

A SUMMARY OF THE PRIVATE ENTERPRISE PROGRAM  
OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT

DRAFT REPORT OF THE  
AD HOC COMMITTEE ON EXPANDING AID RESOURCE TRANSFERS  
TO PRIVATE (NON-GOVERNMENTAL) ENTITIES

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I. INTRODUCTION

A great deal of progress has been made in promoting private enterprise in LDCs and in orienting much of A.I.D.'s career staff to private sector goals. However, the time is ripe for new initiatives to be put in place and for the Agency to aggressively pursue development through and to the private sector. The purpose of this report is to describe A.I.D.'s private enterprise program and how the Agency (through its central and regional bureaus and its field Missions) has expanded its use of the private sector to accomplish its development goals.

We have built upon the successful experiences of A.I.D.'s private enterprise development and policy dialogue programs of the past four years. We have also learned from the evaluations of and recommendations for the private enterprise program developed by the President's Task Force on International Private Enterprise and the "Review of Private Sector Development Initiative" by Robert R. Nathan Associates, Inc.

II. A BRIEF EVALUATION OF THE PRIVATE SECTOR INITIATIVE

A.I.D.'s legislation has always mandated that foreign assistance programs be carried out, to the maximum extent practicable, through the private sector. Relying on this statutory base, A.I.D. instituted a "Private Sector Initiative" in 1981 based on the belief that greater reliance on private enterprise, individual initiative and entrepreneurship, the preservation of competition, and a reliance on market forces to guide economic progress is essential for sustained, equitable growth in the Third World. The Agency's private enterprise programs have been geared to achieving these goals in tandem with our emphasis on working with LDC governments to encourage them to adopt a policy environment that relies upon market forces. A.I.D. is also trying to increasingly rely upon the private sector as the delivery mechanism or channel of distribution for more of its assistance (for health, training, and other areas) when host country conditions have made this possible. A private sector, market-oriented economy will naturally lead to, and support, a pluralistic society based on individual freedom.

The targeting of resources and prudent approaches to support private enterprises in the Third World are essential. Foreign assistance can have only limited impact as a resource transfer mechanism, given the size of developing country economies and the problems they face as a result of external and internal economic difficulties. Nevertheless, much can be accomplished if resources are effectively concentrated on a few critical areas, including strengthening the private sector.

A.I.D. has made substantial progress in the past four years in demonstrating it is serious and committed to the notion that a vigorous private sector is key to development by redirecting many of its resources, programs, and personnel toward market-oriented, private sector activities. There have been many examples of this commitment over the last four years. Some of the most obvious examples are:

- Creation of the Bureau for Private Enterprise and the Private Sector Revolving Fund.
- Adoption of a revised A.I.D. Private Enterprise Development Policy Paper (March 1985).
- The Caribbean Basin Initiative, which includes innovative private sector directed programs.
- Extensive use of Economic Support Funds for "policy dialogue" to pursue market-oriented policy changes in developing countries.
- Considerable expansion of A.I.D. support for IFIs, private sector development-related research, and other mechanisms to improve the capabilities and institutional development of the local private sector.
- Increased utilization of the private sector to conduct traditional A.I.D. programs in such areas as health, population, etc.
- New program emphases on privatization and divestment.
- Commitment of resources and personnel in order to understand what A.I.D. is doing in and with the private sector, and how we are doing it.
- Greater reliance on U.S. business and other private sector organizations in the development assistance process.

In addition to these more well-noticed achievements, a number of successful private sector projects have been conducted by USAIDs during the past four years. Examples of successful projects whose techniques may be worthwhile for other Missions to adopt are a separate report, "Illustrative List of Private Sector Projects."

There is more to be done, but the record demonstrates that the Agency has made enormous strides in incorporating a development philosophy which places the private sector in a central role.

### III. IMPLEMENTATION OF THE PRIVATE SECTOR INITIATIVE

A.I.D.'s approach to private enterprise development relies on the innovative activities of the four-year old Bureau for Private Enterprise (PRE) and the new approaches to economic development adopted by A.I.D.'s regional bureaus. PRE was established in 1981 to improve the Agency's ability to meet President Reagan's commitment to free market principles. PRE's major activities fall into two areas: investment programs and technical assistance to USAIDs and Regional Bureaus. PRE has provided a great deal of assistance to USAIDs. Much of this assistance addresses specific problems or opportunities related to private enterprise development, including helping Missions in the concept and design stages of projects designed to incorporate private enterprise in development efforts.

