparative advantage. Increasingly, however, analysts have focused on "competitive advantage" which relates to the knowledge base, technological capabilities, management skills and systems, and market efficiencies the country possesses.

A country's comparative advantage should be reflected in a company's strategic plan to participate in international trade and investment. Recent literature has emphasized the importance of improvements in management and technology of individual firms in increasing the competitive capacity of an export drive. In fact, some analysts are suggesting that the competitive management of firms is more important than comparative advantage to success. Before undertaking transactions, host country companies must develop marketing and supply capabilities inclusive of input procurement, quality control, shipping, identifying buyers, receiving and processing orders, product design, product packaging, and service follow-up. This gives added priority to providing the proper tools to host country companies so that they can utilize their advantage and compete successfully in regional and global markets.

Investment is defined on two levels: the development of the capability to generate local investment; and the development of the capability to attract and apply foreign investment. This implies not only the ability to attract funds, but also the production and management technology associated with the capital.

As country markets liberalize, more countries are entering the international arena to attract foreign investment. Competition to attract foreign investment is reaching new stages and levels of sophistication. Investment attraction efforts could generally be placed into three categories: building new local capacity, adding local capacity, and attracting foreign capacity.

The following operational approach is suggested.

* Analysis of country context : This includes an analysis of the policy and institutional environment and of the structure, activity, and needs of specific business sectors.

* Once T&I constraints have been identified it is necessary to seek ways to reduce market imperfections. It will probably be necessary to balance improvements in the policy and institutional environment with promotional activities to expand the number of transactions. To the extent possible, A.I.D.'s interventions should be driven by "demand". "Demand" includes the pattern of trade in the country, host country's commitment, and the business community's capabilities and constraints. The knowledge, creativity, and influence of the business community should be actively engaged in defining, designing, and implementing mission private sector activities.

* Development of business services, either through intermediary institutions or commercial service firms, is an attractive and effective way of facilitating the expansion of T&I transactions. These services include, information gathering and dissemination, training, standards development, logistical support, legal services, accounting services, management services, financial services, and marketing. Efficient services reduce transaction costs and increase the overall efficiency of firm management. A.I.D. has some experience in supporting business services which are discussed in Attachment A of the Strategy Paper.

* In some circumstances firm specific support may be justified. Privatization efforts, specific foreign policy objectives, and mixed credits to respond to third country competition are examples. Where firms face particularly difficult market imperfections and distortions, direct assistance to overcome these may be justified. Support of joint ventures is an attractive possibility. However, assistance to firms

should be provided on the basis of cost sharing. Furthermore, support to specific firms is a sensitive legal issue and the justification must be clearly thought out and documented. Perhaps the basic case is where A.I.D. acts as a "market maker" helping a U.S. and local firm overcome a specific market failure, after which the profit level makes transactions self-sustaining.

An outline of a Host Country Contextual Assessment to guide the above design steps is included in the body of the paper.

VI. Trade and Investment Case Studies and Lessons Learned

The paper ends with extensive case studies of interventions, lessons learned from previous experience, and a checklist to assist design of trade and investment activities. The lessons learned stress several points.

The most important lesson learned is that the interventions must fit the local context. In consequence, an in-depth analysis of the country context is suggested.
Key considerations in any such analysis include:

-- Political stability,

-- Government attitudes toward the private sector,

-- Adequate infrastructure.

Once these are met, the program can then focus on private sector capabilities, key economic institutions (e.g., financial institutions), availability of business services, and the structure and efficiency of existing markets. As one moves through this list, the constraints become increasingly specific to the sector, sub-sector, and markets under analysis. Generally, the interventions must become equally specialized.

The case studies yield a number of specific lessons.

* An export or investment promotion strategy should be based on a thorough analysis of the kinds of investments or business partners most likely to be interested in the particular country environment. This is often the smaller firm looking for non-traditional investments, or trading relationships.

* Strengthening existing host country service providers in investment promotion may have more long-term cost effective impacts than external, high profile contractors.

* When the combination of a relatively attractive investment environment, a clearly focused and highly targeted strategy, and a well-managed, well-staffed and well-funded organization is achieved, an investment attraction program can be highly successful and cost effective.

* The establishment of Free Trade Zones, if properly structured and managed, can be beneficial to developing investment and export capabilities.

* A limited intervention, such as cost-sharing grants, in an environment of interest to investors, can provide a strong incentive to investors, but it must be followed-up and coordinated with other programs in order to have a significant impact.

* An export development program must first ensure a country's productive capacity is sufficient to meet new demands in order for export promotion efforts to be effective. A full service program, providing technical assistance in capacity and product development, packaging, marketing and management, in addition to promotion , will achieve greater success than those programs only concentrating on promotion.

* Greater success can be achieved when responsibility for export development and export promotion is appropriately divided and cooperation encouraged between the public and private sector.

* Programs oriented toward servicing domestic firms' export needs may need to develop different measures of success, other than jobs created and foreign exchange earned, that capture results of tasks such as capacity building, attitudinal changes, establishing institutions capable of providing long-term technical assistance, and in the T&I enabling environment.

* Trade and investment facilitative institutions' cost recovery and cost self-sustainability depends entirely on the country context. In most developing country environments, some sort of subsidy would be needed.

VII. <u>Examples of Planned and Ongoing Trade and Investment Interventions</u>

A description of planned and ongoing activities is included.

VIII. Checklist to Assist Design of Trade and Investment Programs and Projects

A check list is attached which includes (a) mission program and project development considerations, (b) policy and regulatory environment considerations, (c) intermediary institution and business service development considerations, (d) firm specific support considerations, and (e) monitoring and evaluation considerations.

ISSUES FOR DISCUSSION:

Discussion of the Trade and Investment Strategy Paper at the Workshop should focus on Sections IV, V, VI.B, and VIII of the paper. Useful issues for discussion might include the following, although additional suggestions from participants are welcome.

1. Appropriate Sectoral T&I Focus: Should A.I.D. focus its T&I efforts in sectors where it currently has programs (e.g., agriculture, energy, and health), or should it respond to U.S. and host country interests and opportunities for a more "demand" driven agenda? If the latter, how will the Agency cope with the broader sectoral agenda, the specialized knowledge it requires, and program management requirements.

2. A.I.D. Organizational Constraints: How can A.I.D. organizational constraints be overcome (e.g., complex procedures, Congressional constraints, lack of influence over key USG T&I policies)? How can we acquire or develop appropriate staff? To what extent can traditional A.I.D. project vehicles (e.g., CIPs, ESF cash transfers, DA projects) do the job? Do we need new mechanisms?

3. Performance Indicators and Program Evaluation: Do we need better T&I performance indicators? Do we have satisfactory systems for evaluating T&I projects? Are we likely to run into growth vs. equity issues? Is it possible that our interventions could expand transactions, but increase rent seeking and fail to improve the efficiency of host country markets? If, as might be likely in the Middle East or East Asia, our efforts to open markets accrued to the benefit of other developed countries (e.g., Japan or Germany), would that be a problem?

4. Rationale for Assistance to Private Companies: Beyond policy dialogue designed to level the playing field, what would justify A.I.D. intervention in specific markets? Taking the issue one step further, what would justify interventions that would target specific firms or groups of firms (U.S. or indigenous)? The arguments presented in this paper base interventions on analysis of transaction costs and market failures. Is this an approach that is likely to yield clear criteria and point to appropriate interventions?

5. U.S. Commercial Issues: What is the appropriate relationship between A.I.D. and the U.S. business community? Is it A.I.D.'s job to promote U.S. commercial interests and presence in the region? Would such support be limited to circumstances where it clearly contributes to developmental goals and the growth of the indigenous private sector? This becomes particularly important if we reach the stage of promoting specific joint ventures or providing assistance to specific firms. What are the appropriate mechanisms for mobilizing U.S. private sector resources?

6. Role of A.I.D. and Other USG Agencies in T&I: What is A.I.D.'s role in T&I vis a vis other USG agencies? Does A.I.D. have the capacity or comparative advantage in undertaking such activities? Can A.I.D. complement the activity of other agencies, both enhancing their developmental impact, and expanding U.S. private sector involvement in LDCs? Should A.I.D. policy dialogue actively incorporate key USG T&I issues, such as intellectual property rights? Should we support increased U.S. involvement in capital projects, perhaps through mixed credits?

7. Beneficiaries: A.I.D. has traditionally focused assistance on small and medium enterprises. To what extent should this approach be extended to include large corporations which are important actors? What principles would apply to such a decision -- employment impact, economic efficiency, competitiveness in international or domestic markets, etc.?

8. Second Best Solutions: How do we deal with the common situation where open market solutions would be ideal, but politically unacceptable? Should we work to improve the competitiveness of a SOE if it cannot be privatized? What about situations where there is a strong public interest in the outcome, but goods or services can be effectively supplied in the market (e.g., social marketing of contraceptives). Do we need to find more innovations like social marketing for dealing with these "mixed" goods?

Executive Summary

Financial Markets Strategy (Draft)

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DRAFT FINANCIAL MARKETS STRATEGY

EXECUTIVE SUMMARY AND DISCUSSION GUIDE

A. Definition: "Financial markets" is an all-encompassing term which refers to all markets for short, medium and long-term securities and loans; forward, swap and futures contracts; and foreign currencies. The portion of the financial markets dealing with securities is divided into two subsets depending on the maturity of the instrument involved. "Money Markets" refers to all securities that have a maturity of one year or less. "Capital markets", on the other hand, refers to all securities that have a duration of over one year.

B. Proposed Goal for ANE Financial Markets Strategy: A broad goal for future ANE work in this area can be drawn from the Agency's Financial Markets Policy Paper which states:

> "AID should promote a system of financial markets that is integrated and relatively undistorted, one that relies heavily on competitive financial institutions, and on policies to facilitate competition. This system should be capable of effectively mobilizing private savings, allocating that savings to investments yielding maximum returns, and maximizing the participation of the general populace."

C. Growth in Financial Markets: The 1980s was a decade of tremendous expansion of international financial markets. From 1983 to present, stock markets in the thirty or so emerging markets which the IFC tracks had grown in aggregate capitalization from $84 billion to $377 billion, and the total number of company listings increased from around 6,700 to nearly 11,000. A relatively recent development is the creation of country funds. Today there are over 80 emerging market country funds listed on stock exchanges throughout the world. Larger amounts of capital are crossing international borders as investors throughout the world seek to diversify their portfolios by purchasing foreign securities.

D. ANE and Other AID Activities in Financial Markets: The ANE Bureau's portfolio of ongoing projects has a number of examples of credit (or credit guarantee) projects, usually with a sectoral focus on small to medium-sized businesses, the export sector or agribusiness. While these projects may often have financial training or policy analysis components, they do not normally focus on financial markets *per se*. Indeed, the tendency of many projects to direct credit to a targetted economic sector (at times through public or parastatal institutions at less than market rates) may be at odds with a more general AID policy goal of allocating credit efficiently according to private market mechanisms.

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Some Missions have begun to target resources more specifically toward financial markets activities. Recently approved or planned projects in financial markets include those in Jordan, Pakistan, Banlgladesh, Tunisia, and the Philippines.

PRE's activities have generated a broad array of Agency experience in financial markets activities. The Financial Sector Development Project has worked with field Missions to develop a wide variety of activities in financial markets, ranging from seminars on the potential impact of, and need for, venture capital in India in 1986 to the recently completed financial sector studies/assessments in Thailand and Morocco. Other PRE programs, such as the Loan Portfolio Guarantee Program, stimulate the provision of credit to small businesses through private LDC banks, and by opening new markets for such banks, contribute to the broadening of financial markets.

Financial markets is a relatively new and challenging area for AID. It is also one where the reliability and soundness of specialized assistance is especially critical, given the magnified adverse economic consequences if such assistance is poorly designed or improperly delivered.

E. Menu of Programmatic Options in Financial Markets

The bulk of the strategy paper (and our consequent discussion at the workshop) will concentrate on a menu of programmatic options in financial markets and the degree to which these options meet the needs of individual ANE countries.

A country's needs vary according to its stage of economic and financial development. In a less advanced country with serious economic distortions and over-regulation of the financial system, AID might focus on such measures as interest rate deregulation and increased bank competition to mobilize domestic savings for capital investment. In order to mobilize the longer-term savings needed to support longer- term investment, AID might support the development of new institutions such as housing finance companies and insurance companies. In more advanced countries, where financial institutions tend to grow in number and become more complex and functionally diverse, AID's programs might concentrate on promoting the growth of securities markets and diversifying the sources of domestic and foreign investment capital. The securities market development program might focus on the fiscal and regulatory environment, the improvement of corporate financial reporting and disclosure, and the promotion of specialized financial institutions such as stock brokerage and money market firms, investment banks and specialized long-term leasing companies.

AID activities in the financial markets area might include the following:

1. EXPANSION OF SECURITIES MARKETS

Practical AID activities would include the development or revision of laws and regulations regarding, for example, interest rate deregulation, bank competition, financial disclosure and securities trading. The above activities typically require long-term TA in order to study reforms, draft model laws and regulations, build consensus, etc.

Institutional building/strengthening is another area for bolstering equity markets. Activities here would include promotion of the mutual fund industry, pension funds, and insurance companies. A possible AID role would include conducting feasibility studies and assisting in locating domestic or foreign partners and the formulation of financial and operating policies. Training and information systems activities in this area should require shorter-term technical assistance and could be provided through contracts with a U.S. stock exchange; computer software companies providing turnkey systems and training to the securities industry; and diversified accounting firms with information technology and management consulting practices.

A third activity in support of equity markets is financing such key development programs as computerization of a central securities market, financial information communication systems, and financial information utility services (for example, rating agencies such Standard and Poors).

2. QUALITY OF FINANCIAL INFORMATION

Reliable financial information is important to individuals, businesses, lenders and investors in evaluating the rewards and risks associated with soundness on investment alternatives and to regulations in ensuring the stability of financial institutions. Practical AID activities here would include development of technical standards regarding auditing and accounting, financial reporting, professional ethics and continuing education. In addition, AID support for the development of professional associations (such as a Financial Accounting Standards Board) and training of auditors and accountants would help to strengthen the quality of financial information.

3. LEGAL AND REGULATORY REFORM

The efficiency of financial markets depends to a large extent upon the laws and regulations governing them. As financial markets develop, policy changes must often be made and new laws and regulations introduced or existing ones amended to ensure an efficient set of relationships between savers and investors.

Practical AID activities would include the following:

a. Examining the specific laws and regulations in a country that inhibit financial market development; offering advice for adapting existing laws or drafting new ones.

b. Studying the impact or burden of existing laws and regulations and the costs of weak enforcement of existing laws and regulations.

c. Assisting in restructuring or reorienting regulatory entities.

4. COMMERCIAL BANKING

Commercial banks typically play a much larger role in the economies of developing countries than they do in the U.S. and other industrial countries since they tend to control a larger percentage of total financial resources. The commercial banking sector in LDCs is typically highly concentrated and lacks competition due to government restrictions on the entry of new banks.

Practical AID activities in this area would include legislative reviews, support of improved bank supervision, support of training programs for bank personnel in credit and financial analysis, development of centralized credit information (similar to that provided in the U.S. by such companies as Dun and Bradstreet), and support for deposit insurance.

5. OTHER AREAS

Other areas with strong linkages to the development of financial markets include privatization and venture capital. In many countries, privatization is an important component of national programs to increase the role of the private sector and free market competition. Possible AID activities might include organizing meetings and conferences to help reach consensus on the design of a privatization program and assisting in the preparation of feasibility studies, asset valuations, prospectuses and employee stock ownership plans (ESOPs).

Although generally they exist only in more sophisticated economies, venture capital companies and venture capital funds can play an important role in the economies of developing countries. By purchasing equity shares for their own account, such companies provide seed capital to dynamic firms that generally do not possess the creditworthiness or equity base to obtain convenient financing from banks or through the securities markets. The required levels of equity or quasi-equity investment in start-up companies and the risks involved in operating a venture capital fund may limit an AID role to funding feasibility studies or underwriting initial operating costs.

One example of a venture capital company is the Africa Growth Fund which was established by OPIC in March 1989. It is a $30 million fund that will provide equity capital for U.S. and other companies investing in sub-Saharan Africa.

F. Suggested Next Steps and Issues:

Suggested next steps for the ANE Bureau and field missions in financial markets include finalizing the draft financial markets strategy paper based on discussion at the Private Sector Workshops and other Bureau comments, targetting specific ANE countries for financial sector activities, and providing further financial markets training for AID officers.

The following is a draft listing of issues which might spark discussion at the private sector workshop:

-- Relevance to ANE countries: The differential applicability of more sophisticated financial systems among developed countries, ADCs and poorer ANE countries.

-- Directed Credits: The extent to which AID's traditional support of directed credits may or may not be appropriate in a rapidly evolving, market driven regional and international financial systems.

-- Support for Infrastructure: The huge capital requirements of such infrastructure areas as electric power, and how stable, deep and diversified local capital markets are necessary to support such investments.

-- Rural/Urban Linkages in Financial Markets: What are the linkages between AID's more active work in mobilizing savings/investment in rural areas and support for more formal, urban-focused financial markets? Are these two areas complementary or contradictory?

-- Who Benefits?: To what extent would increased AID support merely boost the wealth of already prosperous groups in LDCs, perhaps even at the expense of poorer segments of society? How can any such AID assistance be designed so as to increase competitiveness and avoid "crony capitalism"?

-- Public Sector Role: Do public sector or parastatal institutions have a role in an ANE financial markets strategy? As regulators and/or mobilizers of savings and investment?

-- Links to U.S. Trade and Investment: Is it possible (appropriate?) for AID assistance for LDC financial markets development to also support increased US trade and investment (e.g. in financial services, computerization, provision of capital and equipment for privatizations)

-- AID Statutory/Policy Constraints: What are the existing statutory or policy restrictions constraining AID's activity in the financial markets area (e.g. restriction on using FAA funds for equity investments)

-- AID programming responsiveness: What are the implications for AID's largely bilateral and time-consuming programming cycle of an area such as financial markets development, where activity is not just national, but regional and international in scope and where developments occur not in weeks or months, but almost instantaneously?

-- Need to target and Prioritize AID Activities: Given the relatively innovative, challenging (and risky) nature of the financial marekts area, should ANE be more actively involved? If so, ANE needs to carefully target areas where interventioans might be appropriate and to identify [or develop] necessary expertise to act effectively and appropriately in this area.

Appendix D

Workshop Presentations

1. Characteristics of Trade and Investment Programs, by Harvey Wallender

2. Financial Markets in Developing Countries: Increase in Private Investment Through Open Markets, by Leigh Miller

3. The Role of the Financial Sector in Development, by Richard Breen

4. The Private Financial Sector and USAID In-Country Programming: A Personal Viewpoint, by Stephen B. Strauss

5. Venture Capital Investing, by Ken Locklin

Characteristics of Trade and Investment Programs

by Harvey Wallender

CHARACTERISTICS
OF
TRADE AND INVESTMENT PROGRAMS

A Presentation for the Asia Near East Bureau Conferences
in Amman, Jordan and Bangkok, Thailand

Harvey W. Wallender, III
Clifton Barton

A SUMMARY OF THE MARKET AND TECHNOLOGY ACCESS PROJECT (MTAP) CONCLUSION

This document is based on MTAP reasearch managed by Ernst & Young

CHARACTERISTICS OF TRADE AND INVESTMENT PROGRAMS

SUMMARY OF THE MARKET AND TECHNOLOGY ACCESS PROJECTS (MTAP) CONCLUSIONS

I. RATIONALE FOR TRADE AND INVESTMENT PROGRAMS
   - A. Private sector development as engine of economic growth
   - B. Why interventions are needed for expanded trade and investment
   - C. AID experience in trade and investment programs

II. AN APPROACH FOR DESIGNING T & I PROGRAMS
   - A. A Definition of Trade & Investment Programs
   - B. The Country Context Dictates the Possible Strategies
   - C. Clarifying the Desired Transaction and the Needs of the Enterprise
   - D. Organizing the Service Mix to Promoter Trade and Investment

III. DESIGN IMPLICATIONS AND OPTIONS
   - A. Organizational Mechanisms Must be Selected to Deliver and Channel Services
   - B. Other Issues that will Effect Program Design
   - C. A.I.D. Constraints

IV. RESULTS TO DATE FROM TI PROGRAMS

V. SUMMARY

CHARACTERISTICS OF TRADE AND INVESTMENT PROGRAMS

SUMMARY OF THE MARKET AND TECHNOLOGY
ACCESS PROJECT (MTAP) CONCLUSIONS

I. RATIONALE FOR TRADE AND INVESTMENT PROGRAMS

A. Private Sector Development as the Engine of Economic Growth

In today's competitive international economy, expanded trade and investment is key to a more efficient and productive private sector. This is particularly true in the Third World where a strong and vigorous private sector is needed to propel economic growth. Increasingly, outward-oriented development strategies are seen as vital to lowering debt burdens and alleviating stagnation in developing countries. As a result, growing emphasis is being placed on trade and investment promotion by both donor agencies and host country governments in their development strategies. The expected outcomes include job creation, foreign exchange earnings, increased flow of foreign investment, improved balance of payments, and greater diversification and international competitiveness of the productive base.

B. Why Interventions are Needed for Expanded Trade and Investment

Beginning in 1988, a series of research conclusions on the need for assistance in trade and investment were outlined in diverse studies, including AID's MTAP research, AID; Louis Berger Report of 1989, and Ludwig Rudell Report, 1988: a series of papers from the World Bank (see Keesing, Rhee & Belot, et.al.), and several university studies (see Wells, et.al. ,and Michigan Study). Conventional economic theory argues that a developing country can achieve a more outward-oriented economy by changing unfavorable economic policies. These studies, however, while corroborating the critical importance of creating favorable policy environments, show that promotion and business support are also effective instruments for expanding trade and investment. Indeed, where there are large policy distortions, a country can rarely afford to wait for a perfectly rational policy environment to be achieved before promoting outward-oriented development (Rhee & Belot).

Lack of access to technology and business know-how, and imperfect information about opportunities are among the primary barriers to expanded trade and investment in developing countries. Keesing describes this barrier

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as a learning sequence which firms desiring to successfully enter the international market must undergo. With regard to exports, this learning sequence begins with acquiring knowledge of market opportunities followed by development of the capability to produce to buyer's specifications and, finally, learning what is entailed in the actual exporting process (shipping, customs, etc.).

Similarly, both foreign and local investors must learn the various steps to be taken to bring a project to completion. World Bank and AID research indicates that this learning sequence takes time and requires the kind of assistance supplied by business service providers, rather than occuring spontaneously in all firms in response to market demands and policy changes. In this line of reasoning, providing business services that help individual firms move along this learning curve is justified, in the economic argument as a way to address market failures. Such assistance not only lowers the otherwise prohibitive cost to an individual firm of pioneering exports, but also counteracting disincentives to new investment. In most developing countries, the local business community can not support the development of the specialized business services firms need in order to expand internationally, again justifying intervention.

Enterprise learning problems are most acute in the initial phases when firms are acquiring the basic information and know-how are required to operate successful export businesses or to complete investment projects. In the early stages, the roles of catalytic agents or innovators -- firms or individuals who possess the necessary information and know-how to make an export business or investment project work -- are critical. Rhee and Belot found that these catalytic agents also often create pressure on governments to change unfavorable policies. Therefore, assistance interventions, by identifying or supporting catalysts (i.e providing business services), can promote trade and investment directly and, indirectly, move governments toward modification of inappropriate policy environments.

C. AID Experience in Trade and Investment Programming

In a variety of cases, AID has supported the development of public sector or private, non-profit institutions (i.e. non-commercial channels) to deliver technical assistance and supply other trade and investment promotion services. In other situations, programs have been launched to help support the growth of commercial service providers by assisting them directly, as in the case of the business consulting project in Indonesia, the business service project in Jordan, and the pilot cases in MTAP. Increasingly, private volunteer organizations like IESC, VITA, and VOCA are asked by AID to use their networks to help strengthen private enterprises and assist in international trade linkage.

These latter approaches are consistent with lessons learned from past programs which indicate that promotion activities require specialized services geared to the needs of firms engaged in specific product lines. Such services are most effectively supplied, particularly in regard to exports, when an array of service suppliers exist. World Bank studies also recommend that "a plurality of largely private sector service suppliers" be encouraged. This approach has the benefit of establishing commercially viable services and relationships that can continue to support export and investment long after government or donor support has ended. It also guards against the dangers of monopolization of services by a non-commercial institution.

The Market and Technology Access Project (MTAP)

The Market and Technology Access Project (MTAP) was designed to study the process of trade and investment expansion and determine what types of assistance programs might be most effective in assisting private sector enterprises. The project also included a series of field pilot tests that allow close examination of how intermediaries promote new types of international ventures. At this time, it appears that the research conclusions of MTAP are consistent with other emerging publications that argue for the support of business services that help attract foreign investment to developing countries, assist individual firms with direct exports, or help develop business linkages with foreign firms for technology and capital. This executive summary of the MTAP research reviews some of the rationale for trade and investment programming, different approaches for designing trade and investment programs, and what types of services are most useful in support of business trade and investment strategies.

The major conclusions regarding project design include the following:

1. Trade and Investment programs must take into consideration the specific country context, including such factors as government policies, infrastructure, industrial capacity, etc. A trade and investment program developed for a favorable business context like Ireland is not easily transferrable to a difficult business environment such as Sri Lanka.

2. Program planning is most effective when they are clear about the type of transaction when it is trying to foster -- exports, foreign investment or other international business linkages including joint ventures and coventures (contractual arrangements such as licensing, coproduction agreements, etc.).

3. Understanding the needs of various enterprises and how firms make trade and investment decisions is key to designing a project with the appropriate types of business services. Each different transaction focus

will require very different services which in turn demand contrasting types of delivery mechanisms, staff and supporting business networks.

4. Selecting an appropriate mechanism for delivering business services requires a careful analysis of the alternatives available through government organizations, private sector institutions, chambers of commerce and other intermediaries (these might include consulting firms, trading companies, banks, and private volunteer organizations).

A more detailed discussion of some of these issues from the MTAP research and some of the conclusions in the Louis Berger report on "Promoting Trade and Investment in Constrained Environments" is contained in the companion document Trade and Investment Strategy and Operational Guidelines - 1990" prepared by Business and Government Strategies with Ernst and Young.

This introductory paper, summarizing MTAP and relating it to other major research, is designed to help simplify the use of lessons learned and allow basic design of trade and investment projects.

II. AN APPROACH FOR DESIGNING T&I PROGRAMS

A. Definition of Trade and Investment Programming

For our purposes, trade and investment (TI) programming is defined as a set of services offered ultimately to an individual or firm to help it pursue a specific transaction such as exporting or executing a foreign investment. In surveying numerous trade and investment organizations and programs, MTAP research found that the simplest way to understand trade and investment programming is to think of it relative to what transaction the beneficiary of the services is expected to accomplish, namely an export, investment, or formation of a joint venture or coventure. (While joint ventures involve equity-sharing, "co-ventures" refer to all other types of non-equity sharing cooperative relationships such as licensing agreements, production sharing, etc.) This approach of defining trade and investment services in terms of the transaction desired is a simple and practical typology for analyzing and designing TI programs.

Trade and investment programs are made up of a collection of services that will be suppled to solve the needs of particular enterprises.

Helping a firm export a product requires a very different set of services than does assisting a foreign firm in making a decision to invest. Linking medium-sized firms for non-traditional international business activities such as joint ventures is also quite distinct although there is some overlap with the requirements of export promotion and investment attraction. One reason to separate joint and coventures as major types of transactions is that services provided to both U.S. business and to local firms are often more complicated and of longer duration than traditional export promotion or investment attraction services.

Differentiating between export and investment promotion when analyzing and designing TI strategies is sometimes confusing since new investment, such as an investment in a free zone, often leads to exports. Similarly, export promotion and joint venture development usually lead to investment. The purpose of this design typology is to differentiate between export promotion programs, which deal mainly with helping local firms build the capacity and networks to export their own products, and investment attraction programs, which look outward to attract a foreign firm, usually by promoting the attributes of the host country and providing facilitation services to prospective investors. Complicating this distinction, however, is the fact that many organizations may house both investment attraction and export promotion activities. MTAP findings suggest that, when both are housed together, there is a need to carefully segregate activities and design different organization and control structures for each function.

> An important aspect of design is to **clarify and distinguish the dramatically different services needed to assist** a local exporter from those used to attract general investors, foreign investors, and to build joint and coventures.

B. <u>The Country Context Dictates the Possible Strategies</u>

The first step in designing any TI intervention is an assessment of the country context. This context is comprised of many factors. Physical infrastructure affects business development, while the policy environment provides incentives or disincentives to engage in export or investment transactions. Often, the technical infrastructure (the presence of laboratories, training institutions, and other such organizations) is critical for the local business community to flourish or to attract foreign investment or technology transfer. Much has been written about the interrelationship of policies, natural resources and many other factors that make up the country context. This study acknowledges the critical aspect of the country context and argues that, in unfavorable contexts, some aspects of TI programs will probably not work.

At the simplest level, it is possible to categorize country contexts as favorable or unfavorable. Finer classifications can be drawn for more accurate positioning of different country environments, and can be helpful in making design choices. The most important MTAP conclusion regarding country context is that even large amounts of funds will not be able to establish an effective investment attraction program in an unfavorable business context.

In contrast, an export promotion or coventure strategy that builds off local business capabilities is more likely to be successful in a difficult environment because the transaction desired does not rely on major risk involvement from a foreign firm. Many countries with difficult, or obviously undesirable investment environments, have pursued investment attraction programs with little success. But their programs to increase the capabilities local firms to export or link with foreign firms for technology sharing or coproduction have had some positive results. AID programming in El Salvador and Sri Lanka are examples of these experiences. The MTAP study found that hands-on export promotion and joint venture/coventure strategies had the best chances of success in countries with unfavorable country contexts, while investment attraction programs were successful only in more favorable country contexts, as illustrated in the diagram below.

COUNTRY CONTEXT

	EXPORT	CV AND COMBINED	INVESTMENT ATTRACTION
FAVORABLE	✓	✓	✓
UNFAVORABLE	✓	?	X

The country context is a crucial issue to consider in designing trade and investment programming in order to avoid applying previously successful models to inappropriate country contexts. For example, the original structure of CINDE in Costa Rica was successfully aimed at attracting U.S. firms to

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invest in free zones in that country. The organization, staffing and services developed were all geared to helping the U.S. firm gain general information about Costa Rica, organize reconnaissance visits, and facilitate the firm in its decision- making and regulation-clearing with the government. The organization annually budgeted between 4 and 7 million dollars to maintain overseas offices in the U.S. and Europe. These offices were staffed by Costa Ricans who could effectively communicate the reality of their home country business environment. This strategy, however, would not work in a country with an unattractive investment environment, nor would this organizational structure be appropriate to support the industry specific needs of local firms in export promotion or capacity-building.

In the last few years, CINDE has developed a new export promotion and capacity building program. This has required a different organizational structure and staff to channel industry experts and consultants into Costa Rica to work with the various industries. This inward-focused program uses very different services, networks and types of staff from those of the investment attraction program originally launched .

C. Clarifying the Desired Transaction and the Needs of the Enterprises.

Trade and investment programming must ultimately affect individual firms. Whether a program provides financing, information, or technical assistance, it is designed to cause individual firms to take a certain action, i.e. to export, make an investment or form a joint or coventure. Effective services must deal with the practical needs of firms.

At the general level, action by a firm can be described as a decision-making process that begins by identifying a gap that exists between the company's present situation and an alternative future position. That gap must be clearly identified in terms of its root causes and what type of action would achieve overall company goals. For example, a potential exporter must gain information that a specific export market exists, what equipment changes he will have to make, and how these investments will help him gain access to the potential market and generate the expected new income. To move from general gap identification (the identified opportunity) to actual new investment and business activity, a company must gather information for business plans, search out possible partners and financing options, investigate feasibility, and actually start up the new plant or product activity. Companies are usually motivated to pursue trade and investment strategies by a desire to lower cost, acquire a new market position (with new products, new geographic expansion or other market differentiation), or to identify ways of gaining unexpected revenues (licensing, technical assistance agreements, sale of used equipment, etc).

The Same Basic Motives Drive All Trade and Investment
• Lower Costs • Develop and/or Expand Markets • Gain Unexpected or Surprise Revenues

Companies require a wide range of information, assistance and, especially, access to business networks to move them through the sequential steps of project development. Many trade and investment programs have failed to understand that identifying market opportunities and locating distribution channels or buyers is not enough. Clients in both developing and developed countries must also be assisted in improving their ability to capture these markets or invest abroad. This requires specialized technical assistance. Thus, in order to move the client move through the project development sequence - the project cycle - from opportunity identification to start up, programs must provide a comprehensive and appropriate set of services.

Considering the different services required to support specific transactions, it is possible to loosely characterize any trade and investment program as a set of services that help a company move through the project cycle for a particular transaction, as illustrated below.

TRADE AND INVESTMENT PROMOTION SERVICES
THAT MATCH NEEDS OF CLIENTS AND TRANSACTION FOCUS

	TRANSACTION FOCUS		
Client Need	Export	JV/CV	Investment Promotion
Idea Clarification	Market Research to identify business/export Opportunity (local firm)	Identification of surprise revenue sources through licensing of technology (developed country firm)	Investment opportunity promotion (foreign firm)
Preplanning & Qualification	Market study for specific product (local firm)	Analysis of firm's needs and planning - assistance local /foreign firms)	Information on business climate and investment incentives in particular country (foreign firms)
Search for Partners/ Resources	- locate distributors, brokers or buyers - attend trade shows with product (foreign/ local firms)	- Identify compatible firms - Brokerage services (local / foreign firms)	- locate appropriate sites or factory space - Support visits to country (foreign firms)
Detailed Feasibility	TA to improve product design and quality for export market specifications (local firms)	- Grant to cover travel or feasibility expenses - Deal-making assistance	- Grant for feasibility studies (local or foreign firms)

Many obstacles inhibit a firm from moving through a project cycle to get a new venture moving. Scarce management expertise, limited financial resources and the inability to acquire or use information are major impediments. Also important is the psychological reluctance to attempt international business and the inability to plan effectively. These types of needs can be addressed by different TI program services. The design challenge lies in organizing a program that can packaged and deliver the most critical services in a way that enables a company/beneficiary to move through all the steps of the project cycle. Providing just one type of assistance - such as information -may be fruitless if the company can't remove other key constraints.

