



PA-1136-730

10/1/88

International Science and Technology Institute, Inc.

LAC/PS

**CDSS
REVIEWS**

**Prepared for:
Agency for International Development
LAC/PS
Contract No. LAC-0619-C-00-7038
(Task No. 10)**

**Prepared by:
Robert Bond**

**International Science and Technology Institute, Inc.
Washington, D. C.**

March - May 1988

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International Science and Technology Institute, Inc.

Headquarters: 1129 20th Street, N.W., Washington, D.C. 20036
Tel: (202) 785-2831 • Telex: 212745 • Fax: (202) 223-3865

M E M O R A N D U M

To: Jim Suma
Fm: Robert Bond
Dt: March 4, 1988
Re: RDO/C Action Plan Review

1. The key issue overall is the sharp cut-back in the funding level for RDO/C, from a projected \$48 million in last year's AAP to \$22 million in FY 89/90. The Mission argues for an additional \$15 million (\$37 million total) for each of the fiscal years in 1989 and 1990. Without this level of funding, the Mission states:

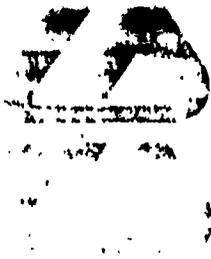
"We will have to completely eliminate the goal of economic stabilization, dilute our policy dialogue targets, terminate vital infrastructure initiatives and sharply curtail activities in support of the private sector."

2. The Mission claims impressive accomplishments for its private sector program activities, including:

- ** private investment as a percentage of GDP increasing from 15.2% in 1986 to 21.7% in 1987
- ** \$5 million in credit to over 450 small enterprises
- ** 3600 jobs created in FY 87
- ** creation of ECIPS, an indigenous investment promotion center

3. Given reduced funding levels, the Mission will conduct a strategy reassessment to reduce the scope of the private sector program. Page 8 lists the following strategic questions which would have to be addressed:

Emphasize primarily public or private approaches?
Focus on export or domestic markets?
Strive for short-term or long-term results?
Target traditional or non-traditional sub-sectors?



Provide technical assistance or direct interventions?
Highlight institution building or service delivery?
Stress foreign or domestic investment?
Emphasize manufacturing, tourism, agriculture or other
sector(s)?

4. Attached is one issue, which relates to four new projects proposed for 1989/90.

Issue: Given the Mission's intention to reassess its private sector strategy (scheduled for spring 1989), should four new private sector projects in the Action Plan be approved?

Discussion: The Mission proposes four new private sector projects:

ECIPS Investment Development Assistance - \$2 million
Accelerated Business Formation and Export Development - \$1.8 million
Integrated Credit Project - \$3 million
Public Management and Policy Planning Project (Amendment) - \$3 million new funds

Yet the Mission acknowledges a serious need to review its private sector strategy to analyze key constraints to private sector development. Consequently, the four new proposed projects may not be consistent with a thorough going assessment and a new strategy.

Possible Actions:

Accelerate the planned private sector assessment/strategy design process.
Defer decision on new private sector projects.

MEMORANDUM

To: Aaron Williams, Steve Ryner, Jim Suma, Tim Seims

Fm: Robert Bond, ISTI

Re: ROCAP CDSS

Attached is an assessment of ROCAP's RDSS, focussing on the agreed upon areas: (1) overall consistency of strategy statement; (2) private sector issues; (3) project issues relevant to the private sector; and (4) MBO/MIS system requirements. In addition, a chart on issues and proposed activities related to the private sector is attached.

A. Overall Consistency of RDSS Strategy

- ** An overall good assessment of the constraints to regional economic and social development issues.
- ** An interesting section analyzing the problems facing regional entrepreneurs in the industrial and trade sector, from a businessman's perspective (pps. 21-25). Worth a favorable comment.
- ** The strategy defined by ROCAP is realistic in three ways:
 1. It takes account of severe resource constraints, both in terms of programmed levels of funding and of Direct Hire (DH) staff.
 2. It takes account of ROCAP's comparative advantage in dealing with regional problems. These include: (a) development constraints common to the region; (b) require regional solutions (pest control); (c) are cost effective in terms on non-duplicating limited resources; and (d) are experimental, which may be cost-effective at a regional rather than bilateral level. (pps. 34-38).

