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- “Issues in Direct Assistance,” by Nicolas Kulibaba
- “Endowments and Intermediary Institutions,” by Donor M. Lion
- “Business and Professional Associations,” by Mary Menell
- “Private Provision of Public Services: Experience in Health, Family Planning, Education, and Agriculture,” by Allison Butler Herrick
- *Private Provision of Public Services: Opportunities and Issues in Telecommunications, Electric Power, Transport, Water and Sanitation, and Solid Waste*, by Allison Butler Herrick (Thokozile Mawere, Research and Information Analyst)
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The Need

THE STUDIES DESCRIBED IN THIS VOLUME AND THE ACCOMPANYING volumes, *Private Provision of Public Services: Opportunities and Issues in Telecommunications, Electric Power, Transport, Water and Sanitation, and Solid Waste* and *Compendium of Africa Bureau Mission Private Sector Projects, 1980–1992*, grow out of the premise that a dynamic private sector is critical to sustained economic growth and a strong civil society. Recent changes in Africa offer new opportunities for the private sector in economies undergoing structural reform and in political systems moving toward greater democracy. The question for donors is how to strengthen the private sector's ability to take advantage of these opportunities; to spur economic growth with new technology, better management, and more investment; and to deepen participation in the process of policy and political reform.

The changes are encouraging. On the political side, more than two-thirds of African countries have announced changes increasing political competition and pluralism. Benin and Zambia have already held multiparty elections. Burundi, Cameroon, Congo, Guinea, Kenya, Madagascar, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, and Togo all have scheduled elections to take place during the next two years.

At the same time, a growing number of countries have initiated programs of economic reform. Botswana, Ghana, Mauritius, and Uganda have adopted sound economic policies; others, such as Angola, Benin, Mozambique, and Tanzania, have begun to reconsider past policies and to liberalize their economies. In many countries, structural adjustment programs have begun to take hold. Most reforming countries are experiencing real per capita growth, on



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average about one percent; Ghana, a star performer, has enjoyed a per capita growth of two percent. Given the corresponding levels of population growth, these signs of real per capita growth are significant.

These changes, while encouraging, should not be exaggerated. Critics say the gross domestic product figures create an illusion of growth when there is little evidence of progress on the ground. Political reforms are fragile. Elections scheduled for Angola, Botswana, Lesotho, Mozambique, and Namibia during the next two years may run into snags.

The extent to which these gains can be institutionalized and economic growth sustained will depend in large part on the development of a strong private sector. New investment requires the development of an entrepreneurial class, seeking out new opportunities, bringing fresh technologies, and creating wealth and jobs. Structural reforms to date, while increasing gross domestic product, have not brought the levels of new investment required for long-term growth. The World Bank estimates that Africans have placed some \$40 billion abroad and that capital flight continues at \$4 billion to \$5 billion per year. Unless private capital can be attracted from African and foreign investors, there is little likelihood that economic growth can match population growth, particularly with the real possibility of a leveling off or reduction in foreign aid for Africa.

A strong private sector is important to the structural reform process itself. To date, the push for economic reform has been largely donor-driven. It has lacked participation, from articulate national private sectors, and without that participation, it has been more an effort of negotiated fits and starts than an ongoing process of advice, reform, review, and refinement. The policy debate needs to become a continuing process, based on a dialogue between government and its constituents. Implementation of policy reform needs the collaboration of government bureaucrats and a watchful public capable of holding them accountable.



Background

Development of a strong private sector is not easy. For decades, Africa's private sector has remained dormant, often because African governments have dominated the economy with large, government-owned companies and left little room for private operators. Those companies that have survived have often done so with the collusion of government or with protectionist regulations. Many have been owned and operated by foreign businesspersons or local minorities. Local entrepreneurs have lacked institutional recourse on key issues—property rights, contract law, procurement procedures, and fair judicial processes. This, together with political uncertainties and a fragmented market, has discouraged new investors, and most Africans have stuck to traditional areas of business—commerce and trade.

Political attitudes have precluded active participation in policy discussions—the general public has often been encouraged to view private operators as exploiting scarce national resources. Few in business, concerned about their vulnerability to government intervention, have been active on policy issues in public forums. The result has been that the real vibrancy of African business has been visible only in a wide and growing informal sector, free from regulations, but also apart from a formal, tax-paying sector acting as a lobbyist for accountable government. The informal sector, while growing, offers little opportunity to broaden technical or managerial expertise, nor does it provide a political base for continued reform efforts.

A.I.D. Response

A.I.D. missions across Africa recognize the need for a strong private sector. Most missions have programs or projects with private sector elements. Since the mid-1980s, the number of private sector activities has grown markedly—there are now more than 100 programs or projects with components targeting the private sector. There remains, however, considerable debate over what approaches are most effective or appropriate.



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Most missions have seen policy reform as the first step toward a stronger private sector. Missions in Cameroon, the Gambia, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Niger, Senegal, and Tanzania, for example, all have programs addressing pricing, foreign exchange, taxes, or regulatory issues. Some, like Ethiopia, Tanzania, and Zambia, are looking at privatization, and others have targeted activities at investment and export reform. Many have programs aimed at micro-, small, and medium-sized enterprises, often working through private voluntary organizations to deliver credit or technical assistance.

Fewer missions have been directly involved in institutional capacity building for the private sector. Some have been providing support to commercial banks or experimenting with approaches to credit and venture capital. Others have been working with chambers of commerce and professional associations, although the number of missions involved in assistance to business institutions has been relatively small compared with those active in policy reform.

Beyond Structured Reform

In the fall of 1991, the Africa Bureau began to examine the experience of structural reform and to explore possible next steps in a series of meetings and eventually a paper—"Beyond Structured Reform"—shared with missions in the November scheduling conferences. Increasingly, the discussion focused on ways to strengthen the private sector to fulfill the potential offered by reform and to ensure that reform became a continuing process. A major question for the group was how best to develop this "missing middle" of a private sector.

It became apparent that much work was already under way within missions and that it would be useful to do a review of those efforts. We asked LABAT-ANDERSON Incorporated to put together a compendium of projects and programs under way with a private sector component. The purpose of the *Compendium* is to inform both A.I.D./Washington and field missions about the variety of efforts and approaches being undertaken to support private sector development throughout Africa. The results were impressive and surprising, both for the number of activities under way and for the wide range of problems they address.



Direct Assistance to the Private Sector

One of the dilemmas facing those trying to help the private sector relates to the appropriateness of direct firm-level assistance. In fact, a number of missions are already doing it by financing feasibility studies, brokering efforts, performing market studies, providing commodity support, or helping with valuation-of-assets studies. The International Executive Service Corps is providing technical assistance to individual companies, and African business representatives are being selected by A.I.D. missions for internships under Entrepreneurs International.

Direct assistance to companies, however, raises questions concerning fairness, accountability, additionality, competition, and equal access. There have been efforts in the past to lay out policy governing direct assistance, but confusion still exists and a number of field people are hesitant to propose direct assistance. We thought that it would be useful to review existing policies and concerns relating to direct assistance and to lay out guidelines for missions considering help to individual firms or enterprises. In Chapter 1 of this volume, "Issues in Direct Assistance," Nicolas Kulibaba outlines some of the opportunities and problems inherent in direct, firm-level assistance, summarizes policy guidance, and provides a framework for thinking through issues and approaches.

Managing and Financing Aid to the Private Sector

The range of activities undertaken by missions signals the complexity of private sector development. There is no single approach, once missions move beyond the first step of policy reform. The complexity of the problems and the unique aspects of private sector promotion led some participating in the debates last fall to suggest consideration of a new approach, moving management of private sector activities outside of the A.I.D. bureaucracy to increase speed and flexibility. An effective private sector program might best be composed of a myriad of small interventions, grants to associations, studies of policy issues, support for savings and loan programs, conferences, and exchanges to try to build a critical mass of articulate business representatives. This poses management and accountability problems for many small A.I.D. missions.



As A.I.D. staff change in African countries, priorities do as well; new and experimental private sector programs may be particularly susceptible to continuity problems. Similarly, there is a need to develop continuity within host countries to develop a corps of people capable of analyzing issues relating to private sector development and speaking out. To date, much of the analytical expertise in African countries is locked up in government bureaucracies or has left to go to international organizations, such as the World Bank and the International Monetary Fund. A question raised by the discussions last fall was whether we could create incentives to keep talent in Africa by creating organizations that are protected from donor or government whims and capable of joining government and donors in the debates over structural reform and its implementation.

One proposal for meeting all of these issues was the funding of endowed institutions. Others have tried it, particularly in Latin America, and particularly for agricultural research. More are considering it. In fact, some African missions—for example, those in South Africa and Swaziland—have already gone forward with projects endowing organizations working on private sector development. In Chapter 2, “Endowments and Intermediary Institutions,” Donor M. Lion looks at several assistance arrangements and funding mechanisms, focusing on endowments and foundations as means of ensuring continuity, maximizing effectiveness, and relieving A.I.D.’s management and administrative burdens.

Business Associations

Particularly important in increasing the role of the private sector in policy debates and pushing greater accountability in government is the strengthening of business and professional associations. Some missions—Guinea, Guinea-Bissau, and Kenya, for example—are already working on this. In Chapter 3, “Business and Professional Associations,” Mary Menell discusses examples, describing A.I.D.’s experience with associations and the potential for linkages between U.S. associations and their African counterparts.



Private Provision of Public Services

Another area worthy of attention is the private provision of public services, particularly in areas of A.I.D.'s greatest activity—traditionally, health, family planning, education, and agriculture. There has been considerable private sector involvement in these areas elsewhere in the world, and some of this experience is relevant to Africa. In Chapter 4, "Private Provision of Public Services: Experiences in Health, Family Planning, Education, and Agriculture," Allison Butler Herrick surveys A.I.D.'s experience with direct and indirect promotion of private services in traditionally public areas and discusses options for further private provision of government services. In the accompanying volume *Private Provision of Public Services: Opportunities and Issues in Telecommunications, Electric Power, Transport, Water and Sanitation, and Solid Waste* she examines opportunities in other sectors.

These studies provide an overview of approaches to promoting private sector development. They are designed to give project managers thinking about private sector programs a better idea of what is already being done, what might work, and where to go for further information or to tap existing resources. Because thinking on these issues will never be complete, we welcome your comments and suggestions.

—Desaix Myers



Chapter 1

ISSUES
IN
DIRECT ASSISTANCE

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THE PROVISION OF DEVELOPMENT assistance directly to the private sector raises numerous issues relating not only to development philosophy but also to management of the development process. Many A.I.D. missions in Africa and elsewhere have begun to include direct assistance to the private sector in projects and programs. The types of direct assistance have varied, for example, funding of prefeasibility studies, support for training, subsidized technology transfer, trade and investment missions, and brokering. However, many other missions have expressed reticence or confusion regarding the perceived complexities that apply to this form of aid.