On a more industry-wide level, the need to provide business services to fledgling export sectors in developing countries is fairly evident. Until a country is able to achieve a basic level of success in exports of particular products, the cost to individual entrepreneurs of acquiring the necessary know-how to export (including specific information about product design, quality control, packaging, pricing, production processes, etc.) is very high. However, once a few successful export operations are established, the costs to other businessmen of replicating such success are considerably lower because sources of information and know-how are then available locally (and can often be acquired by hiring workers and managers away from the pioneering firms). Furthermore, once the learning process is underway, entrepreneurs benefit from increasing returns to scale from information acquisition and training. This is frequently demonstrated by a rapid acceleration of export sales once firms reach a certain point on the export learning curve.

III. ORGANIZING THE SERVICE MIX TO PROMOTE TRADE AND INVESTMENT

The MTAP study, along with other literature on TI activities, shows that provision of business services to firms, whether or not explicitly stated, is usually a major focus of TI programming. For example, Keesing and Singer in the World Bank publications point to services that have been provided by governments including commercial representation abroad, publishing and disseminating trade statistics and information gathering. They also tell how governments help to arrange participation of local exporters in specialized trade fairs. (They also recommend limiting the activities of government organizations to these types of services, arguing that more specialized technical assistance is best supplied by private sector service providers.) The MTAP study reviews a number of different trade and investment programs including state government programs, the U.S. & Foreign Commercial Service and a variety of AID supported initiatives. The success and structure of the different programs is dependent, to a significant degree, on how they build services that are aimed at national firms, (export promotion), are directed outward (investment attraction) or which need to match local firms with foreign firms for nontraditional joint and coventures.

The investment attraction organizations like the Irish Development Authority tend to provide general information and investment facilitation services to foreign firms. Organizations like Fundacion Chile which focus more on supporting local firms in exports or forming technology linkages abroad must offer much more industry-specific technical assistance that normally deals with improving the local firm's ability to plan and executes new business transactions. The International Executive Service (IESC) program supporting exporters and joint venture formation in Morocco uses retired executives to work in different industries to provide highly targeted assistance that moves the beneficiary through strategy development, partner searches, market identification, and up to and even including start up of new equipment and products.

Investment attraction programs usually offer general information and facilitation services. Export promotion and formation of joint and coventures requires more industry-specific technical assistance

Within the detailed MTAP report, are descriptions of the assorted service mixes of various trade and investment organizations. These services can be loosely categorized into the following general list of major service choices:

MAJOR TI SERVICES/PROGRAMS PACKAGED IN A PROGRAM

- Information (trade and opportunity identification)
- Technical Assistance (marketing and production capability)
- Financing and Guarantees (trade and equity)
- Government Incentives (e.g. tax or duty relief)
- Promotion Assistance (trade shows, missions, fairs, etc.)
- Search for Partners and Resources (networking)
- Education and Training
- Export and Investment Processing Assistance
- Major Project Facilitation (bidding support, feasibility studies, etc.)

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IV. DESIGN IMPLICATIONS AND OPTIONS

Once an assessment of country context has been made and transaction focus has been chosen accordingly, TI programs determine the service mix that fits context and transaction focus. These three factors - country context, transaction focus and service mix - carry implications and options for program design. Given other constraints and considerations, each of these options implies decision factors which should not be overlooked when developing TI programming.

A. Organizational Mechanisms Must Be Selected to Deliver and Channel Services.

Trade and Investment promotion is often closely associated with institution building the development of institutions. Combining institution-building goals with TI objectives creates both opportunities and difficulties. In addition to the task of meeting TI program goals, these institutions face the normal organizational problems of setting clear goals, planning effectively, maintaining fiscal and program controls, and organizing staff and services efficiently. In many trade and investment programs, good service strategies have been developed only to be constrained by weak mechanisms for delivery.

AID experience illustrates the importance of choosing appropriate mechanisms. In Indonesia the Private Sector Development Program devised mechanisms for getting services out to firms by underwriting limited but free consulting assistance. The evaluation of this program argued that while this strategy appeared effective, the execution of other parts of the program had been negatively affected by the structure and orientation of the delivery mechanism. Specifically, the government trade and investment office, which was essentially constituted and staffed to control foreign investment and licensing, was not an appropriate vehicle for developing market-responsive information and promotional studies. The Private Sector Business Service Program presently in operation in Jordan has also experienced some initial difficulties in regard to how government offices will collaborate with private suppliers and users of services.

AID experience also highlights the complexities of combining institution-building goals with TI program objectives. In Central America, considerable investment has been made in creating new private sector organizations like FUSADES in El Salvador, IPC in the Dominican Republic, and FIDE in Honduras. These organizations both assist firms as well as help the private sector to play a more effective role with government in policy formation and

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the delivery of services. Problems of organizing new institutions such as these are discussed in greater detail in MTAP. Suffice it to say that caution is suggested when designing programs that require quick promotional results from contractors who are also charged with developing new organizations and management structures for previously nonexistent institutions.

Other issues regarding delivery mechanisms have to do with single vs. multiple providers and private vs. public sector. Certainly, many researchers argue that programs must be careful to help build a pluralistic approach to delivery of services (Keesing, et.al., 1988) rather than creating centralized organizations that monopolize service opportunities. Greater competition between service providers improves the quality of services, weeds out those not required and should result in commercial sustainability over the long run. On the other hand, some smaller economies may not be able to support multiple commercial service providers, once again returning us to country context considerations when making delivery mechanism choices.

It appears that "business-like services," such as industry-specific technical assistance, market studies, and deal-making services can be provided more effectively by the private than public sector. The MTAP program demonstrated that smaller consulting firms can be flexible mechanisms for facilitating trade and investment. In some cases, small and medium-sized consulting firms, given initial cost-sharing assistance, became direct commercial service-providers in countries that lack adequate services. Pilot firms in Turkey, Thailand and India are still operating two years after their funding ceased. In other cases, such as the ICS firm in Costa Rica, a small firm became a technical service supplier to clients through a private sector trade and investment organization, CINDE.

As an aside, the research and pilot cases of MTAP suggest that commercial intermediaries operating in difficult markets find it more profitable to help form non-traditional joint and coventures than to offer assistance to simple exporters or large foreign investors.

It is also clear, however, that many tasks such as investment promotion and investor facilitation can be dramatically improved by effective government participation. In Korea, USAID played a major role in the sixties in helping build the Korean Institute of Technology (KIST). One of KIST's primary goals related to forming international technology and trade linkages. The program achieved significant success because, on the one hand, it included the government which controls critical policy and regulatory functions, while on the other hand, it promoted private sector interests by forcing a close relationship between private sector leaders and government officials through the Institute's planning and operational practices.

In other projects, trying to involve government institutions has greatly reduced the immediate effectiveness of trade and investment programs. Besides having non-market oriented motives and bureaucracies, public sector entities often have limited funds and short time-horizons. MTAP and most other current research has found that promoting trade and investment takes significant time and resources. (A typical new joint venture can take 2 to 5 years to bring to fruition.) Companies cannot be expected to risk time and capital if the facilitating program is seen as short-term and unable to supply continuity of services over a period of time.

B. Other Decision Factors Affecting TI Program Design

The core issues that will dictate design are country context, the transaction focused-strategy (i.e. export promotion, joint venture assistance, etc.), choice of services to be offered, and selection of mechanisms to organize and deliver the services. There are, however, a few other major issues that will affect the assembly of these programs.

Increasingly the changes in the international environment outside of the developing world context shape design issues. For example, given the declining U.S. trade position, there is growing pressure for U.S. foreign assistance to include U.S. business participation in trade and investment programs. One way to serve these long-term trade interests is to emphasize linkages between U.S. and developing country firms, which might take the form of joint ventures , coproduction agreements or other contractual relationships.

If technological or regional considerations are important to the program planners, this will effect the design and outcome of a particular program. In Thailand, the International Technology and Investment Program was originally designed to serve national science interests in Thailand while simultaneously assisting in the formation of technology linkages in the industrial sector. Because the particular technologies emphasized were advanced ones - such as biotechnology, project achievements were more in the area of strengthening academic know-how rather than on improving immediate industrial capability. Another TI linkage program in Thailand was aimed at improving the rural private sector, yet the U.S. contractor found that most U.S. businesses were only interested in venture development in Bangkok.

A final, continually emerging design issue is the need for self-financing. Many new TI promotion programs are required to develop sources of revenue to help sustain the program, eventually enabling the international donor or support organization to remove all support after 2 to 5 years. Past experience demonstrates that this is not a realistic goal, especially if the project has the combined objectives of policy modification, institution building, and TI service provision. On the other hand, it makes sense to encourage some sort of cost-recovery in almost all cases. The MTAP program, and some of the other cost-sharing strategies, showed that in larger developing country markets, private intermediaries can take over the cost of their own operation, but they tend to provide services only to the most active business sectors. Therefore, if TI activities are to serve smaller firms or firms in difficult environments, they will probably require long term support.

C. AID Constraints

Additional program design issues for projects supported by A.I.D. include a set of design considerations or constraints that emanate from the funding source. Such considerations must be carefully examined to ensure that any constraints imposed by the funding organization don't preclude effective project results.

Factors that influence decisions with respect to both the mix of services and organizational mechanisms selected to deliver the services under A. I. D.-funded projects include:

- *individual factors,* i.e., the levels of experience, know-how, entrepreneurial abilities and ideological outlooks of project managers;

- *organizational factors,* i.e., project development procedures, procurement/contracting procedures, and project management considerations.

The roles played by A. I. D. project managers in helping shape project design, participating in proposal reviews, selecting contractors, and overseeing the implementation and evaluation of project activities obviously have a direct impact on project design decisions. In fact, the design of A. I. D.-funded trade and investment projects is influence directly, and often decisively, by forces impinging on project managers.

Project design and implementation decisions made by A.I. D. project managers are influenced by both personal and organizational factors. Personal factors include the willingness of the project officers to seek out the kinds of information they need to make informed decisions, and their levels of or willingness to acquire, know-how or training in technical aspects of trade and investment.

Organizational incentives or disincentives, such as A.I.D.'s reward structure, the levels and types of organizational resources managers are able to draw upon, operational procedures of organizations, and standards for judging success or failure are also determinants of which types of projects, services, and organizations are ultimately funded. The fact that project officers have a such difficulty getting projects approved, funded, and contracted tends to steer projects in certain predictable directions. The pressures to "move money" have design consequences, as do requirements to manage public funds according to A.I. D. management, auditors', and inspectors' standards. Pressures to demonstrate short-term results and attribute successes to A.I. D. funding, likewise, influence both the types of activities supported and the distribution of effort between producing results and maintaining reporting systems to document project successes.

A.I.D. Procedures: The Affect on Trade and Investment Programs

Project Design Constraints

- High front-end costs of developing new projects restrict small, pilot efforts, and inhibit ability to experiment and learn by doing.

- Emphasis on front-end design and planning restricts the ability of A.I. D. projects to respond quickly to private initiatives or emerging business opportunities.

- Pressures to "move money" tend to produce project designs with centralized project management and implementation mechanisms rather than decentralized, smaller-scale efforts.

Procurement and Contracting Procedures

- High front-end costs involved in learning to compete for government contracts limit the number and type s of organizations likely to become involved in A.I.D.-type contracts.

  Only certain types of companies are geared up to bid for and manage A.I.D.-type contracts.

  Commercial service providers needed to supply specialized trade promotion support are generally not familiar with standard government procurement regulations and requirements and are, therefore, unlikely to participate in direct contracts with A.I.D.

- Learning A.I.D. requirements and gearing up to bid on government contracts often conflicts with the regular business operations of firms providing trade and investment services to private clients.

- The cost of dealing with new types of firms are high for A.I . D. project officers. Funding new types of agents, involves risk.

- High front-end costs of A.I.D.'s procurement and contracting procedures preclude small-scale projects that begin modestly and build upon success.

Project Management and Reporting

- Single contracts with one organization are easier to manage than multiple contracts with several organizations. Consequently, A.I.D. trade and investment projects have tended to rely on a single supplier for services rather than supporting a plurality of service suppliers.

- Managing and accounting for use of government funds imposes high costs on contractors (accounting and audit expenses as well as heavy front-end learning costs related to government accounting and audit requirements). As a result, only certain types of companies are likely to become involved.

- Dealing with firms unfamiliar with government accounting, audit and reporting requirements, likewise imposes high costs and risks on project managers. Such firms are, therefore, unlikely to be entrusted with prime roles in project implementation.

- Reporting requirements for government contracts often conflict with business needs for confidentiality.

- Requirements to produce measurable results attributable to A.I.D. funding, favors support for institutional development efforts involving organizations highly dependent on A.I. D. rather than support for a broader range of independently operating service suppliers.

Limiting A.I. D. Constraints

.lthough the above list of constraints may seem formidable, MTAP research rovides strong evidence that innovatve, individual efforts are possible for eveloping improved project designs, for seeking out flexible, if seldom used, rocurement and contracting options, and for managing trade and ıvestment activities that involve private service suppliers.

A number of missions have developed trade and and investment projects that depart in significant ways from standard designs. A.I.D. staff is clearly capable of identifying and developing improved projects designs and implementation procedures. Contracting options that can provide effective means of involving commercial service suppliers in A.I.D.-funded trade and investment programs are available, including cost-sharing formulas such as those tested in the MTAP field trials.

What is needed is increased support for experimentation and innovation, including appropriate rewards for A.I.D. staff willing to assume the risks associated with new undertakings.

IV. THE RESULTS TO DATE FROM TI PROMOTION

In surveying various TI programs around the world, the MTAP study found it difficult to define success and failure. Often it was even hard to find evaluative information except in the case of some USAID programs that had generated individual evaluations. The MTAP report did, however, group together a collection of programs that had some type of evaluation or recent report indicating that the program was perceived as successful or as less than fully successful. The word "perceived" is important since there are many different ways of qualifying a project. This summary uses a very general set of reported perceptions that have more to do with the initial goals of the program and than with other criteria that may indicate that these projects were in fact successful.

Placing some countries in a "favorable" category and others in an "unfavorable" one is equally as hazardous. Within the MTAP research, no highly detailed function was used to qualify country business environments. Rather, it was felt that countries with generally unfavorable policy environments, small markets, limited business capacity and undeveloped physical infrastructure are perceived as unattractive, e.g. El Salvador and Sri Lanka. In contrast, a country with a difficult government policy structure could be seen as favorable if it had a large market or business infrastructure that could overcome the policy negatives, e.g. India. A recent report by Louis Berger International entitled "Promoting Trade and Investment in Constrained Environments: AID's Experience in Latin American and the Caribbean" also grouped past projects with low/no results, with mixed results, and successful projects into categories shown in relation to country context, though they added a further qualification of controllable and uncontrollable variables (e.g. delivery mechanism vs. policy environment).

The following chart arranges various projects in terms of favorable and unfavorable country context. The projects with mixed or negative perceptions, often failed in trying to promote investment into their environment or had overly ambitious expectations regarding the ability of their local industries to exploit identified foreign markets or venture opportunities. The example negatively perceived projects in favorable country contexts had design characteristics that were problematic, including government involvement, lack of follow-up capacity, or improper targeting of client transactions. The programs reporting success, tended to be associated with more industry-specific technical assistance and follow-up rather than foreign investment attraction. The technical assistance efforts in the Sri Lanka and El Salvador projects were considered much more successful than the investment attraction efforts of these two projects.

RESULTS OF EXAMPLE AID PROJECTS

RESULTS	POSITIVE RESULTS/PERCEPTIONS	NEGATIVE OR MIXED RESULTS/PERCEPTIONS
FAVORABLE COUNTRY CONTEXT	CINDE-PIE/ Costa Rica IPC/Dominican Republic INDONESIAN SERVICES INDIA (PACT)	THAI BOARD OF INVESTMENT BANEX/Costa Rica (3) Non-Traditional Agriculture/Ecuador (1)
UNFAVORABLE COUNTRY CONTEXT	JAMAICA/Technical Assistance & Training PROEXAG/Technical Assistance SRI LANKA/- Technical Assistance (2) FUSADES/Technical Assistance	PDAP HIAMP FUSADES/Investment Promotion FIDE FEPROEXA SRI LANKA/ Investment Promotion (4)

(1) See Louis Berger Report
(2) See MTAP Review of AID Experience
(3) See Arthur D. Little/STI Report, 1987
(4) See Lu Ruddell Report for ANE 1982

The full MTAP report, contains extensive reviews of various projects and the design characteristics that apparently contributed either to successful or limited results.

Beyond general classifications like the above chart, there is some concensus on conclusions regarding specific issues. For example, both the Berger report and the MTAP study concluded that TI promotion tended to be more effective when it was able to provide targeted and industry-specific support. The Berger report argues that programs taking a "promoter" approach (defined as enterprise specific technical assistance and brokering services to a limited

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number of producers in a limited number of sectors) were more suited to the weak business environments in which AID operates than programs taking a "transmitter" or "facilitator" approach, which are less pro-active and concentrate more on information-gathering, trade show representation and general investor services. Validating this is the fact that programs like CINDE, the Sri Lanka Business Development Center, and FUSADES in El Salvador, which were originally oriented toward the foreign investor, show an evolution to programing that can build the capacity of local firms while also linking them to international markets.

Another conclusion drawn from early TI experiments that focused primarily on linking local clients to overseas markets is that while plenty of international market and venture opportunities could be identified, local firms had little capacity to exploit these opportunities. To address this problem, the investment and market access programs of FUSADES in Salvador, IPC in the Dominican Republic, and the IESC Indonesian Shrimp (Export) Assistance Program (ISAP) developed technical assistance support services to strengthen local companies while also providing market and investor outreach. In these three cases, private consulting intermediaries were utilized along with private volunteer resources such as the IESC retired executive specialists.

V. SUMMARY

At its most fundamental level, then, the success of a trade and investment program will depend on whether it has a clear, strategic focus and plan, a service mix consistent with the particular country context and transaction focus, and effective implementation by appropriate and capable service providers. Other important conclusions from MTAP regarding effective provision of TI services are summarized as follows:

a. The business sector in most developing countries is not large enough to support or sufficiently aware of the services provided by specialized consulting firms and other intermediaries, which in turn have not developed to the extent they have in industrialized countries. Therefore, TI programs have to focus on how to create and deliver business services until the market place has adjusted to provide these services.

b. Because enterprises in developing countries have little experience in identifying and utilizing external business services, including intermediation, programs must not only deliver appropriate services but also educate beneficiaries and promote the use of such services.

c. Trade and investment linkage activities usually need to be complemented with enterprise-specific technical assistance to build the capacity of firms to meet international market demands.

d. Trade and investment programs must provide long term continuity to allow establishment of credible networks of business contacts and service providers, as well as to allow firms to move through several different project cycle stages to completion of an investment or export transaction.

e. Increasingly, international business linkages will involve non-traditional ventures such as joint ventures and coventures.

The more extensive draft of the MTAP report includes about 40 mini-cases on different types of trade and investment organizations and 10 extensive cases on traditional intermediaries like large consulting firms and smaller intermediary organizations. These cases include different models on how intermediaries charge fees and develop services strategies. There are also six test cases that show how the various pilot contractors moved into different countries and began offering services alone or in cooperation with government and private sector institutions.

In general, the results tended to show that success was associated with those firms that had access to strong networks in larger countries. The pilot contracts operating in the smaller countries could not develop adequate project opportunities nor consistently bring ventures to completion. Even in these cases, however, where the contractors did not always meet the expected goals, they did provide an important business service to local firms at a relatively low cost. The jury is still out. This approach, using commercial intermediaries to offer business services, may not always be the most cost-effective use of TI resources, but it is certainly an option if the United States wants to maintain some type of low-cost trade and investment assistance to Third World firms to improve their capability of accessing foreign technology and market opportunities.

Financial Markets in Developing Countries:
Increase in Private Investment Through Open Markets

by Leigh Miller

FINANCIAL MARKETS IN DEVELOPING COUNTRIES: INCREASE IN PRIVATE INVESTMENT THROUGH OPEN MARKETS

I. Financial markets in developing countries

A. Open Private Financial Markets

Open private markets create more economic growth and greater employment because they not only allow an efficient allocation of resources through freer pricing, and a decentralized decision making mechanism which avoids the inefficiencies of overly centralized command decisions, but also are the only effective way to integrate a country's economy with the rest of the world. Open private capital and money markets are essential to opening up private markets generally: pricing of goods and services depends enormously upon the prices of investment and short term funds, and new or expanded investment cannot be made unless investment funds are mobilized at sustainable prices.

The capital and money markets must be reasonably free and private in order to sustain open markets and enhance the flow of savings, goods and services to their most efficient use

B. Definition of financial markets, capital markets & money markets

A financial market is a market for money--or more broadly, the instruments and institutions that surround the movement of funds. Money moves in many different ways. Usual breakdown of financial markets: short term = money market; long term = capital market. No longer realistic because money is fungible. Private businesses use whatever funds are available and affordable, particularly in LDC's. [Discussion assumes a private sector in the LDC]

Money and capital markets are also divided into securities and non-securities markets. LDC capital markets are generally concentrated in non-securitized area, i.e., loans and other forms of direct credits, especially from development banks or other long term banks' lending to specialized activities. Loans from commercial banks, generally short term, (except when carrying out specific programs for long term loans), are also are used for capital purposes by continually rolling over short term obligations.

The securities market in LDC's traditionally is thin, but if there is private business, there is some kind of a capital market in the country.

Development of capital markets is a long term project--particularly securities markets in countries which have many obstacles: e.g., investment bias towards savings accounts, hard currency and real estate; high and tax deductible interest rates; no tradition of minority or passive investment; information deficiencies; concentration of wealth and family owned businesses; lack of institutions which develop and place new equity with investors; etc. But, development can occur if the building blocks are identified and supported.

In most LDC's, development of the money markets is much easier. Main institution is the banking system, but many others: money lenders, agricultural credit, supplier's credits, finance companies, etc.

Development of short term money market assists overall capital market because part of overall mobilization of capital in the LDC. If private funds are attracted to the money market away from traditional investment instruments, investors increasingly become aware of alternative returns from all markets and make comparative investments.

C. Geographical Capital Markets

- Local market
- International Capital Markets
    - Centered on domestic institutions, but
        - Rapid expansion both domestically and internationally
        - Euromarkets
        - New instruments and investment vehicles
- Role of foreign exchange and debt/equity swaps
- Relationship between international and domestic capital markets
- International programs for LDC financial market development

II. Characteristics of LDC Capital Markets

A. Elements of Capital Market

- Savings available
- Investment supply/demand
- Institutional framework

B. Instruments of Capital Market

- Non-securities capital market

- Securities Capital Market
  - Primary/Secondary markets
  - Stock exchange/OTC
- Unit trusts/open ended mutual funds
- Venture capital

C. Privatization and relationship to Financial Markets

III. Money Markets

A. Money markets and Monetary Policy

B. Relationship to Capital Markets

C. Commercial Banks
   - Overleveraging

D. Other markets: Government Securities; Commercial Paper, Finance Companies

E. Money Market Instruments

F. Underground Market

IV. An Approach to the Capital Markets:

A. Formulating approach

B. Identifying obstacles
   - Capital Issues bureaucracy
   - Information deficiencies and public disclosures
   - Deregulation and regulation

C. Supply/Demand Analysis

D. Placement markets

E. Program Options

The Role of the Financial Sector in Development

by Richard Breen

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THE ROLE OF THE FINANCIAL SECTOR IN DEVELOPMENT

BY: J. RICHARD BREEN
DIRECTOR,
FINANCIAL SECTOR
DEVELOPMENT
PROJECT

Price Waterhouse

MAJOR TRENDS IN THE INTERNATIONAL MARKETS

1. Liberalization
2. Internationalization
3. Institutionalization
4. Innovation
5. Telecommunication

1. LIBERALIZATION

Gradual Elimination Of:

- Foreign Exchange Controls
- Interest Rate Controls
- Credit Allocation Controls

2. Internationalization

Driven By:

- Need To Recycle Petrodollars In The 1970's
- The Emergence Of The Eurodollar Market To Adsorb, Redistribute Petrodollars
- Expansion Of The Banks Internationally To Follow Multimational Clients
- Desire Of Institutional Investors To Diversify Their Portfolios
- Benefits To Companies Of Issuing Securities In Foreign Markets

3. INSTITUTIONALIZATION

- **Pension Funds**
- **Insurance Companies**
- **Mutual Fund Companies**
- **Country Funds**
- **Leasing Companies**

4. INNOVATION

- High-Yield Securities
- Asset-Backed Securities
- Interest Rate And Currency Contracts
- Swaps
- Hybrids

5. TELECOMMUNICATION

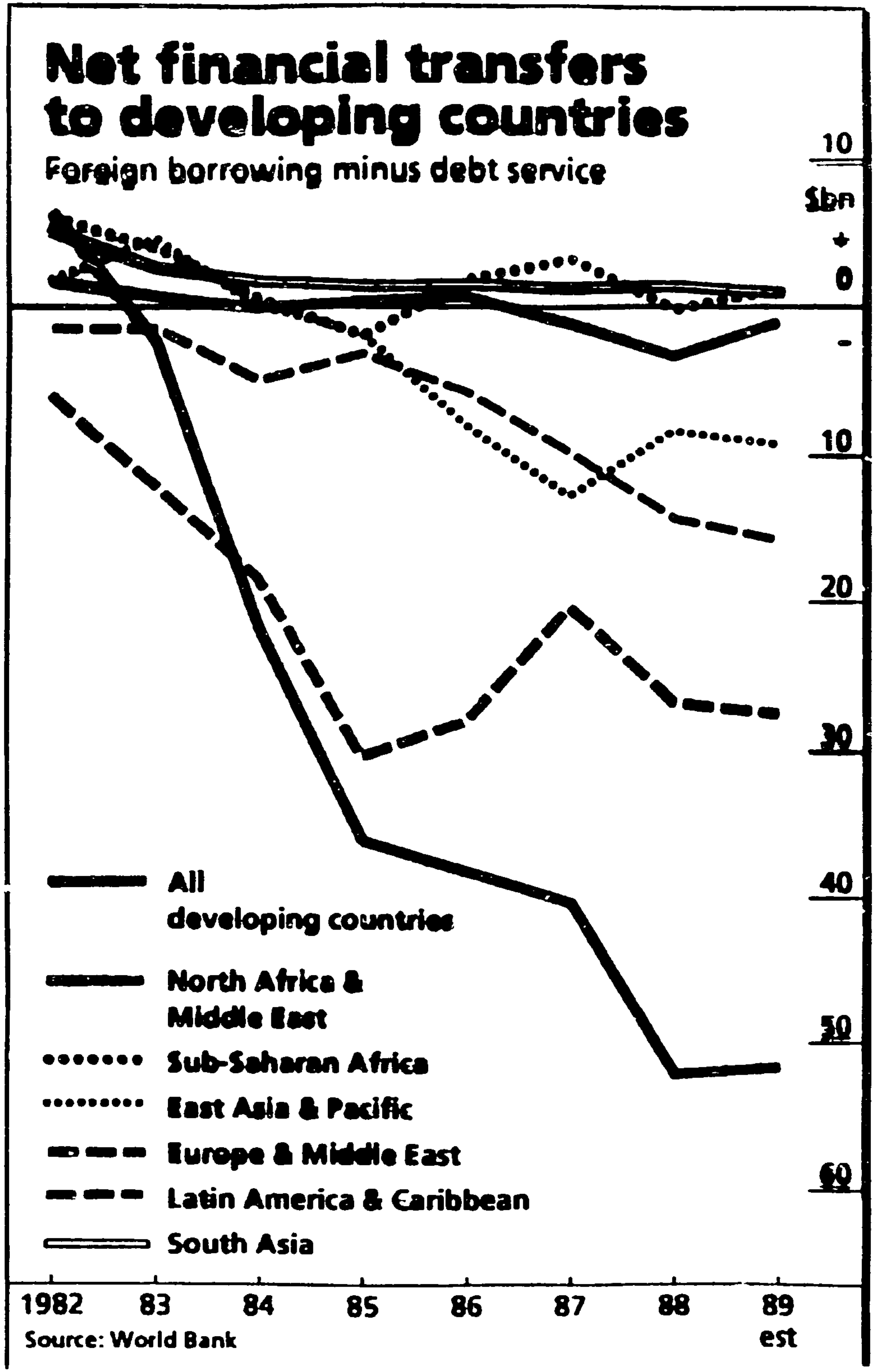
- Global Financial Market With 24-Hour Trading
- Instant Communication By Satellite, Facsimile, Fiber Optic Cable
- Overnight Electronic Fund Transfer Of Billions Of Dollars Between Financial Institutions
- Worldwide Use Of Consumer Credit Cards

IMPLICATIONS FOR DEVELOPING COUNTRIES

- **Stress On Financial Systems Is Greater**
- **Regulation**
- **Dark Side Of "Inter-depenence"!**
- **Developing Countries Can Either Take Advantage Of The Current Trends Or Be Left Out And Fall Behind**
- **Globalization**

BENEFITS OF INCREASED LIBERALIZATION AND INTERNATIONALIZATION:

- **Attract Foreign Investment**
- **Encourage Repatriation Of Flight Capital**
- **Stimulate Private Sector Growth And Entrepreneurship**
- **Mobilize Financial Resources For Development**



Net financial transfers to developing countries
Foreign borrowing minus debt service
$bn
+
-
10
0
10
20
30
40
50
60
All developing countries
North Africa & Middle East
Sub-Saharan Africa
East Asia & Pacific
Europe & Middle East
Latin America & Caribbean
South Asia
1982
83
84
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86
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Source: World Bank

D-3.9

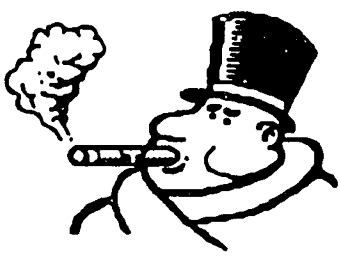
THE ROLE OF THE FINANCIAL SYSTEM

TO MOBILIZE CAPITAL FOR INVESTMENT
TO CHANNEL CAPITAL TO HIGHEST RETURNS

FROM THE POINT OF VIEW OF:

SAVER

A **SAFE** PLACE TO HOLD SAVINGS AT LOW COST

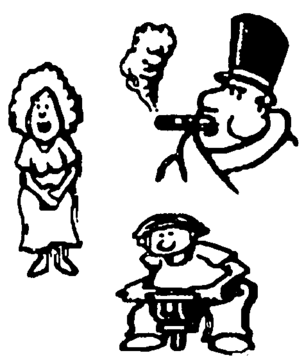


INVESTOR

TO TRANSFER CONTROL OF RESOURCES FROM SAVERS TO INVESTORS **AT LOW TRANSACTION COST**

DEVELOPMENT

DIVERSITY INVESTMENT AMONG A WIDE VARIETY OF USERS; CHANNEL IT INTO **HIGHEST RETURN USERS**



ALL THREE

TO **MATCH** SAVERS AND INVESTORS WITH SIMILAR **RISK** PREFERENCES

What is the goal ?

"AID should promote a system of financial markets that is integrated and relatively undistorted, one that relies heavily on competition......This system should be capable of mobilizing private savings, allocating that savings to investments yielding maximum returns ..."

AID supports policies which lead to "efficient, deep, and integrated financial markets, relying primarily on market rates of interest...."

Discussion: terms:

<u>Efficiency</u>: power of market to mobilize funds at least cost, and allocate to investments yielding highest returns.

