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# PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

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A Report to the  
Advisory Committee on  
Private Enterprise in Foreign Aid



## TABLE OF CONTENTS

	<u>Page</u>
FOREWORD	
INTRODUCTION	5
I. DETAILED REPORT ON FOUR COUNTRIES	8
A. Brazil	8
B. Korea	12
C. Thailand	15
D. Turkey	19
II. SUMMARY REPORT ON OTHER COUNTRIES	21
A. Latin America	21
B. Far East	26
C. Near East and South Asia	30
D. Africa	34
APPENDIX I. SUMMARY OF ADVISORY COMMITTEE RECOMMENDATIONS AND U.S. GOVERNMENT RESPONSES	

## FOREWORD

Sixteen months ago the Advisory Committee on Private Enterprise in Foreign Aid<sup>1/</sup> urged upon the President a variety of methods for harnessing the vast non-governmental sector of the United States to the task of accelerating economic growth in the less developed countries. Fearful that "foreign aid would be doomed to become a costly palliative of indefinite duration" without greatly expanded private efforts - both among aid donors and aid recipients - the Committee's Report outlined 33 recommendations for vigorous action by the United States Government and by private American institutions.

The Advisory Committee called upon the Agency for International Development itself to expand its own activities. As Chairman Arthur K. Watson phrased it, A. I. D. ought to "put increasing stress on its role as catalyst and energizer for private effort," informing, encouraging and assisting private institutions wherever possible.

To fulfill these ends, with which A. I. D. has been in strong agreement, much has been accomplished within 16 months. A. I. D.'s early attempts to carry out these recommendations were described in a report to the Advisory Committee in February 1966.

The present report is intended to show how much further A. I. D.'s role as catalyst and energizer for private effort has developed since February and what some of the resulting successes and problems have been.

A deep concern for private initiative - both as an end and as a means of our foreign assistance programs - has been expressed on many occasions by the United States Congress. In passing the Foreign Assistance Act of 1966, the Congress took five major steps to strengthen the role of private institutions in development.

First, Congress stressed the need to utilize local democratic institutions in the development of a country. In Title IX of Chapter 2 of the Act (Section 281), it declared:

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<sup>1/</sup> The Advisory Committee on Private Enterprise in Foreign Aid was authorized by an amendment to the Foreign Assistance Act of 1963, Section 601(c), introduced by Senator Jacob K. Javits and co-sponsored by Senators Ernest Gruening, Hubert H. Humphrey and Wayne A. Morse. It is variously referred to in this report as the "Advisory Committee" and the "Watson Committee."

In carrying out programs authorized in this chapter, emphasis shall be placed on assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.

Second, the Act directs the President to--

establish an effective system for obtaining adequate information with respect to the activities of, and opportunities for, nongovernmental participation in the development process, and for utilizing such information in the planning, direction, and execution of programs carried out under this Act, and in the coordination of such programs with the ever-increasing developmental activities of nongovernmental United States institutions. (Section 601(b)(2))

Third, in authorizing both the Development Loan Fund and the Alliance for Progress, Congress added several conditions which it wishes the President to take into account in extending aid to developing countries. Two of them are of special significance:

--The degree to which the recipient country is making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise;

--The degree to which the recipient country is taking steps to improve its climate for private investment.

Fourth, in countries where direct private investment is not "readily encouraged," Congress authorized the use of private American firms to operate aid projects or programs on a cost-plus incentive fee contract basis, with the transfer of equity ownership to private investors at the earliest feasible time. (Section 601(b)(8))

Fifth, Congress established an International Private Investment Advisory Council on Foreign Aid, to consist of private American business specialists. This group has been designated to recommend to A. I. D. new ways in which private enterprise can assist in foreign development and to serve as a liaison group with specific private enterprises in such activities. (Section 601(c))

Even as the Congress in the autumn of 1966 called for new actions to enlist greater private initiative in the process of foreign economic development, A. I. D. had undertaken an energetic program of new private enterprise activities, as this report will illustrate in detail. Several other factors influenced that program.

A White House Conference on International Cooperation, in which leading private citizens joined with government officials to formulate new policy proposals, was held in Washington in late autumn of 1965. Its Committee on Technical Cooperation and Investment reaffirmed many of the Watson Committee recommendations and in some instances extended them.

The President, meanwhile, has promised vigorous action along lines of the Watson Committee and White House Conference reports. On February 1, 1966, in his foreign aid message, President Johnson declared:

We will expand our efforts to encourage private initiative and enterprise in the developing countries. . . . We will review frankly and constructively with cooperating countries the obstacles to domestic and foreign private investment. . . .

The U.S. Government can do only a small part of the job of helping and encouraging businessmen abroad. We must rely more and more on the great reservoirs of knowledge and experience in our business and professional communities. . . .

To search for constructive ways to enlist private initiative, the President's General Advisory Committee on Foreign Economic Assistance Programs established a Subcommittee on the Private Sector in March, 1966. The subcommittee has studied, among other activities, the work of A. I. D. in implementing the Watson Committee recommendations.

This growing emphasis on private sector activity was given further substance by A. I. D. Administrator Bell in April 1966, when he issued instructions to all A. I. D. missions about preparation of their forthcoming annual program submissions. Administrator Bell called the attention of A. I. D. 's Mission Directors to the President's remarks about private enterprise and then added:

Private sector development is also of direct relevance to the three fields - food and agriculture, education and health - which the President stressed in his special message to the Congress. For example, the development of the agricultural sector, the production and distribution of nutrients and food supplements, and the introduction of training programs to fill skilled manpower requirements can be prime targets for the indigenous private sector.

Additionally, the growth of the private sector in many developing countries is necessary if these countries are to decrease their reliance on concessional sources of financing. Domestic savings rates and successful growth performance can be enhanced by policies designed to engage greater participation of a large number of dispersed private decision makers.

Clearly, then, there is a broad policy consensus among President, Congress, and private citizens that the United States foreign aid program should encourage many forms of private participation in international development.

While this report is intended to summarize recent A. I. D. operations in carrying out recommendations of the Watson Committee through July 31, 1966, it also serves to reflect the pervasive way in which private enterprise considerations have come to help shape our entire foreign assistance program.

## INTRODUCTION

This is a report of the many and diverse activities which the Agency for International Development has undertaken in 1966 to encourage private enterprise - both foreign and local - to play a larger role in international development.

In a narrow sense, this is a report of specific ways in which A.I. D. has sought to carry out the 33 recommendations made in 1965 by the Advisory Committee on Private Enterprise in Foreign Aid. Those recommendations and the U.S. Government's responses to them are set out in Appendix I.

More broadly, the central theme of this report is what A.I. D. has been doing to understand and improve the "investment climate" in a number of less developed countries which we have been assisting. This focus has been chosen deliberately.

The "investment climate" of a country, we believe, is a major key to the probability of its successful development. For the relative attractiveness of its "climate" largely determines the willingness of foreign private sources of capital and technical assistance to make voluntary commitments to it. Moreover, any country which can attract private help from abroad is likely to place a high premium upon indigenous private activity, whether it is economic, social or political. A pluralistic society will try to enlist a plurality of institutions - private and public, foreign and domestic - in its own development. Private activity, in other words, becomes an end as well as a means. "Investment climate," if that concept is taken broadly, directs attention both to the conditions of a nation's development and to the probable consequences of that development.

The problem of stimulating private participation in a less developed economy is seen by A. I. D. as having two quite different facets. Each has suggested a different program of action.

From the viewpoint of the private American investor, for example, every less developed nation has possessed its own unique "investment climate" which has encouraged or deterred investment activity according to each businessman's judgment of what the risk and prospects were likely to be. To foster private activity, A.I. D. has offered promotional programs such as feasibility studies, risk guarantees, and loans on favorable terms

to the American businessman. A. I. D., in short, has recognized the multiplicity of obstacles to private investment in many countries by trying to minimize the risks run by any American businessman beset by those obstacles.

In recent years, as A. I. D. has stressed the necessity of encouraging local private participation in a country's development, aggressive attempts have been made to eliminate these very obstacles to investment, instead of accepting them as necessary evils. Conditions favorable to local private investment have been assiduously cultivated.<sup>1/</sup> Local government structures, laws and practices have been assessed for their effect upon private business activity - and encouraged to change when that seemed desirable. Credit, technical and educational institutions have been created and assisted as local centers of private initiative. The entrepreneurial spirit has been nurtured in many ways.

Across the whole gamut of a country's institutions, manpower and physical resources, A. I. D. has sought to devise techniques to energize local initiative, serving as a catalyst to local development instead of as a surrogate for it.

While, therefore, this report focuses upon the problem of "investment climate" in less developed countries, it is concerned not only in the narrow sense with what attracts or deters the American private investor, but more broadly with the general conditions which help mobilize all kinds of private initiative in the work of development.

We believe this was the central concern of the Advisory Committee when it singled out the investment climate problem for the first recommendation in its 1965 report:

We recommend that AID select a number of key aid-receiving countries for intensive study of factors which may improve the investment climate; that such studies enlist the help and advice of the appropriate business communities concerned; that an explicit program be developed for the improvement of the climate in those countries studied; and that, wherever the foreign aid program offers some effective opportunity for the improvement of such climate, the opportunity be used to the full.

<sup>1/</sup> Much the same position was taken recently by the Research and Policy Committee of the Committee for Economic Development in its report, How Low Income Countries Can Advance Their Own Growth, New York: September 1966, pp 23-29.

Concretely, A.I.D. has completed four investment climate studies - for Brazil, Korea, Thailand and Turkey - which are reported on here. Each serves as a brief case study of some of the combinations and permutations of factors which can help or hinder private initiative in development. Each provides an opportunity to discuss the diversity of A.I.D. programs which actually have increased private participation.

Similar A.I.D. activities are discussed in less detail below for many additional countries in each of four regions - Latin America, the Far East, the Near East and South Asia, and Africa.

Finally, the Appendix to this report contains a summary of the Advisory Committee's recommendations and of the policies developed to carry them out during 1966.

## I. THE INVESTMENT CLIMATE IN FOUR COUNTRIES

### A. Brazil

Brazil exemplifies the complicated problems to be solved by less developed countries before their climates for private investment are truly healthy. In addition to the usual problems besetting a developing economy, Brazil is emerging from a period of political and economic confusion. And it has an unusual built-in problem, the existence of two economically disparate areas: a relatively prosperous and sophisticated Southeast and a retarded Northeast.

Political instability and uncontrolled inflation in recent years resulted in a flight of capital, the drying up of savings, and the virtual cessation of foreign private investment. The net inflow of private capital in the late 1950's ran at the rate of \$300 million a year. In 1964, it was down to \$28 million; in 1965 it was up to \$42 million. With the abrupt reversal following the 1964 revolution, it is estimated that net inflow of private capital will be about \$70 million in 1966, and substantially higher thereafter.