Regional Bureaus and USAIDs have made great advances in developing private enterprise projects and in promoting indigenous private enterprise development. An extensive and varied number of private enterprise projects are being developed and implemented for many of the countries in Latin America and the Caribbean, Africa, Asia, and the Near East.

It has been estimated that approximately 50 projects were pursued in FY84 that could be categorized as solely private enterprise development. The private sector projects of the Agency generally fall into the following six categories: IFIs, enterprise direct investment, major policy dialogue and analysis, technology transfer, investment promotion, and management development and vocational education. In addition, many projects in agribusiness development, food and agriculture development, health, and training have private sector components. These projects cover areas as diverse as credit availability, pricing, training, manufacturing and facility development, export development, and promotion of non-traditional exports.

The private enterprise and private sector programs of PRE, the regional bureaus, and A.I.D. Missions are discussed below.

A. The Bureau for Private Enterprise (PRE)

The discussion below concentrates on PRE's current and future investment activities, as well as some of its innovative approaches to financing private enterprise development.

1. Current Investment Activities

PRE is developing and financing many innovative private enterprise projects which will have substantial development impact in the respective host countries. In FY 84 and 85 PRE made 19 major investments and one bridge financing loan to encourage privatization (in Malawi for diversification and privatization of an agricultural estate). These activities totaled \$35 million. Seventeen loans, valued at \$30.5 million, were through A.I.D.'s Private Sector Revolving Fund. Project development reflected criteria established by the fund, including:

- Innovative financing. Collateral account mechanism (elaborated below) to guaranty local currency (nine projects); use of retail leasing for small businesses (one project); use of venture capital firm that takes an active entrepreneurial role (two projects); and non-traditional export promotion (ten projects).
- Demonstration potential. All PRE investments are designed with the potential for replicability. One example is a \$2.5 million PRE loan to Kenya Commercial Bank which demonstrated the validity of commercial bank term lending to small and medium-scale enterprises in Kenya. The A.I.D. Mission replicated and expanded this approach with a \$20 million Mission project aimed at such target beneficiaries nationwide.
- Employment generation. All investments.
- Appropriate technology development. The main feature of investments in Healthlink Loan Pool (for financing local production and marketing of health products for poorer people), and a collateral feature of others.
- Services to small business. Small businesses are the targeted benefit group of all PRE investments.
- Geographical diversity. No more than 20 percent of PRE assets can be invested in any one country.

- Limitation on PRE share of project. Maximum PRE investment in any project is \$3 million. Loan limits per investment project are kept to this level in order to encourage highly leveraged activities, thus intensifying the impact of each tax dollar.
  
- Emphasis on intermediate financial institutions (IFIs). Eighty percent of PRE's investment portfolio is in IFIs serving the private sector, 20 percent maximum in direct loans to enterprises. A.I.D. funds currently range from 20% to 33% of individual direct loan projects.
  
- Interest rates at or near those otherwise available to borrower. Average terms of PRE investments are about 11 percent interest rate, 6-7 years maturity, 2-3 years grace period.

Other activities include mission support regarding privatization of state-owned enterprises; policy dialogue potential; satellite farmer outreach, as demonstrated in Thailand Meat Processing (outreach to some 2,000 small farmers from first modern private slaughterhouse) and Caribbean Basin Corp. and Western Agribusiness Corp. (venture capital funds that place priority on satellite farming projects); and credit to "micro" businesses, represented by a loan to Accion International for projects in the Latin America/Caribbean area.

## 2. Innovative approaches to financing private enterprise development

a) Collateral Account. The collateral account mechanism was devised by PRE so borrowers could avoid the foreign exchange risk of owing dollars over the long term. Under this mechanism, PRE puts the A.I.D. loan proceeds in an interest-bearing account in the borrower's name in a bank, offshore or otherwise. Through standby letters of credit the account is used to mobilize local currency for sub-loans to targeted small business borrowers.

b) Leveraging. All PRE investments are designed to leverage A.I.D. funds; that is, multiply the effect of the PRE investment through the attraction of private funds from IFIs or business enterprises. FY 84-85 investments were at a ratio of 1 of 3.6 or one A.I.D. dollar out of every \$3.64 invested in total project dollars. Leveraging is magnified in the case of loans to IFIs (80 percent of the PRE investment portfolio). This is because the PRE funds attract not only the IFI contribution on at least a matching basis, but also attract funds from a multitude of business clients who mingle their own capital with

sub-loans from the IFIs. Revolving fund loans in FY 84-85 activated a total \$80.45 million from all sources.

