

AGENCY FOR INTERNATIONAL DEVELOPMENT
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MEMORANDUM

March 20, 1987

TO: Distribution

FROM: ANE/PD/EA, Robert Shoemaker

SUBJECT: Regional, Private Enterprise Development
Project (879-0003) Project Paper
Project Committee Meeting

PID 01

A Project Committee meeting to review the subject document will be held on March 30, 1987 at 2 P.M. in Room 3320A.

Your participation is invited.

Attachment: PID

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REGIONAL PRIVATE ENTERPRISE DEVELOPMENT

Project (879-0003)

BACKGROUND AND INTRODUCTION

From 1978 to 1987, the USAID Regional Development Office South Pacific (RDO/SP) has been carrying out limited private enterprise (PE) development activities, primarily through intermediaries -- private voluntary organizations (PVOs) and regional organizations, and through the small grants "Accelerated Impact Program" (AIP). During the past two years PE activities have intensified. Due to this accelerating pace, PE efforts are becoming unmanageable under the current ad hoc system. USAID seeks to establish a five-year, \$5 million LOP Regional Private Enterprise Project to facilitate quick response and to add management efficiency. This Project Identification Document (PID) is submitted to formalize into a project those private sector development activities already being conducted in the South Pacific region.

USAID private enterprise activities were presented in the Congressional Presentation, Fiscal Year 1985, ANNEX II - Asia, page 157, and emphasized "contractor or grantee conducted regional conferences and workshops designed to explore and enhance United States - Pacific Islands trade, joint ventures, and investment opportunities." Additionally, export promotion, policy dialogue, privatization of state-owned enterprises, and institution building are principal goals of the project.

The project will assist the governments and private businesses in the independent nations of the South Pacific (Cook Islands, Tonga, Western Samoa, Kiribati, Tuvalu, Fiji, Papua New Guinea, Solomon Islands, Niue, and Vanuatu) to adopt and implement business-enhancing policy, promote competition, develop management skills, and generate new exports and employment.

Funding for the project was approved in the FY86 ABS and CDSS. USAID has carried out pre-project work, as approved by AID/W, including implementation of USAID PE strategy and hiring of a PSC advisor for Private Enterprise Development in July 1985. Expenditures for PE in FY87 are expected to be nearly \$500,000 or about 50 per cent of the planned annual PE project budget.

I. Program Factors

A. Conformity with Recipient Country Strategy/Programs

Papua New Guinea and Fiji are the countries of primary focus for implementation of USAID's Private Enterprise Project. Together, they represent more than 80 per cent of the population in USAID's area of responsibility. Additionally, each country is actively engaged in privatization activities, has policies favoring the private sector, and has sufficient infrastructure to support business development.

Countries of secondary focus are supportive of indigenous PE development and include the Solomon Islands, Vanuatu, Tonga, Western Samoa, Niue, the Cook Islands, Tuvalu, and Kiribati.

indefinitely. Burgeoning population growth, in some areas as high as 3.5 per cent, is placing increasing demands on fragile economies.

Pacific Island nations have been characterized by a near total lack of involvement of indigenous Pacific Islanders in business enterprises. Except for Fiji, where a large immigrant Indian population has extensive business holdings, most Pacific Island commerce is conducted by foreign companies, mostly of Australian, British, or New Zealand origin. While such companies have met the basic mercantile needs of the Pacific Islands for more than a century, independence has weakened the grip of such business houses, which often had close ties with colonial administrations, and sharpened the desire of Pacific Island leaders to foster indigenous business development and expansion.

A growing and increasingly younger population is abandoning the traditional subsistence-affluence economy and seeking paid employment in urban centers or attempting to operate their own businesses. Population shift from rural to urban areas further aggravates serious unemployment -- Tonga recently "officially" listed its unemployment rate at 20 per cent -- and underemployment in provincial towns and national capitals. Cultural norms require business owners to "share" the resources of their businesses, often until the businesses are no longer financially viable.

The profitability of small businesses is further constrained by inefficiencies of production and poor marketing due to a deficiency in business management skills and financial acumen common among indigenous peoples in Pacific Island nations. While cultural business constraints are now widely recognized, it is the lack of business management skills

which produces a high rate of failure for Pacific Islander-owned and -operated businesses.

Island governments have recognized the need to encourage development of the private sector; yet, few have developed the means or the will to shift economies away from extensive government involvement in private enterprise. At the same time, governments have not fostered private sector employment to increase the numbers of workers entering the monetized economy. Competition from State-owned enterprises (SOEs), elaborate import controls, and high domestic taxes work together to discourage the development of new and diversified business.