The present government of Brazil recognizes that a substantial increase is needed in private domestic savings and investment as well as in foreign private investment, and has inaugurated a strong economic self-help program.

Although price stability has not yet been achieved, the government has made significant progress in eliminating many of the principal causal factors responsible for inflation. The budget deficit has been drastically reduced and the foreign exchange and balance of payments positions are relatively sound. Exports are up and the rising trend in GNP has been resumed. And the first six months of 1966 witnessed the beginning of substantial results from earlier programs. These include establishment of a central bank, enactment of capital market legislation to encourage private investment in industrial enterprise, modernization of the tax structure, and orientation away from state-dominated enterprise, such as in the fields of minerals and petrochemicals. More than \$125 million, both foreign private capital and joint ventures, reportedly are about to be invested in new facilities in the mineral and petrochemical industries.

More recently, regulations governing the remittance of profits on foreign private capital have been liberalized to encourage capital inflow and an Investment Guaranty Agreement with the United States has been implemented.

To encourage private participation in national economic planning, the Brazilian government has chosen ten representatives of free enterprise for an advisory commission on industrial and commercial policy. The commission will present data and studies for the government's use in formulating policies on industrial development, the expansion of domestic and foreign commerce, and procedural simplification. It will also examine measures aimed at increasing productivity and will advise on laws, decrees, and administrative acts which might directly or indirectly affect industry and commerce.

A U.S. Mission report, made as a result of Recommendation One of the Watson Report, identifies a number of impediments to private investment, but is only a first step toward a fuller study of the whole investment climate problem. For this first report, the Mission obtained the views of the American Chambers of Commerce of Rio and Sao Paulo.

A.I.D. has established a permanent high level, follow-up committee, as well as what is hoped will be a long-term relationship with a special sub-committee appointed for this purpose by the Council for Latin America.

The Mission is seeking the advice of the local business community, both Brazilian and American, in formulating its program. That the Country Team is well aware of the private investment problem is evidenced by the following excerpt from a recent communication from Rio:

A primary objective of the U.S. Embassy and USAID/Brazil has been to help to restore a favorable investment climate in the country in order that private external resources sufficient to support a minimum growth target of 6 percent per year could be attracted; as the "Watson Report" pointed out, aid must eventually be replaced by investments from the private sector - both foreign and domestic.

A.I.D. has helped the reviving economy by extending to Brazil, in February 1966, a program loan of \$150 million for essential imports of raw materials, spare parts and components. All of the loan-financed imports must be obtained from the United States. Most of them are for the private sector.

The development of intermediate credit institutions to provide working capital and financing for private enterprise has been assisted by program-loan generated counterpart funds and PL480 local currency. So far, approximately \$145 million has been so channeled.

In January 1966, A.I. D. agreed to lend Brazil \$11 million in conjunction with an Inter-American Development Bank loan of \$5 million and an A.I. D. authorized grant of \$540,000 in local currency, together with technical assistance, in order to make sub-loans to private as well as to public borrowers. The objective was to underwrite a Brazilian organization in conducting resource surveys and feasibility studies of proposed specific investments.

By making available local currency loans as well as technical assistance, A.I. D. had made it possible for intermediate credit institutions to make 3,273 sub-loans to the private industrial sector for capital needs - the equivalent of approximately \$86 million - by the end of 1965.

There has been an active technical assistance program, with U.S. specialists advising the government on problems of the capital market and on the organization of intermediate credit institutions, the National Housing Bank, and privately-owned savings and loan associations. The U.S. Securities and Exchange Commission and the New York Stock Exchange recently completed a stock market study, followed by the work of two U.S. technicians who helped Brazil draft regulations to implement the new law governing capital markets. A.I. D. also is assisting the Central Bank in its efforts to channel private savings into productive investments and is financing training courses for officials of intermediate credit institutions.

A.I. D. is continuing to make substantial sums available to vocational training programs supported by both government and private organizations in Brazil. At the university level, A.I. D. contracts are assisting the expansion and strengthening of education in such vital development fields as agricultural sciences, engineering, chemistry and economics. Brazilian resources have assumed the support of schools of business administration at three Brazilian institutions of higher learning, originally established through the A.I. D. technical assistance program, and are continuing to train potential business managers.

Thirty centers have been established in 18 states with A.I. D. assistance to improve productivity in Brazilian private industry. Under A.I. D. contract, the Council for International Progress in Management (CIPM) is currently providing the Northeast with the services of production specialists in basic consumer goods industries.

As stated, the disparity between the Rio - Sao Paulo area and the Northeast poses special problems. The former area is industrially well developed and evidently an attractive area for investment. Among more

than 800 U.S. companies doing business in Brazil, at least 300 have substantial investments. It is estimated that American businesses have invested \$1.25 billion in Brazil. An example of confidence in the long-range viability of southern Brazil is the recent announcement of a new \$26 million Kraft pulp and paper mill financed by the International Finance Corporation, the IDB, ADELA, the Bank of America, a Brazilian Development Bank (BNDE) and local private investors.

By contrast, the Northeast is retarded and underdeveloped. Its 25 million people live mostly off the land and have an average per capita annual income of about \$100. A. I. D. has devoted and will continue to devote substantial assistance in support of Brazil's own efforts to improve agricultural productivity there. Direct measures to stimulate capital accumulation and utilization in the Northeast have been emphasized. In addition to technical assistance given to help develop efficient financial institutions in Brazil as a whole, there is a well-defined, A. I. D. -assisted Brazilian program specifically for the Northeast. (Brazil, besides its newly created central bank, has a national bank, several regional banks and 15 state development banks.)

SUDENE, the Governmental regional organization for the Northeast, has received strong support from A. I. D. It coordinates federal plans and programs for the development of the area, acts as an intermediate credit institution, and tries to attract foreign investment.

Another key promotional institution, supported by the Brazilian Confederation of Industry, is FUNDINOR. Through FUNDINOR, A. I. D. assists in the making of feasibility studies and market and other investment analyses, in giving industrial promotion and investors' services, and in creating industrial parks.

In June 1966, the University of Ceara in Fortaleza hosted a Confederation of Industry meeting, attended by A. I. D. representatives and some 350 Brazilian businessmen, of whom more than 150 were potential investors from outside the area. One important objective was to persuade holders of so-called Article 18-34 funds to invest them. Under this law, corporations may deposit 50 percent of their corporate income tax, which will be refunded to them if they match it and invest the whole in the Northeast. It is estimated that by the end of 1966 there will be approximately 350 billion cruzeiros (about \$160 million) in these funds available. Sponsors of the meeting are optimistic about attracting new industries to the region, but it is too early to evaluate fully the meeting's effect.

## B. Korea

Today, the Korean economic situation is highly promising. The Government has been carrying out a successful price stabilization program since 1964, designed to keep annual price increases below 10 percent without discouraging economic growth. The 1965 GNP increased by 15 percent over 1964, while wholesale prices increased by only 7 percent. Price stability and interest rate reform (raising the rate banks are permitted to pay on deposits) have combined to cause a 74 percent increase in savings accounts, from \$76 million in December 1964 to \$167 million in December 1965. These increased savings represent a substantially increased capital availability for the Korean private sector.

By a system of special export credit terms and tax exemption of export earnings, the Korean Government has increased exports from \$32.8 million in 1960 to \$180 million in 1965 and \$250 million in 1966. An Export Promotion Subcommittee, with representatives from both government and private business has been established.

In December 1965, Japan agreed, as part of the normalization of relations, to make \$800 million in technical and capital assistance available to Korea over the next ten years. This includes \$300 million in grants, \$200 million in loans, and \$300 million in guaranteed private credits.

To overcome some negative aspects of the investment climate, the following must be defined: the role of government in relation to private enterprise; the operation of government and semi-governmental agencies (such as the Medium Industry Bank and the Korean Reconstruction Bank) which compete with the private sector; bureaucratic impediments (a Korean working group has been established to discover and alleviate this type of problem); and undesirable features of the Foreign Investment Encouragement Act, although the July 1966 amendment is in some respects more liberal than the former version.

A preliminary study based on Recommendation One of the Watson Committee Report has identified the need for a number of further A. I. D. studies to analyze impediments and to develop a body of knowledge for formulating appropriate recommendations and action programs. Some of these studies have already been completed and others are underway.

The following is a partial list:

Completed: participation of businessmen in government; evaluation of business education, management and vocational training; survey of labor practices and manpower availability; export and domestic marketing practices - credit instruments (preliminary); current foreign investment in Korea; Korean attitudes toward foreign investment.

Underway or contemplated: survey of existing financial institutions; applicable business laws; investment promotion; procedural flow-chart of foreign investments.

A survey of American businessmen in Korea, made as part of the investment climate study, and an A. I. D. contract study of 100 American concerns in the U. S. which do business with Korea, reveal a widespread feeling that the Korean investment climate is improving and that economic prospects are much better.

At the suggestion of A. I. D., the government is creating an agency under the direction of the Economic Planning Board to formulate a private investment program and to develop managerial and technical skills. The A. I. D. Mission in Korea will offer its assistance in policy formulation, functions to be performed, staffing and technical advice.

New types of institutions for lending to the private sector and a capital market need to be developed. An analysis of the existing securities markets made by a representative of the U. S. Securities and Exchange Commission has recently been published. The IFC investigated and recommended the establishing of a private development bank.

The technological needs of private industry are expected to be met increasingly through the Korean Productivity Center (KPC) which will provide a more effective management base for Korean industry, and the Korean Institute of Science and Technology (KIST). Both are receiving assistance from A. I. D.

The Institute, established by agreement between the Presidents of the U. S. and Korea, is intended to provide a scientific and technological base for Korean industrial growth and diversification. Under contract with A. I. D., the Battelle Memorial Institute provides a team of experts to guide the work of KIST which has a Korean staff of 40. The Institute will conduct research in mechanical, chemical, metallurgical, ceramic,

and electronic engineering; food technology; extraction of minerals; and technical economies. As a basis for such research, a series of technical - economic studies of various industrial sectors will be made by Korean-American teams.

There is also a Korean Trade Promotion Corporation that engages in advisory and training activities. An Investment Promotion Center is expected to be established shortly.

Korea is negotiating a treaty with the United States to avoid double taxation, which should prove an additional stimulus to American private investors.

The A. I. D. program in Korea is providing both technical and capital assistance to the private sector. In Fiscal Year 1966, \$80 million in development loans was authorized for capital projects which included the expansion of several private industries (cement and nylon) and the increase of electric-generating capacity to meet growing industrial needs.

These loans included a \$5 million loan to the Korean Medium Industry Bank to furnish capital to private industry for expansion (large sums having also been loaned to the Bank by both Japan and Germany); a \$12 million loan to the Korean Reconstruction Bank for private credit purposes, primarily for large industry; and a \$10 million loan, part of which is to be used to facilitate the import of spare parts and replacements for industry and raw materials. A \$60 million grant was made available for the import of fertilizers and industrial commodities. The \$10 million loan and the \$60 million grant were predicated on the ability of the Korean Government to meet money supply and credit targets in its stabilization program.