### 3. Mission Support

Drawing on three years of experience in supporting the private sector development efforts of A.I.D. Missions, the Bureau decided in mid-1985 to devote a substantial proportion of its total resources to large-scale, contractor-based support capability in three areas: private sector strategy development, financial markets, and privatization. In each area, Missions will be able to secure sustained, high-quality consulting support. The goal is to permit each Mission to tailor its private sector program development to local needs and conditions and to strengthen policy dialogue with host governments by using expert analysis drawn from the U.S. business and financial community. The privatization contract will enable missions to respond to host government requests for help in privatizing public sector production and distribution facilities, which are often inefficient and costly and contribute to poor economic performance in Third World countries. A.I.D. will sponsor a major international conference on privatization in February 1986 to highlight this issue, build a knowledge base and lay the groundwork for solutions.

### 4. Core Support for U.S. Organizations

A substantial portion of the PRE grant budget is committed to support for U.S. non-profit organizations working in the field of business and cooperative development in the Third World. This includes funding for cooperative development organizations and the International Executive Service Corps (IESC), and organizations to promote agribusiness joint ventures. This core support extends the reach of these organizations to many more Third World beneficiaries than would otherwise be possible.

### B. The Africa Bureau (AFR)

The Africa Bureau uses a number of mechanisms, described below, to promote private enterprise activities in Africa. The choice of mechanism used depends on the problem being addressed, the resources needed, and local physical and institutional conditions in which enterprises operate. Several mechanisms are frequently combined in a single activity such as audit and PVO technical support to enterprises. The Africa Bureau, which is now rapidly increasing its activities to mobilize and promote the private sector, faces major challenges in many countries where business skills are lacking, the banking and institutional

framework is weak, and opportunities for A.I.D. to act with the private sector have been limited.

Principal mechanisms used to promote private enterprise development are the Africa economic Policy Reform Program; technical assistance projects; Commodity Import Programs (CIPs); PVO development programs; Intermediate Credit Institutions; increased emphasis on using the private sector to implement agricultural, health, infrastructure and other "traditional" A.I.D. projects; and the Africa Private Enterprise Fund. These mechanisms are described below.

### 1. African Economic Policy Reform Program (AEPRP)

In FY 1985, A.I.D. began augmenting its policy dialogue in all major recipient countries by targeting financial assistance to several African countries willing to work on policy reforms through the Africa Economic Policy Reform Program. Program agreements totalling \$75 million in Economic Support Funds were signed with Malawi, Mali, Mauritius, Rwanda, and Zambia.

In various ways, each agreement encourages governments to make policy changes which allow the private sector to play a much more dynamic role in development. The Malawi and Rwanda programs focus on parastatal divestiture. The Mali program also aims at helping retiring civil servants to establish businesses. In Zambia, A.I.D. funds will support the transition from parastatal marketing firms to private sector traders and transporters with the parastatal marketing agency. The Mauritius program will enable the government to improve tariff, tax and export incentives for private industry. The Agency has proposed another \$75 million AEPRP program in FY 1986; Mission proposals from approximately 12 countries are currently being reviewed.

Changes in food production and agricultural policies, such as better farm-gate prices and free marketing, can be especially important to bringing thousands, even millions, of African small-holders into the market economy. For example, policy and institutional changes being implemented by the Government of Zimbabwe, with U.S. support in the agricultural sector, have enabled that country to earn more than \$500 million from agricultural exports in 1984, enough to produce the first trade surplus since independence.

### 2. Technical Assistance Programs

USAIDs in Africa are sponsoring a variety of technical assistance projects which promote improved climates for

business, provide training in business skills, and expand operations of small and medium enterprises. For example, a five-year Private Enterprise Development project in Rwanda will help identify potential new markets and products for Rwanda entrepreneurs, train entrepreneurs in business skills (such as retail, transport and craft trades), train staff of banks, and establish dialogue with the government on its micro- and macro-economic and fiscal policies affecting business growth. In Senegal, an element of the Community and Enterprise Development project provides credit and training in business management to rural entrepreneurs and small business, e.g., crop marketing, repair shops, and truck transport companies.