A newly released report, "Indigenous Business Development in the Pacific,"¹ cites policy and institutional barriers as constraints to business development throughout the Pacific Islands and calls for "...developmental assistance to help third world countries elaborate their policy, legislative and institutional framework."

B. Project Goal and Purpose

The goal of the project is to assist Pacific Island nations to strengthen the private sector and its ability to drive the economies of Pacific Island nations. The purpose of the project is to assist the ten independent nations of the South Pacific to adopt and implement policies and structures to encourage indigenous private enterprise development.

¹ "Indigenous Business Development in the Pacific," Hailey, John, Pacific Islands Development Program, East-West Center, University of Hawaii, October 1986.

C. Expected Achievements

— increase exports of Pacific Island products by developing an institutional capacity to provide product development and marketing services (emphasis will be placed on value added and traditional export products: spices, tropical hardwoods, coconut products, seafood, tropical fruits, handicrafts, coffee, cocoa, rum products, confections, jams, and condiments) and by fostering joint ventures, e.g. tuna purse seine fishing enterprises.

— assist in the privatization of government-owned and operated businesses and contract out of government services to foster competition.

— provide Island governments with assistance and policy dialogue toward replacing business control-oriented policy with incentive-oriented policy.

— raise level of business management skills especially in areas of financial management, marketing, business planning, production scheduling, and quality control.

— create new export products to help strengthen the economies of the South Pacific nations by earning foreign exchange and creating new jobs.

D. Project Outline and Implementation Plan

The Project will focus on three areas.

First, to increase exports and generate new jobs by:

a. developing institutional capacity for private enterprise support to act as a broker to increase trade between Pacific Island entrepreneurs and overseas markets; initiating marketing studies, regional cooperation for production and marketing, and export promotion of Pacific Island products;

b. encouraging joint ventures with U.S. companies by providing funds for feasibility studies and appropriate access enhancement.

Second, to effect change in government policy by:

a. undertaking studies to identify policy and institutional constraints to business development and provide the financial and technical assistance to facilitate change of policy;

b. conducting ongoing contact with policy makers through conferences and consultation to encourage: privatization of parastatals and other government-operated enterprises and services through contracting out; private sector competition; and compensation for employees displaced by privatization.

Third, to enhance business performance by:

a. providing management training which is specifically responsive to expressed needs of the South Pacific private sector, in such fields as finance, marketing, quality control, packaging, and preparation of business plans as conducted by U.S.- or Pacific Island-based private sector management consultants;

b. facilitating on-site "coaching" and business consultation, specializing in industry-specific application of technology, management, operations, and marketing through coordination of such programs as SUSTAIN, IESC, STAS (U.N. Sponsored Short-term Advisory Services).

USAID's assistance will emphasize small-scale firms, which tend to be labor intensive, and will be linked to employment generation especially in rural areas and provincial towns.

III. Factors Affecting Project Selection and Further Development

A. Social/Cultural Considerations

1. Social/cultural context

There are three distinct groups of islands within USAID's area of responsibility in the Pacific.

a. Melanesia - meaning "dark islands" - includes the Solomon Islands, Papua New Guinea, Vanuatu, and Fiji.

b. Polynesia - meaning "many islands" - includes Tonga, Western Samoa, Cook Islands, Niue, and Tuvalu.

c. Micronesia - or "small islands" - includes Kiribati, the northernmost nation culturally related to the "Freely Associated States" of Micronesia.

Each of these areas offers different social factors which influence the development of private enterprise.

In Melanesia, individual initiative is encouraged; however tribal groups often pit their efforts against each other. Private

agricultural projects requiring large tracts of land must be carefully designed to consider the problems of dealing with communally owned land and must be planned in close cooperation with government. The financial interests of rival groups must be dealt with in order to create a stable environment for business. In such cases government involvement as a mediator between rival groups and the concerned business may be critical.

Polynesia is characterized by strong tribal or family obligations which can often hinder development of private entrepreneurship by creating personal demands on the resources of a business. However, such strong family ties can also be a means to pool capital for business ventures.

Micronesia, Kiribati in particular, has been dominated by government-provided services almost to the exclusion of the private sector. Recently, however, the GOK has requested USAID assistance to develop a national privatization policy. Such action seems to indicate a change in government attitude which may encourage and support the private sector -- a change which is surely due in large measure to considerable USAID dialogue with GOK leadership.