On July 1, 1966, A. I. D. extended a \$15 million program loan to facilitate imports, largely by the private sector. The conditions of this loan were similarly tied to Korean performance under its stabilization program.

The A. I. D. technical assistance program in Korea has been mainly aimed at, or is in support of, the private sector. The program is providing advisors to Korean banking - both at the technical level of loan improvement and at the national banking policy level - to enable Korean banks (though largely government-controlled) to serve the private sector better. An advisor is being furnished to the Medium Industry Bank to help in evaluating loan applications.

A. I. D. is providing advisory services to the Korean Productivity Center in management, industrial engineering, cost accounting, and product design. A. I. D. -furnished advisors in the metals industry and in quality control, in addition to working with specific firms on specific problems, will train Korean counterparts. In export promotion and private enterprise, A. I. D. is assisting in developing plans for a market (domestic and export) survey and analysis.

A. I. D. is assisting Korea in the development of its resources and infrastructure, co-sponsoring a joint survey of the Han River Basin, which is presently the location of 40 percent of the country's industry. This five-year survey will determine what resources exist in the Basin and will develop a plan for their exploitation.

Plans are now being made for A. I. D. to assist the rural economy by encouraging agri-industries and by helping the establishment of credit and marketing cooperatives in rural areas. This expansion largely follows recommendations of a 1964 study. The research component of this program and of similar agricultural expansion efforts will draw upon local research institutions whenever possible.

### C. Thailand

The third preliminary study following Recommendation One has been made by the Mission in Thailand. A committee for more intensive study and follow-up, similar to the one for Brazil, has been established in Washington.

Thailand is a sizeable country with 33 million inhabitants. Its per capita GNP is only about \$127; yet it is considered rich and stable by the standards of Southeast Asia. Its industry is now entering a period of growth, built upon an extraordinary record in the last few years. In 1965, real per capita income was about 25 percent higher than in 1957, in spite of an average annual population growth of 3.3 percent.

Thailand's economy is dominated by small-scale agriculture which, together with processing and handling of agricultural produce, contributes almost half of the GNP. Based in part on a recent program in crop diversification, the key to the country's recent success has been an annual increase

of 5 percent in agricultural output, much more than needed domestically. Over one-third was exported and the proceeds were added to the already substantial export surplus, mostly of agricultural products, but including some minerals. They were evidently saved and transformed into sizeable increases in private investment. Thus, while the annual rate of growth for exports in 1961-65 was a respectable 7.9 percent, the corresponding figure for private investment was a remarkable 17.1 percent.

The public sector also flourished: expenditures rose an average of over 11 percent a year from 1961 to 1965, thus adding to the expansion of the economy. Export earnings have made it possible to import both raw materials and manufactured goods without undue strain.

A substantial portion of the savings has wound up in commercial banks, so that at least short-term investment capital is available at fairly reasonable rates.

Most important, Thailand has not been beset by inflation. The consumer price index, early in 1966, stood at 103.8 of the 1962 base. The currency is readily convertible.

It is the general impression that the Thai agencies concerned with industrial development are making a genuine effort to improve the investment climate. The enactment of a liberal Investment Promotion Act in 1960 (revised in 1962), and the creation of the Board of Investment to administer it, have been instrumental in attracting some foreign private investment. Nevertheless, much remains to be done to stimulate private investment.

The manufacturing sector produces only 12-13 percent of the gross domestic product. While its growth has been respectable and is expected to improve, total private direct investment was only \$28 million in 1965. Seventy percent of the manufacturing industries are small-scale light industries, many of them in the food processing field. Of total current exports of about \$625 million, only 2 percent are in manufactured goods.

While mining (tin, iron, zinc) has so far contributed less than 2 percent of the gross domestic product, it accounts for 10 percent of export earnings.

Nonetheless, many factors persist which deter improvement in the investment climate: slow and overly complex administrative procedures of those government agencies which deal with the private sector; taxation and customs regulations; and shortages of entrepreneurial talent and technically skilled personnel. There is a particular need for improved

capacity to make pre-investment and feasibility studies and to identify and promote investment opportunities. The fact that interest on government bonds is income tax free and that there is no capital gains tax on real estate (which in Bangkok at least has been soaring in value) has diverted substantial savings from industrial investment. Equity capital and long-term money are scarce. Only 26 stock and bond issues are listed on the Bangkok Stock Exchange.

The government's present policy is to encourage industries which will rely on domestic raw materials. With regard to the existing state-owned enterprises, some of which are in the manufacturing area, the government has recently received an A. I. D. -financed study, pointed towards their improved operation and, in some cases, towards their being sold off gradually to the private sector. A. I. D. stands ready to give technical assistance in this process.

The Ministry of Industry, whose primary function has been the supervision of state-owned enterprises, has officially undertaken to shift its emphasis from state enterprises to organization, regulation, and promotion of privately-owned industry. The Ministry has established an Industrial Economic and Planning Division to develop and implement a program in this field.

It is the general view that the greatest need is the strengthening of existing, and possibly the creation of new, institutions - governmental and private - which deal with or foster the private sector. Also a clear enunciation by the government of policy guidelines affecting the private sector would be desirable.

A. I. D. has been giving many kinds of technical assistance in an effort to strengthen the private sector. Examples are:

It has assisted in the preparation of industry studies for the Planning Secretariat of the National Economic Development Board (the central planning agency), which contains an industry division and a private sector planning group.

A contract team is assisting both in the reorganization of the Board of Investment and in identifying and promoting agribusiness opportunities in the Northeast.

In February 1966, USOM issued the second edition of its pamphlet, "Private Enterprise Investment Opportunities in Thailand."

A. I. D. has assisted in the improvement and expansion of the operations of the Industrial Finance Corporation, a semi-private development bank and is also assisting substantially in the recruitment and financing of a new senior executive officer, with the objective of making this institution even more effective.

A current A. I. D. sponsored study has examined the role of the new Bank for Agriculture and Cooperatives as the apex of a coordinated system of agricultural credit, both governmental and private. The Bank has adopted the principles of supervised credit and intends to operate largely through credit cooperatives.

It is financing a field research project of development planning and the mobilization of voluntary savings.

It has supplied advisors to revise and simplify the tax code, which is now in final form awaiting enactment, and to help establish better tax administration and collection procedures.

It has offered the services of experts to help revise the national resources exploration code, to help formulate a minerals program, and to recommend revisions in petroleum exploration and production regulations.

It is financing a contractor who is training heavy equipment operators at the Korat Technical Institute.

A. I. D. assists the Asian Productivity Organization (APO) with which the Productivity Center in Bangkok is affiliated.

It has supplied a team of experts to help establish a pilot rural electric cooperative in Northeast Thailand.

An advisor is now being recruited for the Industrial Economic and Planning Division of the Ministry of Industry to help develop a coordinated plan for industrial development.

It should also be noted that a new Treaty of Amity and Economic Relations was concluded in May 1966 between Thailand and the United States and that a Convention for the Avoidance of Double Taxation, signed in 1965, is now before the Senate for ratification.

#### D. Turkey

A preliminary Recommendation One report discloses difficulties based on conflicting attitudes toward private enterprise and the restrictive administration of an otherwise fairly liberal Foreign Investment Encouragement law.

State enterprises account for almost half of Turkey's factory production. Though created, fostered and protected by government, present plans call for selling some state enterprises to private businessmen and establishing certain new projects on a joint venture basis with private investors.

One rationale for this "statism" is the shortage of private capital. The main source of medium and long-term capital, the Industrial Development Bank - partially financed by A. I. D. - has contributed only a minor portion of capital invested in private enterprise. Short-term capital is available from commercial banks only at high rates.

The capital market is rudimentary. Exchange regulations and import restrictions are onerous, both caused by continued foreign exchange shortages.

This does not mean that there has been no development of the private sector. Private industry has been expanding rapidly. New manufacturing enterprises have been started in the last few years, while others have expanded. Although younger and more far-sighted entrepreneurs are emerging, the business community is still largely dominated by established manufacturers with prerogatives of protection, monopolies, and high prices.

The Union of Chambers of Commerce and Industry, whose major function is to represent the private sector, has been assigned import and exchange control duties by the government. The Union is receiving technical assistance from A. I. D. for its reorganization and strengthening as a private enterprise organ.

In a March 1966 pamphlet, the organization reemphasizes the need for foreign investment, recognizes that a favorable investment climate is an essential prerequisite, and advocates a long series of measures and reforms to encourage private investment, particularly foreign investment.

Under these conditions, A. I. D. activities in the private sector have concentrated on individual private sector projects and the strengthening of key institutions.

A recent A. I. D. local currency loan to the Development Bank to broaden its borrowing capacity will add to available capital for the private sector. A. I. D. will also continue to give technical assistance for training to the Turkish Management Association in cooperation with the Ford Foundation, ILO and OECD. A. I. D. will help the identification and promotion of viable projects and the preparation of feasibility studies.

A. I. D. has been ready to make U. S. dollar loans tied to U. S. procurement and in a minimum amount of \$1 million directly to the private sector. Only two such loans have been made since 1959, and none in 1965-6. However, at the end of the fiscal year a number of such projects were under consideration for financing either directly by A. I. D. or through the Industrial Development Bank. In Fiscal Year 1966, Cooley loans of \$3,560,000 were made, and four specific risk guarantees were issued, totaling over \$6 million.

## II. SUMMARY REPORT ON OTHER COUNTRIES

### A. Latin America

Several of the Spanish-speaking countries of Latin America suffer from common handicaps to private investment activity. And even where the governments are stable and inflation is under control, the need for private capital exceeds that available. Despite notable progress under the Alliance for Progress, laws and regulations and their administration are still restrictive.

Import and other regulations continue to favor those now in business, who are reluctant to see semi-monopolistic prerogatives diluted. Other problems abound: markets are not expanding rapidly; purchasing power remains low; protected prices are high; and quality is often poor. Mechanisms for marshalling private savings and channeling them into productive investment are not yet adequate. There is still a lack of entrepreneurial and technical talent. And, more intangible, there is the psychological factor mentioned by Assistant Secretary Lincoln Gordon in a recent speech in Mexico City: "Private enterprise . . . is not yet an almost universally accepted and respected institution."

Yet, in the past year, there has been encouraging progress. Judging from their statements, more Latin American governments are realizing the importance of a thriving private sector. For example, the incoming Colombian government is following sensible, confidence-creating policies. And, in a recent speech before the American Chamber of Commerce in Montevideo, the Finance Minister of Uruguay attributed his country's recent woes to too much government interference and supported a policy favoring the private sector.

Of equal importance has been a growing focus on regional activities, so strongly endorsed in President Johnson's message to Congress on February 1, 1966, and echoed in Assistant Secretary Gordon's speech.