A Policy Initiative and Privatization Studies project in Somalia places two private enterprise advisors with the Ministries of Commerce and Industry to examine changes needed to improve the business climate, sponsors marketing and feasibility studies, provides short-term experts to soap manufacturers, tanneries and other industries and to the Somalia Development Bank. USAID/Sudan has a grant project supporting the privatization of the White Nile River transport system. An Agribusiness Preparation project in Guinea is financing consultants to identify business opportunities (e.g., rice mills, export of naama cattle, pineapples) and to identify policy constraints that require government action.

Some A.I.D. Missions in Africa are developing A.I.D. country strategies oriented to private enterprise development. Kenya has developed a major private sector strategy with the primary components of investment promotion, export promotion and finance, and private equity capital development (venture capital). Senegal has just submitted a new and totally private sector oriented country strategy. That strategy will concentrate on eliminating price controls and marketing boards, and other policy constraints on private sector growth.

To foster and facilitate privatization of state-owned industries in East Africa, the Regional Office in Nairobi has established an IQC with a consortium of Coopers Lybrand, Morgan Grenfell, Arthur D. Little, and Technoserve. Missions can draw on a REDSO fund to finance assistance from an IQC firm in designing and implementing actions which lead to the restructuring and/or divestiture of parastatals.

### 3. Commodity Import Programs (CIPs)

A.I.D. programs which finance commodity imports, often with Economic Support Funds, are used to encourage policy changes, and to strengthen local private industries. These programs,

located in such countries as Zimbabwe, Sudan and Somalia, allow private firms to acquire foreign exchange when otherwise they would not be able to import capital equipment, industrial raw materials, and spare parts for productive industries.

#### 4. PVO Development Programs

Perhaps more than any other source of U.S. expertise, private voluntary organizations are able and willing to assist small, micro-enterprises in remote rural areas and urban centers of Africa. PVOs therefore are particularly suitable institutions to provide the person-to-person advisory services needed by African nascent private sector.

- Booker T. Washington Foundation. BTW is beginning work to find and screen business projects in West Africa and match them with U.S. (preferably minority) investors, using the BTW business network throughout the United States.
- The International Executive Service Corps. IESC is on call to private companies in all forty countries where A.I.D. has posts in Africa, and has set up country offices in Kenya and Zimbabwe.
- Opportunities Industrialization Center. OIC projects establish community-based non-formal vocational training programs, especially for school-leavers.
- Technoserve. Technoserve projects in Kenya, Zaire and Rwanda assist in identifying developing and carrying out community-based enterprises which are economically viable and have potential social impact. Technoserve projects often emphasize savings and credit cooperatives, agriculture and livestock coops, and management extension training with potential developing enterprises.

#### 5. Intermediate Credit Institutions

Long-term credit from African banks is generally out of reach for the hundreds of small and medium enterprises that could start up or expand businesses if credit were available. To experiment with and establish institutions to provide qualified small industries with credit, A.I.D. Missions in a number of countries are sponsoring projects to establish intermediate credit institutions. For example, USAID/Kenya has a \$48 million grant and loan project which on-lends AID funds to Kenyan commercial banks that in turn put up matching funds. The Kenyan project provides management advisory services to the banks and finance businesses such as storage and packing plants,

tool manufacturers, and seed and fertilizer sales companies. The Zaire mission will design a similar \$18 million loan fund to begin operation in FY 1987.

In addition, PVOs supply credit and business assistance to small scale enterprises, such as small mills, bagging and transport services. USAID/Liberia provides credit to small enterprises through a business finance institution, as well as technical assistance through a PVO. In Uganda, a major A.I.D. credit program will assist rehabilitation of agricultural industries such as farm tools, seeds and food processing.

6. Privatizing A.I.D. Assistance in Traditional Fields such as Education and Health

In fields such as education and health, where A.I.D. has traditionally looked to government agencies to carry out development projects, Africa Bureau management is increasingly turning to the private sector to do as much of the task as possible. For instance:

- Education and Training: In Mauritania, 20 percent of the training slots are reserved for private sector management skills training. To avoid a public sector bias in student selection, USAID coordinates selection with a local organization that represents private employers.
- Energy: In Sudan, the USAID uses its Commodity Import Program support to encourage the government to expand the role of the private sector in the procurement, importation, and internal distribution of petroleum supplies.
- Health: In Mauritania, the USAID has encouraged the privatization of pharmaceutical marketing. The result has been to stimulate establishment of new dispensaries in rural areas.
- Nutrition and Food Processing: In Zaire, some Title II food will be monetized to finance a weaning foods processing plant. While initially using the Title II food, the plant will phase into local sources of supply. The weaning foods will be sold in retail outlets, street kiosks, and health centers.
- Housing: In Kenya, HG loan proceeds were channeled to commercial banks for the purpose of making construction loans to private developers who agreed to build "starter" homes affordable to families below median income.