Fiji requires separate handling due to the unique composition of its population. Since 1879, when Britain brought indentured laborers from India to work on the sugar cane plantations, Fiji's Indian population has grown to more than half the population and dominates the retail and small manufacturing sectors. A recently completed study, conducted by the Pacific Islands Development Program at the East-West

Center in Honolulu titled, "Indigenous Business in Fiji,"² identified "lack of management experience and business skills...the failure to control or exploit personal relationships, lack of sufficient capital resources, and limited marketing skills...." as common causes for the high rate of failure of indigenous Fijian businesses. The study highlights the need for training opportunities, especially practical and financial courses geared to Island entrepreneurs, for access to capital, and for development of effective marketing skills.

2. Beneficiaries

The FY85 CP states, "Immediate target beneficiaries are the many small agricultural and agribusiness enterprises and potential entrepreneurs throughout the island nations who lack access to inputs necessary to make them competitive in the export marketplace. Assuming this project can assist in accelerating appropriate export production and marketing and significantly expand employment opportunities, a large number of rural households and urban unemployed stand to reap considerable benefit."

Employment generation activities will focus on small, labor-intensive firms or those agribusinesses which create rural employment. Additionally, specific income and job creation projects will be funded in sectors that particularly benefit women. There are no legal or major cultural barriers to formal employment of women in any Pacific Island country.

² "Indigenous Business in Fiji," 1986 Pacific Islands Development Program, East-West Center, Honolulu, Hawaii.

3. Impact

Except for individual education and group training seminars, virtually all USAID-funded private enterprise activities will be designed to be self-sustaining.

B. Economic Considerations

USAID has a wealth of economic research information from country-specific business studies prepared by the Pacific Islands Development Program (PIDP) at the East-West Center. Drafts of these studies, funded under a USAID grant, have served as a primary source of information for the Project. The initial studies presented individual country findings.

Economically, the most promising of these island nations are Fiji and Papua New Guinea. Because of greater land mass, larger populations, or other comparative advantages, these countries have the capacity to develop small industry with a viable economy of scale.

Next in promise are the Solomon Islands, Vanuatu, Western Samoa and Tonga, which offer less land mass, smaller populations, and (except for subsistence agriculture) a more limited resource base.

Third ranked are Kiribati, Tuvalu, Niue, and the Cook Islands. They are characteristically small islands or widely dispersed, low-lying atolls. These micro-countries have poor soil, a scarcity of fresh water, and few land-based resources to draw upon for private sector development.

Although it will be necessary to provide some PE services to all ten countries, USAID anticipates primary activity to be in Papua New Guinea and Fiji, the largest and most advanced of the Island economies.

Activities in other countries will probably center on policy dialogue and training.

C. Relevant Experience with Similar Projects

USAID has been involved in PE development for several years, working mostly through FVOs. USAID has taken an especially active role during the past two years in export promotion and job generation to gain experience in PE activities as a lead-in to establishment of the Regional Private Enterprise Project. The small economies of Pacific Island nations have focused USAID's PE strategy on small- and micro-level development activities. The Mission first experimented with a series of management training seminars and followed with a series of export promotion activities. These projects include the following:

— Increased exports through the use of commercial promotion. Participants from eight Pacific Island countries took part in the USAID-sponsored South Pacific Pavilion at the United States International Food Show in December 1985 and September 1986. As a result, the production of several food processing factories was sold for export. One exporter shipped initial orders of seafood worth more than \$60,000 to buyers contacted at the USAID-sponsored booth. Another executed contracts for the sale of several tons of vanilla beans.

— Developing tourism to earn foreign exchange. USAID has funded a consultancy for Kiribati to develop a national tourism plan. The School of Travel Industry Management, University of Hawaii, has developed a "nuts and bolts" action plan which has been adopted as Kiribati's national tourism development plan. For the Cook Islands and Vanuatu, USAID funded tourism promotion efforts aimed at increasing the

number of overseas tourists and foreign exchange earnings. In addition, USAID's participant training program has funded senior tourist management training in Hawaii for executives from Tonga, Fiji, Solomon Islands, and the Cook Islands.

— Use of marketing to promote export of handmade sweaters.

In January 1986, USAID funded a U.S. marketing survey for Tonga's largest private sector employer, South Pacific Manufacturing Company, a maker of handknit wool sweaters.

— Trade through Private Sector Development Conference, Honolulu, Hawaii, March 1984. More than 100 participants attended a one-week conference sponsored by USAID. The conference was held to identify problems inhibiting trade with the U.S.

