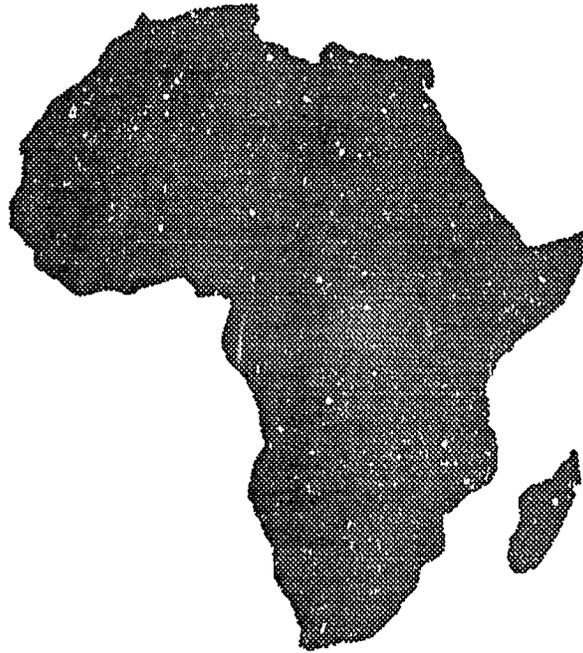


PRIVATE SECTOR INITIATIVE FOR AFRICA

OVERVIEW

LABAT-ANDERSON Incorporated
Arlington, Virginia



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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The *Private Sector Initiative for Africa* reports were prepared for the Private Sector Division of the Office of Operations and New Initiatives under the direction of Desaix Myers (AFR/ONI/PSD) and M. Peter Leifert, Study Coordinators, with the assistance of Arthur Rubin, Research and Information Specialist, and David Elwell, editor:

- *Issues in Direct Assistance*, by Nicolas Kulibaba
- *Endowments and Intermediary Institutions*, by Donor M. Lion
- *Business and Professional Associations*, by Mary Menell
- *Health, Family Planning, Education, and Agriculture*, by Allison Butler Herrick
- *Compendium*, by Ray Malley (Gabrielle Dennis, Research Assistant; Stuart Bozevich, Data Analyst)

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These reports were prepared for USAID by independent consultants. The views expressed herein are not necessarily those of USAID or of the United States Government.



AS THE TURN OF THE CENTURY APPROACHES, African nations and those that seek to help them are taking a fresh look at persistent problems of development and reexamining their attempts to solve them. Developed and less-developed countries alike are recognizing the power and potential of the private sector in development.

During the next decades, USAID missions will decide to undertake practical and effective development efforts that maximize their focus and effectiveness through the private sector as a result of their reexaminations. The key to the success of these new efforts will be these missions' abilities to create projects that match existing opportunities, trends, and conditions.

A.I.D. possesses (or has available to it) a wide array of tools, funding arrangements, and intermediaries to help it promote private sector development in Africa (Figure 1). These tools and arrangements are available to A.I.D. to carry out its development business, whether that involves assistance to governments, direct or indirect assistance to the private sector, or the provision of services by the private sector.

The accompanying *Private Sector Development Initiative for Africa* reports (*Issues in Direct Assistance, Endowments and Intermediary Institutions, Business and Professional Associations, and Health, Family Planning, Education, and Agriculture*) are intended to guide USAID missions in preparing for the opportunities ahead. They point to options that maximize the impact of private sector development programs with limited mission resources. Most, if not all, of the activities outlined and suggested in the reports have been done before, in other A.I.D. bureaus or by other donors, and are doable under current A.I.D. rules and regulations.