<u>Deep</u>: Refers to ratio of financial asset to GNP

FINANCIAL SECTOR DEVELOPMENT ISSUES

- **Macroeconomic Stability**

- **Restructuring Distressed Financial Systems:**
  - **Bank Insolvencies/Restructuring**
  - **Adequate Supervision and Regulation**

- **Liberalization vs. Financial Repression**
  - **Interest Rates** - **"Getting Prices Right"**
  - **Directed Credit**
  - **Competition**

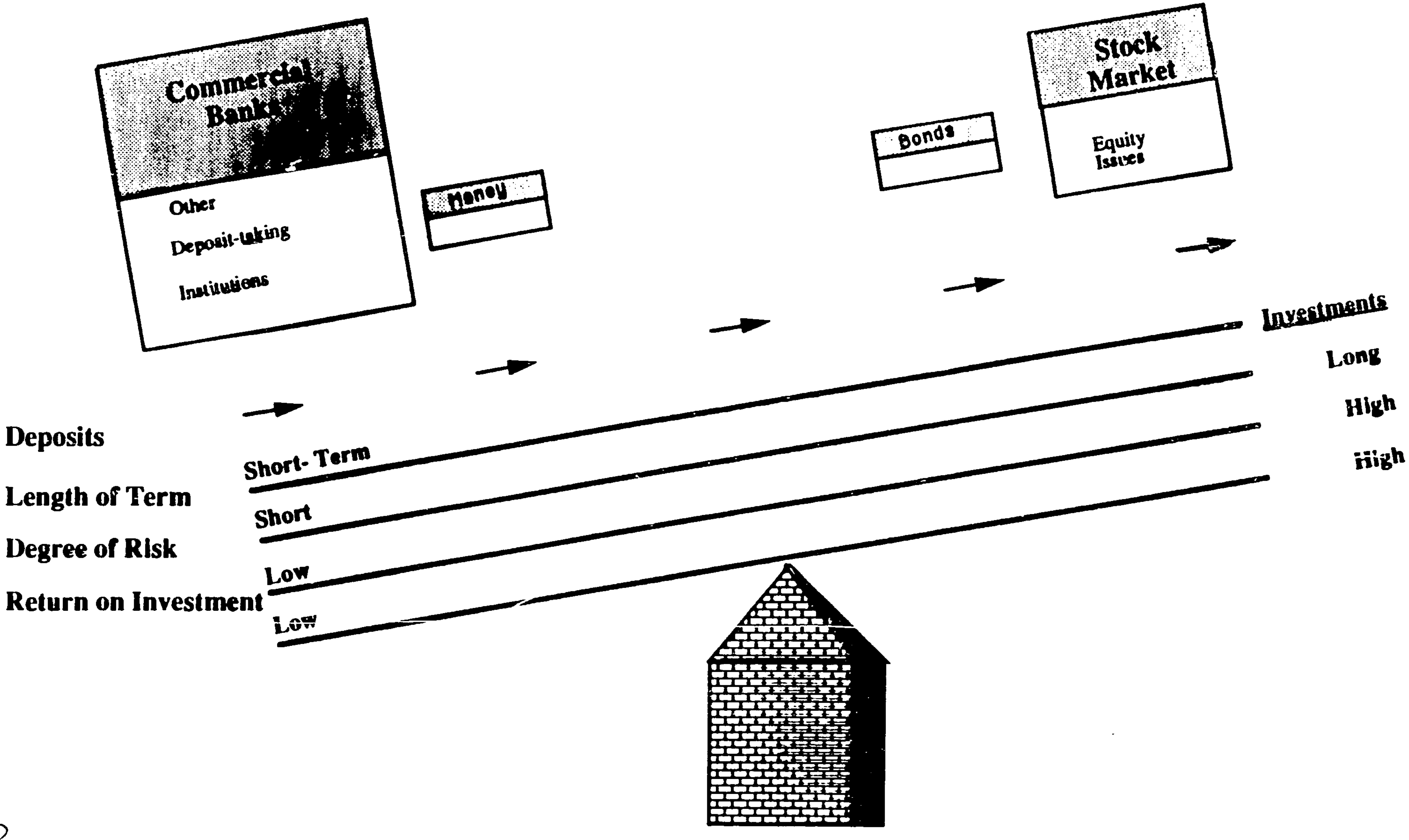
- **Increased Range And Diversity of Financial Services**
  - **Money Markets, Leasing Etc.**
  - **Long Term Capital Markets**
    - **Security**
    - **Non-Security**

- **Long Impediments To Financial Markets Development**

- **Quality Of Financial Information-Disclosure**

- **Regulation**

UNBALANCED FINANCIAL SYSTEM



D-3.13

COMPARATIVE STRUCTURE OF FINANCIAL SYSTEMS
% of Gross Assets of Fin. System

Held By

	Commercial Banks, DFI's	Contractual Savings	Long-Term Debt&Equities
Industrialized High Income 8-Eur., Can. & U.S.	49%	16%	31%
Emerging Markets 13-India, Malaysia, Pakistan, Philippines, Thailand	77%	5%	16%
Other Developing Countries	80-90%		

FINANCIAL DEPTH

Net Financial Assets As % Of GNP

Developed Markets	**188%**
Emerging Markets	**79%**

.12

MONEY MARKETS

TRADING IN SHORT-TERM INSTRUMENTS

- Short-Term Government Notes
- Commercial Paper
- Certificates of Deposit

ADVANTAGES

- Provide Clear Market Signals
  A Reference Point Market Rate of Interest
- A market For Government Financing and Monetary Operations
- Competition To The Banks
  Reduces Market Power Of Banks
  A Source Of Funds For Interbank Competition

CAPITAL MARKETS DEVELOPMENT ISSUES

0 SUPPLY / DEMAND FOR SECURITIES
  - o DOMESTIC
    - TAX INCENTIVES - NEUTRALITY
    - LEGAL
    - ACCOUNTING

0 REGULATORY ENVIRONMENT
  - o SELF REGULATION - FIRST RESORT
  - o "SEC" INSTITUTION
  - o DISCLOSURE REQUIREMENTS

0 PRIVATIZATION POTENTIAL
  - o OF SECURITIES INDUSTRY
  - o OF SOE'S

0 DEVELOPMENT OF SUPPORTING INDUSTRIES/PROFESSIONS
  - o BROKERAGE, INVESTMENT BANKS
  - o INVESTMENT COMPANIES (MUTUAL [redacted])
  - o QUALITY OF FINANCIAL INFORMATION
  - o UPDATED LEGAL CODES

Developing Country Equity Markets Could Attract $100 Billion by 2000

By the year 2000, foreign investment in emerging markets could total $100 billion, up from an estimated $15 billion in 1989. That is the conclusion of a recent study by the World Institute for Development Economics Research (WIDER), a research and training center of the United Nations University. The study group, whose report is entitled *Foreign Portfolio Investment in Emerging Equity Markets*, was chaired by Sir Kenneth Berrill, a former Chairman of the United Kingdom Securities and Investments Board.

Between 1984 and 1989, according to the report, the capitalization of equity markets quintupled in the thirty developing countries with the greatest potential to increase their share of equities markets. It could also mean that equity markets might "play a larger role in the financing of economic growth in developing countries."

The estimated $15 billion that came from investors abroad is less than 0.25 percent of the $7,500 billion in funds at the disposal of asset managers in the major markets. Moreover, it is only about 2.0 percent of the $750 billion that they are estimated to have placed in foreign markets. The report also estimates that foreigners have invested roughly $1 billion annually in emerging markets during the past five years.

Brazil's São Paulo stock exchange is the developing world's third largest equity market, after Taiwan Province of China and Republic of Korea, with a capitalization of $44 billion and nearly 600 stocks.

THE EMERGING MARKETS

* The top 15 emerging markets represent $1.5 trillion in GNP

* As a group, these newly industrializing countries are the most dynamic segment of the world economy, growing at 2-4 times the world average

* There are equity markets in over 35 developing countries

* Over $600 billion in market capitalization (December 1989) and over 8,000 listed stocks - some markets European size

* 10% of the world's equity markets outside the United States

* International investment has increased from less than $500 million to over $10 billion in five years

WHY ARE INTERNATIONAL INVESTORS INTERESTED?

*Risk diversification:

*Attractive record of returns

*Increasing size of stock markets

*Strong economic growth prospects

*Many competitive producers

*Attractive valuation (at least in Latin America - less now in Asia)

*Pioneering investors likely to reap benefits

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Best Performing Markets in 1989
Returns in U.S. Dollars

		Indices (%)	IFC	5 Yr. Avg. Annual
1.	**Turkey**	**238.4**	**1,097**	
2.	**Thailand**	**123.6**	**141**	**54.2**
3.	**Taiwan**	**102.0**	**99**	**70.6**
4.	Austria		101.1	105
5.	**Mexico**	**71.1**	**71**	**50.3**
6.	**Philippines**	**59.3**	**59**	**88.4**
7.	**Malaysia**	**57.5**	**44**	**12.7**
8.	**Greece**	**56.5**	**81**	**35.5**
9.	**Argentina**	**56.1**	**223**	**44.8**
10.	Sweden	53.2	33	
	IFC Emerging M.	-	55.4	33.0
	MSCI World	14.6	16.5	
	MSCI EAFE	9.8	10.8	
	U.S. (S&P 500)	25.5	31.6	
	France	38.2	36.8	
	Germany	35.9	47.1	
	United Kingdom	18.6	21.8	
	Chile	**46.2**	**51**	**60.0**
	Singapore	**40.2**	**-**	**-**
	Portugal	**37.1**	**40**	**63.2**
	Brazil	**24.5**	**49**	**13.5**
	India	**6.6**	**5**	**19.4**
	Korea	**1.2**	**2**	**51.6**
	Jordan	**-15.3**	**-1**	**2.6**

Source: (1) Local Indices in U.S. dollars (without dividends).
(2) IFC Composite Emerging Markets Index (total returns, including gross dividends).
Morgan Stanley Capital International Indices.

EMERGING MARKETS "discovered" by international investors

Asia

* Taiwan
* Korea
* Malaysia
* Singapore
* Thailand
* Philippines
* Indonesia

Latin America

* Mexico
* Brazil
* Chile

Southern Europe and Mideast

* Greece
* Portugal
* Turkey

EMERGING MARKETS
The Next Group

Asia

* China
* India
* Pakistan
* Papua New Guinea

Latin America

* Argentina
* Venezuela
* Colombia

Mideast

* Jordan
* Morocco

Africa

* Ivory Coast
* Kenya
* Nigeria
* Zimbabwe

FINANCIAL SECTOR

STRATEGIC ASSESSMENT

D-3.24

Price Waterhouse

PURPOSE

- Characterize Country's Stage of Development
- Identify Financial Sector Need or Weaknesses
- Determine Priorities of Host Country Government and Private Sector
- Define Action Programs for AID Interventions

D-3.25

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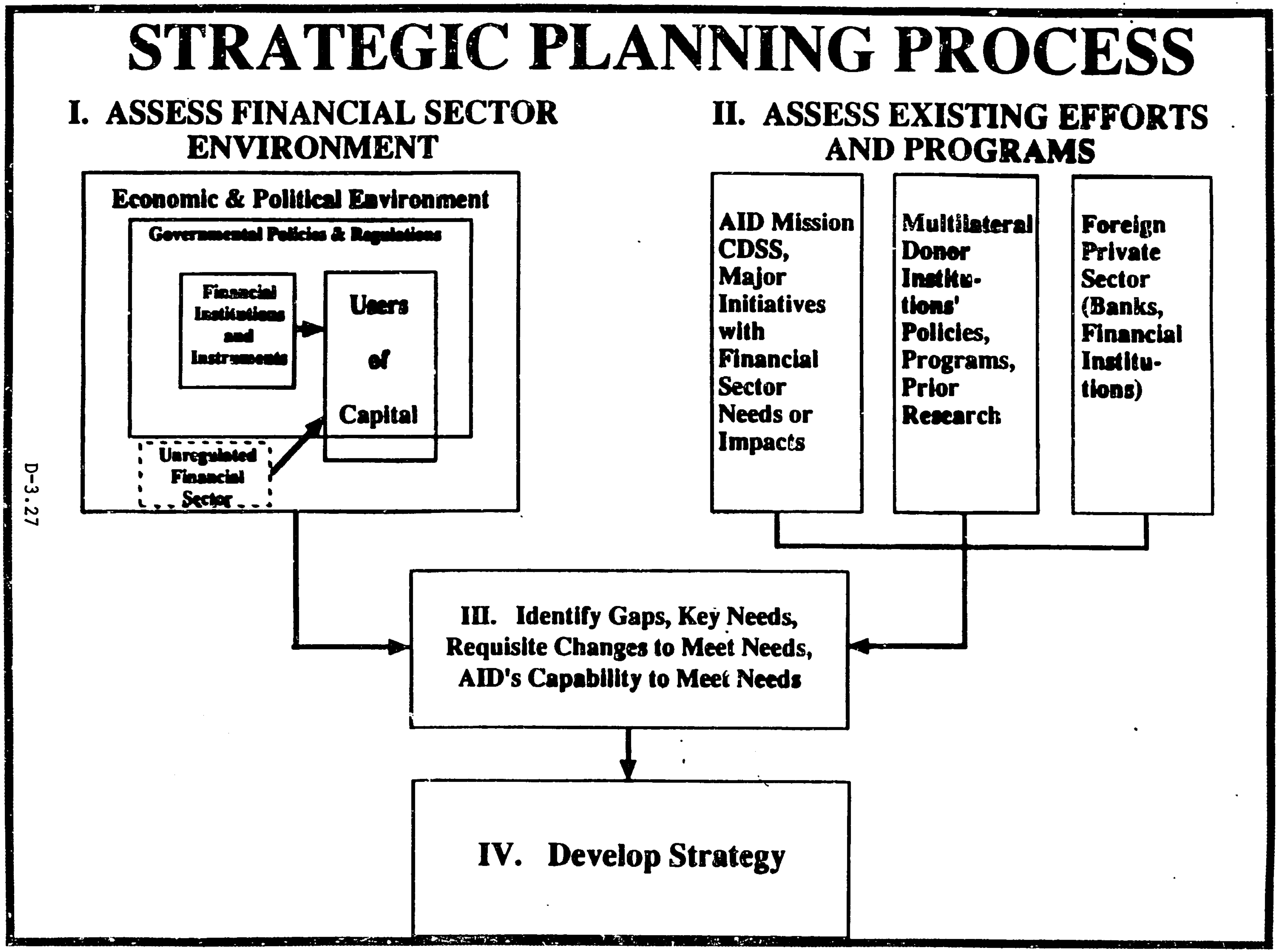
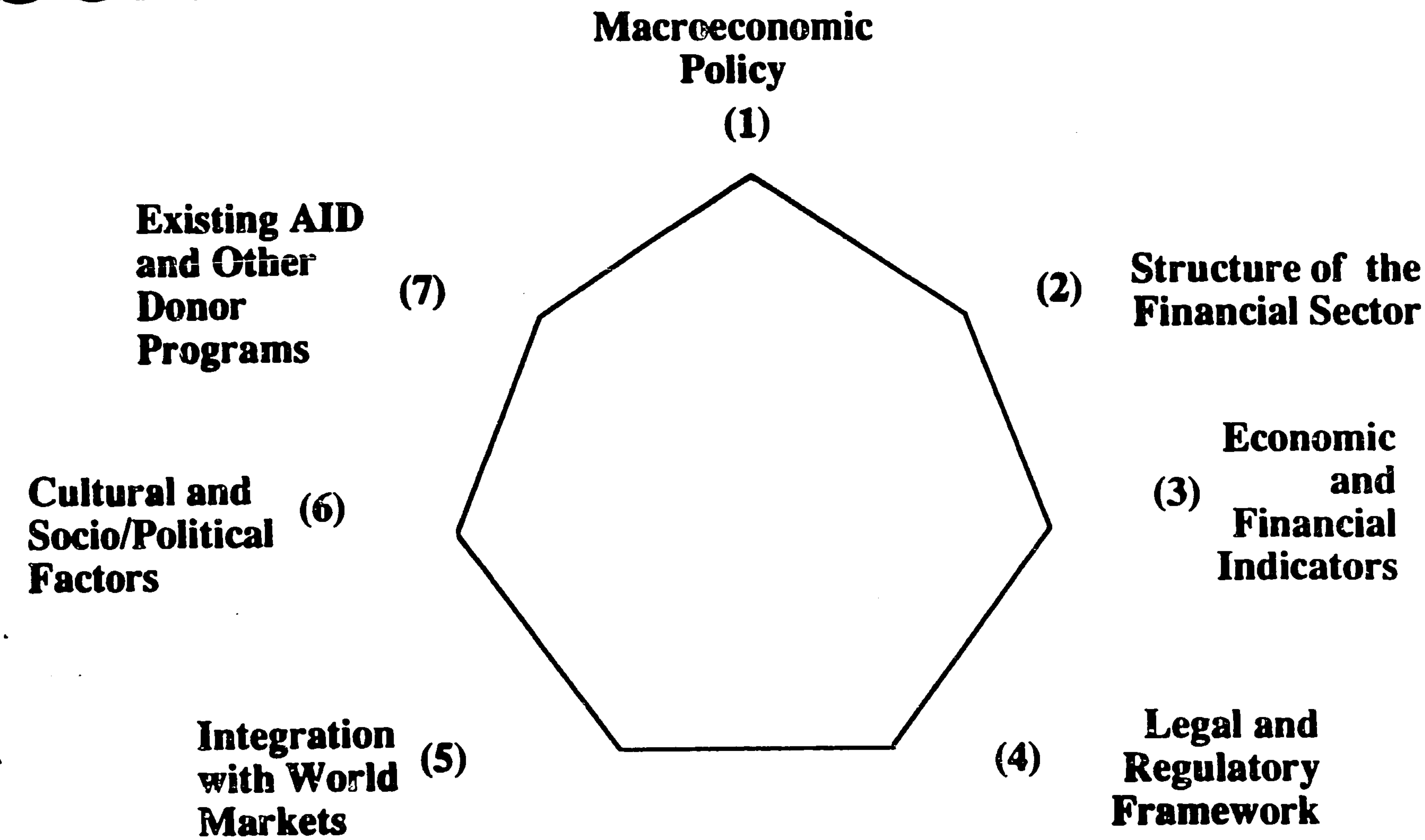
PURPOSE

- Identify Areas with the Most Potential for AID Participation in the Development of the Financial Sector


STRATEGIC PLANNING PROCESS
I. ASSESS FINANCIAL SECTOR ENVIRONMENT
Economic & Political Environment
Governmental Policies & Regulations
Financial Institutions and Instruments
Users of Capital
Unregulated Financial Sector
II. ASSESS EXISTING EFFORTS AND PROGRAMS
AID Mission CDSS, Major Initiatives with Financial Sector Needs or Impacts
Multilateral Donor Institutions' Policies, Programs, Prior Research
Foreign Private Sector (Banks, Financial Institutions)
III. Identify Gaps, Key Needs, Requisite Changes to Meet Needs, AID's Capability to Meet Needs
IV. Develop Strategy

COMPREHENSIVE STRATEGY



D-3.28

SPECIALIST REQUIREMENTS

- Strategic Planner
- Economist
- Capital Markets Specialist
- Banking Specialist
- Legal/Regulatory Specialist
- Other

The Private Financial Sector and USAID In-Country Programming: A Personal Viewpoint

(With Examples From Morocco and Elsewhere)

by Stephen B. Strauss

President, Trans-Atlantic Consulting Services, Inc.
Washington, D.C.

THE PRIVATE FINANCIAL SECTOR

Private institutions operating within the Financial Markets

1. Economic Role: Financial Market Intermediation

   Mobilizing Savings, Supplying Capital (equity, debt) to productive uses.

2. Financial institutions as

Businesses, Providing:

- "Products" to their customers
- Employment to their workers
- Profit for growth and to compensate shareholders

Both roles are best fulfilled in a free, competitive market environment.

STATE INTERFERENCE IS OFTEN A MAJOR PROBLEM:

1. State-distorted Financial Markets: Subsidies, price controls, restrictive practices ("Financial Repression")

2. State-Dominated Financial Businesses : Special Privileges, subsidies, monopolies.

Private Financial Sector is penalized.

3. Effect is often high-cost, inefficient or unavailable financial services. Borrowers/users (esp. smaller or newer private businesses) are penalized.

Major problem: Access to and cost of capital (equity, debt) affects investment, exports, job-creation.

RECOMMENDATION FOR USAID MISSIONS:

1. Promote end for Financial Market distortions (policy dialogue plus private financial institution-building) (Focus of Strategy paper)

2. Strengthen the Private Financial Sector by using it (not public sector) for any USAID program involving funding mechanisms.

- Export Development
- Sector Programs (industry, agriculture, tourism)
- New enterprise development
- Privatization
- Housing, health, etc.

3. Broaden access to capital, filling gaps in forms of debt and equity available to productive private enterprise.

EXAMPLES: Use of local currency funds to provide stable medium-term funding to private financial sector (IFI's).

1. Possible sources of funds: Sec 108, others

2. Possible uses of funds by IFI's

- Investment loans to small/new business; to export industries; to local co-venture partners; to newly privatized companies.

- loans to private companies for purchase of shares in companies being privatized.

3. Essential component:

- Market interest rates

- No targeting of loan uses beyond broad purposes within private sector

- I.F.I bears credit risk

EXAMPLE: Use external funds to establish local loan guarantee fund operating entirely through private sector:

- Fund management
- I.F.I s (lenders)
- Borrowers

Fund design should aim at economic capability to permit privatization.

USAID can stimulate creation of private-sector investment companies ("I.C.") to:

- Provide equity investment in new enterprises, local co-venture

- Purchase equity shares in companies being privatized.

I.C. would ensure management over long-term, or sell investment (ideally over stock exchange).

I.C. would be quoted on stock exchange, raising local equity for itself.

USAID can provide: 1) Small sub-grants enabling local I.C. promoters to raise capital; 2) Direct loans to I.C. 3) Local currency loans/guarantees to IFI's for on-lending to ventures that I.C. invests in.

CAPITAL MARKETS:

Channel savings into productive investment uses. Two ways of doing so:

1) "Stock-market capitalism"

- US/UK since 1900; rare but growing elsewhere.
- Ownership separate from management.
- shareholding by institutions/individuals motivated by investment, not management, concerns.
- Capital market: liquid secondary market, public disclosures.

2) "Proprietary Capitalism"

- Germany, Japan, Asian NIC's
- On rise in U.S.: Venture capital, ESOP/LBO's "going private" etc.

- Ownership linked to management control.

- Access to credit more important than liquid share-market.

- Capital market: private placements; access to long-term credit sources.

Both types of "Capitalism" work, can coexist, benefit a developing economy, and merit support.

LESSONS LEARNED:

1. Financial market distortions costly, should be terminated.

2. Private financial sector often handicapped: deserves USAID support whenever possible through various programs.

3. Forms of debt and equity for investment should be enlarged through private IFI's, I.C.'s, financial markets.

4. Local governments will normally abide by resolute USAID messages, provided program design fits local context.

5. Local private financial sector will respond if programs recognize local conditions, provide incentives, and avoid excessive rigidities and constraints.

6. Privatization offers wide opportunities for new financial market instruments, institutions and depth.

7. Development of both "stock market capitalism" and "proprietary capitalism" should be encouraged through assistance to private financial intermediaries (investment banks, investment companies).

Venture Capital Investing: A D.I.Y. Approach

by Ken Locklin

VENTURE CAPITAL INVESTING - A D.I.Y. APPROACH

I. INTRO

II. MIS EN SCENE

WHY SHOULD YOU TAKE THE TROUBLE TO LEARN ANYTHING ABOUT V.C.

ANSWER IS IN 2 PARTS -

1. VENTURE CAPITAL CAN BE GOOD DEVELOPMENT POLICY

2. WHETHER YOU ARE INTERESTED IN VENTURE CAPITAL OR NOT, VENTURE CAPITALISTS ARE INTERESTED IN YOUR MARKETS.

TO GAIN PRODUCTIVE CONTROL OVER VENTURE INVESTING, YOU NEED 3 THINGS -

KNOWLEDGE

TECHNIQUE

PREPARATION

III. KNOWLEDGE

WHAT IS VENTURE INVESTING ?

"I'LL BACK YOU IF YOU HAVE A GOOD IDEA THAT WILL MAKE MONEY FOR US BOTH." (DAVID GLADSTONE)

WHAT CAN VENTURE CAPITAL DO IN A DEVELOPING COUNTRY CONTEXT?

VENTURE CAPITAL CAN SUPPLY OR AUGMENT 2 OF THE KEY FACTORS OF PRODUCTION

CAPITAL

AND

MANAGEMENT EXPERTISE

MYTHS ABOUT VENTURE CAPITAL

IV. TECHNIQUE

ANALYZE THE PROBLEM IN A SPECIFIC COUNTRY CONTEXT, REVIEWING POLICY, STRUCTURAL, ACTIVITY AND NEEDS REQUIREMENTS AND INSTITUTIONAL ENVIRONMENT.

IDENTIFY CONSTRAINTS OR BARRIERS TO IMPROVED FUNCTIONING AND DESIGN CONCEPTUAL RESPONSES TO THEM.

DEVELOP OR SUPPORT THE CREATION OF SERVICES TO ADDRESS THESE LIMITATIONS, IN A PRIVATE SECTOR FRAMEWORK, IF POSSIBLE.

THE METHODOLOGY IS EXACTLY THE SAME IN DETERMINING HOW TO MAXIMIZE THE POTENTIAL VALUE-ADDED FROM NEW VENTURE CAPITAL ACTIVITY IN YOUR INDIVIDUAL MARKETS.

YOU WOULD -

- COMPLETE A CAPITAL MARKETS RESOURCE AND REQUIREMENTS INVENTORY
- IDENTIFY WHICH REQUIREMENTS APPEAR LIKELY TO BE IMPACTED BY VENTURE INVESTING
- DESIGN A CONCEPTUAL FRAMEWORK WHICH COULD ADDRESS THESE REQUIREMENTS
- SUPPORT THE CREATION OF A BUSINESS VEHICLE BASED ON THIS CONCEPTUAL FRAMEWORK

IV. PREPARATION

THIS THEORETICAL FRAMEWORK SHOULD POSITION YOU TO BEGIN THE PROCESS OF EVALUATING THE POTENTIAL FOR CONSTRUCTIVE VENTURE CAPITAL ACTIVITY IN EACH OF YOUR COUNTRIES.

UNDERTAKE A PROCESS DESIGNED AROUND THE CAPITAL MARKETS RESOURCE AND REQUIREMENT INVENTORY ATTACHED AS EXHIBIT 2.

USING THAT INFORMATION, YOU WOULD WORK THROUGH THE DESIGN PROCESS

CRITIQUE/EVALUATION

BEFORE COMMITTING SCARCE RESOURCES TO A NEW DEVELOPMENT EXERCISE, WE SHOULD TEST OUR PROPOSED STRUCTURE'S POTENTIAL VIABILITY AGAINST THE ACTUAL MACRO, CLIMATIC CONDITIONS WHICH CHARACTERIZE THE LARGER MARKET, USING A STRUCTURE SOMETHING LIKE THAT IN EXHIBIT 3 TO ASSESS THE "REAL WORLD" POTENTIAL OF A NEW CONCEPT.

V. IMPLEMENTATION

AID'S TOOLS TO DEVELOP OR SUPPORT THE CREATION OF A VENTURE CAPITAL FUND ARE LARGELY INDIRECT, BUT SEVERAL APPROACHES CAN HAVE ATLEAST SOME VALUE IN THE PROCESS.

YOU COULD - DIRECTLY SUBSIDIZE THE DEVELOPMENT OF A LOCAL VENTURE COMPANY

LOWER SOME STRUCTURAL BARRIER TO FUND DEVELOPMENT OR MARKET ENTRY

EXPAND THE POTENTIAL POOL OF ELIGIBLE INVESTMENT OPPORTUNITIES FOR A TARGETED SECTOR

PREPARE A BROAD SCALE VENTURE CAPITAL DEVELOPMENT SURVEY AND SUPPORT PROJECT, TO EXPLORE RANGES OF NEW ACTIVITIES

YOUR GOAL IN USING THESE TOOLS IS TO ENTICE A POTENTIAL VENTURE MANAGER, EITHER EXTERNAL TO THE MARKET OR DEVELOPED WITH IN IT, TO COMMIT THE TIME AND ENERGY IT TAKES TO PLAN, SYNDICATE AND LAUNCH A VENTURE FUND

THE HOMEWORK ASSIGNMENT

exhibit 1

CREATE-A-FUND

VENTURE CAPITAL FUND DESIGN KIT

Determining or selecting the relevant option in each category will produce a preliminary general fund design.

Target Investment Portfolio Characteristics

typical project size

target fund investment level (%)

target fund investment ($$)
(N.B. $$ value of target investment is approximately equal the target fund investment level above times 40% of typic project size)

foreign currency denominated investment instruments, or local currency denominated investment instruments?

equity holdings only, or mixed equity and debt investments?

sectors of interest

stage of investment -

1st round seed or start-up capital (basic concept development)

2nd round development capital (a "proven" but untested idea)

3rd round expansion capital (operating,& at or near break-even)

4th round growth capital (profitable, staged for "take-off")

potential project sponsors

generic or targeted investment criteria

available exit vehicles (how the venture capitalist earns the return for his investors)

Fund Structural Characteristics

sources from which investment opportunities will be identified

potential pools of investment capital for the fund

form of typical investment instrument

leveraged, or straight equity fund capitalization?

current income generating, or capital appreciation only?

corporate, limited partnership or mutual fund ownership?

open or closed end fund structure?
(open ended funds operate in perpetuity; closed end funds are disbanded at some fixed point in the future)

capital gains distributed or reinvested?

internal capacity for specialized business development or supp activities to be included?

exhibit 2

VENTURE CAPITAL PROSPECTS

CAPITAL MARKETS RESOURCES & REQUIREMENTS SURVEY

Country ________________________________

Evaluators (name) (title)

____

____

____

____

Market Development Analysis

Evaluate the approximate level of development or available resources for each market segment described below.

a) micro-scale enterprises
(typically less than $100 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7

lo   hi

Level of available support for LOCAL EQUITY requirements
1--------2--------3--------4--------5--------6--------7
lo   hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1--------2--------3--------4--------5--------6--------7
lo   hi

Are there existing venture investors serving this market?

b) family-scale enterprises
(typically $100 - 500 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7
lo hi

Are there existing venture investors serving this market?

c) entrepreneurial scale enterprises
(typically $1000 - 50,000 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7

lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7
lo hi

Are there existing venture investors serving thi market?

d) <u>local commercial scale enterprises (typically $50,000 - 500,000</u> capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7

lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7
lo hi

Are there existing venture investors serving this market?

e) <u>national commercial scale or second generation enterprises</u> (typically over $500,000 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements

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1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7
lo hi

Are there existing venture investors serving this market?

f) <u>regional scale enterprises</u>
(typically over $750,000 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

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Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7
lo hi

Are there existing venture investors serving this market?

g) international scale enterprises
(typically over $1,000,000 capitalization)

Level of overall commercial and financial development?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of relative importance of this sector to the economy?
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for SHORT TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL TERM DEBT requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for F/X EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available support for LOCAL EQUITY requirements
1-------2-------3-------4-------5-------6-------7
lo hi

Level of available FINANCIAL ENGINEERING and/or RESOURCE MOBILIZATION SKILLS?
1-------2-------3-------4-------5-------6-------7

lo hi

Are there existing venture investors serving this market?

<u>General</u> - Which sectors (a-g) have access to function equity markets, whether formal or informal?

exhibit 3

VENTURE CAPITAL FUND

PROSPECTS FOR SUCCESS PROGNOSTICATOR

raw score (1-5)	market attribute	weight
________	Existing productive capacity and ability to build productive capacity to meet new requirements	5
________	Availability of necessary capital equipment	3
________	Availability and quality of local entrepreneurs	15
________	Reliability of local suppliers of inputs	7
________	Reliability and financial resources of local partners	3
________	Proximity to target markets	5
________	Access to natural resources and/or availability of low cost imports	4
________	Availability of necessary human capital (labor, technical, management)	10
________	Adequate and cost effective access to necessary infrastructure (power, transport,communication)	8
________	Competitive factor costs (including labor and capital)	9
________	Investment incentives	5
________	Supportive, predictable tax/regulatory environment	10
________	Access to and protection of necessary technologies	6
________	Access to appropriate financial institutional support	6
________	Access to other business support services (accounting, legal, etc)	4
		100

Weighted Score ________

Appendix E

Trade and Investment Cases

1. USAID/Jordan, by Randy Cummings and Kelly Harrison

2. USAID/Egypt, by Greg Huger

3. USAID/India, by Robert Beckman

4. Venture Capital in Thailand: One Practioner's Experience, by Sudhisakdi Manibhandu

Financial Markets and Privatization Cases

5. USAID/Tunisia: Privatization/Stock Market, by Monica McKnight

6. USAID/Philippines: Private Enterprise Support Office Portfolio and Lessons Learned, by Bruno Cornelio

7. USAID/Bangladesh: Privatization FDI II, by Bill Duncan and Ken Moots

8. USAID/Indonesia: Financial Markets Project, by Jim Watson and John Evans

9. Private Sector Power in Pakistan: Program Origins, by Robert Archer (ANE/TR) and Private Sector Power: Project Design Issues, by David Johnston (USAID/Pakistan)

USAID/Jordan Trade and Investment Case

by Randy Cummings and Kelly Harrison

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JORDAN DISCUSSION PAPER

PART I

Jordan's rapid economic growth in the 1970's and early 1980's was largely externally driven, dependent on high levels of remittances from the 30-40 percent of the total Jordanian workforce employed in the Gulf, export of fruits and vegetables to feed them, contributions from oil rich states to compensate Jordan for its front line defense position, and income from phosphate exports. These inflows resulted in an overvalued exchange rate .

Agriculture in Jordan represents approximately 7.5 percent of Gross Domestic Product (GDP) and employs 20% of the national labor force. The more rapid economic growth in non-agricultural sectors, particularly since 1973, has resulted in a relative decline in agriculture's share of GDP. This tendency for agriculture to lag behind other sectors of the economy has contributed to the large balance -of - trade food deficit estimated at US$ 411.0 million in 1983. Currently, Jordan relies on imports to meet as much as 75% of its food requirements. The major areas of domestic production deficiencies are in cereals, pulses and livestock.

Jordanian agriculture can be characterized as being :

- Small in total area farmed
- Made up of a large number of small farms, mainly owner-managed
- Made up of both irrigated and rainfed areas
- A producer of a wide variety of crops and animal enterprises
- An agriculture which is trending toward more part time farming and toward use of more complex technology.

At present, agriculture is concentrated in the Jordan Valley where approximately 26,000 hectares are under irrigation and intensively cultivated. Over the last decade the Jordan Valley has received by far the bulk of new agricultural investment. As a result, valley agricultural production accounts for 35% of total agricultural output. Development of the irrigate facilities have resulted in a significant change in the structure of Jordan Valley agriculture. The major irrigated crops are vegetables which account for 77% of the irrigated area and citrus which accounts for 18%. In the late 1970's and early 1980's, the macro-economic situation produced a very lucrative export market for Jordan Valley vegetables. The economic incentives to invest in new technologies were strong.

The highlands agro-climatic zone contains about 342,000 hectares of cultivableland (of which 225,000 are currently under cultivation). Highlands agriculture generates roughly US$ 197.0 million a year, equivalent to 4.9 percent of Gross Domestic Product. Since Jordan is a net importer of cereal grains and meat products, both of which are currently produced in the highlands but in insufficient scale, there exists an opportunity for expanded production for the domestic market.

PART II

For a number of years USAID's strategy in the agricultural sector has been concentrated on the Jordan Valley. Significant amounts of US. technical and capital assistance have been provided to develop the infrastructure needed for the rapid growth of this fertile area (including financing the construction of the East Ghor Canal). As a result of this assistance, Valley farmers have rapidly increased their production of fruits and vegetables. USAID's interest is to maximize the return of past AID investments in the Valley and to help Jordan insure high returns from planned future investments in irrigation in the Ghors.

USAID's involvement in rainfed agriculture in Jordan is recent and is directed at the unexploited resources and investment opportunities in the Highlands. USAID's interest is to encourage diversified crop research and technology transfer. Moreover, USAID believes that private and semi-public groups should be involved - and not only the Ministry of Agriculture - in voicing their concerns in how research is planned, evaluated and performed, and in how results are to be disseminated .

PART III

Issues and obstacles identified by the Mission include the following

* Jordan is not self-sufficient in food. For example :
  - Produces only 1/8 of cereal needs
  - Imports beef, mutton and dairy products.

* Production in the Valley is experiencing what might be termed " second generation" problems or constraints, notably :
  - Market problems and depressed prices stemming in part from over production of certain produce and lack of crop diversification
  - Poor growth in yields stemming from poor and/or ill-informed practices in crop water management and scheduling, fertilizer application, and control of plant and soil pests.

* There is serious institutional fragmentating in planning, implementing and funding of agricultural programs.

* The policy environment is not conducive to free market export agriculture. For examples :
  - Cereal production subsidies which keep wheat producers growing wheat rather than more economically appropriate crops
  - Price controls
  - Cropping area restrictions.

* There is a poorly developed market environment. For example :

  - No market information system
  - No grades or standards
  - Inefficient wholesale, marketing regulations (i.e., the requirement that the majority of the agricultural produce pass through the Amman Central Wholesale Market in order for it to be taxed - a tax which does not support the improvement or expansion of the food - marketing system but goes into the municipalty of Amman's general fund).