3. The strategy explicitly recognizes that there are development issues better left to the bilateral A.I.D. missions in the region (pps. 38-41).

** This is a conservative strategy, reflecting USAID/W concerns about the relevance of a regional mission. Even Annex I proposing how to use additional resources is tentative, indicating a belief that new resources will not be forthcoming.

B. Private Sector Issues

** ROCAP's strategy attaches highest priority to basic structural reforms leading to rapid and sustained economic growth (pps 41-54). And it correctly points out that economic development must come not from external financing flows but from a return of flight capital and generation of internal savings and investment. Nevertheless, the linkage between this concept and proposed ROCAP interventions is weak, especially given a reliance on traditional ROCAP public sector institutions.

** One of the key constraints to economic reactivation identified in the RDSS -- a lack of equity financing/venture capital -- is not addressed in the proposed activities. This may be because of the cost and/or high risk involved in this area.

** It is clear that ROCAP has consulted broadly with the private sector in developing its RDSS. Examples include the ADL strategy document (1985), the capital markets study (1987), and the ISTI industrial sector review (1987). This is worthy of commendation.

** ROCAP is handicapped in developing an effective private sector-oriented strategy by the lack of an officer dedicated exclusively to this function, including liaison with the bilateral mission private sector offices.

C. Project Issues - Private Sector

- ** It is difficult to ascertain from the document exactly what is proposed in the form of future project interventions by ROCAP in support of the private sector initiative. These appear to be as follows: (1) A Government/Businessmens Roundtable to resolve practical issues related to intra- and extra-regional trade; (2) A technology transfer/productivity improvement project at ICAITI and/or INCAE; (3) An Export Information Center; and (4) Possible projects in the agricultural sector, seemingly public sector oriented.
- ** The strategy document does not identify the mix between a focus on non-traditional exports and traditional exports (e.g. coffee and cacao).
- ** It is not clear what ROCAP proposes to do to assist SME's in the generation of additional exports. Nor is it clear what comparative advantage ROCAP has in this area, unless it is as a subset of technology transfer.
- ** There is a decided lack of focus on private sector related indicators in the targets established.
- ** Despite consultations, should ROCAP focus more on its bilateral mission support activities?

D. MBO/MIS

- ** No basis to evaluate previous benchmarks, since no data provided.
- ** Need to provide uniform economic data to monitor results.
- ** Statistical support for strategy is weak.

ROCAP Regional Development Strategy Statement

Private Sector Objectives, Targets, Activities

OBJECTIVE	TARGETS	ACTIVITIES	COMMENTS
1. Promote Regional Economic Trade	<ul style="list-style-type: none"> ** Increase investment as percentage of GDP from 10.7% to 14% ** Increase savings as percentage of GDP from 14.5% to 17% ** Increase total exports from \$3.5 billion to \$3.9 billion ** Improve infrastructure - maintain electrical energy reserve capacity at 15% 	<p>Policy dialogue/public-private forum to explore practical solutions to investment, savings, credit, trade problems, infrastructure. Fedepriacap, SIECA, and INCAE as possible implementing agencies.</p>	<p>Business/government roundtable an important and needed practical step, takes advantage of ROCAP regional focus. SIECA and other institutions supported by ROCAP will require institutional redefinition to interface effectively with the private sector. Benchmarks should focus on <u>private</u> investment and savings. No data in paper to suggest that targeted increases are achievable/realistic.</p>
2. Increase Agricultural Production	<ul style="list-style-type: none"> ** Increase by 10% availability of locally produced food to low income farm households. ** Increase area planted to forest tree crops by 37,500 has. 	<p><u>Policy reform</u>-working with and through agricultural ministries. Also CORECA, INCAE, and INCAP. <u>Training</u>-graduate study <u>Technology transfer</u>-food crop network through IICA, CATIE, IARC. Accelerated methods to improve technology transfer.</p>	<p>Almost no <u>direct</u> focus on the private sector; rather, concentration is on public sector institutes. No data available to evaluate achievability of benchmarks.</p>
3. Promote Exports	<ul style="list-style-type: none"> ** Improve transportation mechanisms. ** Increase intra- and extra-regional trade of SMEs by \$50 million. ** Increase cacao yields by 50% on 25,000 has. ** Increase coffee yields by 100% on 273,000 has. ** Increase value of non-traditional exports by \$65 million. 	<p><u>Transportation</u>-institutional strengthening, public/private dialogue to overcome difficulties <u>Export marketing information center</u> (ICAITI/INCAE) with focus on SMEs <u>Credit</u>-through CABRI, public and private; LAAD for agribusiness <u>Feasibility Studies</u>-focus on coffee and cacao <u>Policy Reform</u>-through ministries of agriculture.</p>	<p>Unclear exactly what is being proposed, beyond a regional export information center (A good idea). No criteria for focussing on coffee and cacao. No analysis of how/why ROCAP will support increases in non-traditional exports. No basis to evaluate benchmarks.</p>