Most people in the development community interviewed for this chapter recognized the important contribution to development that for-profit firms can make. Nonetheless, many expressed skepticism about direct assistance to the private sector. Their concerns can be summarized:

- Does direct assistance to the private sector run counter to A.I.D.'s mission of helping socially and economically disadvantaged people?
- How can we reconcile management requirements for fair play and competition with direct assistance to for-profit firms?

This chapter addresses those concerns by examining A.I.D. policy and regulatory guidance relating to direct aid for companies and setting forth a framework for judging where direct assistance is appropriate.

Direct assistance to private sector firms in less-developed countries (LDCs) or to U.S. companies operating in LDCs is not a new area for A.I.D., nor is such assistance beyond the mandate of Agency activity. Nonetheless, programming for direct assistance to the private sector is somewhat outside the mainstream of development activity. Skepticism within the development community regarding direct assistance to companies is largely a reflection of the established practice of working principally with public institutions.

This chapter discusses the role of direct assistance within the general context of A.I.D. policy and mandate. It summarizes A.I.D. policy on the provision of direct assistance and identifies windows of opportunity for A.I.D. missions where direct firm-level assistance may be both the most effective and the most appropriate way of obtaining A.I.D.'s development objectives.



WHY DIRECT ASSISTANCE TO THE PRIVATE SECTOR?

Rethinking the Role of the Private Firm in Development

Although A.I.D. has long encouraged private sector development, in recent years it has channeled most aid to private enterprise through government and quasi-public institutions. Individuals and private firms have benefited from these programs, but the focus of programming through intermediaries has emphasized the collective benefits of improving the policy environment for business rather than the contributions of individual firms. Within the context of adjustment programs, private firms have been seen as essentially responsive elements in the development process: if monetary systems are stabilized, if capital markets are managed competitively, if public sector dominance in the marketplace contracts, and if market information systems and promotional opportunities are established, then private firms will be able to create jobs and wealth.

The development literature and planning documents reviewed for this chapter (see the Bibliography) generally view for-profit firms (defined in the widest sense) as vehicles for achieving broad development goals—such as economic and social equity, productive efficiency, growth, and employment—by virtue of their competitive mandate and self-sustaining nature. In the policy logic of A.I.D., as well as that of other donors, the contribution of firms to development comes from the link between

profit and sustainable contributions to economic growth in the aggregate. An A.I.D. private enterprise development policy paper noted: “Private enterprises that respond to profitable opportunities in a free market produce jobs, managerial skills and economic growth. They contribute wealth to society and improve the quality of life. Moreover, significant equity objectives can be achieved when market forces operate to stimulate an economy toward full employment.”¹

Private sector entities may also act as tools for accomplishing development purposes, such as delivery of social or economic services, management of public infrastructure and utilities, and technical service delivery to the population at large.

Promoting private sector reform exclusively through policy reform and public intermediaries may not always be the most efficient approach.

Finally, A.I.D.’s involvement in firm-level assistance can provide firsthand experience useful in policy dialogue over structural reform and can encourage companies to become more active in policy debates.

What Impact Are We Looking For?

According to A.I.D. policy documents (see the Bibliography), direct assistance to the private sector must be justified by a development purpose that targets one or more of the following outcomes:

- Contributions to the public good (including improved efficiencies and cost-effectiveness in the delivery of essential services to the general public),

¹ U.S. Agency for International Development, “Private Enterprise Development (Revised),” A.I.D. Policy Paper (March 1985).



- Collective benefits beyond the principals of the firm itself (including social equity and improvements in the quality of life for A.I.D. target populations),
- Economic growth, and
- Gains in the competitiveness of industry, markets, and the institutions that serve them.

The development impact of direct assistance may include the following:

- Distribution benefits (including employment and income generation);
- Demonstration impacts (including technical innovation);
- Contributions to the public good, such as improvements in the quality and efficiency of service delivery; and
- Increased economic growth.

Distribution Benefits

The distribution benefits of aid to private sector firms lie at the heart of concerns regarding its appropriateness. The degree to which economic benefits of assistance are likely to be concentrated among a small group of individuals or redistributed beyond a firm is the principal measure of whether a program conforms to A.I.D.'s mandates regarding free and fair competition and equitable access to development assistance.

Criteria for assessing distribution benefits include such factors as employment and income generation, efficiency of and access to services, and use of scarce production factor.

Redistribution of equity (for example, through public offerings of shares in a firm) may be a legitimate criterion for impact assessment. Development assistance can sometimes be linked directly to improvements in the value of a firm that lead to public offerings or

subsidization by the firm of savings mobilization programs (including credit unions and pension schemes).

Negative benefits may occur as operating efficiencies are introduced and workers are laid off. These changes might lead to economic benefits beyond the firm—including lower-priced and higher-quality goods and services available to the public at large, but development planners must consider the social costs of reduced employment.

Demonstration Benefits

The adoption or innovation of new technologies can be a vital catalyst for economic growth. Under certain conditions, direct assistance (in the form of training, research and development grants, feasibility studies, and the brokering of joint ventures) to technological pioneers and innovators can give rise to competitive infant industries with potential for a broad impact on national and regional economies.

An inherent risk is that direct assistance may be poorly targeted; if the relative factor endowments are not adequately evaluated, technological innovation may not be sustainable in the absence of subsidies.

Also, technological innovation may not be without social costs. Innovation can render existing businesses uncompetitive. Changes in labor-cost ratios from technical innovation can render workers redundant and increase unemployment. Most vulnerable are those who cannot adapt to the higher level of skills necessary once new technologies are adopted. Training to improve workers' skills can sometimes lower these social costs.

Contributions to the Public Good

Direct assistance may encourage the provision of services, activities, or other outcomes that enhance the general welfare of a population or



its resource base. Such assistance can improve quality and cost-effectiveness of social, technical, and economic services, such as health care, waste management, utilities, and infrastructure. Secondary impacts might include reduced environmental hazards, enhanced quality in essential goods and services, and systemic enhancement of technologies available to the public.

Contributions to Economic Growth

Assistance to the private sector must generally increase the pace of economic growth. Firms that do not produce a profit are unlikely to make medium- to long-term contributions to higher national income. Hence, assistance only to firms with a satisfactory economic rate of return (ERR) is one means of ensuring positive economic impact.

Increasing exports has been a key element of many A.I.D. programs. Export promotion programs generally focus on helping host-country firms acquire information on target markets, establish business contacts in those

markets, and negotiate sales contracts or joint ventures with foreign firms.

When Does the Environment Justify Direct Assistance?

A.I.D. has learned valuable lessons from its structural adjustment programs and its efforts to effect policy change, and direct assistance to the private sector is most likely to be effective where it is complementary to such programs. Firm-level aid works best where liberal markets are in place—or at least where there are tangible grounds for optimism—and where political leaders are committed to the principles of a free market. These preconditions are not ideological; they are practical.

In economies undergoing structural adjustment, political leaders have often accepted high levels of risk with the hope that private firms will move to occupy niches in the economies formerly occupied by the state. These leaders expect private firms not only to generate new economic growth but also to offset the

SUPPORTING REFORM AND ACCELERATING MARKET LIBERALIZATION

Direct assistance can be critical in helping private firms to enter newly liberalized markets to take advantage of government efforts to privatize and to improve efficiency in the distribution of agricultural inputs critical to the national economy.

In Cameroon, the Fertilizer Sub-Sector Reform Program helped to create a private market for fertilizer by establishing links between commercial banks, private importers, and distributors. A.I.D. assisted

commercial banks in screening and selecting eligible firms and provided funding for import loans.

In Mozambique, Private Sector Rehabilitation Programs assisted private firms in entering markets for agricultural inputs previously dominated by government monopolies. Private companies were selected as agents for the importation and distribution of program-funded fertilizer, vegetable seeds, and agricultural machinery.



jarring social consequences of adjustment by generating new employment. Under such circumstances, direct assistance to the private sector can increase prospects for stability and sustainable growth.

It can enhance the gains of programs aimed at improved governance and sound economic policy. In environments where policy distortions weigh heavily on the efficiency of markets, only limited benefits can be expected from the private sector.

Can Direct Assistance Help to Graduate the Informal Sector?

In recent years A.I.D. and other donors have "discovered" the informal sector, recognizing it variously as a symptom of systemic weaknesses in national economies, as everyday resistance to overly centralized economic authority, as a hotbed of entrepreneurial innovation, and as a potential catalyst for economic growth. One implicit goal of some adjustment programs has been to close the gap between the formal and the informal sectors.

To the extent that A.I.D. has focused on disadvantaged populations (including farmers, the rural poor, and women), programming has tended to concentrate on the informal sector, where the "firm" may in fact be an unincorporated communal enterprise, a family farm or microenterprise, or a group united informally for some economic purpose.

Although few donors question the appropriateness of assistance to the informal sector, they are less at ease with assistance to firms in the formal sector. Consequently, a major

challenge for development planners is to identify appropriate and desirable "next steps" for promoting small enterprises that emerge from the informal sector or that are already formal.

Although A.I.D. has established guidelines for the promotion of microenterprises, firms that graduate from this loosely defined category generally must compete with larger firms for access to formal credit and other forms of assistance.² Added costs of operating as a formal sector enterprise and competing directly with larger firms can often be so high as to render graduating firms uncompetitive. A.I.D. may wish to consider formulating guidelines and programs for disadvantaged small enterprises that have successfully emerged from the informal sector to increase their access to information, technology, and capital.

POLICY GUIDELINES FOR DIRECT ASSISTANCE TO THE PRIVATE SECTOR

Restrictions and Opportunities in the Provision of Direct Assistance

When is and what makes direct firm-level assistance appropriate? There are already a number of existing policy guidelines affecting direct assistance. Section 601 of the Foreign Assistance Act of 1961 (as amended) contains probably the most detailed statement of U.S.

² According to an A.I.D. Policy Determination, "There is no precise definition of a microenterprise. As a working definition . . . a microenterprise should have no more than approximately 10 employees." Microenterprise recipients of aid will generally include "(a) individuals in the poorest 50 percent of the population, (b) businesses owned by women, and (c) businesses owned and operated by the poorest 20 percent of the population." (A.I.D., "Microenterprise Development Program Guidelines" [Policy Determination no. 17, October 10, 1988].)



development policy, as defined by Congress, as it pertains to the private sector:

The Congress of the United States recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. Accordingly it is declared to be the policy of the United States to . . . foster private initiative and competition . . . to improve the technical efficiency of [LDC] industry, agriculture, and commerce . . . and to encourage the contribution of United States enterprise toward economic strength of less developed friendly countries, through private trade and investment abroad, private participation in programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs) and exchange of technical information.