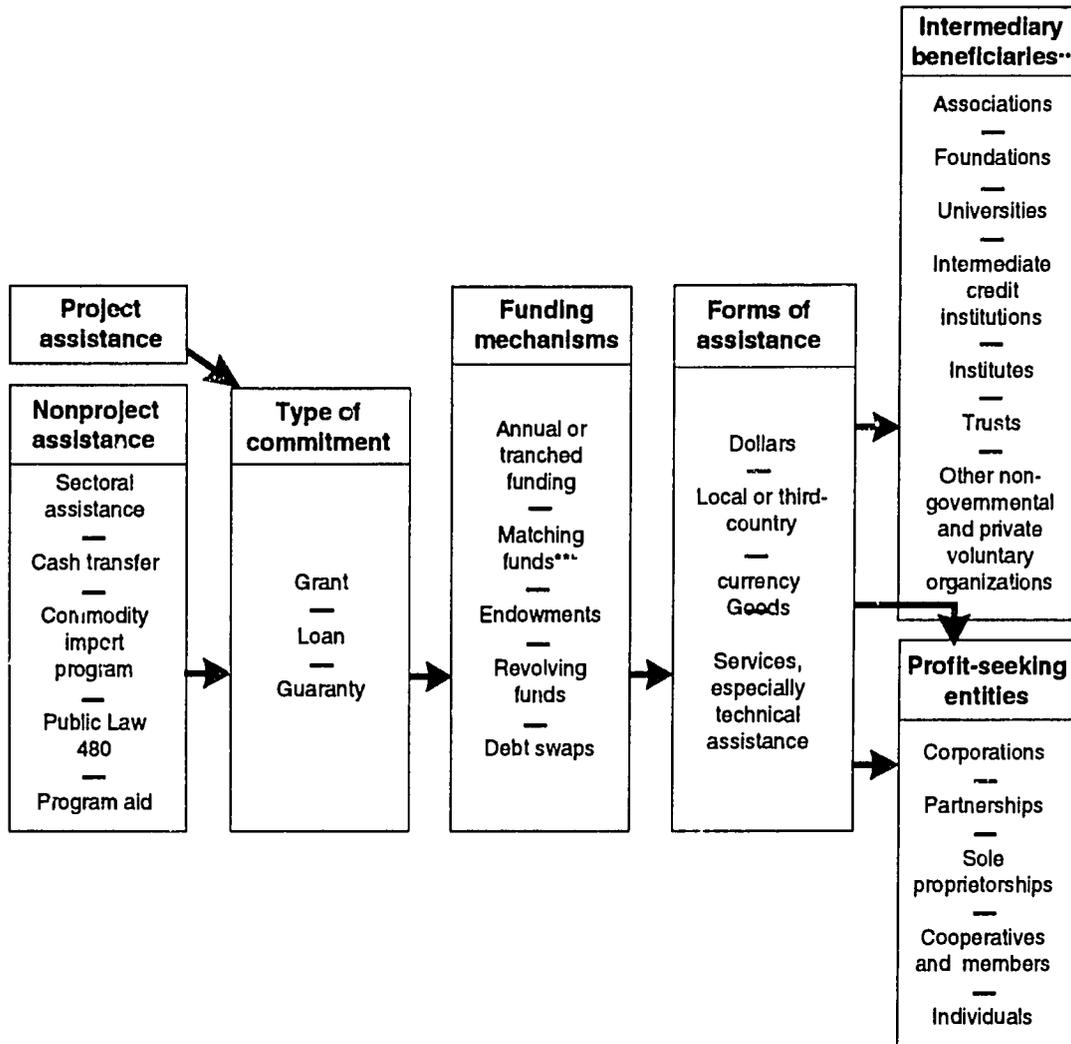
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OVERVIEW

FIGURE 1. A.I.D. TOOLS AND MECHANISMS FOR PROVIDING ASSISTANCE* TO THE PRIVATE SECTOR

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* Many of these tools and mechanisms are also available to A.I.D. when it works with or through International agencies, national governments, or regional or local authorities

** As illustrated, intermediary beneficiaries can also be direct beneficiaries.

*** Other types of conditionality include, but are not limited to, those relating to policy, institutional, and regulatory reform.



BACKGROUND

Upon achieving independence from colonial rule over the past three decades, most new African governments immediately attempted to take control of their own economic as well as their political affairs. Whether the political and economic plans that looked so promising were doomed from the start or were undercut by unforeseeable events can be argued elsewhere. Suffice it to say that development remains a challenge today. Although development programs have made significant progress in many areas, in most countries in Africa the fundamental and overwhelming obstacles remain.

Over the years, and with varying degrees of optimism, A.I.D. and other donor organizations have supported the planning and implementation of many development programs in many forms in Africa. Today, as African governments consider new approaches to old problems, the aid community is conducting a parallel reassessment. If there is less faith today in the predictability of individual development projects as well as of grander schemes, there is also more openness to new approaches, especially those that incorporate and build upon the dynamism and target the self-sustainability of the private sector.

Today's search for new approaches will uncover many opportunities for efforts that combine existing trends and infrastructure with approaches that have worked elsewhere. The key for USAID missions in the coming years will be to follow trends in the country-specific, regional, and international private sectors, to identify opportunities, and then to conduct a truly broad-based assessment of how A.I.D. can contribute to development that will be effective and sustainable without creating dependence or distortion. The four accompanying reports are intended to serve as guides to help USAID missions consider the widest range of options for development assistance mechanisms appropriate to current local conditions.