Issue: Mobilization of Domestic Resources: Should the CDSS be more clearly focused on stimulating savings and investment?

Background: The CDSS does an excellent job of showing that growth has stagnated due to the lack of investment in new capacity and productivity, particularly in exports and agriculture. It also shows that internal policies have discouraged investment or contributed to a misallocation of resources. Virtually no financing is available from external sources. The implication is that problems of the tremendous magnitude described in the CDSS can only be addressed through large-scale mobilization of domestic resources. This, in turn, require an appropriate policy framework. While emphasizing policy and structural reforms, the CDSS does not tend to focus on the central economic concept of savings and investment. Furthermore, the CDSS does not include improved levels of savings and investment (as a percentage of GDP) as indicators of performance.

Possible Actions:

- o Request the Mission to include savings and investment as key targets, as reflected in their performance indicators.
- o Request the Mission to prepare a memorandum showing how their diverse policy and structural reform efforts are based on a coherent emphasis at mobilizing domestic resources in appropriate activities.

Issue: Fragmentation vs. Concentration of Resources: Is the level of A.I.D. resources dedicated to each area of concern sufficient to ensure "constructive engagement"?

Background: The CDSS does an excellent job illustrating the huge magnitude of problems facing Peru and the very limited A.I.D. resources relative to the problem. Thus, the strategy of "constructive engagement" is aimed at providing sufficient assistance to convince Peru to deal positively with the U.S. The Mission expects significant development impacts, largely from important policy and structural adjustments. However, the resources allocated to any one area is by necessity very limited. Do these levels represent the minimum scale required to meet the objective? Would it be more effective to focus on fewer objectives, even if some are unattended, to at least ensure that these few objectives can be dealt with more seriously?

Actions: Ask the Mission to explain why it is confident that the resources allocated to each objective represents an adequate minimum level.

ISSUE: Short-term Economic Stabilization: Given the significant deterioration in key economic indicators in 1987, and questionable government commitment to this objective, should the Plan dedicate more resources in support of the private sector?

BACKGROUND: The Plan states that GDP grew at 8% in 1987, but funded by significant increases in public sector investment. This lead to: a current account deficit of 7% of GDP; a 60% drop in Central Bank reserves; significant depreciation of the exchange rate (\$1:DR33 to \$1:DR. 3.8); and sharply higher inflation. The Plan is ambiguous regarding GODR policies in support of the private sector. Thus, the linkage between policy dialogue and private sector support is unclear.

POSSIBLE ACTIONS:

- Request the Mission to submit a supplement to the Action Plan identifying how the Mission's policy dialogue efforts will support private sector initiatives.
- Request the Mission to conduct a private sector assessment to take account of new government economic policies.
- Consider a restoration of ESF funds for policy dialogue.

ISSUE: Benchmark indicators: Employment

BACKGROUND: The Plan does not provide data on un- and under-employment figures. Rather, estimates of job creation are offered, attributed to A.I.D. without methodological justification.

POSSIBLE ACTIONS:

- Require Mission to supply employment figures.
- Justify claims at new job creation.
- Include job creation targets in new projects.