The act goes on to establish a firm mandate for development assistance to be provided to and through the private sector in LDCs and including, wherever possible, U.S. private enterprise. Included within provisions calling for the use of U.S. private expertise in the implementation of development projects is language that calls for "the transfer of equity ownership

in [projects] or programs to private investors at the earliest feasible time" [section 601(b)8].

The act complements these provisions with restrictions that prohibit U.S. development programs from displacing or competing with private investment or commercial activity. In some instances these restrictions are commodity specific and discourage, but do not prohibit, support for export-oriented development programs that would increase competition for those commodities.

Guidance governing the provision of direct assistance to private sector firms is found in a number of A.I.D. policy documents.³ Although a number of restrictions are universally applicable, others allow for exceptional cases.

The provision of assistance to the private sector is circumscribed by four principal guidelines. The first three are both rigid and absolute in their application:

1. A.I.D. may not acquire equity in private sector firms at home or in recipient countries,
2. Direct assistance to private firms must be justified on basis of both its fit within A.I.D. country development strategy and its stated development impacts for a target population, and

PROMOTING VERTICAL MARKETS

Achieving well-integrated production and marketing is a major challenge to isolated rural industries. Direct assistance can help.

The Swaziland Commercial Agricultural Production and Marketing Project is seeking to improve the technical and management capacity of Swazi agribusinesses. Direct assistance to companies of varying

size and experience includes training in horticulture and specialty crop marketing, market information, quality control, business planning, and management.

To participate, Swazi firms must produce business plans for vertically integrated development and expressions of interest from financiers who will fund participant firms.

³ See the Bibliography for a listing of seventeen principal policy papers and policy determinations reviewed for this chapter.



FACILITATING MARKET ENTRY BY BUILDING SKILLS

One of the more frequent forms of direct assistance to private firms is training and technical assistance to improve management and technical skills. Such aid can be valuable in helping promote entry by small firms into unfamiliar, but lucrative, new markets.

The Human Resources Development Assistance Project has conducted training seminars for representatives of private firms throughout Africa to improve the capacity of successful local businesses to enter regional export markets. Training focused on such difficult-to-acquire skills as market assessment, competitor intelligence, product distribution, and export financing.

The South Africa Black Private Enterprise Development Project provided technical assistance and training to established small businesses. Training focused on overcoming complex financial, skills-related,

and attitudinal constraints that inhibit leadership and decision making.

A.I.D.'s Office of International Training sponsors Entrepreneurs International, a private sector training program designed to support, improve, and expand the business sectors of developing countries through the establishment of linkages with the U.S. business community. These linkages foster development of long-term business, professional, and personal ties that increase opportunities for trade and investment.

The Mauritius Industrial Diversification Project is providing direct training and promotional assistance to twenty firms, to help them identify and enter new markets for informatics and electronics manufactures. Individual firms are being trained to adapt production techniques to new products and to evaluate prospective markets.

3. Funding assistance must be used for activities for which it was appropriated.

The fourth guideline, while pertinent to all direct assistance initiatives, enjoys relative flexibility in its application:

4. Direct assistance should be subject to competition or competitive access.

Where exceptions to guideline 4 are found, they are generally based on the likelihood of enhanced development impacts of a particular initiative or unique constraints characteristic of particular development problems. In almost every instance, exceptions appear to be

granted, over a medium-term horizon, to support private enterprise during transitional phases of development or innovation. This is particularly applicable to A.I.D. support for privatization of state-owned enterprises and public services.

Several illustrations are pertinent. 1988 grant restrictions state that grants to private enterprises may be used for the purposes of training and technical assistance only if such assistance is programmed "in such a way that provides competitive access for many enterprises rather than one enterprise."⁴ However, an earlier A.I.D. policy governing assistance to private enterprise interprets restrictions more liberally, stating that the appropriateness of a

⁴U.S. Agency for International Development, "Financial Market Development Policy Paper" (August 1988).



grant “must be based upon the unusual innovations or developmental risk assumed. That is, the loan or grant must be based on the externalities of the project which go beyond the business itself (examples: development of a new, easily replicable technology, introduction and marketing of new services, etc.).”⁵

A.I.D. policy regarding assistance to privatized firms also appears to provide for exceptional authorities. Financial assistance for privatization is available in the form of both loans and grant activities:

Grant funding can be used and is encouraged for assistance to buyers who desire to set aside equity shares for partial employee ownership plans There are instances when grant assistance can be provided to a buyer to cushion a burdensome covenant imposed upon him by the seller for political purposes (such as a requirement to continue all current employees for a limited time) or when the grant assistance facilitates other A.I.D. objectives such as widespread public ownership of shares, or partial employee ownership shares.⁶

Authorities granted to the Development Loan Fund in 1957, though little used since the early 1960s, are nonetheless still in force and provide a potentially creative mechanism for dealing with the equity problem.⁷

Development Loan Fund authorities did not extend to the purchase of equity or the awarding of grants; however, they did allow the fund to acquire and dispose of real, personal, or mixed property, including mortgages, bonds, debentures, liens, pledges, and other collateral. It is possible that in the future, fund authorities could be used to justify equity acquisition and disposition under other programs, particular where equity will ultimately be transferred to employees.

Other forms of assistance—including technical and informational assistance and training—appear to be restricted only where they are not simultaneously offered to some collectivity of interests, beyond those of a single firm.

In its application, the fourth A.I.D. guideline appears less focused upon competition in the strict sense than upon ensuring that the benefits of assistance are shared on an equitable and collective basis by the maximum number of beneficiaries. As elsewhere, the stated development purpose or objectives that justify assistance are pivotal in this regard.

Issues in Design, Monitoring, and Evaluation

A number of issues for design, monitoring and evaluation are raised by direct assistance to private enterprise. They are summarized below.

⁵ U.S. Agency for International Development, “Private Enterprise Development Policy Paper” (May 1982).

⁶ U.S. Agency for International Development, “Implementing A.I.D. Privatization Objectives,” A.I.D. Policy Determination no. 14 (March 1991).

⁷ The Development Loan Fund was established in 1957 to provide financing through loans, credits, or guaranties to economically, technically, and financially sound projects, and in 1961 it was merged with the International Cooperation Agency to create A.I.D. During its first four years, the fund allowed loans to be repaid in local currencies. It used tied procurement as a means of ensuring maximum reasonable benefits to the U.S. private sector. The principal instruments of fund activity in the private sector were direct loans and convertible debentures. The convertible debenture mechanism was designed not to allow A.I.D. to become an equity participant, but rather to provide worthy projects with a means for expanding their equity base at some later date through the sale of debentures.



Fungibility

The issue of fungibility is most pertinent to programs in which capital (credit, grants, or commodities) is provided for a designated purpose.

The development community has often tended to conceptualize capital as a productivity input, ignoring the ease with which funds or in-kind assistance can be converted to unprogrammed purposes. Capital is fungible; it may be easily mobilized for purposes other than those designated in original grant or loan agreements. The justification provided for a capital transfer may have little relation to the activities stimulated at the margin by access to additional funds. From an accountability perspective, this suggests a need for effective controls to ensure that capital is not diverted for inappropriate ends. Just as important, however, is the need to be able to monitor and evaluate the effectiveness of capital transfers in achieving stated development objectives.

When assistance is provided through intermediaries (such as financial institutions and cooperatives), A.I.D. can rely to a large extent on accounting and control systems used by those institutions to manage risk. Those systems are not always in place or efficiently managed when A.I.D. provides direct assistance to a private firm.

Therefore, where capital is channeled through private sector firms for a development purpose, practical consideration must be given to the management load that will result for A.I.D. missions in monitoring the effective uses of capital.⁸

Additionality

The problem of additionality—whether assistance genuinely provides for an outcome that

would not have occurred in the absence of aid—is related to the fungibility issue. Would a firm that receives a loan to adopt a new technology have invested in innovative techniques and processes in the absence of a loan? Has a lending guarantee program led financial institutions to increase the number of new borrowers in proportion to program funds provided? Do farmers having increased access to credit increase their purchases of inputs by amounts equal to the loans they receive?

The measurement of additionality is difficult, if not impossible, given the inability of project managers or technical advisors to know exactly what recipients of assistance would have done in the hypothetical absence of aid. However, even an imperfect assessment of the effects of development assistance with regard to additionality is necessary for justification of capital transfers and for the evaluation of programs involving capital transfers.

A.I.D. has acquired a mass of experience with regard to fungibility, additionality, and substitution issues, particularly within the context of rural credit programs. On the basis of sometimes costly and painful experience, rural credit managers now recognize the hazards of using targeted credit for specific production outcomes. The long-standing assumption that formal credit is necessary in order to prompt farmers, small businesspersons, and innovators to adopt new technology remains unproven.

In programs providing direct assistance to the private sector, it is critical to view grants, credit, and in-kind transfers as additional liquidity, rather than as production inputs. The use of additional liquidity provided by a capital transfer for its stated purpose is only probable if recipients are convinced that targeted outcomes are the most profitable or satisfying uses of additional capital.

⁸For an excellent and detailed discussion of fungibility and additionality, see J. D. Von Pischke, Dale W. Adams, and Gordon Donald, eds., *Rural Financial Markets in Developing Countries: Their Use and Abuse* (Baltimore: Economic Development Institute of the World Bank, Johns Hopkins University Press, 1983).



Measuring Contributions to the Economy

Whatever the context and stated objectives of direct assistance may be, a satisfactory ERR is the principal indicator of positive development impact on a private firm. If the real value added to the activities of the firm by assistance does not exceed the real cost of capital (including a margin for risk), it is unlikely that the firm can make a positive contribution to the economy.

ERR criteria should measure the inputs and outputs of a firm vis-à-vis their opportunity cost to the economy. Hence, a tradable good should be valued at its import price (c.i.f.) or its export price (f.o.b.) rather than at an internal price. This is because the latter may be affected by market distortions, including price controls, subsidies, protection, and taxes. Nontraded goods (for example, labor, services, or local transport) should be valued at their international equivalent prices, adjusted for distortions related to regulation, taxes, and monetary values. Projections of costs and returns should be made on a constant price basis (net of inflation) and using the real cost of funds in the local economy.⁹

The inclusion of particular costs and revenues in ERR calculations may depend on whether or not they constitute real costs to the economy, rather than solely to the firm. Domestic taxes on the firm may not be included in ERR cost calculations, whereas wear and tear or improvements in public infrastructure may be counted as costs even if the firm does not subsidize them.