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Three general trends suggest the importance of taking another look at how A.I.D. might contribute to African private sector development:

- *Economic stagnation.* Sub-Saharan Africa has made little economic progress during the past decade. In many countries, per capita income has declined and quality-of-life indicators have fallen.
- *Private sector lag.* The private sector in Africa has lagged behind its counterparts in other developing and developed regions. This disappointing private sector performance helps to explain the subcontinent's economic malaise.
- *Emerging opportunities.* Until very recently, most sub-Saharan African countries did not present the opportunities for pursuing private sector development offered by countries in other regions. Statist economies, with the government running and regulating economic affairs, lingered longer than in other regions. "Dictatorial development" characterized much of the African scene, while more market-oriented economies, with more developed and modern institutions required for thriving private sectors, progressed more rapidly in other regions.

The 1990s present more opportunities to work with the private sector in Africa, directly or through intermediaries. African nations can modify and use innovative approaches that have been applied elsewhere. A.I.D.'s and other donors' experience can be increasingly exploited as political changes in Africa are compelling donors to reexamine their approach to development strategies, programming, and implementation. Plagued by stagnation, decline, and economic crisis, most African countries are looking to different models, especially those that give greater prominence to the private sector.

Political changes in Africa have been reinforced by recognition that macroeconomic assistance and structural adjustment have not generated the level of investment required for satisfactory growth. Macroeconomic reform has helped, but different models of politics and development are required, with pragmatic private sector development programs a major component of those models.



In the coming years, A.I.D. will be more likely to explore emerging opportunities for private sector development in Africa because of its philosophical and policy emphasis on the private sector. A reflection of A.I.D.'s enhanced focus on private sector development is its Partnership for Business and Development program. There is a growing consensus throughout the world on the following points:

- The public sector is severely limited in its capacity to directly bring about sustainable growth.
- Although government is critical to creating, sustaining, and regulating the environment in which the private sector can grow and flourish, the private sector is the more likely and necessary engine of national economic growth.
- Government, through policy and regulation, has been, and in some countries still is, detrimental to private sector and national growth.

For much of the 1980s, most multilateral and bilateral donors, including A.I.D., emphasized assistance to governments in Africa. This assistance included policy dialogue and support for economic reforms.

Despite the evolution within A.I.D. of a private sector emphasis as part of its development philosophy and strategy, this emphasis was not adopted and practiced equally in all of A.I.D.'s regions. In Asia and in Latin America and the Caribbean, A.I.D. pursued development strategies that assigned a major role to the private sector. In the process, the Agency used a variety of private sector development tools and mechanisms and gained considerable experience. In Africa, the lag in exposure to and use of private sector development tools and mechanisms calls for efforts to make better known what can be and has been done elsewhere. By using the four accompanying reports, USAID missions in Africa can draw upon this experience to respond effectively to the opportunities that are now apparent and others that are sure to arise.

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SUMMARY OF CURRENT FINDINGS

In the past, the major vehicles of A.I.D.'s assistance that have benefited the private sector have been government institutions and not-for-profit intermediaries. The private sector has benefited from improved public policies, rules, and regulations. These past programs have, however, sometimes been read to imply a prohibition on direct assistance to for-profit firms. In fact, direct assistance to private sector firms in less-developed countries and to U.S. companies operating in these countries is not a new area for A.I.D., nor is such assistance beyond the mandate of Agency activity.

Nicolas Kulibaba's accompanying report, *Private Sector Initiative for Africa: Issues in Direct Assistance*, reviews A.I.D.'s experience with and policy guidance for direct assistance and surveys its advantages and pitfalls.

Donor M. Lion's report, *Private Sector Initiative for Africa: Endowments and Intermediary Institutions*, looks into the use of nongovernmental institutions, primarily as intermediaries, along with a variety of funding mechanisms. The report focuses on the foundation as an institution and endowment as a mechanism, but it also discusses other development agents and financing arrangements.

Mary Menell's report, *Private Sector Initiative for Africa: Business and Professional Associations*, examines A.I.D.'s experience with associations and their potential for supporting private sector development, with particular emphasis on the potential for linkages and cooperation between U.S. associations and their African counterparts.

Allison Butler Herrick's report, *Private Sector Initiative for Africa: Health, Family Planning, Education, and Agriculture*, discusses options for USAID missions with regard to the private provision of services, starting with the recognition that a great many people in Africa are already receiving "public" goods and services from providers in the private sector. The report surveys A.I.D.'s experience with the direct and indirect promotion of service provision by the private sector.

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