* There is government control and ownership of major portions of the agriculture sector.

  - Government parastatals own major agricultural processing facilities.
  - Government organizations have import and export monopolies for certain products.

* Government extension and research support services are not responsive to farmers' problems.

  - The ministerial system doesn't support private producers (i.e. the small research budget, lack of vehicles for field visits) .

PART IV

Positive factors identified by the Mission include the following:

- The willingness of the government to engage in policy dialogue (despite ineffective policies).

- Highly educated, progressive farmers - with a strong entrepre- nureal spirit .

- A good marketing infrastructure (i.e. paved roads) .

- The land tenure situation is equitable.

- There are good credit facilities.

- Irrigation facilities have led to more high value crops, and have impacted on farmers' receptivity .

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Questions for the Small Group .

1. Based on the information provided above, what specific activities would your group pursue in the near-term ? Why ?

2. What policy conditions should be linked to USAID assistance (to address specific issues) ?

3. What would your group propose for the long-term trade and investment agenda ?

If necessary, in addressing the above questions, generate some basic assumptions to help fill in the information gaps in this discussion paper (i.e., USAID funding levels) .

USAID/Egypt Trade and Investment Case

by Greg Huger

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EGYPT DISCUSSION PAPER

PART I.

In 1981-82, Egypt had a population of approximately 45 million people. The country was recovering from the 1967 and 1973 wars in which it lost significant areas of land, including the oil-rich Sinai. Independence from Great Britain had been achieved in a 1952 revolution. Following the Revolution most major industries were nationalized and capital flight was widespread. Significant expansion of state owned industry occurred in the 1960s, but as a result of weakened investor confidence there was little private investment, either foreign or domestic. Under a "social contract" with the Egyptian people, the post 1952 Government commited itself to guaranteed employment for university graduates, subsidized prices for all basic goods, free education, free health care and redistribution of wealth. High levels of public employment and subsidies for basic commodities created deep budget deficits. Inflation rose rapidly. Modest economic reforms were introduced to deal with these issues, but the GOE's concern with maintaining an adequate standard of living for low income groups prevented them from taking drastic measures. Imports of food and consumer goods have increased steadily since 1974.

Beginning in 1974, favorable external developments relieved domestic economic strains. An increase in world oil prices, rapidly expanding oil exports from the newly- recovered Gulf of Suez, resumption of ship traffic through the newly reopened Suez Canal, and acceleration of Western aid produced a flood of dollars into government coffers. Foreign bankers came flocking to Egypt proffering loans of unprecedented magnitude on the assumption that future oil revenues would be sufficient to generate funds for repayment. Swelling demand for Egyption labor in the Arab oil countries provided a large boost to the incomes of families in cities and villages throughout Egypt. A new "open door" policy implemented in 1974 produced a surge in foreign as well as domestic private investment in manufacturing, banking, oil exploration and other sectors. The early 1980's were a period of relative prosperity for Egypt during which the fundamental weakness in the Egyptian balance of payments was temporarily obscured.

Even though expansion of public sector industries began to slow in the early 1970s, the GOE continued to zealously protect its public sector companies from private competition, domestic and foreign. This was done in spite of the fact that most were inefficient, unprofitable and produced poor quality goods because they provided employment for large numbers of people. With a huge domestic market accustomed to inferior quality goods, protection from competition and trade agreements with the Soviet Bloc that allowed producers to export inferior goods, Egyptian businessmen lost their competitive edge in the international market. Local businesses were soon characterized by obsolete equipment, poor management practices and weak marketing. These problems were compounded by a burgeoning GOE bureaucracy modeled after the Soviet system .

PART II.

USAID believed that revitalization of the existing private sector combined with substantial new investment, domestic and foreign, was Egypt's only real hope for long term economic stability. The Mission had not yet developed any projects directly with the private sector and there were no economic policy conditions to USAID assistance at that time. The Mission realized that it had to be flexible and capable of responding quickly if it wished to take advantage of opportunities to support private sector development whenever and wherever they occurred. Egypt had a reputation as a difficult place to do business. The Mission also knew that, although the country was dotted with public sector institutions concerned with the transfer of technology, upgrading skills, etc, virtually all of these were ineffective.

PART III.

Issues/obstacles identified by the Mission included the following:

1. USAID has traditionally worked on a government to government basis. Procedures and available guidance is geared more to working with Government ministries than private businesses. How could the Mission best deal with the very different needs and timing of private businesses ?

2. Can USAID private sector projects and activities be successful, especially in the area of technical assistance to private businesses and investment promotion, without major economic policy reforms ?

3. Should AID money for private sector development be used exclusively for private sector organizations and not public sector organizations which affect/regulate private sector activity ?

4. Should a large, well known government organization responsible for decisions on foreign investment or a small, inexperienced private, non-profit organization be the implementing organization for promoting foreign investment ?

5. The Egyptian financial sector consisted mainly of commercial banks, tightly controlled by the Central Bank and oriented to highly collateralized short term commercial lending. How could the mission facilitate project financing required for new investments ?

PART IV.

Some positive factors identified by the Mission were as follows :-

1. The US - Egypt Joint Business Council was a dynamic private sector organization created by Presidents Sadat and Ford to promote bilateral trade and investment. It included business leaders from both countries.

2. In spite of the difficult business environment, the Egyptian President and Prime Minister forcefully declared their support for the private sector and called for new private investment.

3. USAID and other donors were beginning to emphasize the importance of the role of private sector in development.

4. The GOE established its Investment Authority to promote and facilitate foreign investment.

Questions for the Small Group .

1. Based on the information provided above, what specific activities would your group pursue in the near-term ? Why ?

2. What policy conditions should be linked to USAID assistance (to address specific issues) ?

3. What would your group propose for the long-term trade and investment agenda ?

If necessary, in addressing the above questions, generate some basic assumptions to help fill in the information gaps in this discussion paper (i.e., USAID funding levels) .

USAID/India Trade and Investment Case

by Robert Beckman

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A.I.D. Private Sector Workshop, Pattaya, Thailand

DISCUSSION PAPER

Part I

Indian private enterprise, long shielded from competition by import barriers and a regulated commercial environment, has invested very little in the risky undertaking of technology research and development. (Trade and investment flows constitute less than 10% of Indian GDP.) Capital is chanelled into more certain investments and desired technologies are acquired primarily through licensing agreements and minor adaptation of the technologies imported under these agreements. Consequently, Indian industry has developed only a very limited capacity for market oriented research and development. Private commercial R&D efforts in Indian industry are of a very low order, being less than 1% of turnover as compared to 2-4% for private industry in most of the developed countries. Even this low order of R&D effort is almost entirely in the area of improvements to existing products/processes and assimilation and adaptation of foreign technology rather than frontline R&D. This situation exists despite India having the fifth largest pool of technical manpower in the world.

However, there is a growing recognition among Government officials and Indian businessmen that a commercial R&D capacity is important to domestic growth and critical to ensuring India's competitiveness in the world markets. Recent policy trends reflect that recognition. These trends are:

i) A major change of emphasis in science and technology policy that will give up the practice of considering science and technology as a separate sector and ensure that the large, highly talented science and technology community becomes an integral part of country's economic growth.

ii) Liberalization--especially the reduction of barriers to imports of technology and foreign collaboration--which will lead to increased technology-based as well as price-based competition

Part II

USAID wants to address the problem of slow pace of technological innovation in India relative to the potential of the country. The country is at a stage where the potential for productive, direct interaction between India's large pool of scientific and technological manpower and its private enterprise sector can make an important contribution to the country's development. Among constraints in realizing the technology development potential in the private sector are the limited exposure of firms to commercial R&D project management and generally weak R&D project managers and R&D culture. USAID wants to play the role of a catalyst in the technology development process that will lead to increased private sector R&D capability. Building on

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India's nascent commercial R&D experience, USAID wants to bring together Indian enterprise interested in developing their R&D capability with the United States' more mature technology culture and experienced R&D project managers. Formation of Indo-U.S. joint ventures in R&D would engage Indian firms in a collaborative process that will not only introduce new technology and processes from the U.S. but also acquaint the Indian partner with U.S. R&D strategy, project selection, methodology and management techniques.

Part III

In the prefeasibility study done by USAID, three industry related constraints to private sector were identified in the areas of information, human resources and finance. Constraints in these areas, of course, provide only partial answers to the question of why more private R&D is not happening. Other factors limiting R&D expenditure in India are:

1) general absence of technology-based competition
2) restrictions on price and scale of output
3) scarcity of funds for market driven R&D
4) lack of state-of-the-art equipment
5) lack of R&D management skills
6) limited access to parent R&D facilities for multinationals
7) general absence of a results oriented research culture

The fundamental limiting factor appears to be one of attitudes or reluctance to taking risks together with the availability of easier, quicker and surer ways of making money in what has been an almost closed economy.

Questions for the Small Group

1. Based on the information provided above, what specific activities would your group pursue in the near-term? Why?

2. What policy conditions should be linked to USAID assistance (to address specific issues)?

If necessary, in addressing the above questions, generate some basic assumptions to help fill in the information gaps in this discussion paper (i.e., USAID funding levels).

Venture Capital in Thailand: One Practioner's Experience

by Sudhisakdi Manibhandu, Ph.D.

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VENTURE CAPITAL IN THAILAND:

One practioner's Experience

1. Manistee's experience

- What is Manistee (not a sales pitch but helps one to understand later parts of this talk).

  - Treaty of Amity company.
  - Mix of American and Thai executives.
  - Independent: owners work full time in the firm.
  - Focusing in two areas where skills and application more important than weight of financial resources: corporate finance advisory work, and new ventures creation.

- Manistee's function in the venture capital investment process.

- Historical perspective to Thai venture capital industry.

  - Evolution of Thai capitalism.
  - Early business/military-bureaucratic interdependence.
  - Emergence of business families.
  - Early link between bank ownership and manufacturing ventures.
  - Capital accumulation through trading activities (especially commodities) as forerunner of involvement in manufacturing.

- New departures.

  - Rise of manufacturing exports and creation of new groups of entrepreneurs.
  - Interest created by early US venture capital successes amongst leading Thai financiers and the consequences.

- Summary of transactions done: major deals have been: five start-ups - two in electronic components manufacturing, two service companies and the one large real estate development project (over US Dollars 60 million project cost).

- Thai Micro System - a detailed look.
    - How it began
    - US entrepreneur - management team.
    - US knowhow in semiconductor packaging.
    - Thai venture capital.
    - Niche market (ASICs).
    - Support of bankers who are major indirect shareholders.
    - Experiment in OTC listing of a portion of shares in the OTC market.
- Early restructuring of shareholders group:
    - Early emergence of differences in philosophy amongst shareholders.
    - Replacement by new shareholders of one original group, achieving harmony.
- Involvement of experienced international venture capital firm (H&Q) and the values added.
- Threats presented by speculative fever in the OTC market: case of Thai Circuit. Solution reached: taking TMS private.
- Issues of management and control and tentative solution.

2. Lessons to be drawn.
    - Discernible pattern in the deals we involve ourselves in:
        - Expatriate entrepreneur.
        - Export-oriented or anticipates evolution of Thai markets towards experience of developed economy.
        - No absolute majority shareholder, and avoidance of family-business-style investor.
        - Only start-ups, no second stage-financing.

- The reasons for this:

  - Traditional Thai entrepreneurs understand investor/entrepreneur relationships far less than they understand creditor/borrower relationships. (Hence Thai banks often involved in venture capital type risks in their lending).

  - These are the growth opportunities.

  - This follows classical US model of venture capitalism i.e. collection of essentially passive investors backing an entrepreneur with, hopefully, talent and skills rather than money.

  - Difficulty in appraising an existing business owing to the nature of Thai commercial practice, where, amongst other things, tax evasion is the norm. Also moral hazards are a real deterrent to going after existing enterprises.

- Implications for US trade and investment.

- Other points.

3. Question Time.

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CASE HISTORY 2

THAI MICRO SYSTEMS TECHNOLOGY CORP.

Nand K. Prasad, a former senior executive of US semiconductor companies, approached Business Venture Promotions, Ltd. (BVP) in May 1988 for equity backing to start an integrated circuit (IC) packaging project to be located in Thailand.

Manistee Ltd. had brought BVP into their first venture capital deal, namely, Thai Circuit Co., Ltd.. The experience of having worked together successfully on that transaction, together with BVP's own realization that it lacked structuring capability led naturally to BVP calling on Manistee to conduct a preliminary assessment and, all being well, to put together an investment package. In return BVP would have first refusal on participation.

Manistee carried out a reference check using a US associate familiar with Silicon Valley. Prasad passed the test with flying colours. One referee, a senior executive of a major US electronics company, said that he was amongst "the top ten in the world in his field".

Prasad had about 20 years experience in semiconductor packaging, had set up two semiconductor assembly plants in Asia - the first for Gould-AMI and the second for Philippine investors - and now wanted to set up and operate a company in his area of expertise in which he was "more than just an employee".

Prasad's business plan targetted a niche market. This was applications specific IC's (ASIC), a high-growth sector of the ICs market driven principally by the move towards greater processing power in smaller physical packages that has been the trend in the electronics industry.

Prasad's plan was to locate a plant for contract assembling - mounting and lead bonding chips - custom and semi-custom ICs in Thailand, primarily for US IC manufacturers. This is the labor-intensive end of the IC fabrication process and is a natural fit for Thailand, as witness the operations of AT&T, National Semiconductor, and Signetics here. The novel idea lies in avoiding "commodity" products in favour of custom/semi-custom, and thus higher margin, ICs.

Packaging techniques would be PLCC, SO and PDIP, all in high lead-count configurations.

Prasad's particular skills were in marketing and general management. For production expertise he would bring into the project a long-time associate with 25 years experience in the technical aspects of the industry.

Total project cost was approximately USD 5 million. The eventual financing structure that was arrived at required an equity investment of USD 2 million against USD 3 million in term loans.

It was clear to Manistee early on in its contact with Prasad that one major issue had to be resolved before further progress could be made. The issue was this.

Prasad appeared to have two options in implementing his project. He could play the role of a consultant or provider, for a fee, of services in starting up, managing, and finding markets for an IC packaging company, owned by a Thai investor or group of investors. The second option would be that he played the role of an entrepreneur and as such would principally be motivated by the success of the project and be prepared to share in the risks involved as one of the owners.

Prasad stated his preference for the entrepreneurial role in the project, but was not in a position to contribute any significant capital beyond his ability to create a business that potential investors could not easily do so themselves. Manistee felt it was essential that Prasad was firmly held to his resolve to adopt the entrepreneur's role: he needed to be risking more than just his time. He was finally convinced to commit to the project an amount of his own cash that would be a significant enough sum to put at risk for him.

At that point Manistee set about putting together an investor group for the project.

Manistee aimed for a small but diversified investor group, no investor holding absolute majority. Included in the shareholding would be a local industrial group as a long-term partner, preferably capable of contributing senior Thai management, that would make up for Prasad's lack of experience of doing business in Thailand. Preference was given, generally, to investors that were capable of adding value besides cash to invest in the project.

The objective was to back Prasad - as operating partner with day-to-day management and operating charge of the project - with shareholders that accepted professional managements and were ready to assist with guidance and counsel, particularly on local business aspects, without seeking detailed involvement in the business. The investors would be recommended to select a financial controller to join the project. There would be a commitment from the group to allow the company to be listed on the SET at an appropriate time.

Prasad's contribution to the project in terms of know-how, skills and market access was to be counted, in lieu of cash payment, for a percentage of the equity.

To demonstrate confidence in the project, Manistee committed at least to match Prasad's cash contribution to the equity.

Electronics assembly and subassembly have become a growth industry in Thailand and are attracting a lot of attention from sophisticated local investors. However because the industry is dominated by multinationals who do not have the need or the interest to seek local investor funds for projects, investment opportunies in this sector are few and far between. Prasad's project was a rare case, and Manistee quickly found that it faced a potential oversubscription.

The selection process finally produced a short list of two competing shareholding groups:-

<u>GROUP A</u>

- Industrial group X
- BVP
- A financial institution

<u>GROUP B</u>

- Industrial group Y
- An underwriter committed to bringing in a dispersed group of investors

Manistee also reserved a block of shares under Group B to be offered to BVP.

The industrial group under Group A was well-known, had a shareholding in a local commercial bank, and was financially strong. BVP favoured them as the industrial partner for the project.

Industrial group Y by contrast was relatively unknown, particularly to the shareholders of BVP, as it did not have any banking relationship with any of BVP's bank shareholders. However it could provide a senior Thai executive whose background was in computers and who was generally well qualified to join Prasad's project as the senior Thai in the management team. One serious drawback was that with Y leading a shareholding group, raising debt financing for the project would potentially be a difficult task.

In the process of getting to know each group, Prasad found a better personal chemistry with industrial group Y; it was his choice for a long-term industrial partner. Prasad also liked the senior management candidate put up by group Y, and felt he would be an asset as the senior Thai in the eventual management team.

With group X, despite its financial fire-power, he did not feel the same chemistry. It also did not offer any value-added contribution to the project's management.

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Manistee therefore set about adding financial muscle to Group B. Its plan involved persuading BVP to take a significant stake under the Group B structure; Manistee knew that industrial group Y's qualified Thai management candidate was a major factor in this equation.

The issue was clinched when, following a hunch, Manistee discovered that the financial institution in Group A would not be acting in an independent capacity but would be playing a nominee role for group X in the company to be formed. In other words X would be exercising covert majority control of the project, despite explicit agreement with BVP and Manistee that it would not seek absolute majority in the new company.

The shareholders' agreement for Thai Micro Systems Technology Corp, a Board of Investment promoted company in semiconductor assembly, was signed on September 26, 1988.

The company became formally registered on October 28, 1988. Its shareholders are:

- Business Venture Promotions, Ltd.
- Juldis Group
- Manistee Ltd.
- Nand K. Prasad

  and
- Diverse other shareholders through a private placement managed by Thai Financial Syndicate, Ltd.

Manistee holds a seat on the company's board.

Siam Commercial Bank, a shareholder of BVP, has committed a term loan and working capital facilities to Thai Micro Systems totalling USD 5.6 million.

One month after incorporation, the company's shares were trading OTC at approximately 15 percent premium over the subscription price.

USAID/Tunisia: Privatization/Stock Market

by Monica McKnight

Tunisian Privatization/Stock Market

1. **Phase I of the Project was a learning period. The results were mixed. But we learned something.**

   A. "Private Sector Development and Technology Transfer" (1982 - 1991)

   - Phase I: 1982 to 1986/87
   - $4 million (of LOP $7.1 million)
   - 26 Sub-projects (not to exceed $250,000 without waiver)

   - Response to Agency policy (Change)
   - But unfavorable, state-dominated, setting in Tunisia
   - Plus lack of private sector experience in Mission

   B. Initial Project Purposes: An Umbrella (Flexibility)

   - to encourage the private sector to meet "national economic targets"

   - to increase returns from completed AID projects.

   C. Private Sector Lessons (1982 - 1987): Mixed

   - Mission's comparative advantage lay in substantive policy dialogue on privatization and financial markets development, small enterprise support, training

   - No comparative advantage in "deal making"

   D. Significant Characteristics for post-'86 changes:

   - The project was flexible.
   - The project was in place.
   - The project could take advantage of new dynamism.

2. **The enviroment for the Project changed in 1986.**

   A. **Tunisia 1986: First year since independence that public investments fell below the level of debt servicing.**

   - Petroleum and phosphate revenues decline ('81/$1.27 billion; '85/$690 million;: '86/$350 million)

   - Year of drought

   - Decrease in tourism (regional tensions)

   - 1986 real GDP growth: - 1.6%

B. Tunisia's Response (1986)

- Comprehensive macroeconomic adjustment program
- Basis for new VIIth Plan and policy framework for IMF Stand-by Arrangement and IBRD Structural Adjustment
- Initial "ad hoc" privatizations

C. Tunisia: 1987/1988

- Ben Ali Government
- Commitment to SAP, privatization and liberalization
- Law 87-49 on Privatization
- PERL loan from World Bank
- Major changes in monetary policy, fiscal policy, tax code, investment codes, import quotas and tariffs; price liberalization.

D. USAID Response: 1987 - 1988

- Dialogue with GOT on Privatization, Financial Markets
- Buy-in to PRE/CFP Contract for Conferences on "Why Privatize", "How Privatize" and "Financial Markets"
- 5 years of experience at USAID with "the private sector"
- Private Sector Strategy Study (Evaluation and Focus) (Ernst and Young/ PEDS II Buy-in)

3. **Phase II - We focussed the Project.**

- **"Privatization and Financial Markets Development"**

- Follow-up on 1988 Private Sector Strategy Targets

  - Privatization
  - Financial Markets Development
  - Trade Liberalization

- 1988 to 1991
- $2.2 million (plus $750,000 for Trade and Investment)
- Vehicle: Buy-in (very useful)

  - Buy-in to the PRE-Center for Privatization direct contract

  - Long-term advisors at Prime Ministry and Stock Exchange

  - Confidential advice on laws, procedures, strategy privatization planning, the financing arrangements

  - Studies, Evaluations, Training, Observation Trips

  - Other (important flexibility)

4. Tunisia's Privatization Case (See also Annex A)

A. General Statistics on SOEs (1986)

- In 1986 SOEs provided 60% of exports, 20% of GDP, 33% of all wages, employed nearly 50% of the workforce in the formal productive sector.

- Ratio of public to private enterprsies was <u>60:40</u>

- 200 enterprises with more than 50% GOT ownership.

- GOT minority participations in 300 other enterprises.

- Nearly a quarter of all SOE were considered "strategic".

B. Privatization Statistics to Date (See also Annex B)

- 41 Privatization Operations (27 Enterprises)

- Value TD 92,911,320 (about U.S. $100,000,000

- Mainly in tourism (hotels), textiles, light manufacturing and construction materials sector.

- IFC/GOT study of "strategic" cement sector beginning.

C. The Stock Exchange

- All transactions "go through" the Stock Exchange, but, to date, the Exchange has not been an important source of privatization financing.

- However, the Stock Exchange has now positioned itself to become a more active player.

D. Anticipated Results of Privatization Program

- Ratio of public to private ownership in Tunisian enteprises moves <u>from 60:40</u> ratio <u>to 40:60</u> ratio.

5. To what extent does the project represent a departure from traditional AID ways of doings things?

- This is a Traditional Project except for its flexibility.

- It should be less traditional. Collegial support to competent intermediate agencies, even public ones, requires a genuine partnership.

- Some of the traditional AID implementation procedures complicate dealing with the private sector.

- We need to move from a <u>Contracts to Grants mode</u>.

6. **What are the lessons learned/issues for designing similar project or non-project activities by other Missions in Near East/Asia.**

- **Design projects/programs with Flexible Response Capacity**
- **Then Focus /Target (but retain some flexibility)**
- **Look for Lead Institutions (INTERMEDIATE ENTITIES)**
- **Working through intermediaries requires Changed Approaches**
  - Implies a different relationship/partnership
  - Demands less control, detailed management
  - What we need is a genuine partnership to use our resources to support what the intermediaries program to expand/support the private sector.
- **Move from a Contracts to Grants Mode.**
  - Step back from "hands on" approach to collegial approach
  - Even with the "public sector"
  - Requires taking some risks on intermediaries
- **in privatization/financial markets development**
  - Outstanding long-term, confidential advisors are essential.
  - Government must chose them to trust them.
  - Go for the best. Pay for the best.
- **A vibrant Stock Exchange is <u>not</u> essential for successful privatizations.**
  - Sound monetary and fiscal policies are essential.
  - Diversity in the Financial Sector is essential.
  - Diverse financial instruments, financial institutions.
- **The real financial issue is <u>Financial Mobilization</u> to support private sector development.**

Tunisia's Privatization Program

1. Highest level commitment (President, Prime Ministry)

2. National Dialogue (Conferences; managed publicity)

3. Law and Regulations (Revised 89-9)

4. One high level decision-making body with technical working committee and expert technical assistance.

5. Never any published "master list" for privatization (All public companies in the "competitive" sector are candidates for privatization).

6. Notable Features:

   - Expertise
   - Pragmatism/Flexibility
   - Transparency
   - Serious Valuations
   - Careful addressing of employment issues

7. Valuation and Pricing: Transparancy

   - To date done by local financial/technical experts
   - But still imprecise at best (small market/public co.)
   - Therefore Government generally uses public bidding or public auction at Stock Exchange to ensure transparency, fairness and realistic market value.

   - If transaction price is less than 90% of valuation the transaction must be reviewed and approved by the CAREP - it may be rejected.

8. Methods: Pragmatic

   - Case-by-case basis
   - No restrictions or pre-established formula with respect to share distribution, foreign ownership, etc. (In some cases some shares (10%-15%) reserved for employees.)

9. Most Difficult Issues:

   - Employment Issues
   - Company Liabilities (unfunded pensions, unpaid taxes, outstanding debt and arrears, potential severance)
   - Financing Issues (larger companies)

10. Donor Assistance and Coordination

    - World Bank ($130 million PERL Loan)
    - IFC (2 textile mills - technical partners - 10% equity)
    - USAID (Technical Assistance, Valuations, Studies, Trips)

PRIVATIZATION OF PUBLIC ENTERPRISES
IN TUNISIA

UPDATE OF APRIL 5, 1990

YEAR	ENTERPRISES(1)	OPERATIONS (2)	TRANSACTION VALUE IN DINARS
1986	2	6	TD 7,742,000
1987	1	1	TD 12,500,000
1988	4	8	TD 12,560,000
1989	19	25	TD 56,109,320
1990	1	1	TD 3,300,000
TOTALS	27	41	TD 92,911,320

(1) "Enterprises" means the number of Public Enterprises which were wholly or partially privatized.

(2) "Operations" means the number of privatization transactions which took place to divest separate entities or elements of assets within the same public enterprise (e.g. sometimes the complete privatization of one public enterprise might involve three separate privatization "operations" or sales over a period of time).

USAID/Philippines: The Private Enterprise Support Office Portfolio and Lessons Learned

by Bruno Cornelio

USAID/Philippines
Private Enterprise Support Office

o Technical Assistance

Privatization
$5 million **
PACD 12/31/92

Pre-Investment Facility *
$5 million
PACD 1/31/95
- o Pre-feasibility studies reimbursement

Development Training *
$2.5 million
PACD 9/30/94
- o Skills Training

o SME Loan Guarantee

Centrally Funded PRE Activities *
$12 million

Small Enterprise Credit *
$13 million
PACD 9/92
- o Credit
- o Technical Asst.
- o Policy Research

Private Investment & Trade Opportunities *
$9 million
PACD FY'94
- o Trade & Investment Promotion
- o Policy Research

Rural Financial Services **
$20 million
PACD 12/30/90
- o Credit
- o Training
- o Policy Research

Small & Medium Enterprise Dev.
$4.1 million
PACD 3/1/90
- o Technical Asst. for producers
- o Training

* 100% Private Sector Programming without a GOP counterpart participation.
** GOP counterpart with a pass through of assistance to the private sector.

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USAID/PHILIPPINES
PRIVATE SECTOR IMPACT
LESSON LEARNED

- Identify able private sector partners.
  - Institutional will to participate in development activities
- Obligate directly to the Private Sector Implementor
  - Eliminate Both A.I.D. and Host Government Bureaucracy
- Keep project designs simple
  - No more than three elements
  - Limited LOP to 3-5 years
- Use leverage
  - Low project funding levels can attract high project impact
- Let 10 flowers bloom
  - Structure your private sector portfolio to link activaties with vertical and/or horizontal synergy

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Bureau for Private Enterprise (PRE)

Far East Bank & Trust Co., I

U.S. Funding Level: Guarantee \$2,000,000

Project Started: FY 85 Scheduled Completion: FY 90

Implementing Agency: N/A. This is a direct PRE/FEBTC project with no GOP counterpart.

Project Purpose : To increase the amount of short and medium-term bank credit available to small and medium-sized private businesses in the Philippines to finance exports.

Summary Description : A.I.D. will finance a facility through Security Pacific Bank of Washington, which will guarantee up to 50 percent of the principal amount of eligible subloans made by Far East Bank and Trust 3ompany to qualifying businesses. The money loaned by Far East Bank and Trust Company will come from its own funds. The guarantee will enable Far East Bank and Trust Company to draw on the U.S. funds provided through Security Pacific Bank in the event of default by a sub-borrower. The effect will be to encourage lending to small businesses for the purpose of financing locally produced exports.

To be eligible for the guarantee, a subloan must be made to a privately-owned sub-borrower which has no more than the equivalent of \$1 million in assets, or which purchases the majority of its inputs from such small and medium enterprises. The subloans must finance the exportation of goods from the Philippines and not exceed U.S.\$250,000 per client.

The A.I.D. funds are from a private enterprise revolving fund, managed by AID/Washington's Private Enterprise Bureau (PRE). The \$2 million guarantee funds were lent by A.I.D. to Security Pacific Bank, which has agreed to issue standby letters of credit in favor of Far East Bank and Trust Company. The latter will be able to draw upon these letters of credit in the event of default by sub-borrowers. The ultimate risk on default is shared equally (50% each) by PRE and Far East Bank. Security Pacific is not at risk.

Far East Bank and Trust Company (FEBTC)

FEBTC is the largest private bank in the Philippines in terms of total assets and loans. FEBTC has 113 branches nation-wide. Sixty-nine of the branches are in metro Manila, the nation's main business center. As of December 31, 1989, FEBTC had total assets of $1.2 billion, loans of $591.7 million, and deposits of $1.01 billion. The following table shows those figures and the year-end balances of total assets, loans, and deposits for 1986, 1987, and 1988.

Four Year Comparative Financial Figures ($million)

	1986	1987	1988	1989
Assets	773.0	950.2	956.1	1,211.1
Loans	270.2	396.4	487.5	591.7
Deposits	577.1	746.3	854.2	1,010.3

The year-end 1989 loan figure of $591.7 million includes $87.8 million of loans to small and medium-scale entrepreneurs (SMSE) of which $1.3 million was credit extended under the USAID Bureau for Private Enterprise (PRE) loan guarantee facility.

The $3.0 million guarantee facility, which began in 1986, provides FEBTC with a revolving loan guarantee fund with a loan guarantee limit of 50% on individual loans. The facility is directed toward small exporting firms which are not beneficiaries of the Bank's lending activities. The initial loan guarantee agreement, signed in 1985, defined eligible borrower size as being not more than $1.0 million in net fixed assets. FEBTC completed negotiations in July of 1989 on a second PRE loan guarantee facility of $3.0 million to replace the original facility which is being phased out, as specified in the agreement. The second facility defines maximum borrower size as not exceeding $1.0 million in total assets.

A total of 69 borrowers (159 accounts), primarily in the garment and handicraft industries, have received loans guaranteed by the program in amounts totaling $35.9 million. Of the 69 borrowers, 12 have defaulted on their loans in the amount of $1.16 million or 3% of the total credit extended. Of the defaulted amount, 25% or $289,000 has been charged against the guarantee fund. The remainder of the defaulted amount has either been charged off by the bank or is in the collection process.

a. Loan Portfolio

The bank's growth in its loan portfolio during the period of the USAID PRE loan guarantee facility is shown in the following table:

Outstanding Loans as of Year-End ($ millions)

	1986	1987	1988	1989
Corporate	247.2	346.2	417.4	503.9
SMSE	23.0	50.2	70.2	87.8
Total	270.2	396.4	487.6	591.7

USAID PRE Loans Included Above

1986	1987	1988	1989
4.0	3.4	2.2	1.3

The declining amount of USAID PRE loans reflects the amount of guarantee available as scheduled in the agreement.

b. Additionality of Loans Under the Guarantee Facility

The PRE guarantee was an important tool in the bank's expansion in the SMSE market. From 1986 - 1989, the bank loaned $35.9 million through use of the guarantee. Bank officials estimate that 80% of that amount would not have been extended without the guarantee due to the borrowers' lack of collateral and a bank policy that discourages loans to borrowers who do not have an established business credit history. In addition to the $35.9 million of credit, an equal amount has been extended to borrowers who have "graduated" from the guarantee program. The example cited by bank officials was that of a garment manufacturer whose first loan with the bank was a $25,000 credit line under the PRE program in 1986. The manufacturer now has a $1.0 million credit line which is not under the guarantee program.

The following table shows the $35.9 million of PRE loan activity by industry, number of borrowers, and amount.

Industry	Number of Accounts 1986	1987	1988	1989	Amount Loaned ($'000s) 1986	1987	1988	1989	Cumulativ
Garment	6	13	15	6	1,811	4,739	6,380	1,109	14,039
Furniture	3	8	7	3	122	816	1,079	355	2,372
Prawns	2	4	6	4	826	638	1,589	2,501	5,554
Handicrafts	9	10	10	5	480	620	972	1,149	3,221
Abacca	1	2	4	3	236	1,050	2,034	1,756	5,076
Food Production	3	2	3	1	372	350	789	66	1,577
Plastic	0	2	2	2	0	594	568	71	1,233
Wood	3	4	3	1	517	3,372	312	378	1,489
General Merchandise	0	2	2	1	0	284	280	23	587
Automotive Parts	0	1	1	0	0	175	170	0	345
Agri Products	0	1	1	0	1	94	29	0	123
Charcoal	1	1	1	0	45	98	85	0	228
Hair Products	0	1	1	1	0	41	57	57	155
	28	50	55	26	4,319	9,871	14,344	7,465	35,999

The Far East Bank and Trust Company wants to continue expanding its SMSE lending and hopes to be able to participate in future PRE programs. Bank officials feel that the credit needs of exporters and agribusiness are economic sectors that could benefit from expanded loan guarantee programs.

IMPACT ON BORROWER ENTERPRISES

The impact of the loans made by the two commercial banks using the partial (maximum 50% coverage) PRE guaranty on the borrower enterprises can be measured using four indicators: revenues, net income, employment and exports/ foreign exchange earnings. The changes in these indicators from one year to the next can be ascertained using the financial statements received by the banks and projecting figures for data that is only for part of 1989. The most difficult task, however, is estimating what portion of this change can be attributed to the presence of the PRE credit. The methods for doing this are described in Annex . The procedures were suggested by the bank personnel who are most familiar with the accounts.

FAR EAST BANK AND TRUST COMPANY

As of the end of 1989 the total disbursements under the PRE guaranty program to date are $36 million. This means that the total guaranty facility of $5 million (PRE I, $2 million plus PRE II, $3 million) has been leveraged 7.2 times. Actually the leveraging has been greater if one were to calculate the decreasing coverage available as the fund is amortized. This study reviewed only borrowers from PRE I, since data on PRE II was too recent to determine impact.