The President said:

We have recently extended our ongoing commitment to the Alliance for Progress, which includes strong support for the successful economic integration of Central America. The movement toward greater cooperation among all Latin American economies will gain momentum in the years ahead. It has our strong support.

The United States will support the proposal of the Inter-American Committee of the Alliance for Progress and the Inter-American Development Bank to establish a new fund for feasibility studies of multinational projects. These projects can be of enormous value to countries which share a river valley or another natural resource. They are sound combinations of good economics and good politics.

On August 1, 1966, the IDB announced formation of a \$15 million preinvestment fund for Latin American integration to prepare multinational projects which would foster that goal. The President re-emphasized his concern for integration in his August 17 speech on the fifth anniversary of the Alliance for Progress.

Progress is being made toward integration through the Central American Common Market and the Latin American Free Trade Association (LAFTA). A. I. D. 's regional mission in Central America works closely with the former and continues to encourage regional projects in Central America and Panama, including taxation, tourism and investment promotion. It is encouraging that between 1960 and 1965 intra-regional trade in Central America rose from \$30 million to \$140 million.

Many individual governments have been active. The Second Inter-American Conference of Labor Ministers, held in Venezuela in May 1966, explored the role of democratic trade unions in the development process.

An August 1966 meeting in Colombia between the presidents of that country, Chile and Venezuela, and representatives from Peru and Ecuador, was largely focused on economic integration.

The latest in the series of annual meetings at the ministerial level of the Inter-American Economic and Social Council was held in Buenos Aires late in March 1966. It was recognized that "a larger flow of external private capital is indispensable" and it was decided to ask the U.S. to join in a study of a multilateral system of investment guarantees.

Nor have conferences at the business level been lacking. The occasion of the above-mentioned speech of Assistant Secretary Gordon was the 11th Planning Meeting of the Inter-American Council of Commerce and Production (CICYP) in Mexico City in late May 1966, attended by more than 400 business leaders of Latin America, the U.S. and Canada.

August meetings were held in Panama by a continental conference of private businessmen sponsored by CONEP, a group representing the Panamanian business community, to discuss the role of the private sector in Latin America. A. I. D. helped to organize this conference and was represented, together with a number of delegates from U.S. industry.

A. I. D. recently authorized an experimental program for the promotion of industrial foreign private investments in Latin America, involving the wide use of consultants selected for their special familiarity with a given industry and the companies therein. Their selection will be controlled by a central clearing house, independent of government and privately operated. This will provide for the face-to-face promotion called for in Recommendation Four of the Watson Committee Report.

The Council for Latin America, operating through local U.S. business and civic groups, has been instrumental in establishing a series of Business Communications Seminars as forums for the exchange of opinions and experiences. The Council maintains a series of regional committees which work in liaison with various desks in A. I. D., the State Department, and the special committee on the Brazil investment climate study. It also sponsors various scholarship programs and educational activities.

The recent release of the second installment of the Fiscal Year 1966 \$80 million program loan to Chile illustrates yet another technique applicable to the whole development program which has particular significance to the private sector. Installments of these loans are released following quarterly reviews to determine that the recipient has substantially complied with its commitments to economic and fiscal policies as expressed in the loan. For example, it was found that Chile has made strides in 1966 in the following: preparation of a plan and program to expand industrial production (including goods for the popular market) through promotion, credit, and technical services to private enterprise; organization of an industrial sector planning staff; improvement, simplification and acceleration of procedures affecting authorization of new industry, particularly foreign investment; reviewing legislation which tends to stifle competition; and expanding industrial credit.

Although within the confines of this report the developments in A. I. D. programs in all of Latin America cannot be covered, some major highlights can be summarized:

In Chile, a bill reforming the law governing banking operations is about to be introduced in Congress.

Recently an A. I. D. consultant conducted a preliminary study and is expected to return to Chile for a longer period of time to help the Mission reassess its private enterprise program.

In June 1966, an agreement was signed between A. I. D. and the Government of Chile, as part of the Chile-California program, under which technicians will be provided to help launch a small and medium-scale industrial promotional and development project.

Chile, because its domestic market is small, is a strong advocate of Latin American integration and of LAFTA, and has established economic coordinating committees with Brazil and Argentina.

The Colombian investment climate is quite favorable. It has recently established a permanent coordinating committee for LAFTA, which includes representation from private industry, commerce, agriculture, and labor. A private exporters' group has also recently been formed to foster exports, training and international contacts. The Private Investment Fund, substantially aided by A. I. D., is a source of medium and long-term credit.

The Private Development Committee (C. P. D.), which A. I. D. was instrumental in establishing and to which it still contributes both funds and technical assistance, has been effective in promoting private investment and strengthening the private sector. An A. I. D. contract with Syracuse University has helped develop the curriculum and organization of a school of business administration. The Rand Corporation, under A. I. D. contract, will develop economic analyses to support export promotion and industrial development. Through A. I. D. contract with the University of Nebraska, agricultural faculties at three National University branches will be expanded and upgraded. A. I. D. also expects to help expand vocational training, and continues to contribute to 25 rural cooperatives.

In Peru the climate for private investment is generally favorable. The private sector is vigorous. No export or import restrictions exist, and the exchange rate has been steady for several years. However, there are weak spots and A. I. D. is making its contribution to their gradual elimination. It is working with the National Institute for Industrial Promotion. A. I. D. finances a contract with Stanford Research Institute for the promotion of industrial development in the depressed Sierra region of Southern Peru. It has cooperated with the Peruvian National Productivity Center to increase industrial productivity and introduce modern methods. And the first graduate school of business administration in Latin America is being financed by the Agency.

In Ecuador, A.I.D. signed this year a loan of \$3 million to a new private national development finance corporation, COFIEC, which will make sub-loans and invest in equity in private industrial enterprises. This institution supplements two others to which A.I.D. has made contributions: CENDES, which has conducted feasibility and market studies and promoted a substantial amount of new investment, and another intermediate credit institution, the National Finance Corporation.

In Paraguay, the Development and Productivity Center, an autonomous institution of the private sector, has been established under the auspices of A.I.D. and the Organization of American States (OAS). A.I.D. will contribute both material and technical assistance. A study is being made to determine the desirability of a development bank.

Even a partial listing of A.I.D. contracts in Latin America illustrates the variety and scope of its programs to strengthen the private sector. Examples include: an agricultural research project in Peru; training of bank employees in industrial development operations projects in three countries; export and marketing projects; investment promotion, engineering and industrial and management education and training programs in four countries; business management development in Central America; industrial administration and agro-industry projects in Ecuador; vocational training in Uruguay; private enterprise development programs in Panama and Peru; labor union training in 20 countries; and a regional program for the promotion and development of the private enterprise system.

In July 1966, A.I.D. made a loan of \$2.1 million in Panama for sub-lending through private savings and loan associations in the form of home loans to low and medium-income families. With technical and financial assistance from A.I.D., similar savings and loan systems have been established in Bolivia, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Nicaragua and Peru. Venezuela, Argentina and Brazil are planning to establish savings and loan systems, and Honduras has a system under consideration.

The size of the A.I.D. program in Latin America is indicated by the following figures:

We have already mentioned three program loans during Fiscal Year 1966 for a total of \$295 million, primarily for the benefit of the private sector.

In the second half of fiscal 1966 there were authorized project loans aggregating \$178,815,000. Three project loans totaling \$10,250,000 were authorized in the first half but signed in the second half of Fiscal Year 1966.

In the same period \$50,700,000 was obligated for technical assistance.

Of the project loans, almost half (\$90,550,000) were to or for the benefit of the private sector, as follows:

<u>Purpose of Loan</u>	<u>No. of Loans</u>	<u>Amount Loaned (\$ millions)</u>
Agricultural credit	4	31.1
Private development banks - for relending to private industry	4	15.0
Private investment fund - creation	1	2.0
Housing, and savings and loan institutions	3	10.8
Livestock bank - for relending for livestock farming	1	8.0
Mining bank - for relending in aid of private mining operations	1	4.3
Cooperative bank - for relending to cooperatives	1	3.65
Revolving fund for community development	1	2.1
Imports (Chile, for fertilizer and commodity imports)	2	<u>13.6</u>
		\$90.55

### B. Far East

The Asian Development Bank, which came into being in late 1965 with 32 charter members, is expected to play a particularly useful role in mobilizing private resources. The United States signed its charter in December and on March 16, 1966, Public Law 89-369 was enacted approving this action and appropriating \$200 million as the United States' contribution toward the Bank's capital of \$1 billion. Another \$200 million has been subscribed by Japan and the balance by the rest of the Bank's charter members.

In Southeast Asia a major keynote is regional planning, backed by multilateral support. Many international organizations, such as IBRD, the Asian Development Bank, UN, ECAFE and the Colombo Plan, as well as major private foundations, are fully engaged in the regional development effort.

Major development emphasis has been on agriculture, health education and infrastructure, but the private sector has not been neglected. While new private investment has been limited in the last year except in Thailand, Malaysia and Singapore, A.I. D. and other organizations have been exploring opportunities for future investment.

Thus, a U.S. - Vietnamese small business investment mission visited Vietnam in late November 1965, to identify projects for U.S. - Vietnamese private investment and trade. Their report was published in International Commerce on March 7, 1966.

A Far East regional workshop was held in Taipei in May 1965, co-sponsored by the Council for International Economic Cooperation and Development of the Republic of China, by the China Productivity and Trade Center, a private organization, and by the China Development Corporation, a semi-autonomous development bank. Delegations and observers, public and private, from 14 countries attended. Major topics discussed were industrial development financing, investment incentives and promotion methods, identification of investment operations, industrial estimates, and A.I. D.'s role in connection with all these topics. A second workshop is planned for the Spring of 1967.

A special Southeast Asia Supplement to the Catalog of Investment Information and Opportunity was completed in July 1966 as a joint effort of the Department of Commerce and A. I. D.

Early in 1966, A. I. D. discussed private sector participation in the Southeast Asia Regional Development Program and the expansion of private investment in Southeast Asia with leading financial and business institutions in the United States.

In November 1965, the Southeast Asian Ministers of Education and Planning set up a Secretariat to develop proposals for regional educational projects. The principal proposals now under review are for: an Asian Institute of Technology, a Science and Mathematics Teacher Training Center, a Regional Center of Graduate Study and Research in the College of Agriculture at Los Banos in the Philippines, and a Southeast Asia Central Coordinating Board for Tropical Medicine.

The creation of the Southeast Asia Development Advisory Group under A. I. D. and Asia Society auspices in June 1965 was designed to foster more university-based research on problems of the area, particularly in rural political and social development efforts.

A special objective is to increase American research capabilities in the area. Several meetings have been held with representatives from major U.S. universities and private foundations. In 1967, several research seminars will be held and joint studies by Asian and American scientists may be undertaken.

A. I. D. has also initiated a series of investigations to formulate specific research proposals. One, nearly ready, is for the establishment of a Regional Vegetable Production and Marketing Research Center for the Far East.