The contribution of the firm to gross national product—in the form of “return to the domestic economy”—can also be calculated by netting out the contributions of assistance to the firm from donors or foreign-based entities, as well as any revenues that may derive from

participation in the firm. (Obviously, revenue payments will only apply to situations where donors or foreign entities hold equity in the firm.) This is also a useful means of identifying whether or not foreign partners are obtaining higher revenues than local ones: if the standard ERR is lower than measures of return to the domestic economy, a higher proportion of revenues are flowing to nonlocal participants.

Quantifying secondary contributions of the firm to the economy is more difficult. External benefits of direct assistance to the private sector to producers and consumers may result in greater availability or improvements in the quality of goods and services. This can be measured in the supply and cost of goods in the marketplace and the degree to which they may be competitive with both domestically produced and imported ones. Alternatively, for firms that are introducing technological innovations, it may be possible to measure the rate at which those innovations are being emulated by other firms; this will be reflected in sub-sector growth and productivity gains.

Guidelines and Opportunities for Direct Assistance

The principal challenge in designing direct, firm-level assistance initiatives is not in selecting mechanisms that will work in boosting the corporate bottom line; it is no considerable challenge to bestow the advantages of enhanced information, technology, or know-how on a single firm to obtain positive bottom-line results. Rather, the challenge to development is in identifying targets of opportunity for inducing positive systemic change. A.I.D. policy is unequivocal in emphasizing that development purpose provides the key to identifying

⁹This discussion is adapted in part from criteria for project evaluation developed by the International Finance Corporation. For an excellent discussion of ERR, see International Finance Corporation, *The Development Contribution of IFC Operations*, Discussion Paper no. 5 (Washington, D.C., 1989).



whether direct assistance is appropriate in any single instance.

Unlike efforts to promote policy reform on a societal scale, direct assistance is a strategic response to critical bottlenecks to economic progress at the micro level. The probability of success in any single instance is critically linked to correct diagnosis of those bottlenecks.

The justification for direct assistance must be derived from the appropriateness of the proposed solution and its likelihood for achieving stated outcomes. This may seem to be a statement of the obvious, but the critics of direct assistance do not hesitate to point to instances where this has not been the case.

Lowering the Information Barrier

The relative geographic isolation of many LDCs is compounded by their isolation from the global flow of information on markets, technologies, products, and processes. This situation has long been exacerbated by restricted flows of information even within individual countries.

The most effective means of providing information to private business in LDCs is undoubtedly through institutional intermediaries: commercial attachés, public media, and chambers of commerce and other business associations. However, to compete and to expand markets, businesses often require information that is tailored to their highly individual needs.

A.I.D. missions enjoy little comparative advantage as a source of such information. However, in the absence of host-country trade promotion agencies or similar institutions, A.I.D.'s regional bureaus are well placed to facilitate the flow of information through missions. Such assistance can seek to establish ties between private businesses in LDCs and their counterparts abroad and can lead to emerging partnerships in the form of joint ventures,

marketing agreements, and technology licensing.

Such efforts in the field are unlikely to be successful without significant backstopping in the United States. Successful organization of informational and similar assistance, however, would impose a significant management burden on A.I.D. missions. For such a program to be effective, lead responsibility would have to be delegated within missions and contacts would have to be established and regularly maintained with functional counterparts at A.I.D. and in other U.S. government agencies.

Agency guidelines with regard to fair and competitive access do not constrain this type of activity if it is carried out through institutionalized programming; if it is adequately publicized in the host country and, if relevant, in the United States; and if it is implemented on a nondiscriminatory basis.

Promoting Technology Transfer

The technology gap between LDCs and developed markets is one of the greatest impediments to economic development. As in the case of information, it is not the absence of suitable technology that impedes development, but rather its relative inaccessibility to LDC entrepreneurs.

Technology transfer is a complex process requiring identification of needs, identification of appropriate technical solutions to the problems of businesses, sourcing of technology (including products and processes), obtaining financing for the appropriation of new technology, and transferral of skills necessary to optimize and maintain the value of new technology. Direct assistance can play a key role in facilitating each step. A.I.D.'s recently instituted Entrepreneurs International program is a useful step in this direction, helping LDC entrepreneurs to visit U.S. facilities to familiarize themselves with new products,



processes, and markets. However, the program provides little or no follow-up assistance to help entrepreneurs to obtain technological capital and know-how.

Under A.I.D. policy, the direct provision of technology to LDC firms (for example, the provision of computer equipment, breeding stock, or assay equipment) would qualify as a grant of capital and would be subject to all incumbent restrictions. The appropriateness of such a grant must be derived from the grant's development purposes. If the grant were to promote replicable, innovative processes or to pioneer a new industry, if new technology is to contribute to improved quality or efficiency in critical public services, if the new technology is to add value to existing industry by expanding or diversifying production, and if the risks of adopting the new technology were deemed to be prohibitive for LDC pioneers, then it is likely that the grant would qualify for approval.

Identifying Opportunities for Investment

A variety of U.S. agencies have established programs to assist U.S. business to conduct prefeasibility and feasibility studies for investment projects in LDCs. No such programs exist to help LDC entrepreneurs assess the viability of self-initiated investment projects or even to assist in the preparation of business plans and other analytical planning documents.

This presents a promising avenue for A.I.D. direct assistance to the private sector. No legal or regulatory restrictions prevent A.I.D. from making grants to private business for such studies, so long as they have an acceptable development purpose (unusual innovations or developmental risk assumed) and so long as grant funds are used for their stated purpose.¹⁰

The principal administrative obstacle to support for such studies is obtaining assurances that grants are awarded impartially, as the result of free and fair competition among a pool of eligible firms. Under exceptional circumstances (for example, the absence of a competitive pool of similarly oriented firms) this criterion might not apply.

Overcoming Capital Constraints

The provision of capital to private firms is subject to strict guidelines under A.I.D. policy. These are less a regulatory impediment to capital assistance than they are an administratively complex barrier.

A.I.D. traditionally has provided capital assistance to private firms through intermediary programs and institutions for specific purposes. Loan guaranty facilities, targeted credit pools, and local currency proceeds from Commodity Import Programs have all been used to support private sector development.

The principal policy guidelines for these programs would apply to any hypothetical new assistance program for private firms: capital is generally provided in the form of a loan or loan guaranty, conditioned to lending on the basis of conservative evaluation criteria and repayment at market rates.

Although A.I.D. policy generally discourages concessionary capital assistance, notable exceptions exist for private sector training and assistance grants that are aimed at improving the competitiveness of industry or facilitating the adoption of new technology by industry.

Developing Human Capital

Human resource development is one of the most promising forms of direct assistance that A.I.D. can provide to the private sector in

¹⁰This topic was the subject of a legal analysis by the A.I.D. general counsel (see Robert Sonenthal, "Doing Business with Business: Grant Financing of Prefeasibility Studies" [A.I.D. internal memorandum, July 21, 1990]).



FACILITATING JOINT VENTURES

The Trade and Investment Services Program of the A.I.D. Private Enterprise Bureau has established an effort that targets creation of joint ventures between firms in developing nations and overseas partners.

Volunteer executives work over a two- to three-year period in a target country to link local firms with potential U.S. partners that are interested in establishing joint ventures, licensing, or equipment and product purchase agreements. Assistance can also include aid in negotiating and finalizing agreements. Costs of this program are generally covered by grants from the local USAID mission.

Successful efforts of this type have already been undertaken in the Dominican Republic, Ecuador, Egypt, Guatemala, and Morocco.

The Bureau for Private Enterprise's Private Investment and Trade Opportunities

Project is an Asia-based effort to expand private sector trade and technology transfer between the United States and Asian nations. The program identifies U.S. joint-venture partners for Asian firms, facilitates meetings between prospective partners, and provides follow-up assistance for companies pursuing joint ventures.

Under a cooperative agreement with A.I.D., the International Executive Service Corps (IESC) established the Joint Venture Feasibility Fund (JVFF). The JVFF program provides planning and funding assistance to facilitate the establishment and growth of viable joint business ventures between less-developed countries' firms and U.S. private enterprises. Through the JVFF program, IESC has been able to provide support to entrepreneurs in less-developed countries and U.S. private enterprises.

developing nations. A.I.D. policy on private enterprise and sectoral development emphasizes that the improvement of technical and managerial skills in LDCs is a priority of the highest order.

Training assistance to private firms can be designed to meet a dynamic range of critical needs: improvement of managerial efficiency and controls, upgrading of skills in support of technological transfer and innovation, and skill enhancement in low-productivity occupations and in new sectors of the economy.

A.I.D. policy is clear in noting that private sector workers should have access to any local training programs, training support services, and follow-up professional services that are provided by A.I.D. missions to those in the

public sector. Policy guidelines for training assistance to the private sector encourage, but do not require, reimbursement in part or in full for training costs to the maximum extent possible.

Facilitating Direct Assistance

As noted throughout this report, A.I.D. guidance on direct assistance to private firms is spread throughout a variety of documents: congressional authorities, appropriations legislation, and internal Agency policy and policy guidance papers. For this reason alone, many A.I.D. personnel mistakenly believe this form of assistance to be administratively complex. However, Appendix A summarizes Agency guidance for direct assistance and makes it



PROMOTING COMPETITION IN CAPITAL MARKETS

Direct assistance can be used to accomplish multiple development purposes. In Kenya, the Private Enterprise Development Project expanded local sources of equity capital while promoting competition among equity capital firms. A.I.D. helped to establish a new company, Kenya Equity Capital Ltd., and provided a local line of term credit for investment in new projects, including start-ups, expansions, and restructurings. Additional funds and technical assistance

were provided for pre- and post-investment advisory services carried out by Kenya Equity Capital and an older firm, Investment Promotion Services (Kenya) Ltd.

The outcome of direct assistance in this case was an expanded pool of equity capital, competition to invest in the most promising new ventures, and improved business planning services for companies poised for growth.

clear that the focus of policy guidance is on identifying, rather than limiting, opportunities for assistance to private firms.

To facilitate understanding of A.I.D.'s position on direct assistance to the private sector and to lower barriers of administrative reticence, this topic could be the subject of a separate Agency policy paper or policy guidance document. Rather than merely unifying official guidance on this topic, a policy paper could

provide guidance on the issues pertaining to design, implementation, and evaluation that have been raised in this report. It could also provide a checklist of considerations and clearances for direct assistance with regard to such critical concerns as the definition of appropriate development objectives, development risks, the relationship of assistance to country development objectives, and competitive access to aid.