Since 1986 the program has provided loans to 69 enterprises, as indicated in the previous section. Detailed data (i.e., for all indicators) was collected on a representative sample of 30 borrowers. Some information (see Table 1) was available on 68 borrowers (including the sample of 30). Of the 68 borrowers, 41 had "graduated" to regular bank lending with FEBTC, 14 were current borrowers and 12 were past due. A total of 44 borrowers had been new clients to the bank of whom three were start-up enterprises. Of the 69 borrowers 33 were first obtaining credit for the first time and the other 36 had previous credit dealings.

The rest of the discussion on FEBTC is based on the detailed sample of 30 borrowers. The data was collected and estimated by loan officers from the individual files. The data is presented in Table 3 and the methodologies for estimates is presented in Annex 1.

1. <u>Revenues</u>

   - Yearly average of 27% of gross revenues attributable to PRE guaranteed loan

   - Average yearly increase in gross revenues = 36%
     Average yearly increase in gross revenues attributable to PRE guaranteed loan = 10%

It is estimated that an average of 25% of gross revenues of borrower enterprises in 1986, 23% in 1987, 31% in 1988 and 31% in 1989 can be attributed to the PRE loan(s)[1]. The average increase in gross revenues of borrower enterprises from 1986 to 1987 was 73% of which 21% could be attributed to the PRE loan(s) (i.e, 52% is attributed to other resources). The average increase was 25% from 1987 to 1988 of which 7% could be attributed and 9% from 1988 to 1989 of which 2% could be attributed to PRE loan(s). The smaller portions attributable are due to the fact that a number of enterprises have graduated and are using regular commercial credit.

2. Net Income

- Yearly average of 24% of net income attributable to PRE guaranteed loan

- Average yearly increase in net income = 80%
  Average yearly increase in net income attributable to PRE guaranteed loan = 21%

It is estimated that an average of 19% of net income of borrower enterprises in 1986, 22% in 1987, 31% in 1988 and 23% in 1989 can be attributed to the PRE loan(s). The average increase in net income of borrower enterprises from 1986 to 1987 was 63% of which 29% could be attributed to the PRE loan(s) (i.e, 34% is attributed to other resources). The average increase was 73% from 1987 to 1988 of which 14% could be attributed and 103% from 1988 to 1989 of which 21% could be attributed to PRE loan(s). Again, the smaller portions attributable are due to the fact that a number of enterprises have graduated and are using regular commercial credit.

3. Employment

- Average yearly percentage of full-time employees attributable to PRE guaranteed loan = 14%

- Average yearly increase in full-time employees = 18.5%
  Average yearly increase in full-time employees attributable to PRE guaranteed loan = 4.5%

- Average yearly percentage of full-time female employees attributable to PRE guaranteed loan = 15%

- Average yearly increase in full-time female employees = 17%
  Average yearly increase in full-time female employees attributable to PRE guaranteed loan = 6%

The sample of PRE borrower enterprises had a total of 3,897 full-time employees in 1986, 4,439 in 1987, 4,876 in 1988, and 5,109 in 1989 of which 309 (8%), 772 (17%), 1,055 (22%) and 471 (9%) could be attributed to having the PRE guaranteed loan. This includes both jobs created and maintained. The average increase in full-time employees was 27% for 1987, 13% for 1988 and 4% for 1989, of which 7%, 5%, 1% respectively could be attributed to the PRE loan(s). Sample

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[1] PRE loan(s) are those which were guaranteed 50% or less by the facility.

borrower enterprises employed a total of 2,788 female workers (72% of total) in 1986, 3,283 (74%) in 1987, 3,564 (73%) in 1988 and 3,760 (74%) in 1989. Of these female workers, 234 or 8%, 609 or 19%, 802 or 23%, and 353 or 9% respectively could be attributed to PRE. The average increase in female employees from 1987-88 was 21% and 13% from 1988-89, of which 3% and 8% are program related.

4. Exports and Foreign Exchange

- Total export earnings = $217.2 million
  Total export earnings attributable to PRE guaranteed loan = $30.6 million (14%)

- Total net foreign exchange earnings = $162.2 million
  Total net foreign exchange earnings attributable to PRE guaranteed loan = $23.9 million (15%)

The total export earnings of sample borrower enterprises was $1.6 million in 1986, $60.9 million in 1987, $74.4 million in 1988 and $80.3 million in 1989 for a total of $217.2 million. Of these amounts $3.4 million, $8.1 million, $12.3 million, and $6.9 million respectively for a total of $30.6 million (14% of total export earnings) is attributable to PRE loan(s).

The net foreign exchange earnings of borrower enterprises was $28.5 million in 1986, $37.2 million in 1987, $47.4 million in 1988, $48.9 million in 1989 for a total of $162.2 million. Of these amounts $2.2 million, $6.7 million, $10.2 million, and $4.8 million respectively for a total of $23.9 million (15% of total foreign exchange earned) is attributable to PRE loan(s).

> "What matters is whether those who thereby received directed credit used their resources more productively than those who were denied credit would have. This is almost impossible to ascertain, although in some countries well-designed credit programs undoubtedly did improve resource allocation." (World Bank, 1989).

ASSUMPTIONS OF DONORS AND LENDING INSTITUTIONS IN CREDIT GUARANTEE PROGRAMS

Guaranteed lending programs are designed to respond to the following assumptions commonly held by financial institutions.

(1) Lending to small enterprises is riskier than lending to larger enterprises;

(2) The administrative costs of lending to small enterprises are high and cut deep into the profitability of such loans;

(3) Small enterprises seeking loans do not provide adequate accounting records and other documentation required by banks, and tend to have securities or collateral for the loans.

Credit guarantee schemes cover some portion of losses incurred when borrowers default on loans. This coverage encourages financial institutions to lend to small enterprises that have viable projects but are unable to provide adequate collateral and/or have inadequate financial records.

Formal enterprises generally have three principal sources of funds: internal sources, bank loans, and when available, funds raised from capital markets through the sale of bonds or equity. While there is a wide degree of variation across countries, self-finance is the principal source of corporate funding in the developed countries.

Studies by the International Finance Corporation (1989) indicate that self-financing ratios range from a low of around one-third in India and Korea to a high of around two-thirds in the OECD countries. Companies in developed countries rely on internally generated cash about twice as much as in developing countries.

Lower self-financing ratios in developing countries may stem from rapid growth requiring more finance than available internally (e.g., Korea), poor profitability of companies, or government policies providing incentives for payment of dividends rather than capital retention, as exist in India.

External finance has become increasingly scarce in recent years, encouraging lenders to reduce their exposure to new small borrowers. This has due to a variety of factors identified by the IFC:

- Crowding out by government and public enterprises: in 22 countries for which data are available, the share of the private sector loans in total bank assets declined from 80% in 1979-82 to 69% in 1983-87;

- Funds matching: The short term of funds available to banks in many developing countries severely limits the amount of longer term loans. In high-inflation economies, uncertainty increases, compelling financial institutions to lend almost exclusively short term loans;

- High collateral requirements: small entrepreneurs often lack the types of collateral that are acceptable to commercial banks;

- Declines in external funding: shortage of term finance in many countries has been exacerbated by the decline in foreign funding. Syndicated bank loans which prevailed in the 1970s were medium-term credits, often of five to seven years. The debt crisis of the past decade has meant that these are no longer available in many countries.

Another feature of businesses in less-developed economies is their relatively high need for working capital. While all businesses need funds for working capital, firms in less-developed economies must often maintain higher inventory levels, may have little access to factoring services, and receive payment slowly. Similarly, to cope with the uncertainties of local political and economic fluctuations, they must often invest in power generating capacity, other utilities and excess storage facilities.

Because of their high needs for working capital, LDC enterprises have proportionately less capital available for fixed investment. The IFC (1989) observes that in recent years, fixed investment expenditures have accounted for, on average, 52% of total corporate expenditures in India, 56% in Korea, 63% in Japan, and 70% in the United States. In general, fixed investment expenditures have used a lower proportion of total corporate resources in developing than in developed countries.

CREDIT NEEDS AND THE EVOLUTION OF SMALL SCALE ENTERPRISES

Research by Liedholm (1989) and Liedholm and Parker (1989) supports the argument that access to credit is a critical factor in the growth of small enterprises. At the same time they argue that several common assumptions regarding the evolution of small businesses may be incorrect.

Using a sample of 521 manufacturing enterprises (including four African countries, one Latin American country, and two Asian countries) they conclude that small and medium manufacturing firms do <u>not</u> begin as micro-enterprises.

In five of seven countries for which data were available, most small and medium manufacturing firms did not "graduate" from "micro" firms, but rather started with ten or more employees. This supports the argument that informal businesses remain small, intentionally avoiding becoming formal borrowers from local commercial banks.

A number of studies suggest that those projects that have attempted to provide long-term, fixed asset lending to small firms have proven to be less successful than those providing short-term working capital. However, the comparability of data from many studies is limited given the wide variety of project types, policy environments and economic conditions that have come into play in these programs.

THE IMPORTANCE OF WORKING CAPITAL

A notable feature of many loan-guarantee programs in developing economies is their emphasis on fixed-asset rather than working capital lending. This preference in most cases reflects an effort to limit credit risk by encouraging lending against recoverable assets.

The literature on small industry development in LDCs covers a wide variety of topics. However, significant treatment of the sources and uses of working capital are lacking until recent years. Economists have generally concentrated their attention on the role of fixed assets acquisition in analyzing the capital needs of small LDC enterprises.

As Liedholm (1989) and Liedholm and Parker (1989) have pointed out, internal resources predominate as a source of capital for business creation and operation in many LDCs. As businesses evolve and generate a cash flow not committed to servicing debt, a major source of working capital is generated. They cite data from Sierra Leone and Haiti where, respectively, 90% and 81% of funds for expansion were derived from this source. Commercial bank borrowing as a source of initial financing in these countries, by comparison, was used by only 1-2% of rural manufacturers surveyed, and between 0 and 8% for unit expansion in Sierra Leone, Haiti, and Jamaica.

THE SYSTEMIC VIEW OF ADDITIONALITY

Many economists have argued that the design and evaluation of credit projects should consider the impact of the project on the larger financial markets. If, for example, a credit program is intended to supply more medium- and long-term credit, project evaluation should examine what impact the project has on the availability of term credit termination of the project.

The focus of project design and evaluation should shift from the traditional emphasis on the demand side of small-enterprise and farm credit and move toward the supply side. Less emphasis should be given to trying to evaluate the impact of credit use at the firm level, which is practically impossible to measure, and more emphasis placed on how intervention in financial markets affects lenders' behavior, and overall operation of financial markets.

Progress toward additionality targets should be measured at the national as well as the credit agency level, although this requirement could raise problems of data reliability and create incentives for evasion.

In assessing the impact of directed credit programs on targeted businesses, the 1989 World Bank World Development Report concludes:

> "It is impossible to be precise about the effect of directed credit on the allocation of resources. In some countries it is likely that programs have had little impact, because they supported lending which would have happened anyway, because they offered only weak incentives, because directives were not enforced, or because the programs covered only a small share of total credit. In other countries, however, directed credit programs had a significant effect. In Korea, reflecting the bias of credit directives, industry's share of credit increased from 44 percent to 69 percent between 1965 and 1986. In Pakistan and Tunisia there was a sharp decline in the share of commerce in total credit; this too reflected the bias of directed credit in favor of other sectors... Although individual sectors have benefited from directed credit, the overall effect on growth is hard to gauge. (pp. 57-58.)

It is clear from the World Bank's review of the impacts of directed credit programs (especially Chapters 4 and 5 in the 1989 report) that these programs and projects are best viewed in terms of three important concerns:

1. Do they direct credit to borrowers who will use the credit more efficiently than those who would have used the funds in the absence of the project?

2. Does the project address some basic capital market problem that constrains the efficiency of the local capital market?

3. Does the project depend upon market forces for its effective operation?

Given the crippling distortions that have arisen from directive credit programs in many developing countries, the literature suggests that it is important that credit programs be design and managed explicitly with these considerations in mind.

THE IMPACT OF GUARANTEED CREDIT PROGRAMS ON IFI MANAGEMENT

The existing literature on credit guarantee programs has increasingly focused on lending institutions and the effect of such programs on overall lending policies. This emphasis has resulted both from difficulties associated with obtaining reliable data on small enterprises, and from growing interest in capital markets and credit as engines of development.

Data availability is greatest for programs in OECD countries. Guaranteed loan programs in Europe, North America, Japan and New Zealand have generated significant increases in the pool of available capital for targeted business by individuals who lacked collateral or adequate transactions records as proof of their creditworthiness. However the proportion of all bank loans which are subject to guarantees in all countries remains small.

The most traditional measure of program effectiveness of guaranteed loan programs at the institutional level is portfolio additionality: the increased allocation of funds to the small business sector. Analysis in the literature suggests that this occurs most often as the result of lower collateral requirements or through elimination of collateral requirements. However, the literature points out the limited empirical evidence that demonstrates whether any guarantee schemes have resulted in additional credit for small business.

This is so for several reasons. In developing countries where credit guarantee schemes have been studied, the argument has often been made that lending institutions shift riskier loans away from their normal lending to guarantee schemes. However evidence suggests that a greater issue in developing countries is the tendency of financial institutions to be zealously risk-averse and distrustful of publicly-supported programs. This attitude has made guarantee programs difficult to market, even where they are supported by external donors and non-governmental organizations.

RISK AND LOSS RATES

A second key measure of effectiveness of guarantee schemes is loss rates, defined as total claims for default paid out as a percentage of loans guaranteed. The control of loss rates is largely a result of bank policy: the decision by any lending institution on how much risk the IFI is willing to accept. OECD country data note loss rates in small business lending programs as ranging from a low figure of 0.6 per cent in Canada to as high as 8.3 per cent in the United States (Small Business Administration programs).

Loss rates are lower when alternative schemes operate within the same geographical markets; i.e., where schemes exist to provide credit to enterprises deemed to be of highest risk, loss rates of a competing program can be kept low.

CONDITIONS WHICH MAXIMIZE THE IMPACT OF CREDIT ON SMALL SCALE ENTERPRISES

Clearly, the key factor in maximizing the impact of credit schemes for small scale enterprises is the policy environment in which they take place. Forces external to the management of the individual enterprise provide for a stable economic environment in which small businesses and the markets they serve may evolve.

Of particular concern to small scale enterprises are a number of issues:

(1) The presence and magnitude of policy-induced distortions in factor markets;

(2) the presence and magnitude of externally-induced distortions on input and product markets;

(3) the presence, magnitude, and enforcement of regulations and taxes on businesses of like scale;

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FEBTC - I IMPACT ANALYSIS

1. <u>The default rate in the program to date has been relatively low</u>

Of the 69 borrower at Far East Bank and Trust, 12 have defaulted on their loans in the amount of $1.16 million or 3% of the total credit extended. Of the defaulted amount, 25% or $289,000 has been charged against the guarantee fund. The remainder of the defaulted amount has either been charged off by the bank or is in the collection process.

2. <u>The PRE guarantee was an important tool in the bank's expansion in the SME market</u>

Bank officials at FEBTC estimate that 80% of the SME would not have been serviced without the guarantee due to the borrower's lack of collateral and a bank policy that discourages loans to borrowers who do not have an established business credit history. In addition to the $35.9 million of credit, an equal amount has ben extended to borrowers who have "graduated" from the guarantee program. The additionality aspects of the program are: a) additional credit has been extended to new SME borrowers; b) internal limits on exposure to specific industries have been increased; c) collateral offered by the borrower can be given a higher value; d) collateral is now acceptable that was not acceptable before; d) borrowers that had reached borrowing limit can now obtain additional amounts due to guaranty. Officials at the bank stated that the guarantee had enabled them to extend credit to borrower which would otherwise not have been considered by FEBTC.

3. <u>The PRE Guaranty has allowed considerable leveraging of bank resources</u>

As of the end of 1989, the total disbursements against the PRE guaranty program to date are $36 million. This means that the total guaranty facility of #2 million has been leveraged 18 times. Leveraging has actually been greater if one were to calculate the decreasing coverage available as the fund is amortized.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Ramon Magsaysay Center
1680 Roxas Boulevard

Small Enterprise Credit Project

Implementing Agency: Philippine Business for Social Progress (PBSP)

Contact Person: Mr. Ernesto D. Garilao
Executive Director

A.I.D. Project Manager: Manuel M. Villanueva
Private Enterprise Support Office

Funding Level: Grant - $13,000,000

Project Started: FY 1989 **Scheduled Completion:** 9/30/92

Project Purpose: To increase the liability management skiils deposit mobilization of private development banks in support of their SME lending.

Summary Description: The project reflects Mission efforts in the development of rural deposit mobilization to foster in the private sector financial community additional lending to capacity SSEs and SMEs.

The SEC project is composed of three interrelated components:

a) an IFI Liquidity and SME Lending component which will provide credit to SMEs, adhering to market principles, both in the determination of costs to borrowers and costs to the IFIs;

b) a Research and Policy Analysis component to focus primarily on research, data collection and analysis to assist PBSP, the Mission, financial sector and the GOP to understand better the constraints facing the SME sector, eventually leading to an improved policy environment for SME development; and

c) a Training and Loan Development component which will train bankers in SME project lending and support SME loan development activities.

The grant will address the constraint of inadequate access to financial resources on the part of SMEs, through the increased intermediation by the private development banks; and the institutional constraints affecting the financial sector. The undertaking of research and policy analysis will provide accurate data and recommendations needed by policymakers.

The Philippine Business for Social Progress (PBSP) is the recipient of the USAID grant for the SEC project.

Approximately $12 million in the local currency equivalent will be channeled by PBSP through the IFIs, as liquidity funds, permitting them to increase their SME lending to firms which have good business prospects but which are not being fully serviced due to limited assets available for collateral, limited or no experience in obtaining resources from the formal banking systems, and other constraints. A fiduciary agent will manage the portfolio for PBSP. Participating IFIs will be private development banks, but may include other types of financial intermediaries (i.e., thrift Banks, rural banks and leasing companies).

Data Set # 1

SMALL ENTERPRISE CREDIT PROJECT

Sample SME Loan Portfolio for Bank "X"

	Amount (Pesos)	Tenor (Years)
	₱ 475,000	2
	325,000	2
	350,000	3
	150,000	1
	350,000	2
	1,075,000	3
	500,000	2
	675,000	3
	150,000	1
	950,000	3
T O T A L	₱ 5,000,000	

Average weight 2.55 years life of portfolio.

SEC liquidity loan will be 2 1/2 years for 80% of the total portfolio equal to ₱4 million.

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Data Set #2

Small Enterprise Credit (SEC) Project

SME's Repayment Schedule to Private Development Bank

Portfolio Total
P5,000,000

Year 1 Semi-Annual		Year 2 Semi-Annual		Year 3 Semi-Annual	
P 118,750	P 118,750	P 118,750	P 118,750		
81,250	81,250	81,250	81,250		
58,333	58,333	58,333	58,333	58,333	58,333
75,000	75,000				
87,500	87,500	87,500	87,500		
179,166	179,166	179,166	179,166	179,166	179,166
125,000	125,000	125,000	125,000		
112,500	112,500	112,500	112,500	112,500	112,500
75,000	75,000				
158,333	158,333	158,333	158,333	158,333	158,333
1,070,832	1,070,832	920,832	920,832	507,836	507,836

T O T A L - - - - - 5,000,000

Private Development Bank Repayment Schedule to Small Enterprise Credit Project

SEC Loan Total
P4,000,000

Year 1 Semi-Annual		Year 2 Semi-Annual		Year 3 Semi-Annual	
P800,000	P800,000	P800,000	P800,000	P800,000	- 0 -

TOTAL-- P4,000,000

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Manila, Philippines

Ramon Magsaysay Center
1680 Roxas Boulevard

Telephone: 521-71-16

LIST OF PRIVATE DEVELOPMENT BANKS IN THE PHILIPPINES
1989

1) Private Development Bank of the Philippines

2) Aklan Development Bank
3) Albay Development Bank
4) Asia Trust Development Bank
5) Bacolod Development Bank
6) Baguio Development Bank
7) Cebu Development Bank
8) Davao Development Bank
9) Makati Development Bank
10) Palawan Development Bank
11) Real Development Bank
12) Silangan Development Bank
13) Bataan Development Bank
14) Batangas Development Bank
15) BPI Agriculture Development Bank
16) Cabanatuan Development Bank
17) Capitol City Development Bank
18) Cavite Development Bank
19) Danao Development Bank
20) Dumaguete Development Bank
21) First Malayan Development Bank
22) Ilocos Sur Development Bank
23) Iloilo Development Bank
24) Island Development Bank
25) La Union Development Bank
26) Lipa Development Bank
27) Luzon Development Bank
28) Naga Development Bank
29) Northern Mindanao Development Bank
30) Pangasinan Development Bank
31) Peninsula Development Bank
32) Planters Development Bank
33) Premièr Development
34) Quezon City Development Bank
35) Quezon Development Bank
36) San Pablo Development Bank
37) Bulacan Development Bank
38) Laguna Development Bank
39) Southern Negros Development Bank
40) Tagaytay Development Bank
41) Tarlac Development Bank
42) Urban Development Bank

EXECUTIVE BRIEF ON THE PIF

I. TITLE:

The Private Sector
PRE-INVESTMENT FACILITY
of the Philippine Assistance Program

II. DESCRIPTION:

- o 3-year Program (1990-1992)
- o US$5-million
  - -- $4.5-million available as grants to defray part of pre-investment study costs of private Filipino and US investors
  - -- $0.5-million will be used for project costs, including administration over the 3-year period and program evaluation
- o contributed by the US Government under the Multilateral Aid Initiative through the USAID
- o administered by the Economic Development Foundation, Inc. (EDF)
- o in cooperation with the AMCHAM, PCCI, DTI, and CCFAP

III. GRANT DETAILS:

- o 50% of approved study costs may be funded
- o up to a maximum of $250,000 paid in US dollars to US-based investors and in pesos to Philippine-based investors

- grants will be paid out based on a Reimbursement Agreement between EDF-PIF and the investor

- reimbursements will be made as follows:

  -- 1/2 (25% of study cost) upon completion of acceptable study

  -- balance upon actual investment (to be confirmed)

IV. BASIC CRITERIA FOR QUALIFICATION AND EVALUATION:

- Investor qualifications

  -- nationality
  -- credibility/capability

- Project qualifications

  -- not agricultural production
  -- located outside Metro Manila
  -- demonstrable contribution to Philippine economic development
  -- conforms with Philippine laws and US regulations on the use of PIF grant funds

- Study qualifications

  -- pre-investment in nature (probability that an actual investment will follow directly as a result of study)

  -- methodology

  -- timetable

  -- basic study team capability to prepare an acceptable study

  -- reasonability of costs

V. TIMETABLE:

The PIF Program will end in 1992. Since investments are the basis of the 2nd portion of the reimbursement, the investments arising from PIF-funded projects must be made prior to December, 1992.

For this reason, the following cut-off dates have been set:

- o Applications.................... August 1991
- o Submission of completed studies..........................June 1992
- o Confirmation of substantive investment to give basis for final portion of reimbursement..December 1992

After the application has been prequalified, the proponent is given a list of the information that the EDF -PIF will need for the evaluation. The proponent then has 90 days to complete these information requirements, including the proposed study design, budget, and study team lineup. Failure to meet this 90-day deadline means the proposal is placed on the inactive file, losing its priority.

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PROFILE OF MISSION

SPONSORS: USAID and U.S.-Philippine Business Committee

DATES: March 26-31, 1990

PURPOSE: To identify business opportunities for U.S. firms in agribusiness, energy, transportation, telecommunications, environmental technology and finance under the framework of the MAI.

PROGRAM CONTENT

- U.S. Persective
- Philippine Perspective
- Sectoral Meetings
- Private Meetings
- Field Trips
- 1-day Wrapup

PARTICIPANTS:

AGRIBUSINESS

. Kenneth M. Aoyama
Chairman and CEO
AG West Group
Ag West International Ltd.

. Joe Ben Laraya
President & Managing Director
Dole Asia

ENERGY

. Ian Lutes
Vice President - International Sales
Foster Wheeler Energy Corporation

. Albert J. Smith, III
Vice President
International Markets
Destec Energy

ENVIRONMENT

. Rom Michalek
Deputy Director
The World Environment Center

FINANCE

Eldridge D. Woods, Jr.
Chairman & President

INFRASTRUCTURE

. Allen C. Haile
Manager of Infrastructure Development
Bechtel Corporation

TELECOMMUNCATIONS

. Harry Johnston
Vice President
International & Federal
GTE Hawaiian Tel

. Richard Serikaku
Vice President & Area Manager
Pacific Area, Motorola Inc.

TRANSPORTATION

. Frank E. Butters
General Manager
Southern Region, Sea-Land Service

. Humbert R. Causing
Vice President & Regional Manager-Asia
Morrison-Knudsen Interntional Co.

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E-6.25

PHILIPPINES

MAI BUSINESS RECONNAISSANCE MISSION

OVERVIEW BRIEFING

MISSION OBJECTIVES/OUTPUTS

- SEGMENTATION OF BUSINESS OPPORTUNITIES UNDER THE MAI.
- IDENTIFICATION OF POLICY AND REGULATORY CONSTRAINTS AND SUGGESTED SOLUTIONS.
- SUGGESTIONS FOR STRENGTHENING U.S. BUSINESS AND GOVERNMENTAL PARTICIPATION IN MAI.

PARTICIPANT REACTION

(Seclective Responses to a 13-Part Participant Survey)

- How would you rate the overall utility of the mission?

  Very Useful - 8
  Moderately Useful - 3

- Will this mission help your country in advancing business development actions in the Philippines?

  Substantially - 7
  Moderately - 4

- Do you believe your company can participate in the MAI?

  Yes - 9
  Maybe - 2

- Can you estimate your potential investment in the Philippines?

  - unlimited/substantial (A); over $5 million (R); $50 million (TE); unknown (TR); + $10 million (PORTS); $50-100 million over 3 years (TE); $1-1.5 million direct & $20-30 million indirect (F); $100 million (E).

- What follow-up action would you support?

  - Feasibility/demonstration projects in GSC.
  - Follow on mission but more sectoral/project specific.
  - Sector briefings for U.S. business.
  - Information on MAI investment opportunities for U.S. firms.
  - USAID follow-up and report on mission findings & recommendations.

KEY FINDINGS AND RECOMMENDATIONS

Agribusiness

OPPORTUNITIES

- Pulp Wood Farming
- Frozen Food Production
  - Seafood
  - Livestock
  - Vegetables
- Niche Crops for Exports
  - Vegetables
  - Cut Flowers
  - Seaweed
- Hybrid Seed Production
  - Vegetables
  - Cotton
  - Grain
- Livestock Feed Production & Milling
- Equipment & Machinery Sales & Service
- Acquire Cotton Gin & Revitalize Industry in GSC.

ISSUES

- Except for large companies (Dole & Delmonte), lack of operating models on vertical integration (production, processing and manufacturing) of food, feed and fiber export-oriented industries (medium & small) in Philippines.
- Too many agencies and levels of government involved impeding the integration of production, processing and marketing of high value, export-oriented food and fiber products.
- Excessive tariff, tax and regulations on imports of technology, raw materials and equipment needed to to enhance exports.
- No agribusiness credit system for new small and medium business.
- Export finance system does not exist for most export-oriented agribusiness.

RECOMMENDATIONS

- AID should increase policy and regulatory reform agenda with GOP, with emphasis on export-oriented agribusiness.
- Increase infrastructure support for integrated transportation network that will allow for more reliable, cast effective access to foreign food and fiber markets.
- AID should conduct an analysis of alternative ways to achieve a market driven, vertically-integrated export-oriented agribusiness system for the proposed agro-processing center at GSC.

KEY FINDINGS AND RECOMMENDATIONS

Energy

OPPORTUNITIES

- Electrification
- Resource Development
  - Oil/Gas; Geothermal; Coal Lignite
  - Project Specific
    - Isabelle Coal Mine & Power (400 MW)
    - Laite Island Geothermal (up to 900 MW)
    - Bataan Combined Cycle Power (300 MW)
    - Numerous Small Hydro

ISSUES

- Break PNOC monolopy: sell refinery; deregulate prices; sell or grant service contracts on geothermal properties.
- Amend BOI legislation to permit negotiated agreements on unsolicited proposals; GOP should guarantee obligations of GOP entities.
- Eliminate 60/40 on "public utilities" on all BOT projects.
- Consolidate & streamline GOP review/approval and regulatory oversight of BOT.

RECOMMENDATIONS

- Reduce OPIC premiums for insurance on BOT projects.
- U.S. MAI officials need to lobby corporate America.
- More sectoral and project-specific missions.
- Revitalize EXIM financing.

KEY FINDINGS AND RECOMMENDATIONS

Environment

OPPORTUNITIES

- No clearly established sales opportunities now for U.S. & other foreign environmental business.
- Major infrastructure projects planned under MAI provide opportunities to incorporate environmental safeguards into projects.
- U.S. environmental management firms should begin to meet with and assess joint venture or co-venture potential with Philippine companies.
- U.S. manufacturers of environmental technology should consider joint venture potential for manufacturing and sales in the Philippines and throughout the region.

ISSUES

- Philippine private & public sector organizations involved in MAI are not efficiently sensitized to environmental management concerns.
- Lack of incentives for Philippine industries to comply with GOP environmental laws and regulations.
- Need for a GOP focal point to set realistic standards and to regulate and enforce.

RECOMMENDATIONS

- USAID/Chamber should sponsor a sector briefing for U.S. environmental management industry.
- USAID should initiate environmental policy and project doalogue for all MAI projects.
- USAID mission should engage U.S. environmental management group, lead by WEC, to help ensure that the project design work for GSC and other AID-financed projects takes into account most appropriate environmental technology.

KEY FINDINGS AND RECOMMENDATIONS

Finance

OPPORTUNITIES

- Trade financing for U.S. banks, including debt equity swaps.
- Bataan nuclear plant should be activated, with a $200 million concessional loan/grant from EXIM, to provide needed long-term relief from Lujon energy shortage.

ISSUES

- U.S. business perception of a poor investment climate in the Philippines.
- 60/40 equity/land rules.
- Lack of export credit for medium and small exporters.

RECOMMENDATIONS

- USAID/Chamber sectoral briefing for U.S. financial community.
- U.S. EXIM Bank and AID should create concessional loan/grant program for capital development project.
- Seek reduction in OPIC insurance premiums for major capital development projects.

KEY FINDINGS AND RECOMMENDATIONS

Telecommunication

OPPORTUNITIES

. GOP (Ex. & Leg. Leaders) appear serious about seeking U.S. investment in telecommunications; minimal barriers.

. Philippines meet requirements for efficient manufacturing of telecommunication equipment for domestic/export markets - potential multi million market for U.S.

. PLDT plans for fiber optic backbone connecting Luzon with Visayas and Mindanoa will take years; satellite overlay offers great promise for U.S.

. Under proposed BOT legislation, U.S. firms could build and operate telecommunications and GOP would provide long-term contractual guarantee of rates.

. Potential opportunity for telcom system for GSC, if Italians withdraw offer as is likely.

ISSUES

. PLDT - one of more than 50 franchises - dominates industry, with noncompetitive pricing & inadequate service.

. Most franchises are small, undercapitalized and lack sufficient interconnections.

. Only 1 percent of population - mostly in Manila - has telephones.

. PILCOMSAT monopoly very expensive, with disincentive to business.

. GOP franchise requirements stifling investment and technology transfer.

RECOMMENDATIONS

. USAID and Chamber sponsored sectoral briefings for U.S. industry.

. Need to determine OPIC position on reducing risk premiums; much too high.

. USAID and EXIM capital development facility should be approved to assist U.S. telecommunications industry to compete in Philippines.

KEY FINDINGS AND RECOMMENDATIONS

Transportation

OPPORTUNITIES

- U.S. cargo-handling industry should be alerted to fact that GOP now allows tax-free imports of cargo handling equipment.
- Inter-island export facilities, especially airport and port facilities planned under MAI, are a particularly promising target of opportunity for U.S. business.
- MAI PAPS should provide greater opportunity for U.S. involvement in the planning and construction phases of major infrastructure projects, especially on the roads, port and airport facilities at General Santos City.
- U.S. bus and truck manufacturers should consider joint venture manufacturing and sales relationships with Philippine firms.

ISSUES

- There are no regional or national master plans integrating the various transportation needs and relationships.
- The BOT concept should be available for use in major transportation projects.

RECOMMENDATIONS

- USAID/Chamber should sponsor a sector briefing for U.S. transportation industry: roads, seaports and airports.
- USAID should conduct an immediate policy dialogue with GOP, including the legislature, to encourage use of BOT to major transportation facilities funded under MAI.
- USAID should undertake a demonstration master planning effort showing the value of an integrated transportation program for a regional development zone and industrial estates, such as General Santos City.

GENERAL OBSERVATIONS

- RECONNAISSANCE MISSION A PRODUCTIVE FIRST-START, BUT BUSINESS WILL WANT MORE FOCUSED SECTORAL MISSIONS.

- USAID MANILA PERSONNEL ENTHUSIASTIC AND ABLE TO INTERACT WELL IN MOST SECTORS WITH BOTH U.S. AND PHILIPPINE BUSINESS.

- MAI NEEDS A FULL-TIME FOCAL POINT IN USAID-MANILA AND WASHINGTON TO GUIDE FOLLOW-ON AND FUTURE ACTION AGENDA.

- COLLABORATION WITH OTHER FEDERAL AGENCIES WORKING WITH U.S. BUSINESS IN REGION NEEDS TO BE STRENGTHENED.

- OTHER MAI BILATERAL AND MULTILATERAL ASSISTANCE PROGRAMS SHOULD BE MORE FULLY COMMUNICATED TO U.S. BUSINESS.

USAID/Bangladesh: Privatization FDI II

by Bill Duncan and Ken Moots

ANE BUREAU REGIONAL PRIVATE SECTOR WORKSHOP

Pattaya, Thailand

May 11-14, 1990

Bangladesh as a self-governing nation is only 19 years old. It is one of the poorest countries in the world, with a large and growing population, a meager resource base, and relatively undeveloped financial markets. Viewed as a less developed nation, its progress in deregulation and privatization has been excellent, but when compared with the Asian NICs it aspires to compete with, it has a long way to go.

A. Privatization in Bangladesh

1. Pre-partitition: The economy was predominantly private sector, but characterized by merchantilism and franchising rather than market forces and competition.