The UN Development Program laid the groundwork and is preparing plans for the expansion of the financing of pre-investment studies.

Six major U.S. corporations have recently discussed with A. I. D. the possibility of training engineers, logistics specialists, and rural education advisors for Southeast Asia Missions.

In Vietnam, both the military situation and the recent currency devaluation have affected the investment climate. Yet private investment in Fiscal Year 1966 exceeded substantially the amount of the previous year, and sizeable additional investments are under discussion. That the private sector is expanding is illustrated by the experience of the Industrial Development Center, a Vietnamese government agency which provides technical and managerial assistance to industry and acts as a development bank. In 1966 it exhausted its lending power and the government had to establish a loan fund of VN \$400 million to put it back into business.

Two major U.S. banks are now established in Saigon. Under their charter they are authorized to engage in medium-term, long-term and commercial financing and, through local subsidiaries, to participate in equity financing.

Although more than 90 percent of Vietnamese industry is centered in the Saigon area, a light industry sector has developed elsewhere in the last few years. Efforts are continuing to be made to expand and diversify this industrial plant and to improve its productivity.

The Government of Vietnam has prepared legislation favorable to industrial development, has strengthened its commercial codes, is conducting an industrial fact-finding survey and a survey of raw material requirements for the country, and is engaged in the establishment of industrial parks and an industrial promotion center. A. I. D. has contributed primarily technical assistance and help through its commercial import program.

Malaysia has a strong traditional private sector. Recently, particularly since the separation of Singapore in 1965, the government has been taking steps to expand it. It is considered a promising area for foreign investment, which is already very substantial.

A World Bank sponsored Consultative Group for Malaysia met in London in May 1966, to consider the implications of the current Five Year Plan effected in January 1966. Under the plan, the government is committed to a continuance of its record of sympathetic action in favor of the private sector. The manufacturing operations of the country are almost totally in private hands. In its furtherance of private sector interests, the government, among other steps, has established pioneer industries programs, set up industrial estates and undertaken to strengthen needed infrastructure facilities. One of the specific points discussed at London was the urgent need for pre-investment surveys, particularly feasibility studies, in aid of the private sector.

In Singapore, interest exists in the creation of a private or semi-private local development bank to supplement the facilities now provided by the Economic Development Board. The EDB invited a three man IBRD-IFC team in June and July to make a preliminary study for this purpose.

In addition to continuing to provide considerable direct assistance to the EDB, the UN and the IESC have been asked by the EDB to carry out studies to identify new areas for private sector development in order to relieve the growing problem of unemployment.

In the Philippines, the Constitution lays the basis for a free enterprise system. The country's commercial laws are modern and its institutions are well developed. It has experienced technical and managerial personnel. There is an absence of exchange controls. In foreign investment, there is a stated governmental preference for joint ventures.

A new administration took office on December 30, 1965, with a program of specific suggestions designed to strengthen and improve the industrial sector and the climate for both local and foreign investment.

Recently, by decree, President Marcos of the Philippines enjoined all governmental institutions to observe the provisions of the Constitution and of existing laws to encourage investment in the Philippines; assuring the right to repatriate investments, recent earnings, repay foreign loans, and service foreign obligations; guaranteeing against expropriation except for just compensation; and outlining the areas of investment which the government would particularly like to encourage.

In recent months, A. I. D. has continued to help the Economic Development Foundation, a non-profit, private organization, which has a good two-year record of developing feasibility studies and in promoting new industries. The assistance has covered overhead and the costs of a management consultant.

Following a pilot loan, A. I. D. has made a local currency loan of 5 million pesos (3.9 pesos to the dollar) to establish an Agricultural Guarantee Loan Fund. These funds respectively will guarantee up to 70 percent of loans made by rural banks.

On August 15, 1966, the Agreement with the Philippine Government Relating to Investment Guaranties was amended to include losses due to war, revolution and insurrection, as well as to cover extended risk guaranties.

### C. Near East and South Asia

Pakistan is in the second year of its third five-year plan. Dislocations caused by the short war with India are being cured and Pakistan is now expected to return to a program which encourages producer goods manufacture, import liberalization for raw materials and machinery, and improved financial institutions serving industry.

Pakistan is not, however, an easy country for foreign enterprise to do business in. Imprecise laws and regulations and the necessity to cope with many levels of bureaucratic administration make the process difficult. Foreign investment tends to be limited to special high-profit situations which justify the extra managerial effort needed to overcome these problems.

During the past year, A. I. D. has been associated with several constructive institutional and policy developments of significance to the private sector.

The A. I. D. Mission has given technical advice in the formation of the Investment Corporation of Pakistan and is currently providing an expert consultant and training opportunities. This Investment Corporation was established by the Central Government in 1966 as a corporate body to develop a capital market through underwriting new security issues and investing in new and existing industrial enterprise.

At the request of the Finance Ministry, the A.I. D. Mission is studying means to reform the investment licensing system to eliminate arbitrary and unnecessary restraints on new private investment.

In July 1966, the government announced the restoration and liberalization of the import policy originally introduced in 1964 and interrupted by the war with India. It will support greater private sector activity, increase output through increased utilization of capacity, and make raw materials more widely available. Import liberalization would not have been possible without A. I. D. and consortium financing. The liberalization program had to be temporarily suspended early in 1967 due to the serious foreign exchange situation.

Pakistan commercial banks, the Industrial Development Bank of Pakistan and the East Pakistan Small Industries Corporation, partly as a result of A. I. D. initiative, have organized themselves as a consortium to assist in financing small scale private industry in East Pakistan.

In the second half of Fiscal Year 1966, two program loans were authorized for Pakistan, totaling \$120 million. This followed the authorization, in December 1965, of a local currency loan of 30 million Rupees to PICIC (the private development bank).

In India, as in Pakistan, the Indo-Pak War in September 1965 created uncertainty in future national plans. Just prior to the war, India had drafted an outline of its Fourth Five Year Plan calling for a continuation of investment in the private sector at about the same rate as the prior year.

India has been willing to make stern decisions which should have beneficial effects for economic growth. On June 6, 1966, the rupee was devalued by 36.5 percent, and on June 21, the Government of India announced the first steps in import liberalization. Special arrangements were to be made to import large quantities of fertilizers, pesticides, sulphur, and rock phosphate, and to support rapid expansion of agricultural production. Certain raw materials needed primarily for export production will be allowed to be imported under an open general license, which, in the first instance, will be valid for shipments made up to March 31, 1967.

In December 1965, a new fertilizer market policy was announced in order to attract foreign capital. All fertilizer companies licensed prior to March 1967 will now have the right to distribute their production without geographic restriction at their own prices for a period of 7 years, although the Government of India reserved the option to purchase up to 30 percent of production at a negotiated price. A fertilizer team composed of senior Indian officials was in the United States in June and July 1966 to stimulate further private investment. Other measures encouraging agricultural imports have also been announced.

A. I. D. is currently administering 49 active loans to Indian organizations. Included in these are loans for electric production and distribution, railways, truck manufacture, fertilizer manufacture, coal mining and production, and the financing of industrial finance corporations which in turn finance thousands of small Indian firms.

A. I. D. is emphasizing agricultural development including storage, distribution and marketing. A special activity is the development of co-operatives and, in particular, a rural electric cooperative system.

An Industrial Relations Training Institute has been established. One effort is devoted to introducing a system of management control, material planning and meaningful cost estimates to assure the economical use of resources for major industrial projects.

An A. I. D. Consulting Services Loan of \$2 million was executed in March 1965, and is available for the conduct of long-range market feasibility studies with the major purpose of interesting prospective local and foreign private investors.

The government is developing plans to send teams to the U.S. to work with consultants in identifying export promotion possibilities.

An A. I. D. loan of \$3.5 million was signed in June 1966, for an exploration survey of mineral resources in India. This should result in the identification of mining projects which may be opened to private enterprise.

Pursuing its long established policy of supporting both wholly-owned and jointly-owned enterprises, the A. I. D. Mission has participated in discussions and negotiations with the government regarding arrangements between prospective investors where these arrangements involve significant policy issues. Most recent examples are negotiations for the Madras fertilizer project,<sup>1/</sup> and the Gujerat Petrochemical Complex.

In February 1966, our Investment Guaranty Agreement with India was amended and extended to include war risk and extended risk coverages. It is interesting to note that in Fiscal Year 1966, A. I. D. issued 94 (by far the largest number in any country) specific risk investment guaranties for India, of a face value of over \$40 million. It also made Cooley loans totaling over \$11 million and underwrote four investment surveys.

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<sup>1/</sup> As of the end of Fiscal Year 1966, A. I. D. was in active negotiations for an extended risk guaranty of \$17.25 million to cover this project.

In July, a program loan of \$150 million was authorized. Its announcement was linked with that of further import control relaxations.

In Afghanistan, the Government has taken several steps in recent years which, hopefully, will lead to growth, especially a further development of its small private sector, and stimulate foreign trade (also related to the private sector). The government has restricted non-essential imports and increased customs duties and taxes and has agreed to take steps to improve its monetary and fiscal management.

A program is underway to increase wheat production greatly.

A Karakul Institute has been established to improve the quality of karakul which is the country's major export and foreign exchange earner.

One A. I. D. -financed contractor is conducting a study of the agricultural and industrial potential of the Helmand Valley, and another is conducting feasibility studies of five possible export or import replacement manufactures and is attempting to attract investment, both domestic and foreign, for these purposes.

The U. S. is providing grants for technical assistance and loans for the development of hydroelectric power for industrial development.

Although Iran can finance most of its development activities through oil revenues, it still seeks advice in sector planning. U. S. advisors on the mobilization of local capital are being provided to help Iran channel savings into investment in private industrial enterprise and privately owned and constructed housing. A. I. D. assistance to Iran will be terminated in FY 1968.

The Industrial and Mining Development Bank, founded ten years ago with American and European assistance, finances many private enterprises. A. I. D. activities supplement others, such as a recent \$25 million loan by the World Bank to the Development Bank. IESC has been particularly active in Iran. It has completed 16 projects there, has four active ones, and 19 more which it has accepted.

In Nepal, industrial development is not yet far advanced. However, A. I. D. is attempting to stimulate industry in the private sector. One of its activities is to develop timber and power. A. I. D. provides a large part of the financing of the Nepal Industrial Development Corporation and is involved in the operation of the Corporation. A. I. D. also has helped train managers, accountants, and marketing supervisors for the National Cooperative Bank.

#### D. Africa

Africa is roughly four times the size of the United States, yet it has a population only slightly more than 200 million persons. There is congestion in a few isolated urban centers, but, otherwise, people are spread very thinly across a great many countries.

The major consequences for business are small national markets and serious distribution problems. Moreover, there is little wealth in private hands and governments are almost the only repositories of savings. Added difficulties arise from the relatively few private companies which exist in Africa and these have a meager capacity for manufacturing. Most agriculture is of the subsistence variety and farmers tend to be the least favored and most poorly educated part of the population. Such private enterprise as exists is owned and managed by foreigners, with only occasional shares held by African development banks or other similar institutions.