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Appendix A

**A.I.D. POLICY GUIDANCE FOR DIRECT ASSISTANCE
TO THE PRIVATE SECTOR**

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
AUTHORITIES, RESTRICTIONS, AND REQUIREMENTS		
Development purpose	Recognizing that concessional assistance to a private sector firm is, in essence, a grant of capital to the owners of equity in the firm, its appropriateness must be based upon the unusual innovations or risk assumed. The loan or grant must be based on the externalities of the project that go beyond the business itself (e.g., development of new, easily replicable technology; introduction and marketing of new services).	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13)
Competition	If an indigenous private enterprise is to receive and manage A.I.D. resources to accomplish a specific development objective and several firms are capable of carrying out the activities, the firm to be used should be selected by an appropriate competitive process.	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13)
Equity	A.I.D. will not take an equity position in a private enterprise.	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13); sec. 635(g) of the Foreign Assistance Act, as amended
Grants	Grants to private enterprises are permitted to finance direct training and technical assistance, although such assistance should be programmed in a way that permits competitive access for many enterprises rather than one enterprise.	A.I.D., "Financial Markets Development Policy Paper," August 1988 (p. 11)
Grants and loans	A.I.D. may use grants or loans with concessional rates to finance direct training of and technical assistance to LDC private enterprises.	A.I.D. "Private Enterprise Policy Paper," May 1985 (p. 13)

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
AUTHORITIES, RESTRICTIONS, AND REQUIREMENTS (continued)		
Provision of financial capital	<p>Provision of financial capital to private enterprise will be subject to the following conditions:</p> <ul style="list-style-type: none"> • When its purpose is to provide financial capital to a financial institution so that it can increase its current on-lending to a specific A.I.D. target group • When its purpose is to initiate an entirely new venture or activity in the LDC's private sector to reach a target group not previously served 	A.I.D., "Private Enterprise Policy Paper," May 1985 (pp. 13-14)
Credit to private enterprise	<p>Interest rates to be charged on A.I.D.'s direct loans to private enterprises should be set within the context of lending through intermediate financial institutions. Interest rates</p> <ul style="list-style-type: none"> • Shall, at a minimum, be at or near the prevailing interest rate paid on U.S. Treasury obligations of similar maturity at the time of obligating such funds, to the maximum extent practicable, and • Should not be less than terms prevailing locally or a rate that approximates the opportunity cost of capital in that country. 	A.I.D., "Financial Markets Development Policy Paper," August 1988 (p. 12)
Credit to venture capital firms	Funds lent to venture capital firms should be at market rates; grants or equity contributions are not permitted.	A.I.D., "Financial Markets Development Policy Paper," August 1988 (p. 15)
PRIORITIES AND RECOMMENDATIONS		
Equity	Although A.I.D. may not take an equity position in a private enterprise, long-term or subordinated debt or convertible debentures may be permitted where it is appropriate that A.I.D. share in the risk or the growth of a new operation.	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13)
Grants and loans	<p>Concessionary assistance is particularly useful when</p> <ul style="list-style-type: none"> • Training and technical assistance have as their direct objective the improvement of competition in the industry and • New technology is transferred to the country. 	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13)

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
PRIORITIES AND RECOMMENDATIONS (continued)		
Grants	Concessionary assistance to firms for the purchase of new technology should be proportionate to the transfer of technology (not the normal commercial risk) and should not hurt the marketing of such technology by the U.S. private sector through normal commercial channels.	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 13)
Directed credit	A.I.D. discourages excessive reliance on directed credit. The Agency should encourage developing countries to rely on market mechanisms to allocate capital to its most productive uses.	A.I.D., "Financial Markets Development Policy Paper," August 1988 (p. 7)
Credit to private enterprise	Concessional rates should not be used to encourage private enterprises to undertake activities that are not commercially feasible at market rates.	A.I.D., "Financial Markets Development Policy Paper," August 1988 (p. 12)
Credit to microenterprises	Average loan size in microenterprise credit activities should not exceed \$300 unless there are indications that larger-sized loans are needed to achieve the objectives of this program. For programs where prevailing country conditions make the \$300 limit unreasonable in terms of meeting program objectives, USAID missions should set forth the reasons for the higher loan size in project or program documentation.	A.I.D., "Microenterprise Development Program Guidelines," Policy Determination no. 17, October 10, 1988
Credit to or through private financial institutions	<p>When the purpose of financial capital is for on-lending to a specific A.I.D. target group, the Agency's resources should be channeled only to development activities that are</p> <ul style="list-style-type: none"> • Consistent with A.I.D.'s country development strategy and • Unable to attract the full amount of required financial capital from commercial sources. 	A.I.D., "Private Enterprise Policy Paper," May 1985 (pp. 13-14)

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
PRIORITIES AND RECOMMENDATIONS (continued)		
Credit to or through private financial institutions	When the purpose of financial capital is for on-lending to a specific A.I.D. target group, on-lending to the target group should be at LDC market-determined rates (interest and repayment period).	A.I.D., "Private Enterprise Policy Paper," May 1985 (pp. 13-14)
Credit for new ventures or activities	When the purpose of A.I.D. provision of financial capital is to initiate an entirely new venture or activity in the LDC's private sector to reach a target group not previously served, <ul style="list-style-type: none"> • Concessionality may be warranted to finance the extraordinary start-up costs associated with introducing the new venture or activity (i.e., costs that would not be incurred by subsequent investors that enter the market on the basis of the success of the initial enterprise; • Concessionality may be linked to project components, such as advisory services and training; or • Concessionality may be warranted to finance special costs arising from the newness of the venture or the requirement of direct benefit to a specific A.I.D. target group (e.g., the need to hedge certain risks and provide for a normal profit). 	A.I.D., "Private Enterprise Policy Paper," May 1985 (p. 14)
Privatization	Complete privatizations of state-owned enterprises that result in joint ventures with U.S. firms, widespread stock ownership by the general public, and/or partial stock ownership by employees are the preferred A.I.D. approaches to privatization.	A.I.D., "Implementing A.I.D. Privatization Objectives," Policy Determination no. 14, January 1991
Privatization: technical assistance	A.I.D. can provide technical assistance for privatization in such areas as the following: <ul style="list-style-type: none"> • Sector- or industry-specific analyses • Enterprise-specific analyses • Policy, legal, or regulatory analyses • Project design, implementation, and evaluation efforts related to privatization • Efforts to determine the appropriate brokerage mechanisms for privatization 	A.I.D., "Implementing A.I.D. Privatization Objectives," Policy Determination no. 14, January 1991

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
PRIORITIES AND RECOMMENDATIONS (continued)		
Privatization: financial assistance	<p>Finance for privatization is available only in special circumstances where market failure or market imperfections are likely to prevent a privatization deemed important by a USAID mission. Although A.I.D. will not take a direct equity position in private enterprise, Agency assistance can be used for participation in financial restructurings, including debt-equity swaps.</p> <p>A.I.D. can also provide assistance to buyers that desire to set aside equity shares for partial employee ownership plans (normally, these plans do not exceed 15% of outstanding shares). Agency funding may be provided to a buyer to cushion a burdensome covenant imposed upon the buyer by the seller for political purposes or when grant assistance facilitates other A.I.D. objectives, such as redistribution of equity among workers or through sale to the public.</p>	A.I.D., "Implementing A.I.D. Privatization Objectives," Policy Determination no. 14, January 1991
Training	<p>A.I.D. support for privately sponsored training should be encouraged. Agency support is appropriate as needed to assist private sector training initiatives with logistic arrangements, external placement, planning, and assessment. Direct costs of local and external training should be met by employers, the business community, or the individual to the maximum extent possible.</p> <p>Privately employed individuals and local employers of professional personnel should have access to any local training programs, training support services, and follow-up professional services supported by A.I.D. Private sector employment of Agency-financed trainees is consistent with A.I.D. development policy, provided that employment is in the country of origin and in a field for which the training was initially justified. Where trainees are expected to be privately employed, the employers should play a role in trainee selection.</p>	A.I.D., "Participant Training," Policy Determination no. 8, July 13, 1983 (pp. 8-9)
SECTOR GUIDANCE		
Agriculture	A.I.D. encourages an expanded role, where appropriate, for private enterprise in the provision of agricultural research and the dissemination of improved technology as well as in the processing, preservation, and marketing of agricultural commodities.	A.I.D., "Food and Agricultural Development Policy Paper," May 1982
Agriculture: facilitating direct and joint investment	A.I.D. will develop mechanisms and processes to facilitate the involvement of the U.S. private business community in food and agricultural development, including technical assistance and training as well as direct and joint investment.	A.I.D., "Food and Agricultural Development Policy Paper," May 1982

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
SECTOR GUIDANCE (continued)		
Agricultural exports	<p>A.I.D. assistance to agricultural export activity is constrained by the following factors:</p> <ul style="list-style-type: none"> • Export potential of the commodity in question • Magnitude of production likely to result from the project • Likely export markets • Volume of U.S. exports of the commodity in question and similar commodities • U.S. share of the world or regional market that could reasonably be expected to be affected by increased exports of the commodity 	A.I.D., "Assistance to Support Agricultural Export Development," Policy Determination no. 15, September 13, 1986
Agriculture: palm oil, citrus, sugar, and related products	Although USAID missions are not prohibited from developing project ideas pertaining to these commodities, A.I.D. should only finance such projects when their development rationale is strong and their likely impact on U.S. producers is low.	A.I.D., "Policy Determination: A.I.D. Financing of Palm Oil, Citrus and Sugar Projects and Related Products," May 12, 1978
Agriculture: food industries	Private sector initiatives can enhance public investments in nutrition, particularly in the areas of agribusiness, food processing, and fortification. Technical assistance to food industries through U.S. private sector representatives is a type of collaboration that A.I.D. seeks.	A.I.D., "Nutrition Policy Paper," May 1982
Development communications	<p>The entire range of communications technologies and media is appropriate for support. Although A.I.D. resources will not be used for direct investment in or subsidy of private sector initiatives, private sector investment and entrepreneurship in communications-related activities may be supported through the following:</p> <ul style="list-style-type: none"> • Technical assistance, training, and advisory services to the private sector • Using private sector suppliers of communications goods and services needed for project implementation • Using private communication channels, where they exist, for disseminating project-related information 	A.I.D., "Development Communications," Policy Determination no. 10, April 1983 (p. 7)