— Tuna/purse seine fishing fleet feasibility study. USAID has provided the country of Kiribati with financial support for a feasibility study leading to possible establishment of a purse seine fisheries joint venture.

— Financial management workshops, Rarotonga, the Cook Islands, July 1985; Honiara, the Solomon Islands, March 1986; Suva, Fiji, March and May 1986; Tonga and Western Samoa, July 1986. Offered in response to need expressed at previous USAID-sponsored conferences, approximately 50 - 60 participants attend each USAID-sponsored one-week workshop to learn modern financial management technology.

— Investment opportunities in the Pacific Islands, Hana, Maui, Hawaii, April 1985. USAID provided travel and per diem funds for participants from four Pacific Island countries to attend the Pacific

Islands Association's fourth annual government and private sector forum on investment opportunities in the Pacific Islands.

-- Management and marketing workshops, Suva, Fiji and Madang, Papua New Guinea, February 1985. More than 150 participants attended one-week workshops on creative management, finance, and marketing techniques.

-- Assistance to nongovernment organizations. Currently USAID has active assistance programs with 13 PVOs. USAID has increasingly emphasized that the PVOs must give high priority to PE development which promotes employment and rural income generation. The activities range from assisting sole entrepreneurs to helping to establish small businesses.

D. Proposed Implementing Agency

Policy dialogue and coordination of all components of the Private Enterprise Development Project will be carried out by USAID. Brokering with U.S. business, organization of product or country-specific export promotion, product development, and some on-site consultation will be contracted out to an enterprise development organization within the Pacific Islands. U.S. firms or local firms will be contracted to conduct feasibility studies for potential U.S. joint ventures or development of export-oriented industries.

U.S. companies or local companies working in joint venture with U.S. firms will be contracted to conduct seminars, workshops, and training programs.

It is expected that several PVOs, including the Foundation for the Peoples of the South Pacific, Save the Children Federation, and

International Human Assistance Programs, would expand emphasis on promotion of small-scale private enterprise. Each has demonstrated success in carrying out such projects in Pacific Island countries.

Regional organizations and industry trade associations, such as the Ginger Exporters Association, manufacturers' associations, or the Pacific Islands Association of Chambers of Commerce, may also be given grants to carry out specifically defined projects. It is anticipated that the Mission will contract with the Pacific Islands Development Program (PIDP) at East-West Center to conduct analyses of policy and institutional constraints to business development.

E. AID Support Requirements Capability

USAID expects to procure goods and services from economically and socially disadvantaged U.S. enterprises or individuals, historically black U.S. colleges and universities, and nongovernmental U.S. organizations that are controlled by U.S. individuals, including women, who are economically and socially disadvantaged.

Execution of the project will require one full-time USDH or USPSC staff and a part-time, local-hire assistant. Due to infrequent flights and long distances involved in traveling the South Pacific, project staff will spend approximately 30 per cent of their time in travel status.

F. Estimated Costs and Methods of Financing (in U.S. \$000's)

<u>Project Component</u>	<u>Foreign Ex</u> costs	<u>Local</u> contribution	<u>Total</u>
1. Policy and institutional studies, technical services, pilot projects	600	100	700
2. Privatization seminars, studies, compensation costs	500	475	975
3. Institutional support for marketing consultancy, export promotion, product development	2,200	500	2,700
4. Training and seminars	1,200	125	1,325
5. Technical Assistance and coordination	500	50	550
Five-year total:	5,000	1,250	6,250

G. Design Strategy

Program Development and Support (PD&S) funds of \$13,500 will be needed to develop the project paper in consultation with the three U.S. South Pacific Ambassadors (Fiji, Papua New Guinea, and New Zealand) and USAID staff. Mission will require the services of an institutional/policy analyst, possibly from PIDP, and a marketing/product development specialist to assist with Project Paper preparation. USAID is asking for approval to proceed with the Project Paper design and for

ad hoc delegation to authorize the project, "Regional Private Enterprise Development (879-0003)," in the field.

H. Recommended Environmental Threshold Decision

Negative determination. For discussion see Annex A.

I. AID Policy Issues

AID policy determination (AID Handbook 1, Sup A 1:27 May 12 1978 PD-71) precludes assistance to private enterprise projects which may have a significant negative impact on U.S. edible oil producers. Such a project may well be brought to USAID for consideration; however, the impact of the relatively small-scale production of such oils from potential projects in Pacific Island countries is not judged to be "significant."

Official AID policy determination relative to the Lautenberg amendment has not yet been received at Post; however, Mission intends no involvement with textile and apparel industries or other products competitive with traditional U.S. exports.