A. I. D. and the World Bank have made important contributions to the development of harbors, railways, roads, water supplies, electrification, and communications. While little is still known of Africa's resources, A. I. D. -financed surveys have opened the way to important pioneer investments in such countries as Tunisia, Ethiopia, Nigeria, Guinea, Liberia and Somalia.

Presently, 41 A. I. D. -supported surveys are either underway or projected in 23 African countries, along with eight regional surveys. Similarly, American aid to education, combined with the very significant work of the Peace Corps, has helped to upgrade teacher training, extend technical learning and broaden the opportunity for secondary schooling. New universities have been established and old ones strengthened. A. I. D. -supported vocational training has added significantly to Africa's supply of skills.

Emphasis on private enterprise throughout Africa has grown slowly and has become significant only recently. In 1965, American private investment into Africa (exclusive of South Africa) amounted to \$130,000,000, chiefly in extractive industries.

A serious problem since the advent of Africa's many new independent republics has been their economic isolation from one another. It is this condition to which President Johnson referred in his speech of May 26, 1966, as he stressed again the importance of regional cooperation. It is this condition which current programs are designed to rectify.

A major step toward economic interdependence has been taken by the Africans themselves. On December 31, 1965, 27 African countries inaugurated an African Development Bank, and paid in \$31.2 million toward an authorized capital of \$250 million. Financial operation started July 1, 1966, and the first board meeting was held July 18.

A. I. D. has offered loan funds for capital projects and grants for the conduct of feasibility studies by American firms. U.S. participation with the African Bank in financing regional projects is being studied and, already, some technical assistance has been given by an A. I. D. -supported transportation specialist.

Meanwhile, to help solve their supra-national development problems, some countries are forming regional organizations. The five "Entente" countries of former French West Africa (Ivory Coast, Niger, Upper Volta, Dahomey and Togo) have established a Mutual Aid and Guarantee Fund. In anticipation of an Eastern Africa Economic Community, seven East African countries have signed a cooperative agreement which is a statement of intent. Those already enrolled are Burundi, Ethiopia, Kenya, Malawi, Mauritius, Tanzania and Zambia. Somalia and Sudan are prospective members.

In the field of education, East Africa has already taken major strides toward unity. The University of East Africa combines the faculties and facilities of the University College of Dar es Salaam in Tanzania, Makerere University College in Kampala, Uganda, and the University College of Nairobi in Kenya. By sharing in this fashion, duplication is avoided with resultant savings to all. A. I. D. recently announced a loan of \$850,000 to the combined University of East Africa to erect three dormitories and three engineering buildings.

A. I. D., in response to this African initiative toward regionalism, has enlarged the office in Washington dealing with regional developments. Regional emphasis is also carried into the field. Five A. I. D. -sponsored surveys have been conducted for the African Industrial Map which forms part of the development strategy of the UN's Economic Commission for Africa.

Nigeria has the distinction of being the first British Commonwealth member of the European Economic Community. Due to come into effect in 1967, this agreement followed three years of study and negotiation.

Many African countries now have their own development banks. A. I. D. has made financial contributions to those in Tunisia, Morocco,

Sudan, Somalia, Ivory Coast, Niger and Uganda. Technical assistance has been given the banks in Liberia, Somalia, Sudan, Ghana, Ivory Coast and Nigeria. Meanwhile, American private banks have spread over Africa, establishing branches of their own, buying into existing British and French banks, and in some instances contributing to the development banks.

As a further aid to capital accumulation, an American insurance specialist with long experience in Ghana and Nigeria will soon visit several African countries to advise them on internal insurance development. An insurance company is engaged in a similar A. I. D. -sponsored mission, except that it will advise cooperatives how to start insurance programs.

With institutions emerging for significant African participation, A. I. D. 's Office of Private Enterprise for Africa has launched a pioneer program of industrial promotion. Designed to utilize the promoting capacity of the Edge Act Corporations and other private financial institutions, the Office is negotiating contracts under which the banks, or their sub-contractors, will study specific projects and then locate operating companies to conduct them. The Office of Private Enterprise has contacted more than 50 such financial bodies and favorable responses have come from about 25 in such cities as New York, Chicago, Pittsburgh, St. Louis, Los Angeles and San Francisco. Four Chicago institutions have formed the Middle American Development Association and have hired a consultant to visit six African countries to identify projects and to establish offices on their behalf in both East and West Africa. Meanwhile, negotiations are proceeding with a New York bank which has expressed interest in a large cattle project in Kenya and a paper and pulp plant in Malawi. With these arrangements as a pattern, A. I. D. is continuing to negotiate with other financial institutions.

African responses to such efforts have been favorable. Many governments previously suspicious of private enterprise are now revising their investment codes, often with American help. In Liberia, Ghana, Nigeria, Somalia and Ethiopia, such help has taken official form. In Tunisia, an economic advisor sponsored by the Ford Foundation has drafted a new investment code. Companies undertaking surveys have been well received, and it is reported that incentive agreements are being settled more readily than in the past. Generally, there appears to be a new awareness in Africa of the limited scale of available government help, as well as a lessened fear of foreign domination.

Plans by several governments for divesting themselves of government owned industries provide further evidence of a new interest in private enterprise. In Ghana, where a new government has reversed many of the

policies of the former regime, A.I.D. advisers have been restored to their former positions in the National Investment Bank. They are now directing surveys of some of Ghana's 52 state-owned industries, as a first step toward a planned divestiture of many of these industries and the promotion of joint ventures of others. Tunisia has similar plans for its government-held enterprises, as do the northern and eastern regions of Nigeria.

The private sector in the United States is today giving continent-wide attention to the development of basic resources of Africa. Agriculture, Africa's major economic activity and its sector of greatest deficiency, is about to receive a major lift from a number of broadly-based private investments. American companies are developing or investigating large scale cattle projects in Morocco, Nigeria, Kenya, Mali, Sudan, Ethiopia, Tanzania and Zambia. These, combined with private fishing developments in Morocco, Senegal, Dahomey, Ghana, Nigeria and the Cameroons, and with investments in poultry, either contemplated or underway, in Tunisia, Morocco and Nigeria, should help correct the perennial protein lack in the African diet.

Housing projects, either sponsored or assisted by American builders, are emerging in Tunisia, Libya, Senegal, Ivory Coast, Nigeria, Kenya and Tanzania.

Mining continues to be a major attraction for American investment. In Morocco, Tunisia, Senegal and Togo, phosphates are receiving important attention, as is manganese in Gabon. The remarkable iron finds in Mauritania, Liberia and Gabon are absorbing increasing amounts of American capital. Copper still flows from Zambia and the Congo despite transportation difficulties. The completion of the Volta Dam brings closer the date when an American company, now engaged in the project, can exploit Ghana's vast bauxite deposits. Expanded aluminum development is also contemplated in Guinea.

Petroleum production continues to rise. At least 40 American companies are engaged in Nigeria, exploring, marketing or servicing this swiftly growing industry. Crude oil production in Nigeria exceeded 100 million barrels in 1963, and in 1965 the country's first refinery went on stream. Exports in 1966 are expected to exceed \$280 million in value. Petroleum is today Nigeria's leading export. In Gabon, petroleum production rose 20 percent over the previous year. Libya continues as a major new oil find involving large amounts of American capital.

Industrial development continues at a quickening pace throughout Africa. An American tire manufacturer is building a plant in Tunisia. Hotels are under consideration in both Tunisia and Morocco. Potential investors are studying pineapple growing and canning in both Kenya and Nigeria. Ceramic manufacturing has attracted an American firm to Uganda.

However, it is West Africa, with its relatively larger markets, which has received most American private attention. A large American-owned plywood plant has just opened in Eastern Nigeria. Other new Nigerian based companies are producing towels, detergents, textiles, livestock feeds, cement, radios, pulp and paper, fiber bags, flour and flat glass, among other products. The value of newly opened Nigerian industrial projects exceeded \$57.5 million in 1965 and those under construction exceeded \$74.25 million. If plans for 1966 materialize, an additional \$80 million will be invested from all sources.

The International Executive Service Corps has also tended to focus on West Africa where its particular form of expertise can be most readily used. One member works in Ghana through the National Investment Bank and another IESC man has been assigned to Nigeria. Pre-program surveys have been conducted by the Corps in the Ivory Coast, Liberia and Malawi.

Private enterprise in Africa is still in an embryonic state. Yet its progress is impressive when judged against the newness of African independence and the deterrent effect of the power struggles which have followed.

Foreign Aid Through Private Initiative

Summary of Responses

1. Increase Business Contribution to Development

1.1 Give Policy Support to U.S. Business

(Recommendations #2, 3, 8, 13, 21)

#2 *We recommend that the United States Government accept in principle the concept of international arbitration; that it ratify the proposed International Convention for the Settlement of Investment Disputes; and that it seek to secure its ratification by others.*

The U.S. Government signed the Convention on the Settlement of Investment Disputes on August 27, 1965. Congress ratified on June 10, 1966 and legislation required to facilitate the carrying out of the obligations of the United States under the Convention was passed by both the House and Senate on August 1, 1966. It entered into force in mid-October with the deposit of the 20th instrument of ratification.

Another 30 countries, many of them African, have signed the Convention. To date, however, none of the Latin American countries have signed, nor is there any indication that they intend to in the near future. They continue to adhere to the doctrine that foreign investment disputes should be settled in local courts.

#3 *We recommend that the United States Government lend its full support to the principle of an investment code under international sponsorship; and that as part of such a code the United States be prepared to accept a reasonable statement of the obligations of investors, to accompany a statement of the obligations of host countries.*

The United States has endorsed in principle the Organization for Economic Cooperation and Development draft of the Protection of Foreign Property Convention. To date, prospects for its adoption and ratification are dim, chiefly because of lack of interest on the part of developing countries.

#8 *We recommend that the United States Government support both wholly-owned and jointly-owned enterprises in the less developed countries, and that it avoid any doctrinaire position on the issue.*

*We recommend further that where the prospective investor has legitimate concerns regarding the nature of the arrangement proposed by the host government, and wishes to enlist the support of the United States Government in expressing these concerns to a host government, the United States Government should consider sympathetically the possibility of lending such support.*

After discussion at the February 11, 1966 meeting of the Advisory Committee on International Business Problems (the Randall Committee), guidance on this question was sent to all U.S. Missions overseas by the Secretary of State reaffirming that the U.S. Government has no doctrinaire position requiring insistence on joint ownership. Government officials were advised to point out to American companies the advantages and disadvantages of the joint venture approach in a particular country or industry situation. However the final determination is recognized as the sole responsibility of the American company involved.