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
SECTOR GUIDANCE (continued)		
Energy	<p>A.I.D. will consider direct financing of energy production (in selected countries where A.I.D. finances resource transfers) when Agency funds act as a catalyst for private investment.</p> <p>A.I.D. will tie Agency-financed activities for industrial and commercial energy applications to A.I.D.'s support for private enterprise (U.S. and local). A.I.D. will encourage indigenous and external private investment in energy resources or systems development by conducting assessments, analyses, and feasibility studies integrating the capital investment criteria and informational needs of commercial lenders and energy enterprises.</p>	A.I.D., "Energy Policy Paper," July 1984
Forestry enterprises	A.I.D. will focus on programs that increase the efficiency of production, marketing, and utilization of enterprises, including management and technical skills of the private sector in undertaking forestry activities. The Agency will expand the role of private enterprise as a means to establish an industrial base for forest development, improve the production efficiency of forests, and promote the utilization efficiency in conversion and consumption of forest products.	A.I.D., "Forestry Policy and Programs," Policy Determination no. 7, May 16, 1983
Health	<p>A.I.D. will support feasibility studies to assess the potential for private sector involvement in LDC health products and services, and the Agency is prepared to provide seed capital for experimental private sector programs. Innovative programs that A.I.D. may support include the following:</p> <ul style="list-style-type: none"> • Retraining of private practitioners for the provision of primary health care • Establishing private logistics and distribution channels for health products • Promoting indigenous manufacturing of generic drugs, where quality control can be assured, at significantly lowered costs compared with imported ones • Promoting joint ventures between U.S. and LDC enterprises for the provision of health products and services 	A.I.D., "Health Assistance Policy Paper," December 1982
Water and sanitation	A.I.D. endorses the role of private enterprise in water supply and sanitation activities, particularly with respect to operations and management. Where private entrepreneurs are interested, franchises can be auctioned off by the public sector for building and/or operating urban water systems. A.I.D. should fully explore the feasibility of expanding and improving these activities.	A.I.D., "Domestic Water and Sanitation Policy Paper," May 1982

<i>Subject</i>	<i>Policy</i>	<i>Source</i>
SECTOR GUIDANCE (continued)		
Women's training	<p>A.I.D. must encourage attempts to break the pattern of women's relegation to low-productivity occupations with no growth potential. The Agency can design into projects the expansion of employment opportunities in sectors where women have not traditionally worked and in those relatively new sectors of the economy where gender-specific work roles are not yet entrenched. A.I.D. can support and fund occupational training programs for women at two basic levels:</p> <ul style="list-style-type: none"> • Technical and industrial skills programs should be used to prepare younger women for entry into profitable employment sectors where there are shortages of skilled workers • Management skills programs should be used to prepare women for entry into white-collar occupations that require knowledge of basic accounting and administrative skills 	<p>A.I.D., "Women in Development Policy Paper," October 1982</p>



Chapter 2

ENDOWMENTS
AND
INTERMEDIARY INSTITUTIONS

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ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

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FRUSTRATED BY CUMBERSOME A.I.D. procedures and recognizing the need for speed and flexibility to promote private sector development, a number of A.I.D. managers have begun to look at the possibility of endowing institutions. Foundations, institutes, centers, and other intermediary private sector institutions possess substantial potential for transmitting A.I.D. development assistance. Supported through endowments¹ and other funding arrangements, they can provide guidance, maintain focus, and ensure that results are effective and lasting. Where such institutions and funding mechanisms exist in Africa, A.I.D. can support them and help them to grow; where they do not, the Agency can help to establish them as it has done in other regions.

This chapter deals with several assistance arrangements and funding mechanisms, with emphasis, respectively, on foundations and similar institutions and on endowments. A.I.D. can work with these institutions and mechanisms toward the following Agency goals:

- Ensuring continuity and sustainability of assistance,
- Maximizing numbers of beneficiaries of assistance, and
- Minimizing USAID management and administrative burdens.

A.I.D. has extensive experience with foundations and endowments—most of it in Latin

America—and the models and lessons from that experience can guide A.I.D. missions in Africa in their consideration of new opportunities for private sector development (see Appendix A).

A foundation or an endowment can provide a range of advantages both to the recipient and to A.I.D. Whether these possible advantages can become reality frequently depends on the development milieu in which the assistance activity is to occur. As the private sector continues to be a prominent component of A.I.D.'s assistance and as the Agency acquires more experience with foundations and endowments, A.I.D. missions should consider the following opportunities to capitalize on their advantages:

Strengthened, diversified institutional infrastructure. Weak institutional infrastructures characterize much of the developing world. New or stronger foundations, institutes, think tanks, centers, and similar institutions could address that common development constraint and, in the process, contribute to more pluralistic societies.

Sustainability and continuity. All too frequently, the traditional aid package (fixed project period, annual funding) is followed by declining and disappointing performance once A.I.D.'s assistance is terminated. Foundations and endowments could make possible the sustainability and continuity of desirable development impact and support.

¹ A.I.D.'s Center for Development Information and Evaluation produced an extremely useful piece on endowments: Gary Hansen, "Terms of Endowment: A New A.I.D. Approach to Institutional Development," *Innovative Development Approaches*, no. 3 (December 1990).



STRENGTHENING INSTITUTIONS' FINANCIAL BASES

An endowment consists of funds or other assets, such as shares, bonds, or property, donated to an institution to produce income to be used for specific purposes that are normally set forth in the establishment of the endowment fund. A well-structured and -managed endowment can provide a reliable income base to support the institution's operational and personnel requirements.

A.I.D.-endowed institutions and foundations are performing important development roles in trade and investment promotion. As nongovernmental organizations, they are better able to achieve continuity in programming, attract superior leadership and staff by offering competitive salaries, and demonstrate more creative problem-solving capacities than are public sector organizations.

A.I.D. missions have used local currency from Economic Support Funds and Public Law 480 food aid grants as the primary source of funding for endowments. The new Debt-for-Development Initiative now allows dollar currency from development assistance funds and Economic Support Funds to be used, through debt swaps, to fund endowments. Interest earned from these sources does not have to be returned to the U.S. Treasury and can be reinvested in the endowment or used for funding development activities stipulated in the endowment agreement.

Source: Gary Hansen, "Terms of Endowment: A New A.I.D. Approach to Institutional Development," *Innovative Development Approaches*, no. 3 (December 1990).

Reduced dependence. An important aspect of strengthened institutions and of the characteristics of sustainability and continuity is the resulting reduced dependence on A.I.D. and on other external assistance. By selecting institutions carefully and focusing its assistance, the Agency could contribute to a greater measure of self-help and independence.

Increased efficiency of assistance. Foundations and endowments provide opportunities for producing greater program efficiency—higher ratios of development benefits to cost. These institutions can facilitate impact on more targets as well as raise management efficiency by taking on some of A.I.D.'s functions in managing and overseeing the activities that it finances.

Increased effectiveness of host-country resources. Endowed foundations can attract superior

leadership and staff to the management, programming, and implementation of development activities, in part through offering secure longer-term employment. In such an aggregation of superior talent, each person can achieve more, resulting in institutional output that exceeds the total of what the individuals could achieve separately in other situations. In other words, host-country human and financial resources can be more productive.

Greater resource mobilization and donor coordination. Endowed foundations can attract greater and multiple donor contributions to particular development objectives and, in the process, encourage enhanced donor coordination. In some situations, they can also facilitate indigenous resource mobilization and collaboration between donors and host countries.



BACKGROUND

In the developing world, there are a variety of nongovernmental institutions that reflect special interests, generally have legal status, tend to focus on or represent a sector or subsector of society or the economy, and are intended to function indefinitely. Foundations are frequently associated with famous or wealthy individuals and families. They are usually, but not necessarily, endowed, and they typically provide grant financing for political, economic, or social activities. Institutes and centers, often with an academic or policy bent (for example, think tanks), are usually established to promote research and analysis and may be organized to espouse and promote a particular cause (for example, environmental protection). Associations are usually private groups of individuals, companies, or associations. The endowment approach is one of a variety of funding mechanisms for these institutions. Foundations, institutes, and centers are discussed below; associations are discussed in Chapter 3.

FOUNDATIONS AS BENEFICIARIES AND INTERMEDIARIES

A.I.D.'s interest in foundations and similar entities reflects their potential value to development and, increasingly, the role of the private sector in the Agency's development strategy. Because of their contribution to a more viable and vibrant private sector infrastructure, A.I.D. may provide them with direct assistance; because of their particular mandates and objectives, the Agency may seek to use them as

intermediaries, to "wholesale" one or more development services to private sector, generally for-profit, organizations.

Most of A.I.D.'s experience with foundations and endowments has been in Latin America. A.I.D. missions can draw on this experience for models and lessons, positive and negative, that should inform designs for activities in Africa. A.I.D. has approved the establishment of the Swazi Business Growth Trust as part of its Development Fund for Africa. The Swaziland Business Development Project will be implemented through this trust.

More recently, two A.I.D. projects have been proposed involving endowments and foundations in Africa:

- The establishment of a Guinea Export Foundation has been proposed for the promotion of Guinea agricultural exports. Funding for the endowment would come from A.I.D. sources as well as other donors, private sector grants, and membership fees. The government of Guinea would be required to establish a local-currency fund invested in special-purpose accounts at the central bank paying a rate of interest indexed to inflation plus a determined percentage over this base. A portion of the fund will be converted into dollars and invested in U.S. Treasury instruments to cover foreign-exchange requirements of the Foundations.
- A Local Currency Trust Fund has been proposed for Tanzania. The fund will constitute an import financing facility that will generate local currency from proceeds of the sale of foreign exchange to the private sector.

The recent emergence of A.I.D.'s enterprise funds for Central and Eastern Europe and the newly created African Capacity Building Fund also should provide applicable design lessons.



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The African Capacity Building Fund, a component of the African Capacity Building Initiative, supports the expansion of African skills, knowledge, and institutions (see Appendix A).

E NDOWMENTS

A.I.D. has used endowments to establish new institutions as well as to strengthen existing ones. An endowment consists of funds or other assets (for example, property or shares), generally of long-term character, donated to and held by an institution, individual, or group to produce income for a particular cause, individual, or organization. If managed by the beneficiary, the endowment may be called a capital fund. Funds or other assets managed by someone or some entity other than the beneficiary (for example, the trust department of a bank) are called a trust.

Purposes

An endowment is a mechanism for providing financial sustainability. Endowments can strengthen the financial base and future of an existing institution or help to establish a new institution. In A.I.D.'s experience, the typical recipient has been a foundation, institute, or similar nongovernmental organization (NGO) whose mandate is to perform development functions that the public sector is performing inadequately or not at all.

Advantages

The endowment mechanism offers several attractions:

- It does not require the extent of repetitive analysis, justification, paperwork, and other

logistics associated with annual or periodic project funding.