## 7. Africa Private Enterprise Fund

The Africa Bureau established a regional Private Enterprise Fund in late 1984 to provide short-term consulting services of virtually all types to A.I.D. Missions, and through them to African entrepreneurs, business associations, or host country institutions seeking advice on ways to improve operations, business climates, and investment promotion. The Fund is to be catalytic and used to "prime the pump" by financing a wide range of technical assistance and experts in many disciplines, including:

- design of private enterprise delivery mechanisms into the implementation of any type of Mission project (agriculture, health and education, family planning);
- policy reform and privatization of state-owned enterprises;
- establishment of intermediate credit facilities using, in particular, PL 480 or ESF local currency generations;
- business sector analyses;
- feasibility studies, particularly for expansion and start-up of agribusiness; and
- design of training programs for business and management skills.

Nearly twenty requests had been received by November 1985 for consulting services supported by the Fund. Cameroon, Madagascar, and Senegal requested assistance in developing investment promotion strategies. Botswana, Cameroon, Gabon, Ghana, Madagascar, and Zaire all requested investment climate surveys and, in three cases, profiles of potential joint venture business projects for presentation in trade and investment missions to the U.S. Guinea, Liberia, and Madagascar have recently asked for assistance in establishing funds in local commercial banks for on-lending to small and medium businesses, particularly agribusinesses.

## 8. Africa Bureau Directive to A.I.D. Missions

AFR recently directed all forty A.I.D. Missions in Africa to cable by November 1 a concise paper giving brief descriptions of their respective country's private sector and how it works and how the Mission proposes to promote private sector expansion and increased use of private firms to implement agriculture, energy, health, education, and other traditional

A.I.D. projects. Bureau offices will monitor Mission adherence when reviewing country strategies, new project proposals, and budgets.

C. The Asia/Near East Bureau (ANE)

The Asia/Near East Bureau (ANE) private sector strategy objective is to utilize the tremendous capability of private entrepreneurs to help achieve A.I.D.'s and LDCs' economic and social development goals. Attainment of employment and income generation objectives will depend, for the most part, on jobs created by the private sector. Private firms and organizations already play an important role in all sectors in which A.I.D. is engaged in Asia: health, family planning, agriculture, forestry, energy, and education. In the Near East, the private sector emphasis has been on expanding the role of the indigenous private sector in traditional A.I.D. sectors, assistance to export-oriented private sector companies, promotion of joint ventures, and technology transfer.

In Asia, ANE follows a two-pronged approach to private enterprise development. USAIDs seek opportunities to expand entrepreneurial activity and, concurrently, opportunities to remove constraints to private sector expansion subject to LDC government control. The former is addressed by a variety of interventions which may be characterized by one of the modes described below. The latter is usually addressed by some form of "policy dialogue," associated with a specific project.

In project terms, there are some activities in Asia that support direct "private enterprise" projects per se. However, there are no projects which assist private firms directly. For maximum spread affect and institution-building impact in Asia, ANE works with indigenous intermediaries that have responsibility for assisting expansion of their respective private sectors. The bureau also supports a number of private enterprise or market-oriented elements of projects in traditional sectors. A third approach the bureau pursues is policy dialogue, enhanced by funding of specific policy studies.

In Asia, ANE works through a variety of counterpart institutions as intermediaries to reach the private sector and ultimate beneficiaries. They include government ministries (industry, commerce), semi-autonomous units (boards of investment), banks, PVOs, NGOs, cooperatives, business associations, and educational institutions. The choice of intermediary is determined by the nature of the intervention and circumstances in each country.