2. Independence: Pakistani managers fled, and the new Bangladesh government took over virtually all large non-agricultural enterprises, at first by default and then by policy. However, due to the severe problems of the abandoned industries and the lack of resources to subsidize them, it very quickly became apparent that the government could not operate them.

3. Privatization: Elliot Berg has noted that Bangladesh has been a "champion performer in the world of privatization and divestiture . . . far and away the leader of the divestiture parade in the less developed world." Starting in 1975 and accelerating in the early 1980s, more than 1,000 enterprises were divested by 1987. Some lessons learned:

- On the positive side, there have been hundreds of success stories, particularly in light manufacturing and textiles. In most cases except those involving sick firms or weak industries, performance has improved. The privatization program significantly decreased the drain of subsidies on the government budget, and increased tax receipts.

- On the negative side, many firms were disposed of in very poor operating condition and with heavy burdens of government loans, which often were not repaid. Few significant macro-economic or regulatory policy changes were made in support of the divestiture program. The result was that in order to keep the privatized industries afloat, the government had to maintain subsidies, directed credit, price controls, and protectionist policies, thus leaving monopolies intact and avoiding competition.

4. Current Activities: The Bangladesh Government is now dealing with tougher privatization exercises involving politically sensitive enterprises (more viable firms, union resistance). The new policy is to sell a minority share to the public, but undeveloped capital markets appear to be impeding this process. Examples are:

- o Bangladesh Telephone and Telegraph Company: A privatization attempt failed in early 1989 due to union resistance. The Government recently converted it into a semi-autonomous agency, and is actively proceeding with privatization initiatives including private sector franchises for new telephone services.

- o Biman Airlines: There are consistent rumors that a minority share will be sold to private investors.

- o Commercial banks: The six major commercial banks were nationalized after independence. Two have been divested, and there is consistent discussion about privatizing the remaining four. However, they require policy reform, operational improvements, and recapitalization before they could be successfully privatized (see below).

B. USAID/Dhaka Privatization Initiatives: USAID/Dhaka has major privatization initiatives in every subject-area portfolio:

1. Financial Sector Reform Program/Technical Assistance (Office of Economics and Enterprise): $20 million in TA to institutionalize reforms required under a $175 million World Bank recapitalization program. The objective is to improve Central Bank supervision and revitalize 4 nationalized commercial banks to transform them into attractive privatization candidates.

2. Dhaka Stock Exchange (Office of Economics and Enterprise): The development of capital markets is considered essential for support of further privatization in Bangladesh. This pilot project seeks to assess institutional capabilities, specify goals, and provide selected improvements.

3. Bangladesh Telephone and Telegraph Co. (Office of Economics and Enterprise): Technical assistance for pre-feasibility study of private sector franchising for new telephone facilities.

4. Social Marketing (Office of Population and Health): Government has completely divested control of distribution of contraceptives. Authority has been transferred to an interim council, and will be turned over to a private entity as soon as it can be established.

5. Rural Electrification (Project Development and Engineering): All new electric distribution systems provided under the project are operated successfully by village cooperatives rather than

government, with constant progress to date toward elimination of subsidies and retrieval of operating costs.

6. Development Management Training (Program Office): Previous programs focused on training of over 100 senior government officials in privatization concepts and practices. The new project will continue training government officials, but also sets aside 40 percent of funds for training of private sector managers.

7. Privatization of Fertilizer Distribution (Office of Food and Agriculture): Government is divesting this function. Private dealers can now obtain fertilizer from government warehouses, and thus compete directly with government distributors.

C. USAID/Dhaka Private Sector Initiatives: Other projects which support private sector development and contribute indirectly to privatization include:

1. Enterprise Development: a non-governmental organization, MIDAS, provides credit and technical assistance for development of small enterprises in new industrial and agri-business sectors.

2. Industrial Promotion: includes three components: (a) a Policy Analysis Unit at the Ministry of Industries to study the effect of government policies on new and existing businesses; (b) a loan guarantee program currently administered by the PRE Bureau; and (c) advisory services including a Business Advisory Services Center, an in-country IESC program, and an investment promotion facility.

3. Export Development: Provides technical assistance to the Bangladesh Government for assessment and rationalization of customs regulations and duties.

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Outline Paper
Bangladesh Privatization FDI II

A Brief Review

New technological innovation in agriculture should result in vastly improved agriculture production and farm income but in Bangladesh it has at best met with only moderate success.

Most "experts" tend to say the constraints causing this slow adoption of available technology are lack of credit, limited access to information, reluctance to take risks and sporadic supply of inputs.

Many development projects have approached the problem by introducing the necessary information, credit, adequate supply of inputs etc.

Our experience tells us clearly that this is only part of the answer. We have attempted to link elimination of these constraints to policy reform. The implementation of a competitive free market.

The line or road is by no means vertical it is a crooked road with some reversals and switch backs -

Some hard lessons learned include:

1. Govt. policy level personal changes inevitably slow progress and often cause temporary reversals of implemented policy.
2. To achieve a sustainable success will probably require an extended period of time.
3. A lack of a viable mid level business community was a serious constraint. We found at Project start up two

types of businessmen one was the very small bazar type dealer the other was 15 to 20 patronage business houses who controlled through informal cartels, almost everything else. There was a need to develop a mid level business infrastructure and help them become a dynamic competitive free market advocate. This too required time.

4. To have moved to rapidly into the system would have surely resulted in turning the program over to the cartel businesses already in place - which would have been counter productive to the development of a competitive free market system.

5. There probably is enough available technology but certainly there is a lack of management skill in Bangladesh. Management is perhaps the least known and practiced of any institutional skill in Bangladesh whether from public or private sector side.

   The TA's Management/Marketing Consultant has devoted and continues to devote significant time to the teaching of Management and Supervision including managing economic performance, managing an overall business, managing as creative action, management by objectives, managing managers and managing workers and work.

   We try to instill simple management philosophy such as "Good Managers take the necessary action to make the desired results come to pass". "Managers may not control the environment but they can help <u>shape</u> the environment by intelligent, actions/decisions".

I. Project Objectives

To move GOB policy from public sector/parastatal restricted Fertilizer Distribution to a competitive, Open, Free market system.

Expected Benefits

A) Improved Product Availability.

B) Improved Product Quality.

C) Reduced Government Cost.

D) Improved Farmer Profitability.

E) A viable multi-channel private sector driven fertilizer marketing and distribution system.

F) Improved Technology Transfer.

G) Customer Service Options.

As we expected, Strong Resistance to the policy reform objective was quick to mobilize both within the Parastatal and with many Government agencies, AND there was only a limited number of private sector companies almost Nil with adequate background and experience.

The method of Implementation has been:

A) A step by step Approach with very little emphasis on ultimate goal (Though project paper identified the overall objective in general terms).

1) Management & marketing assistance (Management assistance previously described)

2) Intensive Management Information System (MIS) Monitoring evaluating results of each step and recommending next step in detail.

3) Crop production technology Assistance to Distributors and their Customers.

C) Incentives to Government in form of substantial Grant Funds i.e.

1) 265 million dollars for Warehouse Construction.

2) 52 million dollars for Commercial Credit.

3) 20 million dollars for Education & Training primarily in USA.

<u>Brief Review of Parastatal Operations at Project Start Up</u>

420 Sales Centers.

Each selling small quantities to small dealers. Dealers were appointed by the parastatal; price was controlled by the parastatal, dealers could buy from only one sales center and sell within only a five mile radius of his assigned "shop".

This system resulted in:

1) dealers either paid for an appointment or were relatives of the parastatal.

2) Spot product shortages were prevalent even when there was adequate supply 20 miles away.

3) Spot shortages were the objective of the dealers and the parastatal as they could demand gratuities.

Step One

Persuade the Government to allow the dealers to buy from any Sales Center and sell any where within the country - T.A. Made extensive field visits, encouraged dealers to move to other Sales Centers when one nearest was short of supply. Some started, others followed quickly. The MIS identified the benefits.

Step Two

Close 310 Sales Centers while expanding the capacity of the remaining 110 Sales Centers using USAID Grant Funds. Increase minimum purchase criteria. Formalize Dealer Development Training begin to teach dealers to compete through various marketing techniques. Constant MIS continues to identify benefits.

Step Three

Discontinue the Controlled consumer price, allow the dealer to sell at whatever price the market would bear. This step only when we were sure dealers had the grasp of and had experienced the benefits of competition. MIS continues in place/result of this step improved availability with almost No change in consumer price, even though the consumer price was decontrolled.

Step Four

Open Transportation Discount Points (TDPs) at six key low transport cost sales centers redesignate as TDPs give a quantity related transportation discount while continuing to intensify Market Development activity. TA working closely with dealers who indicate promise and the ambition to expand their network. Constant MIS identified the benefit as better availability, Lower

Consumer prices and Technology transfer from larger distributors to farmers had started. Now we have an adequate Number of Private Sector distributors with background and experience within a competitive free market concept.

Step Five

Open direct purchase from the local fertilizer factories at the same price as the parastatal pays - w/300 MT minimum purchase Continue TA work with direct purchase distributors continue MIS - Results.

1) Ultimate consumer price level dropped an average of Tk.600 per MT x 1.5 million tons = 26.47 Million US dollars.

2) Cost reduction to Government = About 12 Mil.US Dollars (Transport Savings)

3) Fertilizer use increase 25% compared to previous 5 year average 9%.

4) Record Aman harvest up 20% over previous best year.

Step Six: (Not yet implemented) Private Sector Import and elimination of all fertilizer subsidies.

Step Seven: Institutionalize.

USAID/Indonesia: Financial Markets Project

by James Watson and John Evans

FINANCIAL MARKETS PROJECT

USAID/INDONESIA

I. PROJECT SELECTION

The FMP was selected because it was consistent with the Mission's CDSS, the overriding objective of which was to design projects that promoted employment generation. The FMP, by increasing the efficiency of capital mobilization, would expand private sector activity and growth, thereby generating employment. The FMP's sectoral goal, in fact, is to promote job creation opportunities by increasing the availability of long-term capital. As will be noted in more detail below, the decision by USAID to move forward with the FMP was based on an innovative premise which has arisen over the last several years within the donor community: capital market development is a key contributing factor to social and economic development. The FMP's design can serve as a useful case study to demonstrate how USAIDs can become more integrally involved in an emerging -- and up to now relatively neglected -- area of development, which is a key area in newly-industrialized countries.

II. COUNTRY CONTEXT

The FMP's design addresses all aspects of a host-country context: institutional, policy and deregulation, and achieving a private sector orientation. Significant institutional constraints are present with respect to developing the capital markets in Indonesia, particularly as they pertain to The Capital Market Executive Board's (BAPEPAM) ability to regulate the capital markets, the National Mutual Fund's (DANAREKSA) ability to invest its large-scale holdings, pension funds' ability to invest in the market, and Bank Indonesia's (BI) (The Central Bank) ability to manage credit conditions and execute monetary policy in an open economy. The FMP contains a training component to assist in improving the human resource-related contraints of these institutions; technical assistance is also programmed to upgrade the organizational and managerial aspects of these institutions.

The GOI's financial sector regulatory framework also requires significant modernization, so that increased activity in the money and capital markets can be properly accommodated. The FMP's design deals explicity with promoting a framework that prudently regulates capital market activity on the one hand, and allows market forces to operate as freely as possible on the other.

The private sector is the principal beneficiary of well-functioning capital markets that maximize access to alternative sources of long-term financing. The FMP's design, however, does not contemplate providing the private sector with special incentives to entice it to participate. In fact, limited project experience has already borne out the view that real government deregulation will bring the private sector to the market without special incentives. The FMP contemplated the creation of a level playing field in the area of capital mobilization which in turn has enticed the private sector to participate.

III. THE PROJECT

A. Project Profile

The overall project design has two basic components: capital markets and money markets. Organizationally, the Ministry of Finance (MOF) serves as the GOI counterpart for the capi... markets component; Bank Indonesia serves as that of the money market component. The capital markets component is organized around three resident consultants dealing with capital market regulation; stock exchange privatization, design and automation; development of the trading/underwriting industry; and the design and implementation of training. State-owned enterprise (SOE) privatization, in support of capital market development and the further development of the commodities market, is also an important sub-component. The money markets component is structured around one long-term, resident consultant and will basically deal with strenghthening Indonesia's money markets as a means of further enhancing the BI's ability to execute monetary policy.

B. Performance Indicators

The goal of the FMP is to promote an increased pace of economic development, thereby expanding job opportunities by increasing the availability of long-term capital and enhancing the efficiency of resource allocation. The FMP's purpose is to increase the liquidity and transparancy of financial markets through increasing the number of debt and equity securities and commodity contracts available to investors, and to increase the trading volume of these instruments. Outputs are contemplated in the areas of market deregulation, increased supply of long-term investment capital, and an improved trading capability and structure. End of project status indicators include:

- A permanent and long-range regulatory environment for stocks, bonds and commodities futures trading established with operational responsibilities separated from regulatory authority.

- A permanent, self-sustaining private trading market for equities, bonds and other financial instruments based on a profitable, growing securities industry.

C. Major Design and Implementation Issues

A number of issues and constraints include:

- Assumptions underlying the project's design remain valid, particularly that tax policy would be revised to provide comparable treatment of deposits and debt and equity holdings. Other assumptions include:

  - The GOI maintains the pace of its deregulation programs and policies.

  - The GOI maintains its commitment to liberalization of the market and disengagement from private sector activities.

  - The national unit trust (DANAREKSA) becomes committed to a more private sector approach in management or deregulate in some other way.

  - Restriction on movement of stock prices is eliminated.

- The GOI may not fully understand how a capital market regulatory authority should truly operate (e.g., conflict of interest matters; need for transparency of financial information).

- Uncertainty regarding where the project should reside within the Government. Allocation of responsibility to the counterpart was determined on a functional basis, with capital market responsibilities going to the Ministry of Finance and money market activities going to Bank Indonesia.

- The extent to which, if any, the private sector needed to be "enticed" to participate in the program by providing incentives or subsidies. No special treatment was accorded to the private sector in the design based on the premise that if a level playing field could be created in financial markets, private sector entities would participate on the basis of the profit motive.

- The MOF and BI have limited experience in host-country contracting, slowing down both contracting and project implementation. Delays in contracting would require accessing technical assistance on a short-term basis.

D. Extent of Departure from Traditional AID Practice

The FMP departs from traditional AID practice in several counts:

o The FMP represents a total policy and policy implementation package, and is based on a very strong working relationship with the host government.

1b1

- The FMP is a pioneering project in that it recognized at a relatively early stage that proper capital market development is a key contributing factor to a country's overall social and economic development.

- The FMP is the result of successful cooperation between USAID and AID/W. USAID/Indonesia has developed a highly productive working relationship wtih AID/PRE, particularly its Financial Sector Development Project (FSDP), for a number of reasons:

  - The FMP and FSDP have complementing technical objectives in the area capital market development.

  - The FMP and FSDP have complementing procurement mechanisms. FSDP is short-term, buy-in driven technical assistance mechanisms which naturally feeds technical expertise into The FMP, which is a long-term contract.

  - USAID/Indonesia and AID/PRE have a cost-sharing agreement, leading to a leveraging of AID resources in pursuit of common technical objectives.

IV. LESSONS LEARNED

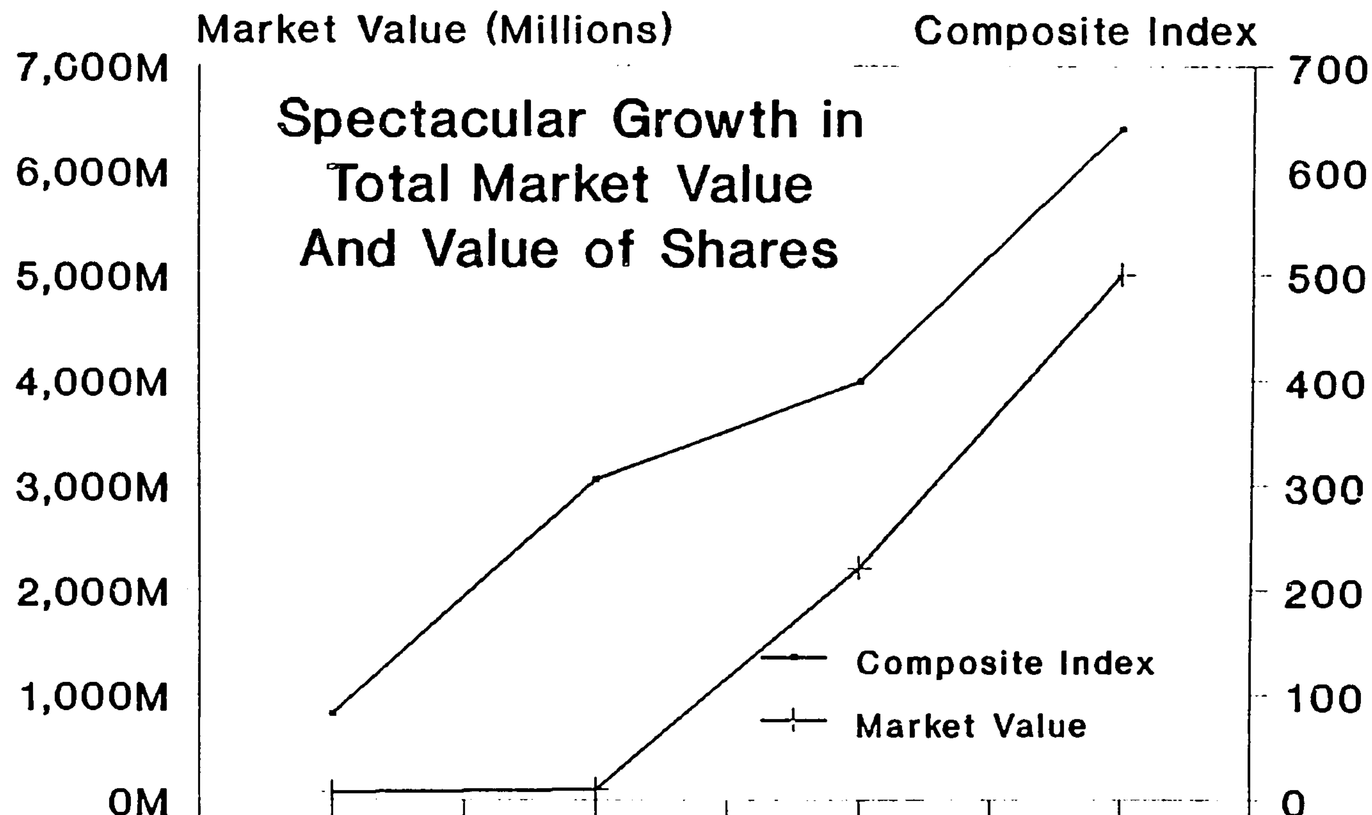
- Concentrate on leveling the playing field, thereby allowing the private sector to take care of itself.

- Serve no project before its time. Quick fixes, particularly in the areas of privatization and financial sector development, tend to exacerbate development problems. Design projects which address the problem by taking a long-range view.

- Develop strong relations with host-country counterparts. Assist the counterparts by making available to them the tools to study problems and develop appropriate courses of action.

- Cut your losses when project ideas do not hold sufficient promise. For example, the FMP abandoned attempts to develop P.T. Bahana, a state-owned venture capital company, since the conditions for the productive use of venture capital (strong entrepreneurship, ample business opportunities, and a capital market to exit) were not evident.

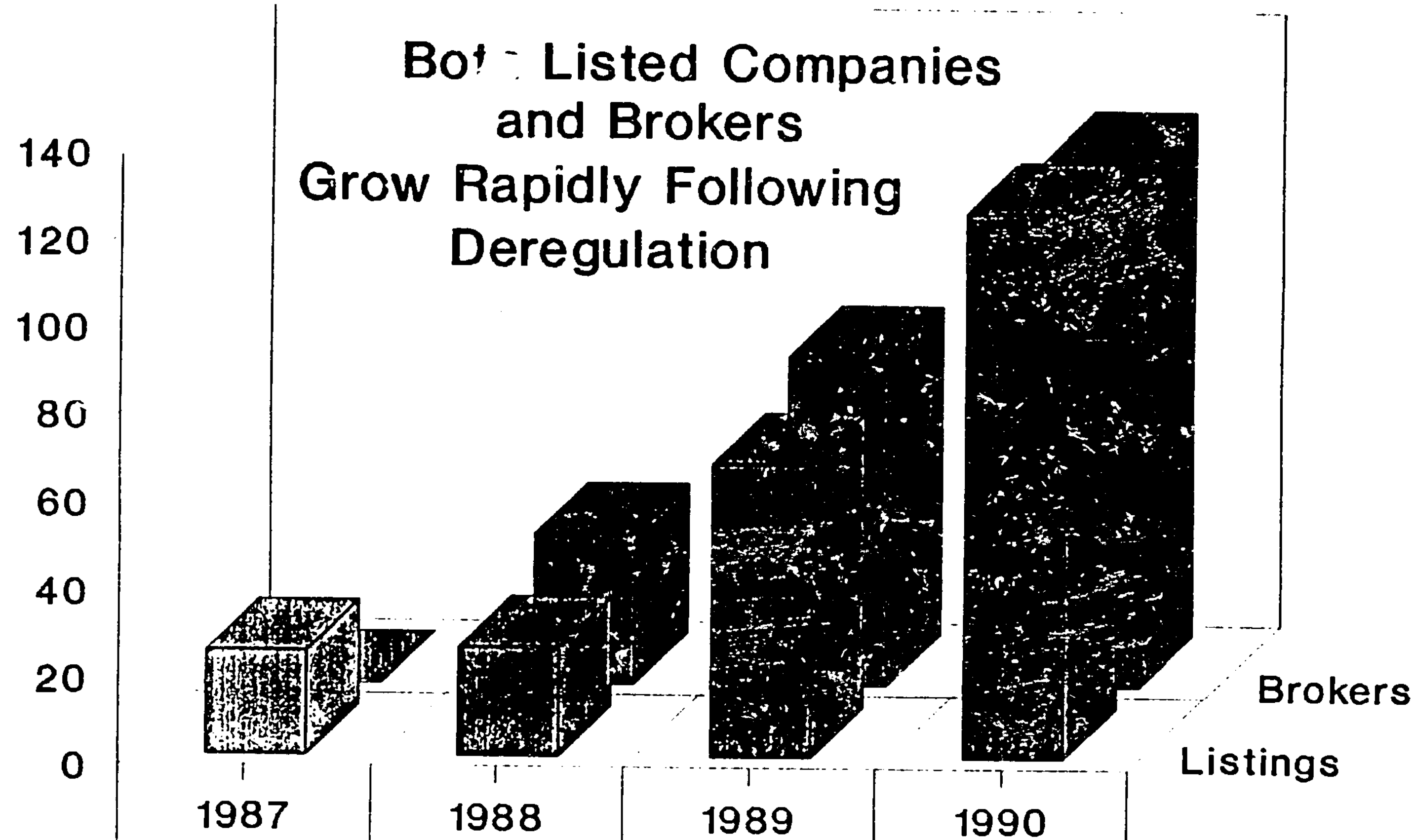
Change in Market Value/Daily Activity
Financial Markets Project



	1987	1988	1989	1990
Composite Index	82	305	399	640
Market Value	72M	110M	2,200M	5,000M

E-8.4

Increases in Brokers and Listings
Financial Markets Project



	1987	1988	1989	1990
Brokers	0	34	75	120
Listings	24	25	67	125

E-8.5

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Private Sector Power in Pakistan

Private Power Program: Program Origins, by Robert Archer

Private Sector Power: Power Design Issues, by David Johnston
(USAID/Pakistan)

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PAKISTAN PRIVATE-SECTOR POWER CASE STUDY

WHY PRIVATE POWER?

- Power is a Critical Development Input

- Capital Market Reform will be forced by Private-Power Project Financing

- U.S. Trade and Investment - U.S. has Comparative Advantage in Private Power Development

- Relevant for Other Infrastructure Applications such as Telecommunications, Transportation, etc.

PAKISTAN PRIVATE POWER PROGRAM -- Program Origins

- Pakistan's Power Supply Shortfall
  - Persistent Seasonal Shortfall of 25% of System Capacity
  - Severe Impact on Nation's Economic Growth
  - Targeted 2300 MW Increase in Private System Capacity
- Pakistan's Limited Capital-Supply Position
  - Limits on Foreign-Exchange Borrowing Potential
  - Non-Energy Sectoral Demands for Foreign Exchange
  - Potential of Private Sector to Fill Capital-Supply Gap
- AID and Other Donors Private-Sector Policies

COUNTRY CONTEXT

- Pakistan Private Sector Interested in Private Power
  -- Early Proposers of Projects
- Institutional Weakness/Resistance -- GOP Policy/Finance Officials
  supportive and Utility Reluctant
- Good Policy Framework -- Private Power Policy Well-Designed by GOP
- Excellent Energy-Sector Donor Coordination -- AID and the World Bank
  Collaborated Closely on Respective Projects

E-9.3

GOVERNMENT OF PAKISTAN PRIVATE POWER PROGRAM

- POLICY -- 25% Equity, Purchase Price, etc.
- PLAN -- 2,300 MW (U.S.$ 2 Billion) over 5 Years
- PROCESS -- Solicitation, Evaluation, Negotiation, Financing, Operation
- SECURITY PACKAGE -- Agreements, Escrow Accounts, etc. Developed to Define Risk Allocation
- ENERGY DEVELOPMENT FUND -- Provides Long Term Debt (23 Years) needed to Finance Major Projects

PAKISTAN PRIVATE POWER PROGRAM -- GOP Policy

E-9.5

- 25% Minimum Equity in Financial Structure
- Guaranteed Purchase of 60% of Power Output
- Stated Fuels Preferences

ETC.

2/10-

PAKISTAN PRIVATE POWER PROGRAM -- Proposal Process

Unsolicited Proposals → Proposal Evaluation ← Solicited Proposals

Proposal Evaluation

↓

Letter of Intent (LOI)

↓

Sponsor Feasibility Study

↓

Negotiation of Agreements
(Among Government of Pakistan/WAPDA/Sponsor)

↓

Lenders' Appraisals (including National Development Finance Corporation)

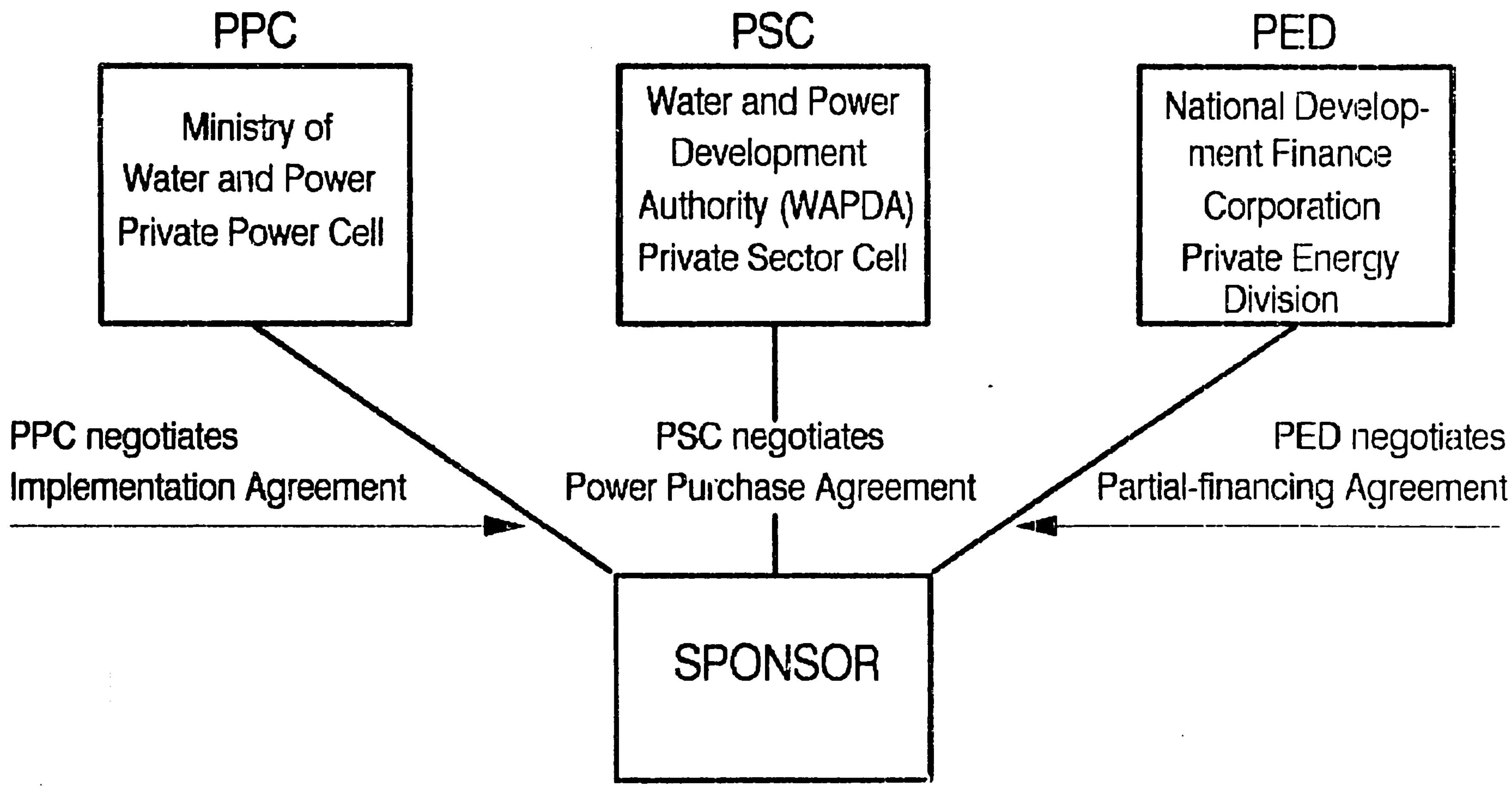
↓

Project Financing

↓

Procurement/Construction/Project Operation

PAKISTAN PRIVATE POWER PROGRAM -- Institutional Structure



PAKISTAN PRIVATE POWER PROGRAM -- Security Package

- Government of Pakistan/Sponsor Assurances
  - Negotiated Implementation Agreement (IA)
  - Negotiated Power Purchase Agreement (PPA)
  - Escrow Accounts
- Sponsor/Supplier-Contractor Assurances
  - Fuel Supply Contract
  - Operation and Maintenance Contract
  - Construction Contract

ELEMENTS OF DONOR SUPPORT

- What are Key Issues that will Determine whether Private Projects will Get Built?
  - ☐ Sound Policy and Investment Framework
  - ☐ Transaction Costs -- Time and Money Required to Move a Project through Development, Approval, Financing, and Construction
  - ☐ Long Term Financing

(continued)

ELEMENTS OF DONOR SUPPORT (continued)

- World Bank Private Energy Project
  - Created U.S.$ 605-million, Private-Sector, Multi-Donor Energy Development Fund (WB, \$150M; Japan, \$150M*; USAID, \$125M; Others, \$180M)
  - Designed "Security Package" Concept, which is Framework for Risk Allocation among Project Owners, Government, Utility, Lenders, Constructors, Operators, etc.

* Note: Japanese funds are Untied and are Managed by World Bank

(continued)

ELEMENTS OF DONOR SUPPORT (concluded)

- USAID Private-Sector Power Project (U.S.$ 170-million)
  - Provides Technical Assistance -- U.S.$ 35-million to GOP Agencies
  - Provides Feasibility Study Cost Support Fund -- U.S.$ 10-million to U.S. and Pakistani Private Power Developers
  - Provides Capital Finance -- U.S.$ 125-million into Multidonor, Private Sector, Energy Development Fund

E-9.11

U.S. TRADE AND INVESTMENT

- Comparative Advantage for U.S. in Independent Power Arrangements
- Six U.S.-Led Projects proposed for $500 Million

E-9.12

FINANCING PROJECTS

- No Sovereign Guarantee -- Lenders are dependent upon the Project Revenues for Repayment; No Government Repayment in case of Commercial Failure

- "Limited Recourse" Project Financing Structure

  - 25% Equity

  - 30% Energy Development Fund

  - 45% Export Credit Arrangements, Commercial Banks, International Finance Corporation, and Others

E-9.13

PAKISTAN HAB RIVER PRIVATE POWER PROJECT -- Project Description

Installed Capacity	1292 MW (1200 MW Net)
Fuel Supply	Petroleum Fuel Oil
Construction Period	33 Months
Project Sponsor	Hab River Power Group (HRPG)
	Xenel (Saudi Arabia)
	Hawker-Siddeley (United Kingdom)
	Mitsui-Toshiba (Japan)
	British Electric International
	CU Power (Canada)
	K & M Associates (United States)
Advisors Legal	Linklaters and Paines
Financial	Morgan Grenfell
Project Development/Engineering	K & M Associates

E-9.14

PAKISTAN HAB RIVER PRIVATE POWER PROJECT -- Financing Plan

Equity	
Foreign Investors	$ 78 Million
Off-Shore Financial Institutions	42
Local Investors (receive convertible bonds)	100
Subtotal (Equity)	220 Million
Debt (Foreign)	
Private Sector Energy Development Fund	329
Off-Shore Financial Institutions	93
Export Credits	115
Commercial Banks	228
Subtotal (Foreign Debt)	765 Million
Debt (Local)	
Local Banks	110
Subtotal (All Debt)	875 Million
Total Project	$1,095 Million

E-9.15

1,20

HAB RIVER POWER PROJECT - Potential Financing Innovations

- EQUITY --
  - $100 M; 16%, 3-Year Convertible Bonds, Underwritten Offshore, will require Karachi Capital Market Reform

- DEBT --
  - $228 M; Commercial Bank Lending (with World Bank extended financing to cover political risk)
  - $115 M; Export Credits (with no sovereign guarantee to Export Credit Agencies)
  - $329 M; Energy Development Fund

FINANCING LESSONS (BEING) LEARNED

- Magnitude of Financing will drive Reform of Capital Markets
- World Bank Participation Important
  - Rechannels Public Lending to Private Sector
  - Provides Policy Leverage
  - Stimulates Innovative Financing
- Long-Term Debt Essential to "Level-Out" Power Purchase Price
- Export Credit Agencies Need to Revise Policies on Limited Recourse Financing
- USAID Resources are Highly Leveraged
  - 12/1 Total Lending to USAID Lending
  - 100/1 Total Lending to USAID Technical Assistance

DESIGN/IMPLEMENTATION ISSUES

- "Incremental" Approach -- The Focus is on New Generation, NOT on Divestiture of Existing Public Power Plants
- First Private Project Proposals Face High Development Costs
- AID Access to Top-Level U.S. Expertise in Project Finance and in Private Power Arrangements
- Government Underestimates Level of Effort and Complexity

(Continued)

DESIGN/IMPLEMENTATION ISSUES (concluded)

- Multiple Approvals by Government, Donors, and Lenders --
  Burden on Good Projects; Minimal Chance of Bad Projects Surviving
- Procurement with AID Funds -- Good Business-Practice Criterion
- Management of the Large Private-Sector Energy Development Fund
  by an Intermediary Financial Institution (IFI)

WHAT OPPORTUNITIES DOES THE PRIVATE-SECTOR POWER INITIATIVE PROVIDE FOR USAID MISSIONS?