- It creates the following favorable attributes for an NGO (attributes that the more typical A.I.D. pattern of funding is less able to provide):
 - With independence arising from financial sustainability, the NGO can be more resistant to political whims and corruption, and
 - An endowment can provide the basis for greater assurance as to higher salary levels and their continuity, resulting in enhanced ability to attract and retain high-quality management and staff.
- The endowment can be protected through wise capital fund or trust investment decisions against inflation and decapitalization in a variety of ways, including the conversion of funds to offshore investments.
- Funds from A.I.D. for an endowment can be a leveraging device, encouraging the recipient to raise funds from other sources and encouraging other sources to make contributions.
- The endowment-NGO model can mobilize indigenous private sector contributions to promote private sector development.

Disadvantages

Despite their attractions and advantages, endowments are not always appropriate, for any of the following reasons:

- The legal and regulatory framework may be inhospitable.
- The required financial management skills may not be available.
- The recipient organization may be driven by a short-run mission.



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Endowments have their disadvantages and pitfalls:

- To provide income adequate to achieve its purposes, the size of the required endowment may create resource allocation problems for A.I.D. missions (this problem can be mitigated if the endowment is small or if other contributors can be mobilized).
- An endowment may mean less A.I.D. control (not always a disadvantage). Periodic funding during the life of a project gives the Agency more leverage. In the case of “irrevocable” endowments or trusts, A.I.D. cannot unilaterally withdraw its support. A.I.D. is also in a less powerful position to ensure the use of the endowment for purposes stipulated when the endowment was made.

Selection Criteria

The following are the essential criteria for selecting an endowment mechanism and a recipient:

- The recipient must have a long-term mission—a cause or objective to be pursued indefinitely.
- Either the recipient or the outside entity in charge of asset allocation and income generation must be experienced, competent, and trustworthy.
- The recipient’s management and staff should possess professional, technical, and other characteristics that ensure effective and appropriate use of the endowment.

If these criteria are not met by an existing institution or cannot be met by a new or reformed one, any endowment would likely be ill-advised. The institution may still be a target for financing, but A.I.D. should consider other approaches.

Other criteria are also important:

- Without an adequate body of laws and practices governing endowment and fiduciary arrangements—or the realistic prospect that they could be put in place within a reasonable time, the endowment mechanism is inappropriate. (Some countries would have to strengthen their legal and regulatory infrastructures, which might require a year or two before the endowment could become a reality.)
- The prospects for growth in the endowment should be good. Core as well as program costs are likely to grow, and A.I.D. should not play the role of sole and indefinite financier. Some combination of self-financing and contributions from other donors would provide the basis for institutional sustainability and growth. (A.I.D. missions should also consider this criterion when selecting an institution as the intermediary for the delivery of services to the private sector, whether or not the endowment mechanism is employed.)

Issues and Concerns

The following issues and concerns are relevant to an endowed institution, whether it is a foundation, an institute, a center, a coalition, or another form of NGO.

Government Attitudes

In addition to an appropriate legal and regulatory environment, it is important that the host government be amenable to the endowed institution’s existence and programs. This point is particularly relevant when the institution seeks to improve or perform services for which the government is responsible, but which it is performing poorly.



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Protection of the Fund

The endowment must be accompanied by several safeguards:

- If the endowment-holding institution invests the funds in host-government bonds, as it often does, it should negotiate interest rates that at least offset inflation.
- A.I.D. can deal with decapitalization by providing U.S. dollars (to date, most A.I.D. endowments have been in local currency generated by U.S. dollar or food aid) or by converting local currency into hard-currency assets, locally or abroad.
- A.I.D. should protect the integrity of the program (that is, the purposes to which the endowment is to be put) both by ensuring that the institution does not divert the fund's assets to other activities and that the institution's board of directors honors the endowment agreement.
- From the point of view of the endowment holder, the endowment should be "irrevocable"—that is, A.I.D. should not be able to

withdraw it unilaterally. An irrevocable endowment means less A.I.D. leverage, but an endowment vulnerable to withdrawal by A.I.D. diminishes the advantages of the endowment mechanism and tends to generate tension between A.I.D. and the endowed institution.

Financial Accountability

Financial accountability is always an area of concern. A.I.D. missions should consider the following points:

- Tranching endowment contributions and conditioning them upon financial reforms and performance can help ensure financial security;
- Expenditure approval and disbursement authority should be separated;
- A.I.D. could provide technical assistance in the form of an experienced contractor playing a defined and temporary training role;
- If possible, the financial organization that will manage the endowment should be a

TRADE AND INVESTMENT PROMOTION THROUGH PUBLIC SECTOR ORGANIZATIONS: COALITION FOR DEVELOPMENT INITIATIVES (CINDE), COSTA RICA

In 1982, the government of Costa Rica and USAID/Costa Rica agreed to establish the Coalition for Development Initiatives (CINDE), a nonprofit private foundation designed to promote foreign investment, agricultural exports, industrial reconversion for export, and export-oriented training.

A.I.D. has agreed to allocate Economic Support Funds local-currency grants to the initial endowment as well as to allocate more in subsequent years. In addition, the Costa Rican Central Bank is providing

annual contributions to the endowment for a 20-year period. To avoid a potentially inflationary impact, the endowment will initially be placed in monetary stabilization bonds issued by the Central Bank of Costa Rica. Thereafter, the funds will be moved into private sector investments.

Several checks on the management and accountability of the endowment have been designed, from both the Board of Governors, established independently from CINDE, and USAID/Costa Rica.



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trading firm selected in a competitive process, or a reliable bank; and

- Periodic audits by competitively selected firms are a must.

Disposition of the Endowment

In its agreement with the institution to be endowed, A.I.D. must provide for disposition of the endowment should the institution dissolve. There are two options:

- If reliable alternative institutions exist (or can be formed) that can carry out the purposes of the endowment, the dissolving institution could transfer the funds to the appropriate entity (this would be preferable if the endowment included contributions from other donors), or
- The funds could revert to A.I.D.

The agreement could provide for both options, with the circumstances at the time determining the better course.

Organizational Performance

To provide an organization with financial viability and organizational accountability, A.I.D. must design strong governance mechanisms. The selection of a board of trustees or directors who will monitor the performance of the best available leadership is one way of ensuring high standards of excellence. In addition to taking a strong and active role in selecting board and staff members for an endowed organization, A.I.D. can also assign a tutelage or custodian role to an experienced outside contractor to assist in setting standards of performance and accountability.

Dependence upon A.I.D.

A.I.D.'s involvement with an endowment could, in theory, begin and end with a single

contribution, but it is not unusual for new needs or unforeseen problems to arise. When this occurs, the foundation or institute naturally tends to look to A.I.D. for an additional contribution. This may be appropriate, and it is usually difficult to avoid.

Nevertheless, one of the purposes of the endowment-NGO mechanism is to reduce or eliminate dependence on A.I.D. Thus, one of the design features of the mechanism, wherever possible, should be to structure the termination of A.I.D.'s involvement. This requires that institutions develop a strong will and capacity to raise funds.

Multilateral funding of the endowment reduces dependence on A.I.D., but not necessarily on external assistance. The most effective way to reduce the endowed institution's dependence on A.I.D. and other donors is to help it to become a producer of services that the private sector demands and values. Another approach relates to decisions on what the endowment income should be used for—core or program costs. Although full coverage of core costs maximizes the sustainability of the institution, it may also promote dependence and reduce the institution's incentive to grow and raise funds. The optimum solution may be to provide for the funding of some or most of the core costs, with some endowment income going to key programs.

Institutional Duplication

A.I.D. must evaluate and eliminate the possibility of strengthening or reforming existing organizations before it embarks upon the creation or endowment, or both, of a new institution. Creating a new, competing organization with outside resources can raise serious problems, generate conflicts between opposing constituencies, and produce other obstacles to success.



Source of Funds

A.I.D. has established most endowments by arranging for the host government to apply local-currency counterpart of Public Law 480 and Economic Support Funds (ESF) assistance. Other funding sources exist, for example, Food for Progress, debt swaps, and Development Assistance. (In the case of Development Assistance, specific congressional approval is required.)

Debt swaps are limited by the shortage of buyable debt, their inflationary impact, and other problems, including full understanding of this mechanism in host countries. Nevertheless, they may have some potential for funding endowments, as they have in several debt-for-nature swaps. For example, a not-for-profit, tax-free U.S. NGO might arrange for a swap with the host government's central bank and U.S. commercial banks. The NGO then could establish an endowment with the appropriate host country institution to promote private sector development. ESF or Development Assistance funds can be drawn upon to finance debt swaps.

A.I.D. missions will decide among the possible sources of funds, depending upon the composition of their resources, portfolio needs for host-country contributions, host-government attitudes, vulnerability to decapitalization, the current legislative or administrative interpretation of what can and cannot be done, and other factors.

EXPERIENCE

A.I.D. has funded a variety of institutional arrangements over the years, including foundations, institutes, federations, universities, centers, and consortia. It has also used a

variety of grant and loan funding mechanisms, including local-currency-counterpart funding, annual project funding, contributions to "funds" and trusts, grants to establish or contribute to endowments, and the financing of debt swaps. (See Appendix A.)

In recent years, A.I.D. has been interested in endowments primarily as a means to fund nongovernmental foundations involved in agricultural research and education and in natural resource management. During the 1980s, the Agency also established endowments to support binational foundations that followed direct A.I.D. programs in India, Israel, Portugal, and Yugoslavia. Examples of this use of the endowment-binational foundation model are included in Table 1.

Although the endowments usually fund foundations, any nonprofit NGO is theoretically eligible to receive an A.I.D.-financed endowment or contribution to an endowment or trust fund.

CONSIDERATIONS FOR SELECTING FUNDING MECHANISMS

A.I.D.'s decision on how to fund an institution should depend upon the objectives of the activity and its setting. Where A.I.D. intends the outputs to continue long after Agency assistance has ended or where the institution's financial sustainability is an important objective, an endowment may be an attractive option. However, other funding mechanisms might be equally (or more) desirable, for example, revolving funds (protected against decapitalization), reasonably assured periodic funding for several years, or "funds" supported by several reliable donors.