USAIDs have identified, with their counterparts, a number of different types of intervention and mechanisms for supporting those interests. A brief summary of ongoing and planned private enterprise activities in Asia include the following:

- Investment promotion. Thailand, Indonesia, Sri Lanka, Philippines, ASEAN, South Pacific, and India.
- Small and medium enterprise technical assistance. Philippines, Thailand, Indonesia, Sri Lanka, and ASEAN.
- Management training. Indonesia, Thailand, and Sri Lanka.
- Credit. Indonesia, Thailand, Pakistan, India, and Bangladesh.
- Marketing (contraceptives). Bangladesh (fertilizer), India, Nepal, and Pakistan.
- Policy Studies. Thailand and Indonesia.
- Technology development and transfer. Thailand, Indonesia, India, Pakistan, and ASEAN.

The private sector emphasis in the Near East region, which was noted above, has been complemented, as necessary, by funding of IFIs and direct loans to private sector entities in those cases where A.I.D. funds were desirable as leverage to induce additional funding by indigenous Arab development banks or where local banks were hesitant to extend term credit. The major categories and mechanisms utilized for private sector development in the Near East are:

- Private Sector Business Climate. Specific studies have been conducted in Morocco, Egypt, Jordan, and Yemen to identify constraints on private sector growth and specific opportunities of involving the indigenous private sector in existing A.I.D. programs in agriculture, health, nutrition, family planning and technical education.
- Management Technology Transfer. Specific projects are underway in Egypt, Tunisia, Jordan and Yemen (pilot project), with expanded efforts now being designed in Morocco (FY 86) and Yemen (FY 87).
- Product or Process Technology Transfer. Projects are being implemented in Egypt and Tunisia, and new projects are being designed for Morocco (FY 86) and Yemen (FY 87).

- Capital and Credit Markets. USAIDs in Egypt and Jordan are assisting local governments in the organization of capital markets authorities and in training of staff.
- Export Promotion. Basic technical assistance has been funded for demonstration projects in Portugal and Turkey in FY 85, while a wide-spread technical assistance, export insurance, and inputs financing project is being designed for Morocco (FY 86).
- Investment Promotion. Investment promotion projects are underway in Tunisia, Turkey, Yemen, and Egypt.
- Privatization of State-Owned Enterprises. Technical assistance to support divestiture of state-owned enterprises has been provided in Tunisia, Morocco, and Turkey.
- Agriculture. Specific programs to promote the involvement of the private sector in supply of agricultural inputs (seeds, fertilizers and implements) are getting started in Jordan and Yemen.
- Health, Nutrition, and Family Planning. In Egypt, local private sector organizations have been notably successful in the promotion and distribution of Oral Rehydration Salts (ORS) and similar programs are being planned in Jordan (where a local private sector company has started ORS production), Tunisia, and Yemen. Pre-paid health maintenance programs are in active consideration in Morocco, Tunisia, and Turkey.
- Micro-enterprise Development: Specific programs to encourage and assist small-scale enterprises are in operation in Tunisia, Egypt, and Morocco. In many existing A.I.D. programs (e.g. Decentralization Program in Egypt), such enterprises are being assisted indirectly as contractors to A.I.D.-supported local development agencies for transportation, construction, and equipment maintenance services.

D. The Latin America and the Caribbean Bureau (LAC)

A.I.D.'s program in the Latin America and Caribbean (LAC) region is designed to stimulate economic growth, create higher standards of living, improve foreign exchange earnings, create new jobs for the unemployed of the region, and strengthen democracy. LAC's efforts are focused on building an improved policy and regulatory environment for business while at the

same time carrying out projects that promote investment, develop trade opportunities, and create a positive context for the establishment and expansion of enterprises.

In general, A.I.D. supports:

- Financial assistance for short-term economic stabilization. Substantial resources are provided to help finance imports from the U.S. of raw materials and intermediate goods for the private sector.
- Improving the business climate. A.I.D. supports policy reforms and incentives meant to restore domestic business confidence, rationalize interest rates, attract foreign investment, privatize public enterprises, and develop new export-led trading patterns. LAC also helps to improve public administration and upgrade the essential infrastructure needed to attract private investments.
- Direct assistance to the business community. There are a number of training and technical assistance programs that upgrade human resource skills and management capabilities. Related programs provide links between local and U.S. businesses to stimulate trade and investment, access to export markets and credit for indigenous business enterprises. A.I.D. supports trade associations, chambers of commerce, business, training facilities and financial institutions that are needed to encourage free enterprise and private investment. We give particular focus to the small entrepreneur.