- A Means to Promote Private-Sector Provision of Infrastructure/Public Services
- An Element to Include in USAID Policy Reform Agendas
- A Vehicle to Push Reform in Collaboration with USAID Capital Market Projects
- An Opportunity to Facilitate U.S. Trade and Investment where both U.S. Comparative Advantage and Development Need Exist
- USAID Technical Assistance can Channel/Leverage Multilateral Bank Resources to Private Sector

P R I V A T E   S E C T O R   P O W E R

PROJECT DESIGN ISSUES

IN

PAKISTAN

ANE PRIVATE SECTOR WORKSHOP

PATTAYA, THAILAND

MAY 15, 1990

T. David Johnston

Office of Energy

USAID/Pakistan

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DESIGN ISSUES

- THE USAID/TDP DEVELOPMENT ASSISTANCE GRANTS
- THE IMPLEMENTING AGENCY
- LOAN SIZE LIMITS
- THE DEVELOPMENT BANK DRAGONS
- THE APPROVAL EXPERTISE DILEMMA
- WHO BEARS THE RISK

227.

I. INTRODUCTION: Good morning! I'm going to give you a short talk on the design issues which we faced when we developed the Private Sector Power Project in Pakistan.

A. Now this is a challenging assignment, because over the almost twelve years I've worked with A.I.D., I've learned that the three most difficult things for a man to do are:

- To climb a wall leaning towards you,
- To kiss a girl leaning away from you, and
- To make a short speech.

B. We had to deal with a great deal many issues when we were developing the project.

- There was no single or central issue; rather the issues tended to overlap and merge one with another.

- I don't have time to deal with all the issues today. Instead I will speak briefly about six of the most important ones we delt with.

- These six issues were:

  1. The USAID TDP Development Assistance Fund
  2. Who should implement the project?
  3. Should there be a maximum or a minimum loan size limit?
  4. How to tame the development bank dragons?
  5. The approval expertise dilemma.
  6. Who bears the risk?

II. USAID/TDP DEVELOPMENT ASSISTANCE FUND

1. PURPOSE: Provide an incentive for U.S. firms to make power sector investments in Pakistan.

2. Background:
   - Suggested by private firms at a meeting in AID/Washington 2 1/2 years ago and then included in the project design as a $1 million grant, and $9 million loan fund.
   - TDP offered to use its own project approval procedures initially, but these did not turn out to be appropriate for power projects.
   - Mission requested suggestions from ANE, S&T, and TDP for approval of grants and then combined these into the set of criteria and procedures for grant applications which we are currently using.

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USAID/TOP DEVELOPMENT ASSISTANCE FUND

1. PURPOSE: Provide an incentive for U.S. firms to make power sector investments in Pakistan.

2. Background:
   - Suggested by private firms at a meeting in AID/Washington 2 1/2 years ago and then included in the project design as a $1 million grant, $9 million loan fund.
   - TOP offered to use its own project approval procedures initially, but these did not turn out to be appropriate for power projects.
   - Mission requested suggestions from ANE, S&T, and TOP for approval of grants and then combined these into the set of criteria and procedures for grant applications which we are currently using.

3. Key Features:
   - $500,000 Maximum grant to one project.
   - Maximum USAID contribution is 50% of costs approved by USAID.
   - Preference to fund feasibility or prefeasibilities but will consider concept papers.
   - Applicants must have a letter indicating GOP interest/support.
   - Applicants must be established U.S. firms with experience.
   - Applicants must state their agreement to make at least a 5% equity investment in the final project.
   - Applications will be reviewed by experts for completeness, reasonableness, technical, financial and environmental soundness.
   - USAID will authorize TOP to disburse funds to the applicant through an action memo.
   - TOP prepares its standard letter grant to commit funds.
   - Invoices are approved by USAID with assistance (when necessary) from technical experts.

4. Private Sector Interest to Date
   - $50,000 disbursed to INTRAG (a U.S. firm) to do pre-feasability work for a coal project.
   - Three additional proposals received and being reviewed.
   - Several other firms have expressed interest.

5. Controversial Design Features
   - 15% flexibility anmong line items of approved budget.
   - Overhead will be an allowable cost for outside consultants but not in house personnel.
   - No salaries reimbursed above FS-01 level.

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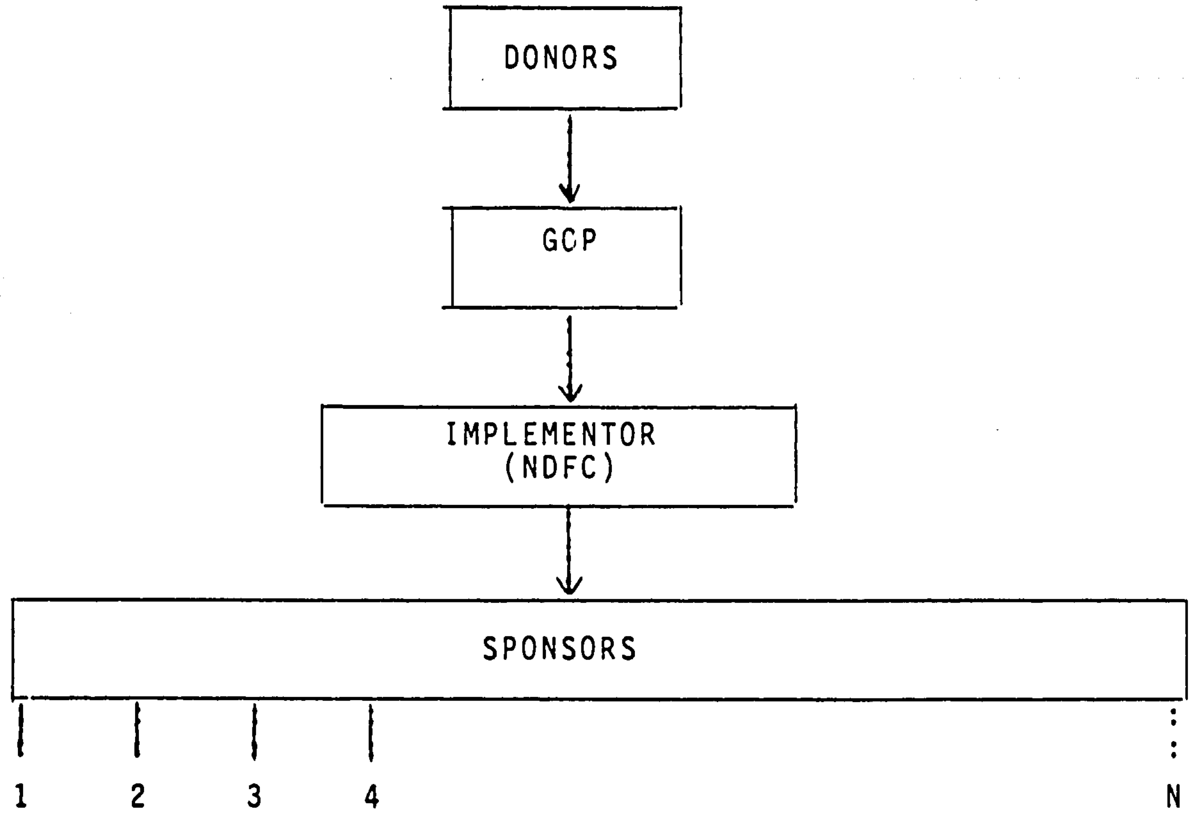
WHO SHOULD IMPLEMENT THE PROJECT?

- A GOVERNMENT BANK -- NATIONAL DEVELOPMENT FINANCE CORPORATION (NDFC)

- A GROUP OF PREQUALIFIED PUBLIC AND PRIVATE BANKS

- A PRIVATE NON-PROFIT FOUNDATION

- A COMPETITIVELY SELECTED PRIVATE FIRM WHICH WINS A MANAGEMENT CONTRACT WITH THE GOVERNMENT OF PAKISTAN


DONORS
GCP
IMPLEMENTOR
(NDFC)
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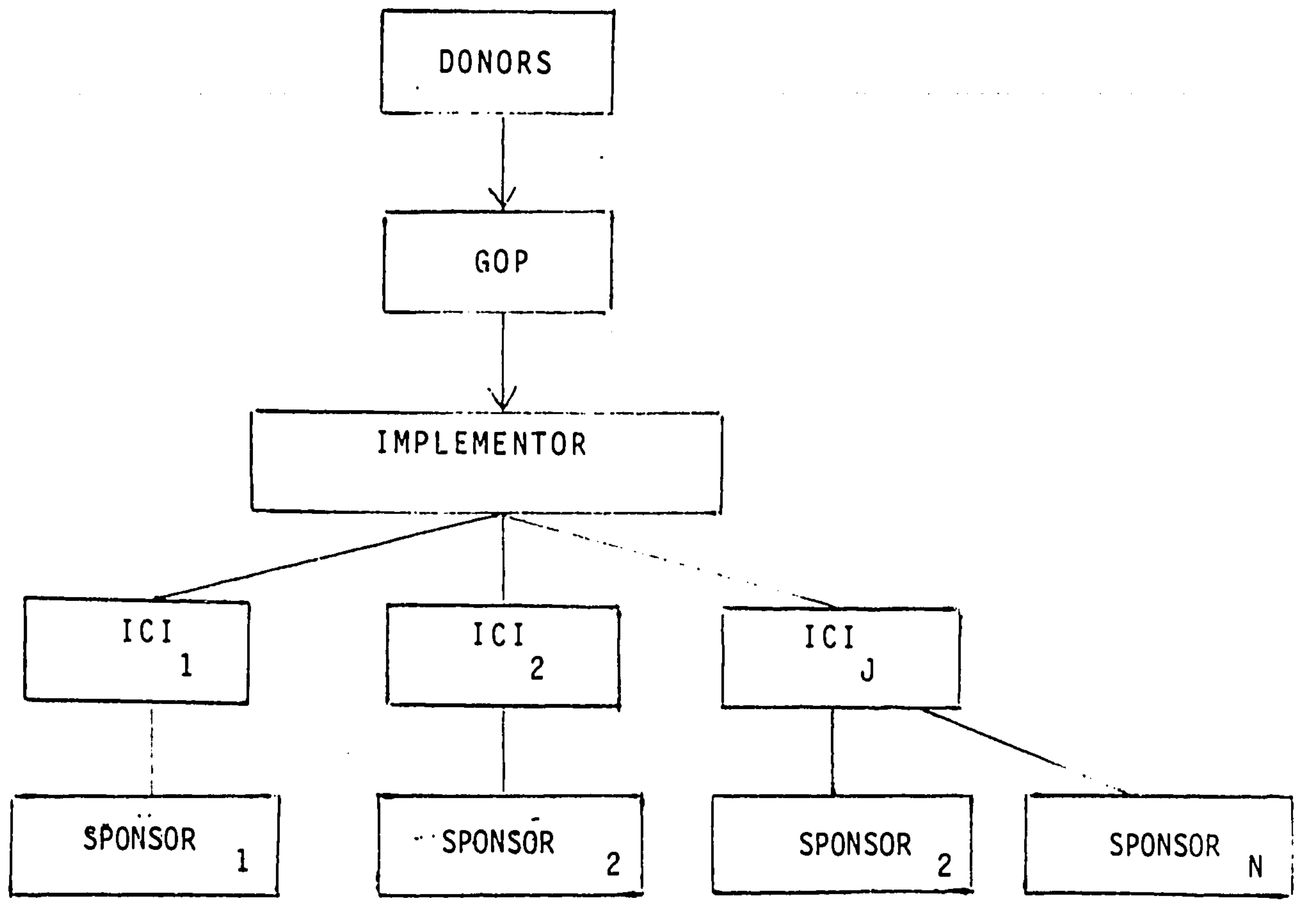

III. Who should implement the project?

A. The choices were to have the project implemented by a government bank (NDFC), a group of public and private banks which would be prequalified before participating in the project. A private non-profit foundation, or a private firm which wins a management contract with the Government of Pakistan.

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B. A secondary question was whether the implementing agency should loan directly to private power sponsors or should loan to other banks which would make direct loans to the sponsors and assume a portion of the repayment risk.

C. The design finally adopted was to have the project implemented by a government bank, the NDFC and to have NDFC make loans directly to sponsors rather than to lend through other banks. The reasons for the decision were that this approach:

1. Maintains Government of Pakistan control over the project loan fund of $600 - $800 million.

2. Does not require payment of management fees or approval of interest spreads to private institutions.

D. The Government of Pakistan would not compromise on this point. After listening to all agruments, they announced their decision to use NDFC as the implementing agency.

IV. The second issue was whether the project should have any maximum or minimum loan limits. The loan limit questions really a question about the size of power plants.

A. The rationale for large power plants is three fold.

1. First, the shortage of power is so serious that management time in the Government of Pakistan and among the donors should not be wasted on small projects.
2. Second, the Government of Pakistan would not take necessary policy decisions for small projects
3. Third, smaller projects would not be good choices due to economies of scale.

B. The rationale for smaller plants has five points.

1. Pakistani Financial markets have little or no experience with projects over $200 million. They would be more comfortable and would move more quickly with profits in the $50 - $150 million range.

2. The Government of Pakistan did not want to give a government guarantee to the private lenders and the EXIM Banks didn't want to gaurantee loans without a government guarantee. This impasse could be avoided if the project would focus on smaller loans which could be financed in Pakistan and this would not require larger external loans and EXIM guarantees.

3. International commercial banks had relatively small country limits for Pakistan which limited the amount of credit they would provide. The commercial banks were also not very interested in long term loans, but preferred to limit themselves to short term and medium term lending.

4. IMF restrictions on domestice credit levels are relatively tight. credit limits on Rupees could make it difficult to raise local currency in excess of Rupees 1.5 billion ($83 million) for power projects.

5. Joint ventures desirable are particularly desirable for power projects because many U.S. firms would like to sell equipment and know how anen gradually turn over their equity to a local partner. Local firms on the other hand would like U.S. equipment and technical assistance and also want to own power plants.

C. The final decision reached was to have no size restrictions at all. The reasons for this decision were:

1. The power shortage is so severe that any size project will help.

2. Size is too restrictive a criteria. Cost and use of local resources may make some small projects attractive.

3. The Government of Pakistan believed that the EXIM banks would compromise on the government guarantee requirement.

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SHOULD THERE BE MAXIMUM OR MINIMUM LOAN SIZE LIMITS

1. LOAN SIZE $\Longleftrightarrow$ SIZE OF POWER PLANT

2. RATIONALE FOR LARGE PLANTS

   - CRITICALLY SHORT POWER SUPPLY
   - MUST GET ATTENTION OF POLICY MAKERS
   - EXPLOIT ECONOMIES OF SCALE

3. RATIONALE FOR SMALL PLANTS

   - LIMITED EXPERIENCE WITH PROJECTS OVER $150 M
   - GOP INSISTED IT WOULD NOT GIVE A GUARANTEE TO TO PRIVATE LENDERS
   - CROSS BORDER RISK $\Rightarrow$ LOW COUNTRY LENDING LIMITS
   - SHORTAGE OF RPS FOR PROJECTS REQUIRING MORE THAN RS 1.5 BILLION ($83 M)

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4. The state Bank of Pakistan said that local currency would be made available for power plants when it was needed because power was a national priority.

V. How to tame the development lending dragons.

A. There are four common problems faced by development loan projects. These are:

- Subsidized Loan Rates
- Political Influence
- Over-invoicing
- Lazy Entrepreneurs

I call these the development bank dragons because they can eat up all the money in your revolving fund and leave your project looking like a bunch of dragon droppings. Now dragon droppings are not as dangerous as dragon's teeth -- you know about dragon's teeth don't you -- when one falls out and is covered with soil a fully armed warrior sprouts up. Well, dragon's dropping are sort of like dragon's teeth, except when dragon droppings are covered with soil, they lie there until the first rains come and then an auditor springs up.

B. I think these four dragons are well known to you, but just in case they are not, let me illustrate:

- Subsidized loan rates. This dragon needs no introduction. We all know there is no limit to the demand for subsidized credit.

- Political influence is well known. It is hard not to approve a project the Minister of Finance wants to approve.

- Over-invoicing is where kickbacks, bribes and equity come from for the "white elephants" that dot the countryside in the developing world. Every country has them....The government factory operating at a loss because it can't compete...The factory with machinery still in a warehouse which is never installed, etc.

DEVELOPMENT LENDING DRAGONS

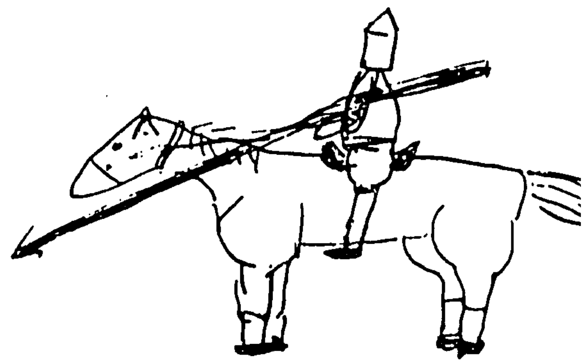
SUBSIDIZED LOAN RATES

POLITICAL INFLUENCE

OVER-INVOLVING

LAZY ENTREPRENEURS

WHITE KNIGHTS



MARKET INTEREST RATES

TRANSPARENCY

COMPETITION

RISK SHARING

KNIGHTS / DRAGONS	MARKET INTEREST RATE	TRANSPARENCY	COMPETITION	RISK SHARING
SUBSIDIZED LOAN RATES	X			
POLITICAL INFLUENCE	X	X	X	X
OVER INVOICING		X	X	X
LAZY ENTREPRENEURS				X

Recommended Design Features \ White Knights	Use Market Interest Rates	Transparency	Competition	Risk Sharing
Periodic reviews will be made of the lending rate (Initially 14%)	X		X	
Establish a well defined project review procedure		X		
Provide training for subproject reviewers		X		
Pay reviewers good salaries*		X		
Require independent review by outside experts		X	X	
Require donor approval		X	X	
Encourage private bank (ICI) participation and require banks to assume risk*		X	X	X
Phase out unsolicited proposals for major power plants*		X	X	
Require a 25% equity investment by sponsors				X
Require a 45% investment from other private sources				X

* Design features that were not included in the final project.

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- Lazy Entrepreneurs: These are the managers in both public and private sector firms whose products can't be produced and sold for a profit. Their failure may be due to: inefficiency; incompetence; machinery which is too old, too cheap or too expensive, large mortgages; or whatever. The important thing is that these managers are content to manage plants which are not producing profits.

C. What can be done about these dragons? The solution is to bring in four dragon tamers which I like to refer to as the four white knights. These are:

- Market Interest Rates
- Transparency
- Competition and
- Risk Sharing

As the next chart shows, each knight contributes toward the taming of two or three of our dragons.

. Market interest rates are necessary for the growth and prosperity of financial institutions. Market interest rates allow banks to mobilize savings, sell bonds and otherwise channel funds from savers to borrowers. Market interest rates are essential to tame the dragons called subsidized loan rates and political influence.

o Transparency is needed to control political influence. It is easy to manipulate a process that no one undestands. It is hard to manipulate a simple, direct, straight foreward process and it is harder still when the process is subject to external reviews. Transparency is highly effective at controlling political influence and over-invoicing.

o Competition is essential if markets are to function effectively. Loan projects work best when you have:
1. competition between firms that want to build the same project,
2. competition for funds between different projects and
3. competition between lending agencies.

Competition allows us to compare performance and learn from one another. Competition is a direct stimulant for progress, efficiency and development. Competition is a very effective controller of political influence and overinvoicing.

Risk sharing is an absolute cure for lazy entrepreneurs. It is amazing how energetic one becomes when he is loosing his own money. As project designers we should try to design in as much risk sharing as possible. Ideally we want everybody involved with a project to share some of the risk. That way people have a personnel stake in the success of subprojects. They become committed to looking for solutions when problems appear and their commitment helps them find solutions quickly so they can avoid losses. Risk sharing is my favorite knight because it is highly effective at taming the dragons called political influence, over invoicing and lazy entrepreneurs.

D. How do we build these knights into our private lending programs? In the Pakistan private sector power project we came up with ten project design features. Each feature contributes directly toward ensuring that the four knights will be there to guard your revolving credit fund. These ten design features are presented in the next chart.

VI The Approval Expertise Dilemma

A. Approval of large, politically important projects is never easy because these power plants are complex projects. They require the services of mechanical and electrical engineers, financial analysts, lawyers, bankers, politicians and others.

B. In general, the larger and more important the project, the more difficult the approval process because even small errors have large consequences when we are dealing with a $100 million, $500 million or $1 billion project.

C. The crux of the problem is that you need a lot of political influence to force the political decisions that must be made if you are going to approve a large private power project. Unfortunately, most politicians don't have a great deal of technical expertise. They are forced to rely on the opinions and analysis of others when they take major political risks which, if they backfire, could end a politicians.--or a technocrats-- career if people assume he sold out and approved a bad project. This situation tends to make evaluators cautious. They don't want to loose their jobs and pensions by being overgenerous in negotiations and this leads to long, hard negotiations.

THE APPROVAL EXPERTISE DILEMMA

"THOSE WHO HAVE THE TECHNICAL EXPERTISE, DON'T HAVE THE POLITICAL INFLUENCE.

THOSE WHO HAVE THE POLITICAL INFLUENCE, DON'T HAVE THE TECHNICAL EXPERTISE."

D. Thus we have the approval expertise dilemma (show chart).

E. The approval expertise dilemma is generally greater in a country with a reputation for payoffs, bribes, and kickbacks than it would be in a country which doesn't have this reputation.

F. This dilemma makes it difficult to approve any project where you have only one proposal. If there has been competition, the technical and political project evaluators can justify a project's approval on the basis of competition, i.e. this may seem expensive, but we advertised the opportunity, we evaluated the proposals and this one was technically sound, financially feasible and had the lowest cost. In general, the approval expertise dilemma means that the larger the project, the riskier the approval and the longer it will take to analyse and approve unsolicited proposals for a large, visible and important projects. It was for this reason that some people suggested the government should evaluate only solicited proposals for all major private power projects. Similarly, it was suggested that the government should target relatively smaller projects which are easier to finance, relatively less visible and therefore easier to approve.

VII. Who Bears the Risk?

A. This is both the simpliest and the most difficult design issue.

- The projects financial structure specifies the following:

30% Financing from the fund	...Government of Pakistan
25% Equity Investment	...Sponsor Risk
45% Private Sector Sources	...Private Bank Risk

B. International private banks were willing to consider funding private power plants but they wanted two things:

- A completed package of studies and agreements which would include feasibility studies, power purchase agreements, fuel supply agreements, financial plans, financing arrangements and so on.
- A full faith and credit Government of Pakistan guarantee.

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D. The Government of Pakistan did not want to give a government guarantee because this would constitute an additional government obligation under IMF rules and would limit Pakistan's ability to accept other international credits.

VII.

E. The world bank has helped the government design a security package for the first subproject which is a compromise between a government guarantee and no government guarantee. (Show chart of security package).
The USEXIM once said that they might accept the security package instead of a government guarantee if they were convinced it was 80% as secure as a government guarantee. To date, no projects have been sent to USEXIM for their approval.

F. The world bank is currently preparing a new program called the ECO. The ECO will provide a guarantee for commercial banks which are interested in providing both initial bridge financing to the HAB River Project and later long term credit once the loan is signed. When this ECO program begins operation, it may create a great demand for additional limited recourse financing of private power (and other types of private) projects.

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SECURITY PACKAGE FOR THE HRPG PROJECT

1. IMPLEMENTATION AGREEMENT.
2. POWER PURCHASE AGREEMENT.
3. FUEL SUPPLY AGREEMENT.
4. CONSTRUCTION CONTRACT.
5. OPERATION AND MAINTENANCE CONTRACT.
6. SHAREHOLDERS AGREEMENT.
7. LOAN AGREEMENT.
8. ESCROW AGREEMENT.
9. TRUST DEED.
10. INSURANCE POLICIES.
11. EXCHANGE RISK INSURANCE.
12. SITE AND LAND AGREEMENT.

Appendix F

Other Workshop Papers

1. Briefing Paper and User's Guide to USAID Assistance for Private Sector Business Development in Jordan, by Lewis Reade, Director, USAID/Jordan

2. Where Do We Go From Here?, by Taher Helmy

3. Executive Summary: ASEAN Private Investment and Trade Opportunities (PITO), by Lawrence Ervin, ASEAN Representative

Briefing Paper and User's Guide

to USAID Assistance for

Private Sector Business Development in Jordan

by Lewis Reade
Director, USAID/Jordan

BRIEFING PAPER

Jordan is a country entering the "second generation" of developmnt. Although maintenance and upgrading are always necessary, the physical infrastructure is good, educational systems are in place, health conditions (except for infant and maternal mortality) approach developed countries' standards, Government operates smoothly and many modern institutions have been created.

In this new age, Jordan's development problems begin to resemble those of other newly developed countries. Specifically, the world and regional business cycles have contributed to two major Jordanian problems - rising unemployment and low foreign exchange reserves. In the past year these two problems have assumed very serious proportions, and have resulted in minor civil unrest. The Government of Jordan has moved strongly to counter these problems through agreements with the IMF and IBRD, Paris Club and London Club reschedulings and various measures to stimulate employment. Further, the Government of Jordan has reaffirmed its commitment to increased development of the private sector development as the engine of future growth in the Kingdom in order to come to grips with these problems.

The USG, through USAID, has contributed greatly during Jordan's "first generation" of development and continues to be active, albeit at reduced resource levels, in such sectors as infrastructure, agriculture, health, education and training. In order to help reduce Jordan's dependence on outside sources of financial aid and achieve its role as a regional center of manufacturing, agribusiness and service excellence, we have now, in cooperation with the Government, turned our comparative advantage in modern management towards assisting the Jordanian private sector to take its full role in development.

The components of USAID'S Private Sector program include:

CURRENT PROJECTS

1. Policy dialogue with the Government on ways of improving the business climate in Jordan.

2. The Private Sector Commodity Import Program I ($88.7 million). (An Export Sector Assistance Program for $23 million for FY 1990 is in design presently.)

3. The Management Development Project which is upgrading the Master of Business Administration program at the University of Jordan and improving the Jordan Institute of Management's capability to offer short courses to presently employed managers. ($5.0 million)

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4. The PETRA (Private Enterprise Technical Resources Assistance) Project which offers innovative loans to new or expanding businesses and grants to private voluntary organizations in promising fields for technical assistance, training or capital goods. ($11.0 million)

5. The Industrial Development Project which has helped establish a graduate program in Industrial Engineering at the University of Jordan, is revitalizing the Chamber of Industry and has established a Marketing and Manufacturing Improvement service to assist manufacturers with production and marketing problems. ($9.5 million)

6. The Private Sector Development Administration Project which is sending Jordanian private sector technicians and managers to the U.S. for short courses and on-the-job training in technical or management subjects. ($2.5 million)

7. The Technical Services and Feasibility Studies (Private Sector Portion) Project which is directly assisting the Government to improve policies and operations which impact on private sector operations (e.g., customs, incentives). ($4.0 million)

8. The Private Services Sector Project which is building the capacity of service firms in accounting and auditing, marketing and advertising, industrial management and computer sciences. ($10.0 million)

9. The Agricultural Marketing Project which is establishing grades and standards through the Agricultural Marketing Organization and seeking to stimulate agricultural sales in new (e.g., European Economic Community countries) and existing (e.g., Gulf) markets. ($5.0 million)

10. The Loan Guarantee Project for Small Enterprise Development which is leveraging the liquidity of a number of commercial banks to provide low collateral loans based on cash flow analysis to micro and small sized businesses. ($10.0 million)

NEW FY 1990 PROJECTS

1. The Export Trade and Productive Investment Project which will raise the level of Jordanian expertise in concluding international business deals and increase exporters' access to finance for developing products and services for export. ($10 million)

2. <u>Environmental Services Development</u> which will strengthen the environmental protection capabilities of Jordan's public sector and private sector with special emphasis on cleaning the Zarqa River basin of pollutants. ($5 million)

PLANNED FY 1991 PROJECTS

1. <u>Vocational and Technical Training Reform</u> which will assist Jordan's vocational training institutions to develop the information systems and analytic capacity to respond to demands of the Jordanian and regional markets for skills needed by an export led economy. ($5 million)

2. A new <u>Private Sector Development Administration Project</u> which will send Jordanian private sector technicians and managers to the U.S. for short courses and on-the-job training in technical or management subjects. ($7.5 million)

This comprehensive program represents a carefully thought-out group of interventions and is <u>AID'S most complete private sector program world-wide</u>. As such, it is a reflection on Jordan's ability to grow and develop at a rate virtually unknown among LDC's with comparable natural and human resources.

(N.B., In order to deal with the infant and maternal mortality issue, USAID has authorized a Marketing of Birth Spacing Project. While not strictly a private sector development project, this activity does work through private purveyors of birth spacing advertisements, services and materials. This project will seek, over the next three (3) years to raise the average time between births from the present 17 months (one of the world's shortest) to 24 months. Medical evidence from around the world indicates that if this occurs infant mortality can be reduced by 40% and maternal mortality by 25%.)

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USERS' GUIDE TO USAID ASSISTANCE

FOR

PRIVATE SECTOR BUSINESS DEVELOPMENT

September, 1989

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Private sector business people in Jordan can access a wide range of USAID sponsored and supported services. These services have been designed and tailored to promote private sector business growth and the contribution business can make to the economic development of Jordan. The following pages describe a menu of assistance that includes:

- BUSINESS ADVISORY SERVICES (Technical Assistance)
- TRAINING AND EDUCATION
- CREDIT / FINANCE

This menu has been developed to provide both flexible and multiple opportunities for assisting

- MANUFACTURERS
- ENTREPRENEURS
- SERVICES INDUSTRIES
- AGRIBUSINESS
- EXPORTERS
- TOURISM

BUSINESS ADVISORY SERVICES

International Executive Service Corps (IESC)

IESC can assign a highly experienced American executive or technical advisor to provide expert consultation as requested by a Jordanian firm. These volunteer advisors are the very best that U.S. business can provide. They serve only in the interests of the organization to which they are assigned with no obligation to any American company. IESC carefully selects them for each assignment on the basis of long career experience in the same field of business as the organization requesting the assistance.

Assignments are approximately 2 1/2 months long, long enough to provide the required assistance and develop guidelines which the requesting firm can follow in the future. Jordanian firms generally pay about $110 a day (30 % of the actual cost of the consultation). The balance of the cost is covered by American corporations and by USAID.

IESC also offers Joint Venture Search assistance by providing an American expert to work for about three weeks in Jordan writing a brochure about the Jordanian firm, and to search for interested partners upon his return to the U.S. From its headquarters in Connecticut IESC will also conduct market surveys, locate equipment manufacturers, advise on U.S. import regulations and research any activity of interest to a Jordanian firm.

For more information on any of these services, contact IESC Director of Operations for Jordan, Dick Spear, at 683212.

Manufacturing and Marketing Improvement Services (MMIS)

MMIS is a management and marketing consulting service located at third circle, Jabal Amman. MMIS staff meet with prospective clients without charge to discuss the clients need and to write a proposal detailing costs and deliverables for the project. USAID underwrites a portion of the client's cost for MMIS services.

Recent clients have hired MMIS to research and recommend regional marketing strategies, to improve maufacturing facilities and to reorganize a prominent local business. MMIS has provided consultations in the metal fabrication, pharmaceutical, paper converting, aluminum processing and hotel industries. For information, contact John Andrica, MMIS, 649040.

Agricultural Marketing Development (AMD)

This special project of the Agricultural Marketing Organization (AMO) offers private sector agribusinesses advice on production for export including technical assistance on all aspects of harvesting, refrigeration, packing, and transport. Weekly price information for Europe and daily price information for Jordan throughout the year is available to help producers identify markets and time production for profits. Two export guides detailing tariffs and quality required have been published in Arabic, one for regional markets, and one for European markets. To obtain the export guides or other assistance call Kelly Harrison at 689192.

The Jordan Trade Association (JTA)

JTA is expanding a library and computer information network for use by exporters. The JTA has joined the World Trade Center of Cairo through which JTA members can place offers to sell to the Center's 4 million members worldwide. JTA is being assisted during its first three years of operation by a grant from USAID. For information about JTA resources, membership, or for a copy of the JTA newsletter, contact Halim Abu Rahmeh, Executive Manager at 685603.

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The National Handicrafts Center

The National Handicrafts Center is providing technical assistance to the producers of traditional handicrafts in the areas of product design and production techniques to insure quality and quantity. The Center acts as a broker to help link craftspersons with local providers of raw materials, local retailers, and export markets. For information contact David 0' Connor at 606992.

Tourism

The Ministry of Tourism offers fact sheets by site (Jerash, Amman, etc.) and by interest (camping, hot springs, etc,) in English, French, German and Arabic free to travel agents and tour planners. Industry wide mailing lists are also availab'.:. The development of these information resources were supported by USAID funds. To obtain a bibliography or a set of materials, contact Lamya Haqqi at the Ministry of Tourism.

TRAINING AND EDUCATION

Development Administration Training (DAT)

In cooperation with the Ministry of Planning, USAID sponsors learning experiences in a wide variety of fields, including Entrepreneurs International travel structured to promote possible formulation of joint ventures and licensing agreements with U.S firms. Short term technical training, short and long term academic study, and industry-based training to establish business contacts are all open for all appropriate Jordanian business people. Through these programs an employer may send key staff for business related learning, or may travel to develop business opportunities.

Jordanian citizens with a good working knowledge of English who have worked for their current employer for at least one year, may apply by submitting a specific proposal that states how the training they want will benefit their businesses. Women applicants are particularly encouraged. Applications are available at the Jordan Trade Association and through USAID.