#13 *We recommend that the United States Government, working through its bilateral treaties of establishment, through the mechanisms provided by the OECD, or through other appropriate means, widen and strengthen its collaborative practices with other governments in the antitrust field. Wherever the activities of such governments seem likely to raise the problem of multiple standards and jurisdictional conflict in the application of antitrust policies, a major objective of the collaboration would be to reduce the uncertainty of the businessman concerning the jurisdictional authority and antitrust standards which would apply in his overseas activities.*

The U.S. continues actively to support appropriate action in the OECD Committee of Experts on Restrictive Business Practices and to develop bilateral coordinating mechanisms.

- #21 *We recommend that, in the administration of its aid programs in the less developed countries, United States representatives be instructed to subordinate other objectives to that of securing the economic and social development of the less developed nations. In this connection, it should be recognized that United States interests are usually best served by testing any project in these terms, rather than in terms of whether the project would affect the competitive position of particular branches of United States industry or United States agriculture.*

The foreign assistance program is part of the total U.S. effort to achieve its foreign policy objectives. In general, we agree with the Committee's statement, recognizing, as does the Committee, that there may be cases where other policies and objectives may outweigh the objectives of pure economic development.

#### 1.2 Improve AID's Administrative Capacities

(Recommendations #29, 30, 33)

- #29 *We recommend that AID expand and improve its organization both in Washington and in the principal missions abroad so that it is appropriately staffed with persons who, by experience and competence, are capable of acting as an effective conduit between the private sector and the official aid organization. In this connection, we urge AID to take steps to establish a basis for co-opting men from the private sector for rotation back to their permanent organizations after a tour with AID.*
- #33 *We recommend that AID draw up a plan for staffing the recommendations proposed in this report, and that the Congress and the Executive Branch give sympathetic consideration to the AID proposals.*

In addition to the central Office of Private Resources, \* many other organizational units in AID are deeply involved in private sector development. The broad range of the Watson Committee recommendations

\*Created in March, 1967.

41

cuts across our general and functional units. Accordingly, it has not proved feasible to draw up an overall staffing plan keyed to each of the Committee's recommendations. However, the sense of priority which the Committee's recommendations have given to the many facets of our private development programs has been and continues to be reflected in the allocation of positions in Washington and the field, and all-out efforts to attract the best available men to fill them. AID's Office of Personnel is currently developing proposals, some of which would require legislative action, designed to establish a basis for a two-way interchange of personnel between AID and the private sector on a rotational basis.

#30 *We commend AID for its increasing use of contractors in the handling of specialized tasks and urge the Agency to extend this practice.*

The trend towards the use of contractors in the handling of specialized tasks, noted with approval by the Committee, continues. The range of specialized tasks for which AID is turning to outside contractors is constantly being extended. On February 10, 1967, the Administrator issued a Policy Determination specifying that skilled personnel for AID financed projects will generally be obtained through contract with non-government organizations.

### 1.3 Stimulate Increased Private Investment

#### 1.3.1 Investment Climate

(Recommendation #1)

#1 *We recommend that AID select a number of key aid-receiving countries for intensive study of factors which may improve the investment climate; that such studies enlist the help and advice of the appropriate business communities concerned; that an explicit program be developed for the improvement of the climate in those countries studied; and that, wherever the foreign aid program offers some effective opportunity for the improvement of such climate, the opportunity be used to the full.*

AID has received preliminary investment climate studies made by the Missions in Brazil, Thailand, Korea and Turkey. They are a useful step in the continuing process of studies in depth of the private sectors in these countries. More important, they bring out some of the more serious impediments to private investment, which can and should be attacked in the near and intermediate future, pending elaboration of broader, longer term plans. The results of the studies have begun to be reflected in Country Program submissions for FY 1968.

### 1.3.2 Financing Incentives

(Recommendations #6, 14, 15, 16, 17, 20, 25, 28)

- #6 *We recommend an expansion of the extended risk guaranty. In undertakings in which businessmen are willing to risk as much as 25% of the total investment on a junior basis, an amount not to exceed 75% of the investment should be eligible, upon approval by AID, for a 100% extended risk guaranty. To permit adequate opportunity for the development of such programs, we recommend that the statutory authority to issue housing and extended risk guaranties be prolonged to June 30, 1969. We recommend also that the \$25 million guaranty limit in connection with loans and the \$10 million limit in connection with other investments be removed.*

Authority has been increased to \$375 million and the program extended to June 1969. AID now offers to long-term institutional lenders a direct 100% guaranty when other financing (generally shorter term) is furnished by banks or other private financial institutions equal to 25% of the loan financing. This gives institutional lenders the full 100% coverage they require and which the Committee recommended. A Standard Form Guaranty to be used in such cases has been completed, and guaranties on this basis have been authorized on four projects since June 15, 1966. The guaranties total about \$40.0 million, and total investment in the projects is about \$170.0 million.

The reduction of fee is still under active consideration. Congress has removed the \$25 million guaranty ceiling on loans and the \$10 million limit on other forms of investment.

AID is developing a form of equity risk insurance under the extended risk guaranty authority.

- #14 *We recommend that the Federal Reserve Board amend its recommendations to United States banks so that the restrictive effects on loans to less developed countries are eliminated.*

Currently the banks have a wide margin for lending operations in the less developed countries well within the guidelines.

- #15 *We recommend that a large-scale program of assistance be expanded for the development and improvement of local financial institutions in support of private and cooperative enterprises in the less developed countries; and that the program draw heavily not only on the expertise of the United States and other advanced countries, but also on expertise in countries whose institutions may be more relevant to those of the less developed countries. Presumably, such a program could be conducted not only through the auspices of public international agencies such as the Organization of American States and the United Nations specialized agencies, but also through private organizations such as those in the cooperative and labor fields which have the necessary experience and interest.*

AID continues to put major emphasis on financial support of and technical assistance to intermediate financial institutions and cooperatives. It is acutely aware of the importance of private capital building in the LDCs. It continues and will continue to make loans to such institutions, both in dollars and, where appropriate, in local currencies. These institutions have been of a variety of types: generalized, as industrial development banks and specialized, such as credit unions, housing banks, agricultural banks, etc. Some of these loans are conditioned on their being relented to specialized borrowers, such as agricultural cooperatives, small farmers, rural electrification cooperative systems, and the like. In making these loans AID seeks to encourage private ownership of these institutions.

- #16 *We urge the United States Government to approve a proposal to permit the IFC to borrow up to \$400 million from the World Bank for investment in private enterprise in the less developed areas; and we urge approval of the provision eliminating the need for the guaranty of such transactions by governments in the country of investment.*

Action completed.

- #17 *We recommend that AID review its policies with a view to widening the use of United States-owned local currencies; and in that connection, that it give serious consideration to the greater use of those currencies for increasing the capital base of financial intermediaries of both the commercial and cooperative types.*

U.S. controlled local currencies are in excess of requirements for U.S. Government use in only ten countries. Of these, potential applications of the kind recommended by the Committee seem feasible in India, Pakistan and the United Arab Republic. A change in AID policy authorized in January of this year now permits the lending of Cooley funds to U.S. banks overseas and their affiliates to be used for sub-loans to private borrowers. This channels local currency to the small investor who needs it and assures that management of the lending operation is in competent hands. So far, we have authorized three such loans to a U.S. bank in Pakistan and are considering others in India.

- #20 *We recommend that AID offer portfolio investors extended risk guaranties, combining risk-yield features which make selected securities of private enterprises in the less developed countries competitive with the alternative opportunities of such investors.*

AID continues to explore possible applications of Recommendation No. 20. To date, however, we find that institutional investors are only interested in 100% coverage.

- #25 *We recommend that AID and the Export-Import Bank review their present policies for extending guaranties and export credits to exports of technical and professional services destined for the less developed areas, with the object of eliminating any remaining disparities of treatment between exports of services and exports of goods.*

The Export-Import Bank has indicated that it is prepared to give guaranty contracts against political risks for the equipment of construction contractors while it is abroad. AID has been willing to write such insurance for a considerable period of time.

- #28 *We urge the Congress to encourage not only well-conceived PROJECT loans but also well-conceived PROGRAM loans in the administration of United States aid, especially when such program loans would stimulate the local private sector to a greater contribution in the process of social and economic development.*

During Fiscal Year 1966 AID authorized 13 program loans totalling \$822 million.

1.3.3 Insurance Incentives

(Recommendations #5, 19, 7)

- #5 *We support the proposals under consideration by the Congress which would: (1) raise the \$2.5 billion statutory ceiling on the guaranties against inconvertibility, expropriation and military hazards to a new level of \$5.0 billion; (2) relax the statutory requirements for enterprises eligible for guaranty, to permit the coverage of foreign corporations jointly owned by more than one U.S. company; (3) relax the 20-year statutory limitation on the life of guaranties; and (4) permit AID to use income from the guaranty program not only for the management and custody of assets but also for certain other operational costs associated with the guaranty program.*

*We urge in addition (5) that enterprises be permitted to insure comprehensively for all three categories of risk, rather than for each risk separately, thereby reducing the total amount of insurance coverage required; and (6) that consideration be given to a reduction in the rates applicable to such insurance so that the coverage of two specific risks costs  $\frac{3}{4}\%$  rather than 1%, and the coverage of three specific risks costs 1% rather than  $1\frac{1}{2}\%$ .*

4/6

In the Foreign Assistance Act of 1965, signed by the President on September 6, Congress adopted the proposals covering points 1 through 4 although the 20 year limit on guaranties was relaxed only for loans. On March 15, 1966, AID announced that combined war and expropriation coverage is now offered at 7/8%; that the convertibility premium has been reduced from 1/2% to 1/4%; and that the fee for standby coverage is reduced from 1/4% to 1/10%.

- #19 *We recommend that AID tailor its specific risk guaranties to permit their easier availability to United States buyers of selected issues of foreign private enterprises. Among the possibilities which AID should explore is: arranging for the application of such guaranties through negotiation and agreement with the underwriters rather than with the ultimate buyers, thereby sparing the buyers the cost and difficulty of direct negotiations and ensuring a wider United States market for the securities involved.*

AID has recently drawn up a new form of specific risk guaranty contract for use in conjunction with extended risk guaranty contracts by lenders who are financial institutions or banks. It simplifies the provisions and applies directly to the notes so that the guaranty contract is transferable. This eliminates many of the difficulties in negotiations over a specific risk contract which might occur, and makes specific risk guaranties much more easily available to the U.S. buyers of certain kinds of notes of private enterprises abroad.

AID, in consultation with leading bankers, is developing a special contract for institutional lenders which have no interest in foreign enterprises except for individual loans. This contract can be rapidly issued and will give more precise coverage to "arms-length" lenders.

AID is willing to negotiate contracts of guaranty with underwriters rather than the ultimate buyers.