A.I.D.'s activities with the private sector in the Caribbean, Central America, and South America cover the breadth and depth of the Agency's efforts in this area. While the following discussion is not an all-inclusive catalog of private sector activities, it does provide some key examples of promotion, support, and strengthening of private sector development in the participating countries and illustrates LAC's determination to broaden the region's entrepreneurial base and the links between that base and the U.S. private sector. The examples are separated into the following functional categories: small business activities, private sector policy reform, investment and export promotion, intermediate credit institutions, agribusiness, entrepreneur and management training, and chamber/association linkages and development.

#### 1. Small Business Activities

A key element to producing jobs and income in LAC countries is the small enterprise. A.I.D. places emphasis on this target

group by providing credit, technical assistance and training. Among the projects in this area are: Dominica Small Enterprise Development; Haitian Development Foundation; Caribbean Marketing Assistance (in Barbados, St. Lucia, and Dominica); Jamaican National Development Foundation; Joint Venture Feasibility Fund (which links host country and potential U.S. joint venture partners and provides limited seed capital to conduct joint venture feasibility studies); and the Association for the Development of Micro-Businesses, Inc. (which provides short-term working capital loans to small indigenous businesses at market interest rates in the Dominican Republic).

## 2. Private Sector Policy Reform

Each LAC Mission has developed a country specific policy dialogue with its cooperating country designed to achieve modifications to restrictive policies which hamper development and expansion of the free market system and deter economic recovery. Many of these reforms are conditional to disbursement of DA and ESF resources.

Among our activities in this area are policy studies that lead to policy reforms (such as in Costa Rica and the Dominican Republic); divestiture (with active programs in Grenada, Costa Rica, Jamaica, Panama, Honduras, and the Dominican Republic have active programs); and temporary import laws (such as in Honduras to eliminate specific disincentives and practical constraints to development of non-traditional exports).

## 3. Investment and Export Promotion

Establishment of a strong internal and external program of investment and export promotion is essential to growth of the private sector in LAC. There are many activities under way in Latin America, including: Ministry of Export and Investment Promotion (in Costa Rica, designed to implement an export and investment promotion strategy and create a one-stop export and investment promotion center to streamline the procedures required for foreign and indigenous investment and exporting); Investment Promotion & Export Development (to identify and promote private investment in export-oriented businesses in the Eastern Caribbean, Belize and Barbados); Infrastructure for Productive Investment (to provide physical infrastructure required for expanding private production and increasing employment in the Eastern Caribbean and Belize); Export Processing Zones (in Costa Rica); Export Development and Services (to increase the quantity and quality of nontraditional Honduran exports and create a policy environment that favors export development); and the Credit Insurance Program (which,

under a 1985 agreement with the U.S. Export-Import Bank provides trade credit insurance to businesses in five Central American countries to facilitate the importation of raw material and equipment from the United States for local industry by providing insured short term trade credits).

#### 4. Intermediate Credit Institutions

ICIs have long been the cornerstone of A.I.D.'s development financing program in the LAC region. New mechanisms are being established to provide local entrepreneurs access to credit. Some of these mechanisms include the Private Investment Corporation (in Costa Rica to provide debt capital, equity financing, and corporate services for export-oriented investment projects); the Dominican Republic Credit Facility (utilizing local currency generations from U.S. dollar cash transfers for medium term loans for infrastructure, equipment, and other capital investments needed to expand the existing production and marketing facilities for the export of nontraditional agricultural and manufactured products); and the Caribbean Project Development Facility (created in cooperation with the United National Development Program, the International Finance Corporation and other multilateral donors to facilitate business formation in the Caribbean).

#### 5. Agribusiness

Latin America is characterized by agricultural exports in sugar and bananas. A.I.D. is working with the region's farmers and other segments of the local private sector to refocus its agricultural output towards nontraditional production, diversification, and exports. Among our efforts in this area are: Latin American Agrobusiness Development Corporation (designed to provide market rate loans for private agribusiness investment and development in Latin America); Agro 21 (a comprehensive program of the Government of Jamaica (GOJ) for revitalizing the agricultural sector, thus permitting it to make its full contribution of foreign exchange earnings); and Private Agricultural Sector Reactivation (in El Salvador, designed to realign the exchange rate, and eventually pass the marketing of export crops to the private sector).