Jordan Institute of Management (JIM)

JIM offers a wide range of short term courses for working people in management, finance, and marketing. USAID supports the expansion and improvement of JIM course offerings. For a schedule of classes and information contact Munir Zaghloul, JIM, 644842.

Special Conferences and Seminars

Each year USAID sponsors professional gatherings and educational events in Jordan and funds the attendance of Jordanians to appropriate events abroad. In 1989, for example, USAID sponsored a regional conference on financing low income housing, attendance at a regional conference on privatization in Turkey, management training for leaders of private voluntary organizations, and supervisory training for managers of sewing centers. For information on special conferences and seminars contact Claudia Knox, USAID information 604171.

CREDIT AND FINANCE

Private Enterprises Technical Resources Assistance (PETRA)

PETRA funds for $1 million in loans to private enterprises are available through the Industrial Development Bank (IDB) for industry and tourism, the Agricultural Credit Corporation (ACC) for income generating projects in agriculture, and the Cities and Villages Development Bank (CVDB) Rural Development Fund for rural areas. Loan eligibility will be determined by cash flow analysis,and loans will be available through 1991 on a 50 / 50 cost sharing basis. For information contact the appropriate lending institution.

PETRA grants continue to be available for income generating activities of Jordanian private voluntary organizations. For information contact Barry MacDonald, USAID, 604171.

Commodity Import Program (CIP)

Plans are underway to provide $9.7 million in financing for imports of goods from the U.S. used in the manufacture of export products. For information, contact your local bank that participates in the CIP program.

Housing Guarantee Program

The Housing Bank offers USAID insured long term construction loans to builders of low income housing, and mortgage loans to assist low income families in improving or purchasing housing. For information contact the Housing Bank.

Loan Guarantee Project for Small Enterprise Development

As an encouragement to local commercial banks to lend to small businesses, USAID will insure 50 - 75% of the principle for qualifying loans through the Industrial Development Bank (IDB). USAID will insure a greater portion of the risk for loans to businesses owned by women and businesses located outside Amman. $7 million is now available to guarantee long term (up to three years) loans of up to JD 10,000 to enterprises with up to 25 employees. Loan eligibility is determined by the lending bank's criteria that include cash flow analysis. For information about a loan, contact your local commercial bank.

Loan Guarantees for Small to Medium Size Businesses

The Bank of Jordan and the Cairo Amman Bank are offering USAID insured long term (up to five years) loans of up to JD 50,000 to qualifying businesses. Negotiations are underway to guarantee similar loans through the Housing Bank. Loan eligibility is determined by the lending bank's criteria that include cash flow analysis. For information contact the Bank of Jordan or the Cairo Amman Bank.

General Union of Voluntary Societies (GUVS)

USAID makes grants to approved projects of private voluntary organizations in Jordan through GUVS. Grants are primarily for one -time capital costs of up to JD 6,000 for income producing and other developmental projects. Projects that benefit and increase the skills and financial well being of women are particularly encouraged. Larger grants may be made on a case by case basis, and USAID funds are often supplemented by GUVS funds. For more information contact Mr. Ribhi, GUVS, 630398.

Where Do We Go From Here?

by Taher Helmy

WHERE DO WE GO FROM HERE?

We are witnessing unprecedented and unforseeable political and economic changes in the world around us. From Brazil and Mexico in Latin America to Hungary and Czechoslovakia in Eastern Europe, politicians, lawyers and economists are drawing up blueprints for reform programs to restructure their nations' economic policies. The Berlin Wall is down and the two Germanies will form the nucleus of a regional economic power that will flourish after the integration and emergence of a united Europe in 1992.

Even more astounding are the changes taking place in the Soviet Union, previously the guiding light for communism and socialism around the world. Who could have foreseen the day when the Moscow leadership would start abandoning its entrenched political system and basic economic principles that it exported to many parts of the world over the past decades? Could one have predicted a multi-party system and private ownership of land in Russia?

This fundamental restructuring of the world's economic order has already changed the priorities of the world's most advanced nations, as well as those of the Third World.

The focus of the world powers has suddenly changed and will continue to change in a dramatic way as developing nations, from the Pacific Basin to Eastern Europe and from Africa to Latin America, scramble to reshape their economies in order to share in the redistribution of global wealth. Only those who act swiftly and intelligently will survive. Those who don't will find themselves at the rear of the pack, much further back from where they are today. The race is on.

For Egypt, the question is where do we fit in all of this and where do we go from here?

We should not lightly dismiss the difficulties that lie ahead nor should we diminish the sacrifices that must be made by all of us, but these are not ordinary times. At stake is not simply an attempt to improve our economy - it is our very survival.

It is therefore imperative that we swiftly adapt to the changes sweeping the world around us. It is imperative that we participate and make a contribution to this changing process. This is the only way for us to ascertain a place in the new restructured global economy that will emerge from these turbulant times.

In order to achieve this, we must institute basic changes to our economic policies. This, I believe, is already the general consensus reached by all Egyptians, within and outside the Government. The real question, however, is how fast and how drastic these changes need to be in order to make a real difference, taking into account Egypt's current economic and social conditions.

In view of the global changes alluded to above, as well as Egypt's current economic problems, including ever increasing budget and trade deficits and an increasingly burdensome debt problem, Egypt has no alternative but to take swift and drastic steps towards reforming its economic policies.

The long term goal must be clearly set. With careful planning, positive changes to the political, economic, legal and social structure of the nation could be accomplished in a relatively short time for the benefit of the total population. Egypt has great untapped potential. It is not unreasonable to expect a surge in foreign currency earnings from tourism and export of Egyptian products worldwide that could cover and exceed Egypt's debt servicing obligations and close the budget and trade deficits. Other Third World countries with less potential have achieved such results.

There is no doubt that the task is difficult and challenging, but we must start. Delaying the inevitable will only make the task all that much harder. Those who claim that we are not capable of meeting the challenge are mistaken. We cannot be intimidated by the debt problem and the potential short-term negative public reaction to economic reform. We must abandon economic policy formulation based upon defensive strategies and crisis management and start policies based upon new initiatives with positive, even aggressive approaches. While it may not be necessary to act as dramatically as the new President of Brazil did last month, Egypt must act now. It must abandon centralized planning and institute a comprehensive economic reform plan designed to encourage a free market economy. It must start rebuilding world confidence and base its economic policy on global market forces and export-led growth. This would in turn provide the basic foundation for overall growth -- primarily increase job opportunities and wage levels -- thus providing broad-based social benefits, which are currently rapidly declining.

From a legislative standpoint, Egypt must undertake a major effort. We should always remember that laws are made to promote the welfare of the people, not the other way around. When existing laws become a burden and an obstacle in the way of instituting new policies for the benefit of the nation, they must be changed.

Egypt must proceed in two parallel directions by: (i)reviewing existing legislation and making the necessary adjustments by way of amendments or total cancellation of certain laws and regulations and (ii) enacting new laws and regulations to reflect the new economic policies being put in place.

While it is important, for example, that Egyptian declared policy is to encourage the private sector and promote an open door policy, the issuance of a single law (the Egyptian Investment Law) is not enough. To create the right atmosphere for a free market economy to grow, a better legislative base is needed.

A comprehensive review and amendment of Egyptian legislation affecting commercial transactions, including company, tax, social insurance and labor laws, is in order. Simplification and liberalization of the import/export legislation are very much needed. Currency legislation should be streamlined and made clear and consistent. Even the recently issued Investment Law (Law No. 230 of 1989) should be redrafted to remove ambiguities and newly added restrictions. As for Law 97 of 1983, which governs public sector companies, a complete review and amendment is necessary in order to implement the privatization policy recently announced by the Government. An attempt to privatize by trying to interpret and apply existing outdated laws is a waste of precious time. Any existing laws, including parts of the Constitution, that stand in the way of economic reform and the ultimate welfare of the people must be changed. This is the prerogative of the Government, as it sets a new agenda for the new nation of tomorrow. This is the mandate of the Government as it demonstrates leadership for the people.

In addition, new legislation specifically designed to deal with an open market economy must be adopted. It is very difficult, if not impossible, for a market economy to witness rapid growth if the basic foundation of the legislation is designed to deal with a centralized economy. No wonder a strong private sector has not developed in Egypt over the past fifteen years. The badly needed high productive capacity of a private sector can never be achieved without the proper legal foundation. The basic components of a free market economy hardly exist under current Egyptian legislation.

To simply liberalize existing legislation for the sake of loosening controls and/or giving more freedom to private business is not enough. What is needed, in essence, is the replacement of existing legislation that promotes basic centralized economy type concepts by free market economy rules and regulations. A change in attitude and direction must be reflected in the legislation of the nation.

This means the adoption of free market economy type legislation that provides for controls and a degree of government supervision that allow such an economic system to flourish. Everyone must realize that a free market economy does not mean that all controls are eliminated. It would be unwise to simply liberalize current Egyptian legislation without instituting the type of laws that provide the checks and balances that normally exist under a free market economy. It is dangerous to start implementing new economic policies and adapting new sophisticated free market techniques without proper legislative backup to regulate it from its inception. Moreover, a haphazard, piecemeal approach to the establishment of a legal system commensurate with such new techniques may be even more detrimental than not adopting the much needed economic reform.

We simply need to replace an outdated legislative package with a balanced legislative package at current world standards, capable of launching a free market economic policy on solid ground. We need to play by the new rules of the game if we want to participate in the global market arena.

For example, a key to the development of a free market economy is a strong capital (securities) market. Egypt needs to adopt new and updated, as well as carefully drafted, legislation that promotes the development of an organized capital (securities) market. Dealing in securities is different from dealing with most other commodities. Securities (bonds, shares, etc.) have no intrinsic value in themselves - they represent rights in something else. The laws regulating securities transactions are therefore different in purpose from laws dealing with transactions involving goods. They must ensure that when securities are offered to the public, investors have an accurate idea of what that "something else" is, and how much of an interest in it the particular security represents. They must also ensure that a continuous flow of information and full disclosure is made. Moreover, because trading markets for securities are uniquely susceptible to manipulative and deceptive practices, securities laws must include strong and clear "anti-fraud" provisions. Additionally, securities laws must regulate those firms and individuals that are engaged in the business to ensure they do not take advantage of the public. Finally, securities laws should provide a mechanism for efficient government supervision and sanctions against those who violate the law. this will require the creation of new Government agencies staffed with a well trained new breed of public employees and structured in a more efficient and lean manner. It is also possible, as is the case in many other countries, that the industry itself creates its own bodies and its own rules that govern those who engage in the field.

Another example is the need to deal with the issue of the market competition. With central planning and excessive government controls hopefully out of the way, the Government should play a different, but equally important, role in overseeing the economy. Egypt should adopt legislation that would regulate "monopolies" and unfair competition and trade practices, the so-called "restraints of trade". Something similar to the Sherman Antitrust Act, issued in the U.S. in 1890 as a result of the economic turbulence of that time, is now needed in Egypt.

Mergers and acquisitions, already emerging phenomena in Egyptian industry, are largely left unregulated and barely understood. Any efficient fre arket system must deal with these basic elements of a free market with ease and clarity of procedures.

As is the case with the capital markets, a special agency should be created within the Government to administer such legislation and to make sure that the social impact is monitored and the public rights are preserved.

It is worth noting at this point that a systematic change in the role of government, as well as its capabilities and expertise, will inherently and necessarily accompany such change in direction. This is the only way to effectively deal with the economic realities of the future. After all, the management of a free market economy is substantially different from that of a centralized economy.

In view of the foregoing, it is clear that major legislative initiatives are required in order to set the path for a new Egypt - an Egypt that can effectively compete in this fast changing world, and an Egypt that can carve out its share of the global market and hence a share in the global wealth. Fortunately, Egypt is blessed with all the pre-requisites to meet this challenge and to turn a dream into a reality. This vision is our destiny.

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Taher Samir Helmy (Doctor of Jurisprudence) is a full partner of the international law firm of Baker & McKenzie, the world's largest law firm, headquartered in Chicago. He is also the co-founder of the Egyptian law firm of Helmy & Hamza, a member of the international network of Baker & McKenzie. After spending more than ten years practicing law in Chicago, Taher Helmy now divides his time between practicing in Cairo and other BAker & McKenzie offices in Europe and the United States. Taher Helmy is Vice President, Legal Affairs, of the American Chamber of Commerce in Egypt. The views expressed hereunder are solely those of the author, and do not represent the views of the Chamber.

Executive Summary:
ASEAN Private Investment and Trade Opportunities (PITO)

by Lawrence Ervin, ASEAN Representative

EXECUTIVE SUMMARY

ASEAN PRIVATE INVESTMENT AND TRADE OPPORTUNITIES (PITO)

1. GRANTEE AND FUNDING

A. Grantee

The Government of the Kingdom of Thailand, which is serving as the current host country for the ASEAN-U.S. Dialogue, will be the signatory of the Project Agreement on behalf of ASEAN.

B. Coordinating Mechanisms

Project coordination will be provided by establishing a Project Secretariat in Bangkok linked by the Federation of Thai Industries (FTI) to trade and investment promotion representatives and activities in each of the ASEAN countries and supported by cooperative grant agreements with: the AUSBC/CTE in Washington D.C. for trade and investment promotion; a U.S.-based center for policy analysis and support; Technonet Asia in Singapore for technology commercialization issues; and OPIC for devising the ASEAN Growth Fund.

C. Amount and Sources

The Project will be supported by $13 million from the Agency for International Development (A.I.D.). To help further project sustainability, the ASEAN and U.S. private sector will be encouraged to provide cash or in-kind support either through grantee institutions or individual participation in project activities. The A.I.D. grant will be obligated incrementally on the following schedule:

FY'89	$ 2.0 million
FY'90	$ 2.5 million
FY'91	$ 2.5 million
FY'92	$ 3.0 million
FY'93	$ 3.0 million

2. PROJECT DESCRIPTION

A. Introduction

The ASEAN region is one of the most economically dynamic areas of the world. Most member countries are rapidly transforming themselves into centers of industrial production. In addition, most have already or are in the process of instituting market based and outward oriented economic policies, which experience has demonstrated is the most effective strategy for rapid economic growth.

Although the regional outlook is generally optimistic, a strong need for development assistance remains. Most importantly in this instance, the process of economic transformation to advanced industrial nations and private sector-led growth is still in its initial stages, especially in the three poorest ASEAN nations.

Numerous constraints remain in place and continue to emerge at each new stage of transition. Constraints include policy impediments, lack of capital, technological and management resources and a dearth of information on markets and venture opportunities. Apart from the removal of policy impediments, these constraints can be best addressed through private sector activities, especially commercial linkages between the private sectors of ASEAN member countries and those of more advanced industrial nations that possess the needed capital, technology, management expertise and markets.

Over the past fifteen years the commercial presence of the U.S. in the ASEAN region has been in relative decline. This decline is resulting in a potentially unstable situation in which ASEAN countries are becoming increasingly dependant on a few East Asian countries for capital and technology, and on the U.S. as a destination for their exports. The lack of greater U.S. private sector involvement in ASEAN economies also deprives ASEAN member countries of efficient and useful U.S. technologies and equipment, as well as needed investment.

By promoting a greater exchange of trade, capital and technology between the private sectors of the U.S. and ASEAN member countries, and supporting regional policy problem solving efforts, PITO is designed to further the process of private sector-led growth in ASEAN countries. By encouraging the U.S. private sector to become more involved in ASEAN, PITO should help ASEAN countries address some of the obstacles to continued rapid economic development as well as help the U.S improve its competitive position in this increasingly economically important region.

B. Project Goal and Purpose

The Project's goal is to contribute to sustained economic growth and development in the ASEAN region. The Project's purpose is to establish a structure and a mechanism to promote expanded private sector trade and investment between ASEAN and the U.S. The system will serve to establish networks to facilitate expanded market driven economic activities in ASEAN countries and productive and mutually beneficial ASEAN and U.S. trade and investment activity. To achieve its goal and purpose, the Project is focused on three major areas of private sector development.

Component One: Trade and Investment Promotion -- This component will establish a mechanism for promoting and facilitating expanded trade and investment in sectors of high development priority which are of mutual benefit to ASEAN and the United States.

Component Two: Policy Analysis/Problem Resolution -- Using a network of ASEAN and U.S. policy analysis groups, this component will identify policy constraints/problems, then conduct seminars/workshops for public and private sector policy makers to review effects of existing policies, consider alternatives, and devise means to introduce policies enhancing private sector participation in development.

Component Three: Capital Market Development -- This component provides assistance to the Overseas Private Investment Corporation (OPIC) in establishing an ASEAN Growth Fund to provide equity financing for U.S. - ASEAN ventures.

The End of Project Status includes the following achievements.

- An established institutional network between the United States and ASEAN to support trade and investment and policy analysis;
- Increased two way trade flows between the United States and ASEAN nations;
- Increased flows of direct investment from the United States to ASEAN nations;
- Approximately 30 ventures funded under the ASEAN Growth Fund;
- Diversification of ASEAN export markets with increased export flow to East Asia and an improved trade balance between ASEAN nations and the United States;
- A dramatically increased number of private sector inquiries on trade and investment opportunities between ASEAN and the United States;
- A demonstrable set of indicators of cooperative working relationships among U.S. agencies interested in trade and investment; and
- A series of concrete policy improvements flowing from the regional policy and problem solving studies undertaken cooperatively by regional institutes supported by the U.S.-based policy analysis center.

3. DESCRIPTION OF PITO PROJECT ACTIVITIES

A. Component One - Trade and Investment Promotion

This component focuses on promoting expanded trade between ASEAN and the United States and ASEAN exports to third markets, especially East Asia, and U.S. investment in sectors of high development priority in which the United States is competitive in equipment, systems and/or services. Emphasis will be placed on promoting small and medium sized business enterprises.

The comprehensive study of trade and investment activity in ASEAN countries performed during the Project's detailed design phase confirmed the premise underlying the preliminary project design: trade and investment promotion activities should be directed primarily at increasing the interest of the U.S. private sector in ASEAN. The design team concluded that little promotion is needed to encourage the interest of the ASEAN private sectors in trade and investment relationships with U.S. firms. Not only does a strong interest already exist, but most ASEAN business executives also express a strong preference for entering into business relationships with U.S. firms.

This component will promote activities in both the United States and ASEAN but will emphasize developing the interest of the U.S. private sector in ASEAN. It will establish an ASEAN-wide and U.S. network to provide information on trade and investment opportunities. The network will be comprised of PITO-funded inquiry centers in each country, and a U.S.-based inquiry and referral center (The AUSBC's Center for Technology Exchange (CTE)).

Promotion activities will focus on sectors or sub-sectors identified by ASEAN private and public sector officials, with U.S. private and public participation, as having high priority in the ASEAN members' development scheme and in which there is interest in, and the U.S. has the capacity for, trade, investment and technology commercialization. Based on detailed interviews conducted by the project design team in all ASEAN countries, and on a recent recommendation by the AUSBC, emphasis during the first year will be given to the agribusiness/natural resource based sector, machinery and machine tools and packaging industries including plastics and paper. It will also focus on a theme which cuts across sectors; increasing the access of ASEAN products to East Asian markets.

Sectors selected for future promotion activities will depend on analyses undertaken and on annual work plans developed by the Project Secretariat. The Project Steering Committee will review and approve each plan. Once specific products or services within sectors are identified, activities to stimulate the interest of U.S. firms in these opportunities will be put in action. These will generally consist of:

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- Identifying specific U.S. firms having the needed technology, interest and capacity to engage in exports or an international joint venture, i.e. licensing agreements, co-production, and equity investments;

- Identifying specific ASEAN firms with a demand for the technology and the interest and capacity to engage in an import transaction or joint venture arrangement with a U.S. firm;

- Arranging programs in the United States to present ASEAN opportunities to U.S firms. These efforts will focus on regions where there is a concentration of American businesses in the selected sector. The principal activities will be seminars providing concrete examples of business opportunities, with assistance, where possible, from ASEAN officials and private sector parties;

- Arranging trade and investment missions to ASEAN. These missions will normally take place after a promotional effort in the United States to further charge the interest of U.S. firms. The missions will focus on a sector or sub-sector and only serious and capable U.S. firms will be recruited. Because of its experience in this area, and its project involvement through the ASEAN Growth Fund, OPIC will be asked to assist in recruiting appropriate participants for the missions;

- Arranging one-on-one meetings between U.S. and ASEAN firms. The ASEAN-wide and U.S. information network will facilitate meetings between U.S. and ASEAN firms interested in working toward a business arrangement;

- Providing follow-up assistance to companies expressing serious intent. After initial meetings, both parties need to establish communication links to answer questions, describe more details, refine concepts, clarify technical, financial and market information, and cover a myriad of points to bring a transaction to closure. Because of limited experience, smaller firms may well need such "hand holding" services.

The information network, as diagrammed below, is designed to complement proposed trade and investment activities in the A.I.D. bilateral programs in Indonesia, the Philippines and Thailand. The AUSBC/ASEAN is responsible for hiring project-funded nationals or residents to serve as points of inquiry and be responsible for developing host country PITO activities.

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The U.S.-based center -- the U.S.-ASEAN Center for Technology Exchange (CTE) -- will direct trader and investor interest to ASEAN through promotional activities and serve as a single point of inquiry for the ASEAN side of the AUSBC seeking information on potential U.S. partners, applicable technologies and other trade and investment related information. CTE will also work closely with United States Government (USG) agencies already involved in trade and investment promotion as well as such organs in state governments. Much of the data and information to be provided by the U.S.-ASEAN network has already been or is in the process of being developed by other USG agencies, including the Department of Commerce, especially the U.S. and Foreign Commercial Service which has offices and staff in five of the six ASEAN countries, OPIC, Ex-Im Bank, the U.S. Trade and Development Program (TDP) and the Office of the United State Trade Representative (USTR).

PITO will supplement these sources with promotional material on opportunities in the ASEAN region, but most information used in this material will be generated from and accessed through referral networks developed in each country and from existing sources.

The promotional activities conducted in the United States not only will include conferences and seminars on particular sectoral and sub-sector opportunities, as identified in annual work plans, but also will be directed at increasing the private sector's awareness and knowledge of ASEAN. In all cases promotional efforts will direct U.S. traders and investors to the appropriate contacts in each ASEAN country. Promotional activities carried out within ASEAN will concentrate on introducing ASEAN private sectors to U.S.-based technology and product standards that might have either universal or industry specific applications. The assistance provided will include: advising on standards, quality control and materials testing; assisting ASEAN entrepreneurs to acquire U.S. commercial technologies on a mutually-beneficial basis; and carrying out seminars and workshops on technology issues and concerns.

B. Component Two - Policy Analysis/Problem Resolution

This component will support a network of ASEAN-based policy analysis groups, linked with a U.S.-based institution. The group will analyze concrete problems, identified by the PITO Steering Committee, constraining ASEAN-U.S. trade and investment. Component activities will engage business communities directly in formulating an agenda, through their representation on the PITO Steering Committee, and in promoting productive dialogue with U.S. and ASEAN governments on region-wide concerns.

A candidate list of topics emerged in discussions with ASEAN private and public sector representatives during project design. Among others, the issues listed below are of considerable interest

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to the public and private sectors throughout ASEAN and will be conducive to productive dialogue and resolution.

- What steps can be taken to improve the performance of the ASEAN Industrial Joint Venture (AIJV) program?

- What factors are inhibiting trade and investment in ASEAN by small and medium-sized U.S. firms (SMEs), and how can these constraints be reduced?

- What are the prospects of, and factors required, for an ASEAN commodity exchange, or an ASEAN-wide equity market?

- What conditions and policies underline the success or failure of export processing zones, and how best can successes be replicated throughout ASEAN?

- What is the relative degree of access of ASEAN-produced goods in North America (Canada and the U.S.A.), East Asia (Japan, South Korea, Taiwan and Hong Kong) and the European Community, and how can this access be expanded?

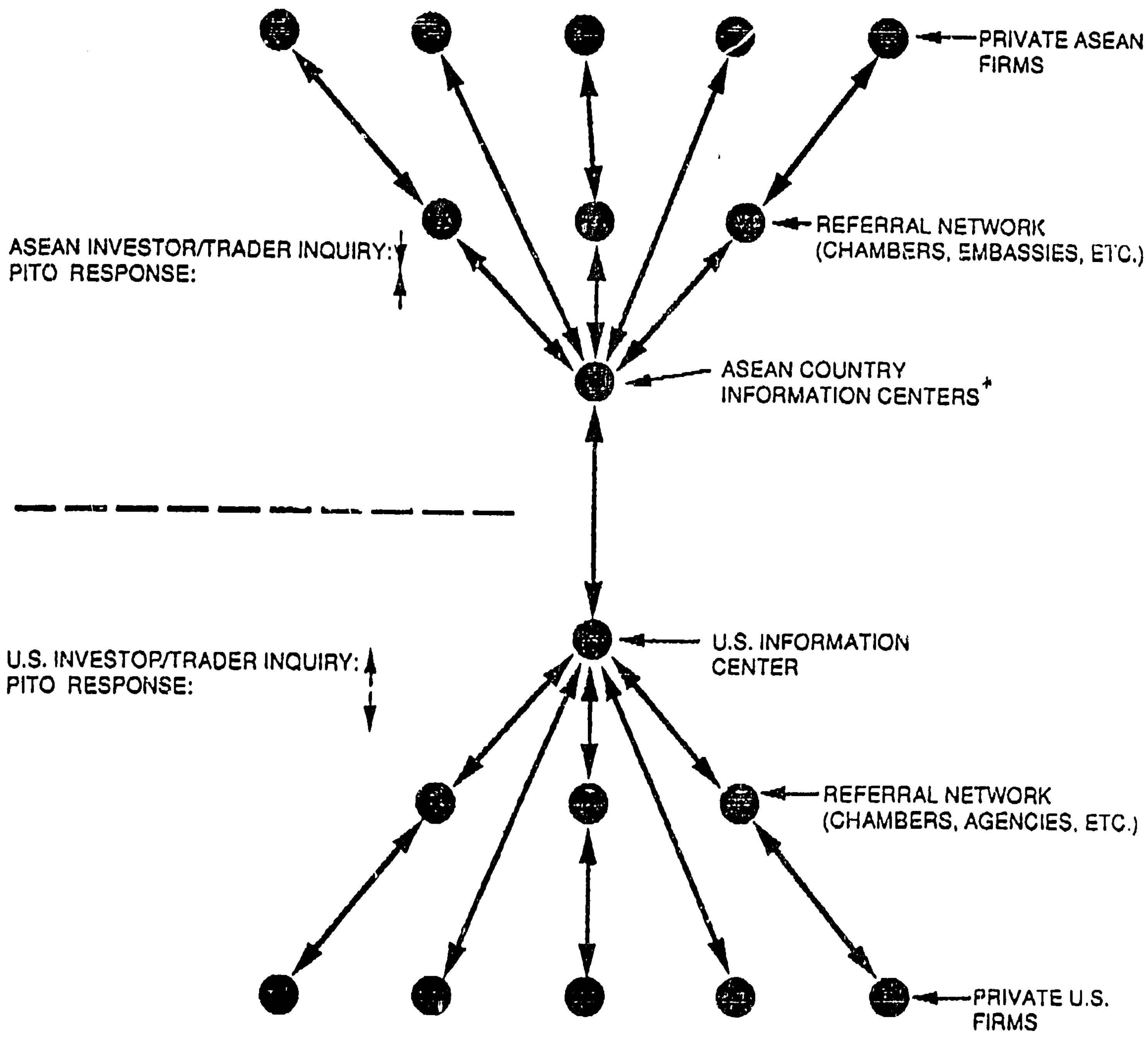
The policy analysis network will be open to all ASEAN institutions with international policy and analysis capacity. The network will include existing institutions such as: The Institute for Southeast Asia Studies (ISEAS) in Singapore; the Thailand Development Research Institute (TDRI) in Bangkok; the Center for Strategic and International Studies (CSIS) in Jakarta; the Economic Planning Unit (EPU) in Brunei; the Institute for Strategic and International Studies (ISIS) in Kuala Lumpur; and the Philippine Institute for Development Studies (PIDS) in Manila.

Each study undertaken by a team of two or more of the cooperating institutes will seek to provide concrete and realistic solutions to trade and investment policy constraints common to ASEAN. As illustrated in the examples discussed above, the perspective of a study might be United States or ASEAN or both. While it is not possible to predict precisely the number of studies undertaken, we currently estimate an average of four to five studies per year. Management, technical and logistics support will be provided by a U.S.-based policy analysis center.

The project does not seek merely to generate academic studies which are not used or which bear little practical relevance to the business community. To avoid this situation, each study will be accompanied by a pre-determined plan to disseminate information developed and to engage relevant decision-makers in productive dialogue. The Steering Committee will review each completed policy study and arrange for action-oriented discussions with private and public sector leaders to work towards resolution of policy issues identified.

PRIVATE INVESTMENT AND TRADE OPPORTUNITIES (PITO)

PROMOTION INFORMATION NETWORK



* INDIVIDUAL CENTERS IN EACH ASEAN MEMBER COUNTRY

C. Component Three - Capital Market Development

PITO-funded activities in this component are limited in scope, but are expected to have a catalytic effect leading toward an ASEAN Growth Fund of $75-100 million. The Project will fund technical assistance to the Overseas Private Investment Corporation (OPIC) in organizing the Fund. This includes a feasibility study on the likely demand for such a fund based on private sector opportunities in ASEAN as they relate to U.S. business capabilities and interests and setting the parameters for its operation.

The component will reinforce a close collaborative relationship between A.I.D. and OPIC in creating a financial mechanism to increase U.S. trade and investment in the region. The OPIC Fund is likely to concentrate on providing equity capital for joint ventures geared toward bringing U.S. commercial technologies to the ASEAN region. With a fund of up to $100 million, approximately 30 or more ventures will be established during the six-year life of project, or an average of five per year.

The Fund and the Project's trade and investment promotion component are mutually reinforcing. Promotion tasks will be enhanced once American firms are made aware of a possible source of equity funding for their prospective joint venture projects. The Fund, in turn, will be able to activate itself more quickly by having ready access to a stream of projects being identified and promoted through the trade and investment promotion component.

It should be made clear that the ASEAN Growth Fund is not a fund for portfolio investment. Its resources will only be made available as equity to new ventures or, in some cases, to business expansions involving an American partner either as an equity participant, a provider of technology or as a supplier of a major share of the equipment needs of a project.

6. PROJECT EXECUTION

A. Project Management

Management policy guidance and technical oversight of the Project will be provided by a Steering Committee comprised primarily of representatives of the private sector from each ASEAN country and the United States. It will be chaired by the President of the ASEAN section of the ASEAN-U.S. Business Council. Additional members will be the following;

- Six representatives of the ASEAN section of the ASEAN-U.S. Business Council representing one each from the six countries of ASEAN;

- Three representatives from the U.S. section of the ASEAN-US Business Council;

- One representative each from the COTT, COIME and COFAB Committees of the ASEAN Secretariat;

- ASEAN will be represented by the Director General, ASEAN Division of the Ministry of Foreign Affairs of Thailand. The United States will be represented by the A.I.D. Representative to ASEAN.

The Steering Committee will meet at least once annually and more frequently as required. Meeting locations may be rotated among ASEAN countries. The Steering Committee will approve the activities to be carried out by the Project in each succeeding year, including the detailed annual work plan and budget developed by the Project Secretariat. The Steering Committee will also review policy research studies and other Project activities and recommend appropriate actions.

The Project Secretariat will function as the Project manager. An Executive Director will be recruited and selected by the Steering Committee to direct the daily technical, management and administrative activities of the Project. Other specialists will include a Procurement Services Administrator, a Management Information Administrator and secretarial/administrative support staff. It is expected that all personnel will be ASEAN nationals or residents. The functional activities of the Secretariat will include:

- Recommending Project activities to be carried out on an annual basis;

- Executing approved policies and directives of the Steering Committee;

- Developing budgets and implementation plans for various Project activities;

- Overseeing awards and monitoring contracts/grants;

- Maintaining Project records; and

- Preparing quarterly and annual Project reports and providing general Project support services.

B. Project Implementation

Implementation of the Project components will be accomplished through cooperative grants to four organizations. They may provide sub-grants to hire specialized expertise as needed to carry out project objectives.

1. The ASEAN section of the AUSBC, funded under a grant to the Federation of Thai Industries (FTI), will manage the trade and investment promotion efforts within ASEAN. These funds will be used to support AUSBC/ASEAN efforts in carrying out ASEAN-based trade and investment promotion activities. Project funds will be used to hire trade and investment promotion officers for the Project where necessary. The FTI will function similar to its sister organization in the U.S. -- CTE -- and the two entities will coordinate their efforts to enhance the results attained by the Project.

2. The ASEAN-U.S. Business Council (AUSBC) with its affiliated Center for Technology Exchange (CTE) will manage the trade and investment promotion activities in the United States. The functions of the AUSBC/CTE will include:

   - o Serving as the U.S. focal point for promoting trade and investment in ASEAN by the U.S. business community;
   - o Providing support and introducing policy issues of concern to U.S. business through AUSBC's participation in the PITO Steering Committee;
   - o Promoting and making the U.S. business community aware of attractive industry trade and investment opportunities available in ASEAN;
   - o Answering inquiries by U.S. business executives directed to it by business associations, state investment promotion entities and chambers of commerce;
   - o Developing a database of U.S. firms with an expressed interest in ASEAN; and,

3. A U.S.-based policy analysis center will manage the policy analysis/problem resolution component. The center's functions will include:

   - o Implementing the policy analysis/problem solving agenda approved by the Steering Committee;
   - o Awarding and administering contracts to ASEAN analysis institutes;
   - o Assisting ASEAN centers obtain technical specialists when required;

- o Monitoring performance, editing and scheduling the studies undertaken by the institutes; and

- o Assuring a quality product is released.

4. An ASEAN-based organization. Technonet-Asia, serving as the Project's technology resource center, will provide technical expertise and organize seminars and other programs on technology commercialization issues of ASEAN-wide interest. The principal functions will include:

   - o Identifying and obtaining the services of individuals and organizations with expertise in standards and quality assurance, as well as individuals from various technology disciplines targeted for commercialization;

   - o Organizing and conducting seminars on a range of technology topics of ASEAN-wide interest;

   - o Referring investors in search of technology partners to the AUSBC; and

   - o Coordinating with AUSBC in developing topics and conducting seminars of interest to the private sector.

In addition, project funds will be made available to OPIC to hire technical expertise related to establishing the ASEAN Growth Fund. All grants will be provided for a two year period initially. This will enable the Project, through the advice of its Steering Committee, to change grantees in response to prevailing requirements of grantee performance.

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