ANNEX A

Initial Environmental Examination (IEE)

Project Location: South Pacific Regional

Project Title: Regional Private Enterprise
Development

Life of Project: FY 1987 - FY 1991

Funding: \$5 million

IEE Prepared By: G. R. Andersen
Advisor, Private Enterprise
Development

Environment Action Recommended: Negative Determination

Regional Director's Concurrence: Signature:
Date:

Decision of Environmental Officer
Bureau for Asia, Near East: Approved:

Disapproved:

Date:

A. Project Description

The project will assist the independent nations of the South Pacific (Cook Islands, Tonga, Western Samoa, Kiribati, Tuvalu, Fiji, Papua New Guinea, Solomon Islands, Niue, and Vanuatu) to develop policies conducive to business development, provide institutional support to generate new exports and jobs. Activities include: consulting with recipient governments on privatization and business policy, funding studies in policy analysis, promoting joint ventures, and sponsoring seminars, workshops, and consultancies in business management.

B. Evaluation of Environmental Impact

The activities that will be funded by the proposed project are expected to have no adverse impact on the natural or physical environment. AID does not have any knowledge of or control over the details of specific private enterprise actions that may occur as a result of project-stimulated trade or joint ventures.

Project funds will not be used to procure pesticides or to stimulate joint ventures and trade agreements for the procurement of pesticides.

C. Recommendation

In view of the above examination of the environmental impact of this project, a negative determination is recommended.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project
From FY 1987 to FY 1991
Total U.S. Funding \$5,000,000
Date Prepared: March 3, 1987

Project Title: Regional Private Enterprise Development (S79-0003)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOAL: To assist the ten independent Pacific Island nations to strengthen the private sector</p>	<p>Measures of Goal Achievement 1. Pacific Island firms have increased export trade 2. Businesses operate in improved policy environment 3. Use of modern management techniques increases 4. Private sector does work formerly done by SOEs</p>	<p>Through Enterprise Dev. firm USAID maintains contact with firms receiving PE export and marketing assistance.</p>	<p>1. USAID activities affect the actions and decisions of personnel in targeted businesses. 2. Pacific Island governments receptive to policy analysis & dialogue.</p>
<u>PROJECT PURPOSE</u>	<u>END OF PROJECT STATUS</u>		<u>ASSUMPTIONS FOR ACHIEVING PURPOSE</u>
<p>To develop a policy and institutional framework to help Pacific Island businessmen improve business management, increase exports, and create new employment.</p>	<p>1. Enterprise development firm established and operational. 2. Governments have ongoing privatization policies. 3. National business groups have ongoing training projects. 4. New products are developed and compete in marketplace.</p>	<p>USAID & contractor reports National planning reports Review of regional business association reports</p>	<p>Improvement of policy environment & establishment of institutional framework are sufficient to effect increased employment.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title: Regional Private Enterprise Development (879-0003)

<u>OUTPUTS</u>	<u>MAGNITUDE OF OUTPUTS</u> <u>Activity Count</u>	<u>MEANS OF VERIFICATION</u>	<u>ASSUMPTIONS FOR PROVIDING OUTPUTS</u>
1. Changed government policy	1. Five countries effect changes in business policy.	Contractor, Government reports	Pacific Island nations responsive to assistance.
2. Increased employment in targeted firms	2. Employment increases in half of targeted firms.	Consultant firm field reports	Firms implement new marketing strategies.
3. Adopted national privatization policies	3. Four countries request USAID privatization services.	USAID and CFP records	Countries respond to consultant policy guidance.
4. Increased skills in business management	4. 10 Business seminars are held in six countries annually.	Participant self-appraisals	Attendees pay portion of seminar costs.

<u>INPUTS</u>	<u>IMPLEMENTATION</u>	<u>TARGET</u>	<u>ASSUMPTIONS FOR PROVIDING INPUTS</u>	
	<u>TYPE/QUANTITY (\$000) LOP</u>			
	<u>POL</u>	<u>PRVT</u>	<u>ENTDEV</u>	<u>TRN</u> <u>T/A</u>
1. Contract with Private Enterprise Development Firm for marketing assistance, product development, training	700	975	2,700	1,325 550
2. Business policy analysis				
3. Financial, Quality, and Business Practices seminars				
4. Provision of on-site consultants & assistance				

* POL=POLICY ANALYSIS, PRVT=PRIVATIZATION, ENTDEV=ENTERPRISE DEVELOPMENT, TRN=TRAINING, TA=TECHNICAL ASSISTANCE

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