- #7 *We recommend that the United States Government urge the World Bank and the Inter-American Development Bank to explore further the feasibility of setting up a guaranty system which would selectively indemnify both locally-owned and foreign-owned enterprises in the less developed countries against the effect of a devaluation.*

The Executive Directors of the World Bank have extensively considered the establishment of a multilateral investment guaranty system. It is clear that they do not at this time wish to establish a guaranty system which would indemnify private investments against the effect of devaluation. The approach has been specifically rejected. However, much progress has been made in connection with the multilateral, political risk investment guaranty system. The Bank staff is currently preparing a draft charter for a proposed Multilateral Investment Guaranty Corporation.

#### 1.3.4 Tax Incentives

(Recommendations #9, 10, 11, 12, 18)

#9 *We recommend that the United States tax laws and regulations be amended so that the United States taxpayer's right to offset losses in subsidiaries against taxable income from other sources would be the same for subsidiaries in less developed countries as it is for subsidiaries in the United States.*

No current plans for implementation.

#10 *We recommend that the United States Senate accept the provisions of the United States-Thailand tax treaty which would apply a 7 percent investment credit to United States-owned investment in Thailand.*  
*We recommend also that the United States Government take steps to apply the same treatment to investment in other selected less developed countries, either by legislation or by treaty.*

The United States has signed tax treaties containing a 7% investment credit clause with Thailand and Israel and has concluded a similar treaty with Brazil (which is expected to a considerable extent to be a forerunner of treaties with other major Latin American countries), Trinidad and Tobago, and Korea - all of which involve the investment credit clause. The full Senate Foreign Relations Committee is expected to consider the Thailand treaty in the near future. A Subcommittee which conducted hearings on the treaty has expressed some reservations on the 7% investment credit provision. In any event it is likely that even if approved the provision would be subject to suspension if and so long as the similar domestic provision is suspended.

1/5

- #11 *We recommend the enactment of a proposal for a tax credit equal to 30 percent of the investment by United States investors in productive facilities in less developed areas, to be applied against the total United States tax liability of such investors.*

No current plans for implementation.

- #12 *We recommend that the encouragement to investment offered by such tax-sparing measures in less developed countries should not be negated by United State tax laws.*

Although the principle of tax sparing was incorporated in a tax treaty with Pakistan negotiated several years ago, the treaty was withdrawn by the Administration as a result of a basic change in policy. Tax sparing is disadvantageous to the developing country because it encourages rapid repatriation of profits. (It is only when the profits are brought back into the U.S. that the investor derives a direct U.S. tax benefit.) Further, tax sparing gives the greatest benefits to U.S. investors in countries with the highest rates of local taxation and gives local tax authority the power, in effect, to set U.S. tax levels.

- #18 *We urge the Administration to consider the possibility that any United States tax credits extended by treaty or legislation to the direct investments of United States investors in less developed countries, such as the 7% and 30% credits proposed in Section 2, also should be extended to the portfolio investments of United States corporate or institutional investors, wherever such investments meet the eligibility criteria which would apply to direct investments.*

No current plans for implementation.

#### 1.3.5 Promotion

(Recommendation #4)

116

- #4 *We recommend that both the United States Government and private organizations assist the less developed countries in undertaking large scale programs of market studies and feasibility studies, to be used as part of a campaign in engaging the interest of prospective local and foreign private investors. In view of the need for persistence and continuity in the promotion of any given project, the generating of such studies should be the prime responsibility of local entities, such as a development bank or well-equipped ministry, motivated and equipped to maintain a follow-up campaign from the stimulation of an initial interest by investors to the final act of establishment. If necessary, the contracting of foreign technical assistance should be included. AID financing should be predicated on significant contributions by the local institutions but might include the costs of a substantial effort to "sell" proposals in face-to-face contracts with enterprises in the United States.*

Pursuant to the recommendation that more data be gathered and more companies "sold" on the opportunities now prevailing, AID has intensified its call for more prefeasibility studies from industrial development institutions in Latin America and from its missions in Africa and in the Near and Far East, and has initiated major experiments in new promotional techniques for two of the assisted areas.

Under the direction of an American industrialist with long experience in Latin America, a new approach to industrial promotion, using contractors whose knowledge and contacts relate to specific areas of industries, is being applied to the Latin countries. A correlative experiment in Africa is emphasizing the use of Edge Act Corporations both for identifying opportunities and for bringing them to the notice of their industrial clients. Lastly, through a series of meetings attended by industrial and capital development officers from each of the regional offices, a set of techniques has been defined for the guidance of AID missions abroad.

## 2. Increase Private Sector Non-Profit Contribution

### 2.1 Create new institutions

(Recommendations #27, 31)

#27 *We recommend that AID assist in financing the development of appropriate non-profit institutions in the less developed countries and that it finance the development of links between such organizations and their counterparts in the United States through which technical assistance could be effectively provided. Assistance of this sort could take many forms, from such familiar activities as assisting educational institutions to supporting public forums and discussion groups. We see this activity, too, as a fruitful possibility for the expenditure of United States-owned local currencies.*

#31 *We recommend that the Administration formulate specific proposals aimed at creating one or more organizations which could increase the technical assistance commitments of private groups and in time more effectively administer publicly-funded technical assistance programs in coordination with those which are privately-funded. In view of the urgency of the problem, such proposals should be prepared in time for consideration and adoption in next year's AID program.*

AID has two evaluations underway related to Recommendations 27 and 31.

-- an appraisal of AID's international structure for working with the increasing number of variety of non-governmental resources in the development program.

-- an evaluation of mechanisms outside the Agency which are being used to encourage and enlarge the available resources - in the academic institutions, and in the business, industry, labor, savings and cooperative fields. The Foreign Assistance Act of 1966 contains language which would require the establishment of an effective system for obtaining adequate information concerning the activities of, and opportunities for, non-governmental participation in the development process and for utilizing such information in the planning, direction and execution of assistance programs and in the coordination of such programs with the development activities of non-governmental U.S. institutions (including voluntary organizations, citizen groups, academic institutions, etc., in addition to private business firms.)

Over the past months, AID has also given strong attention to the problems of assuring that developing countries have continued access to adequate technical assistance resources when AID funded programs have been phased out. A Development Resources Referral Center will be set up to perform this function.

The entire range of problems dealt with in these two recommendations is under intensive review.

## 2.2 More Emphasis on Development of Human Resources

### 2.2.1 Education

(Recommendations #22, 32 )

*#22 We strongly urge AID, in reviewing and responding to a country's development strategy, to place major emphasis upon the planning, host country commitments to, and the execution of educational programs. In such programs, we urge AID to use every means to tap the rich resources in United States universities, labor unions, cooperatives, business enterprises, professional societies, and other non-governmental entities which have something to offer to the educational process.*

AID fully endorses this recommendation. AID's Five Year Program Reviews in the Spring and the annual reviews this fall have shown sharply increased emphasis on education, in particular long-range educational planning. Provisions in the Foreign Assistance Act of 1966 create a new grant authority permitting AID to initiate grant programs to American educational and research institutions to strengthen their capacity to support longer range AID programs in the developing countries.

*#32 We commend AID on its initiative in seeking the creation of a binational non-profit foundation in India; we urge AID to press forward with this experiment as a matter of high priority; and we urge that, if initial indications are encouraging, the experiment be repeated in other countries where local conditions are favorable.*

The U. S. Government has proposed the establishment of an Indian Bi-National Foundation, and discussions with Indian officials are continuing.

### 2.2.2 Management

(Recommendation #24)

- #24 *We urge AID to actively promote the development of management schools and vocational institutions in the less developed countries capable of generating the manpower needed for the management and operation of a society based on principles of private enterprises, cooperative ventures, and other non-centralized enterprise forms. We also recommend that AID survey the possibilities of more extensive use of facilities of American-owned subsidiaries and affiliates in the less developed countries for training purposes; and that it undertake to provide financial support, using local currency as available, for such added training activities as these enterprises or other organizations might be willing to undertake with the use of those facilities.*

AID continues to provide funds and technical assistance for the establishment, equipment and upgrading of management, vocational and trade schools. The importance of developing management and technical skills is emphasized in the country programs of virtually all AID Missions, and they are conscious of the need to refine and improve on these projects. AID is continuing to canvass the possibility of using American-owned plants in the less developed countries for training purposes and is cooperating with the OECD in making a pilot survey of training activities in the LDCs of private firms. An interim report by the OECD Secretariat suggests that there are real possibilities of expanding these efforts through government support of the private firms. AID believes that joint sponsorship of new institutions, such as accounting schools, by a group of foreign private investors is particularly promising and stands ready to consider appropriate government support.

### 2.2.3 Research and Technology

(Recommendations #23, 26)

- #23 *We recommend that, in selected cases, AID partially finance the sale of technical, professional or managerial assistance from United States organizations to entities in less developed countries, and that the subsidy contribute not only to the costs of the assisting enterprise but also to the costs of searching out and finding the appropriate source of such assistance.*

57

AID does not believe that it is appropriate or administratively feasible to involve itself in the selection of particular commercial transactions involving the transfer of technology from a private U.S. firm to a private firm in an LDC which would receive special subsidy support. However, AID fully shares the views of the Committee on the importance of insuring an expansion of the transfer of technical, professional and managerial assistance. We believe that our efforts should be directed to supporting and strengthening institutional mechanisms which will increase the flow of skills and knowledge.

AID's continuing support of the International Executive Service Corps is illustrative of this approach.

Another illustration of the institutional approach is the current negotiations that AID is continuing with VITA (Volunteers for Industrial Technical Assistance), a non-profit organization managed and directed by prominent businessmen and scientists, to provide a technical inquiry service directed primarily to the solution of problems confronting small and medium sized private businesses in the less developed countries.

AID expects to enter into an agreement with VITA to provide funding support sufficient to permit the organization to sharply expand its activities.

- #26 *We recommend that AID finance increased research imaginatively related to the agricultural, industrial, educational and administrative needs of the less developed countries. In some of these fields, such as agriculture, education, and administration, the research would no doubt have to draw heavily upon United States resources, of the sort that can be provided by universities, agricultural research institutions, and the like; but the experimentation itself would usually take place in the less developed areas themselves and should be directed towards strengthening research institutions and capabilities within these areas. Defining the problems to be studied and identifying qualified research capabilities requires of AID considerably more skill and more effort to involve the less developed countries than has heretofore been characteristic. Some of this activity might be financed by United States owned local currency where available.*

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AID's Research Advisory Council has recently commended the administrator for sharp improvement in both the substantive content and administrative conduct of AID's research program. Especially noteworthy progress has been made in the agricultural field.

A particular effort is being made to increase the research capabilities of institutions in the less developed countries. A good example is AID's support of the newly constituted Korean Institute of Science and Technology, discussed at length in the section dealing with Korea.

The Foreign Assistance Act of 1966 adds a new provision stating that in developing countries where food production is not meeting the demands of populations, or diets are seriously deficient, high priority shall be given to increasing agricultural production, particularly through adaptive agricultural research programs based on cooperative undertakings between universities and research institutions in the U. S. and in the developing countries.