#### 6. Entrepreneur and management training

The management and skill base from which new ventures can obtain talent is an ongoing requirement in the LAC region. Skills in planning, problem solution, and control are important managerial elements lacking in both the private and the public sectors. Among the activities in this area are: the Small

Business Assistance Center (established to provide technical and policy leadership in the creation of a system of Technical Assistance Centers that provide training and advisory services to small businesses in the Dominican Republic); Regional Non-formal Skills Training (which provides training to unemployed and under-employed youths to prepare them for the job market in Dominica, Barbados, St. Lucia, and four other island states in the Eastern Caribbean); Central American Institute for Business Administration (INCAE) Expansion (which funds the construction of a campus in Costa Rica, sets up a private sector training program in Guatemala, Honduras and El Salvador, and offers seminars on export strategy, operations, finance and marketing); Private Enterprise/Management and Productivity Center (a new Haitian organization that will deliver management training and other business services to improve management and entrepreneurial skills); and the AMCHAM Private Sector Training Project (that provides funds for private sector offshore training under the auspices of the American Chamber of Commerce of the Dominican Republic).

#### 7. Chamber/association Linkages and Development

One of the strongest assets the U.S. has to offer our southern neighbors is an active interchange of ideas with existing U.S. organizations. Contacts with U.S. Chambers of Commerce, trade associations, and other free market institutions provide an exceptional opportunity to learn about new market development and private sector mobilization. Strengthening the region's private sector organization base is very important to improving the investment and business climate.

Among the activities in this area are: Private Sector Investment Assistance Project (to strengthen the capacity of the Caribbean Association of Industry and Commerce to promote private investment and stimulate private sector employment in the Caribbean); the Chicago Association of Commerce and Industry Project (that is designed to encourage Chicago's business community to trade with and invest in Caribbean countries, and has generated \$19 million of trade and \$33 million in direct investment); Caribbean/Central American Action (which provides support mechanisms for the development of Caribbean Basin private sector organizations); and the Chamber/New Orleans and the River Region Project (that provides trade and investment promotion for Belize and Honduras).

#### E. The Bureau for Program and Policy Coordination

PPC has recently undertaken several efforts to strengthen the Agency's private sector initiative. It is developing new

guidance on IFIs and loan terms, has redrafted the Private Enterprise Policy Paper, is preparing policy papers on Employment Generation and Trade Development, and directing new initiatives. Some of these efforts are described below.

- Review of IFIs. PPC is completing a review of A.I.D.'s approach to intermediate financial institutions (IFIs), one of its major resource transfer and private enterprise development mechanisms. The review covers A.I.D.'s experience with IFIs, and will propose new policy guidelines for future IFI projects.
- Market-based loan terms. New policy guidelines have been developed that require A.I.D. loans made to private enterprises be at or near market rates (the prevailing interest yields on U.S. Treasury obligations). It is expected that these new guidelines will allow LDC private enterprises to be more responsive to market forces, and will lay the basis for sustained, economic growth.
- Revised Private Enterprise Policy. A.I.D.'s Private Enterprise Policy Paper has been revised to provide clearer and more broad-based guidance to USAIDs in implementing market-based economic development. The revisions are based upon A.I.D.'s four-year experience with the private sector initiative.
- Illustrative List of Private Sector Projects. In August 1985, PPC sent to our offices in A.I.D./W and our field Missions an "Illustrative List of Private Sector Projects." That list provides some examples of private sector actions that can be taken in specific project or program circumstances.
- Determining the Agency resources devoted to private sector activities. PPC is conducting an analysis to determine the extent of A.I.D.'s use of the private sector and the private sector emphasis in ongoing programs, projects, and other activities.
- Privatization activities. PPC has sponsored a number of studies in the field of privatization as part of its effort to develop privatization policy and guidance. We are also co-sponsoring, with PRE, A.I.D.'s International Conference on Privatization that will be held on February 17-19, 1986 in Washington, D.C.
- Trade policy. We are heavily involved in the activities of the Trade Policy Review Group and the Trade Policy

Staff Committee of the USTR. Our activities in that forum help A.I.D. to develop the proper course of action to pursue in trade policy reform and in our trade and export development projects.

- Ad Hoc Committee on Expanding AID Resource Transfers Through Private Entities. In January 1985, the Administrator established an Ad Hoc Committee on Expanding AID Resource Transfers Through Private Entities to examine the final report of the President's Task Force on International Private Enterprise and how its recommendations can be implemented into the Agency's activities. Chaired and staffed by PPC, the Committee has been very active during the year, and has looked at a most of the recommendations of the Presidential Task Force.