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TABLE 1. A.I.D.-FUNDED ENDOWMENTS

<i>Institution</i>	<i>Description</i>
<i>Costa Rica</i> Coalition for Development Initiatives (CINDE)	Established 1982; a private, nonprofit foundation that actively engages in promoting foreign investments and agricultural exports for Costa Rica
<i>Ecuador</i> Foundation for Agricultural Development (FUNDAGRO)	Established 1986; designed to exercise a leadership role in agricultural research, education, and extension; funded by Public Law 480 counterpart
<i>Costa Rica</i> Cordillera Development Foundation	Established 1989; intended to manage a major wildlife area and a surrounding buffer zone in central Costa Rica
<i>Honduras</i> Honduran Agricultural Research Foundation (FHIA)	Negotiations for establishing an endowment to expand and to sustain the foundation's programs are nearing completion (as of December 1991)
<i>Ecuador</i> Institute for Agricultural Strategies (IDEA)	Established 1985; designed to encourage greater private sector involvement in policy analysis and policy-making for the agricultural sector
<i>Dominican Republic</i> Superior Institute of Agriculture (ISA)	Received an endowment in 1989 to help finance the institute's undergraduate operating and program expenses and faculty outreach and research activities
<i>Honduras</i> Pan-American Agricultural School (EAP)	In 1987, EAP (a 4-year undergraduate college) received an endowment to fund fellowships and to finance natural resource programs
<i>Costa Rica</i> Agricultural College of the Humid Tropical Region (EARTH)	In 1985, A.I.D. and the government of Costa Rica agreed to establish EARTH and to provide it with a large endowment
<i>Portugal</i> USO-American Development Foundation	Established 1985; designed to promote scientific, educational, and cultural cooperation between Portugal and the United States; funding is from ESF cash grants
<i>Jamaica</i> Jamaica Agricultural Development Foundation	Endowment created from the sale of Public Law 480 title II commodities
<i>El Salvador</i> Salvadoran Foundation for Economic and Social Development (FUSADES)	A.I.D. provides funding for technical assistance, training, and credit to private enterprises that produce and export nontraditional agricultural products; clients pay 25 percent of the cost of assistance, the funds reverting to FUSADES
<i>Ecuador</i> Ecuadorian Private Foundation (FPE)	A.I.D. project includes funds for technical assistance, training, operating expenses, and other purposes, including an endowment; goal of the project is to establish a graduate management institute to improve the quality of private enterprise managers
<i>Israel</i> Binational Foundations	United States provides endowment funds to four U.S.-Israeli binational foundations to support continued work in scientific and agricultural research, industrial development, and educational exchange
<i>Swaziland</i> Swazi Business Growth Trust	A.I.D. has provided funds for the establishment of a trust to implement the Swazi Business Development Project to provide assistance to the small business sector



Other considerations should also influence A.I.D.'s choice of a funding mechanism:

- Availability of resources to provide the financial management and accountability that endowments require;
- Availability, either directly from A.I.D. or via conversion, of dollar funds that may be required;
- Availability of debt swaps;
- The host government's willingness to allow the use of local-currency counterpart (with appropriate maintenance-of-value provisions) from ESF or food aid; or
- A.I.D.'s desire, willingness, or need to continue oversight and influence during the project period.

PROJECT CONCEPTS

A.I.D. missions and the Africa Bureau should also consider the following project concepts.

Local Currency Loans to Private Sector U.S. and Host-Country Firms

Years ago, A.I.D. used "Cooley" loans, financed from local-currency Public Law 480 repayments, to provide credit to U.S. companies or their affiliates in Agency-assisted countries. The program was not successful everywhere, but it did well in Brazil, India, Pakistan, the Philippines, South Korea, Taiwan, and Turkey.

The shortage of credit for capital investment in Africa suggests the notion that some version of the Cooley loans could play a useful private sector development role. This notion need not require renewed legislative sanction for local-currency repayment of Public Law 480 or other debt to the United States. Local-currency

counterpart (from Public Law 480, CIPs, or cash transfers) could be used. Continuity of assistance would be promoted by a revolving loan fund and by using the funds for long-term investment. The Partnership for Business and Development would be abetted by the financing of joint U.S.-host-country ventures. The loan funds would be administered by U.S. branch or local banks for a fee.

Africa Agribusiness Development Corporation

In 1970 A.I.D. established the Latin American Agribusiness Development Corporation (LAAD) to promote agribusiness in Latin America and the Caribbean. LAAD has proved to be an eminently successful for-profit intermediary. Run by a president and a board of directors, it has sixteen corporate shareholders. Its assets exceed \$50 million. At the end of 1990, its portfolio contained some \$140 million in loans, on 351 projects in twenty-three countries. LAAD has been financed by private sector contributions and, over the years, several soft loans from A.I.D.

A similar entity might be set up for Africa (it could focus on small enterprise), with an endowment or trust that would be open to other donor contributions. The intermediary would use its own resources, donor contributions, and private sector borrowings to extend loan and equity financing to agribusiness small enterprise firms.

Institute of Policy Reform

A.I.D. is already heavily involved in policy reform activities in Africa, including measures to promote a policy dialogue between the public and the private sectors. It might be useful to attempt to increase the role and effectiveness of the private sector in the design and implementation of policy reform. A regional project



could establish an African institute of policy reform that would do the following:

- Run seminars for private sector individuals and organizations on policy reform, competition, market economies, and related subjects and
- Strengthen private sector associations' abilities to analyze, prepare studies, educate members, conduct meetings on national issues, and articulate and communicate with their governments.

The endowment mechanism could cover start-up and most, if not all, core operating costs. Fees and private sector and other donor contributions could provide funds for the technical assistance, training, and other activities that the institute would undertake.

Foundation for African Institutional Reform

Africa's dearth of effective private institutions is a serious constraint to development. A.I.D.

should continue to strengthen existing private institutions and create new institutions to serve the African private sector. This could be done by establishing a Foundation for African Institutional Reform (FAIR). The association-strengthening project proposed in Chapter 3 could be a separate initiative or a major component of the suggested sub-Saharan foundation for institutional reform.

FAIR would identify institutional gaps and constraints, arrange to identify U.S. institutions and organizations equipped and willing to assist in the elimination of these gaps and constraints, and finance activities to remedy them. An endowment, financed by contributions from A.I.D. and other donors, could help cover the range of start-up, core, and program costs. A.I.D. could finance technical assistance and training. Buy-ins to this proposed regional project might be appropriate. The Agency might adapt the organizational and management approach used by the African Capacity Building Foundation (see Appendix A).

SWAZI BUSINESS GROWTH TRUST

In 1991 A.I.D. approved the establishment of the Swazi Business Growth Trust, a private, tax-exempt, nonprofit institution through which the Swazi Business Development Project will be implemented. Under this agreement, the trust will implement and coordinate the creation of a small-business loan program, forge business linkages between small and large firms, provide business training, and strengthen business associations. The trust will have a board of directors that will provide overall guidance for project implementation.

The trust will seek sustainability through earnings from service charges and through endowments or program funding from the private sector and other donors. In addition, the project provides for the institutional contractor to provide expert technical assistance to advise the trust board and staff on fund-raising techniques. Because A.I.D. does not project that the trust will reach sustainability through earnings, the Agency assumes that it will undertake a follow-on project.



African Private Enterprise Fund

A significant obstacle to private sector growth in Africa is the inadequacy of loan and equity financing for small and medium enterprises. In a recent proposal ("Creation of an African Private Enterprise Fund"), Arnold Lessard wrote, "The creation of an African Private Enterprise Fund should be explored as one approach to the lack of [small and medium enterprise] financing in Africa." He suggested that "A.I.D. funding would be used to create an autonomous, arms-length, not-for-profit private sector enterprise fund authorized under a grant agreement to seek other international grant or gift funding, and to act as a financial intermediary in identifying, developing, and participating in [small and medium enterprise] financing packages with other risk-taking individual and corporate investors." In addition to the concepts proposed in Mr. Lessard's paper, including his reference to the Polish American Enterprise Fund, A.I.D.'s positive experience with TransCentury in Senegal should also be examined for application to the design of the proposed Private Enterprise Fund, and an endowment mechanism should be considered.

Enterprise for Africa Initiative

President Bush announced an Enterprise for the Americas Initiative in 1990. This initiative contains four major assistance components, based on various market-oriented reforms, some of which might well be adapted to Africa:

- Concessional debt reduction (A.I.D. and Public Law 480 obligations);
- Reduction, sale, or cancellation of Export-Import Bank and Commodity Credit Corporation obligations;

- In eligible countries, local-currency interest payments on new obligations provided for in agreements to cancel or reduce debt to the U.S. government; and
- Grants to a multilateral investment fund.

The activities that the president's initiative is designed to support include the following:

- Technical assistance for privatization,
- Development of business infrastructure,
- Worker training and education,
- Promotion of foreign investment,
- Repatriation of flight capital, and
- Investment sector loan programs.

It may be timely to design a parallel initiative for Africa as part of A.I.D.'s Partnership for Business and Development and to support its development and growth goals for the region.

Debt-for-Private-Enterprise Swap

One approach to a debt-for-development swap—or more specifically, a "debt-for-private-enterprise" swap—would involve a not-for-profit, tax-free U.S. NGO to which A.I.D. would make a dollar grant. The NGO would arrange for the swap with the appropriate host government institution (for example, the central bank) and U.S. commercial banks. It then would finance a program with the appropriate host-country institution (for example, a foundation, association, institute, trust, university, center, or think tank) to promote one or more private sector development activities.

To ensure continuity of assistance, financing could take the form of an endowment (as it has in several debt-for-nature swaps), as well



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as more traditional project funding. ESF or Development Assistance funds could be drawn upon to finance debt swaps.

RECOMMENDATIONS

Endowments and foundations can play an important role in private sector development in Africa. A.I.D. should consider the potential of endowments and foundations, bearing the following points in mind:

- The field would benefit from A.I.D./Washington and Africa Bureau clarification of what can and cannot be done directly for the for-profit private sector. This would be helpful to those who are under the mistaken impression that nothing can or should be done directly by A.I.D. for this critical sector as well as those who are open to such activity but are less than fully informed.
- The field would benefit from A.I.D./Washington and Africa Bureau guidance on the definition and uses of endowments. This funding mechanism is not always clearly understood.
- Current legislation allows A.I.D. to create endowments under certain circumstances and to use interest earnings to support a range of activities, particularly in the environmental protection area. A.I.D. should explore the possibilities for broadening the range of activities that can be financed by endowments as well as widening the use of dollars for directly establishing endowments in host countries.
- A.I.D. should seek legislative authority to convert at least portions of less developed countries' debts to the U.S. government to local currency, which, in turn, can be used to finance endowments, trusts, and revolving funds to promote private sector development.



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Appendix A

EXPERIENCE WITH
SELECTED FOUNDATIONS, FUNDS, AND INSTITUTES*Foundations**National Development Foundations
and SOLIDARIOS*

Most of A.I.D.'s experience with foundations has been in Latin America. The Agency's work with foundations in the Latin America and Caribbean region and with U.S. institutions, including U.S. foundations that deal with foundations in the region, provides useful lessons and models that may be adapted to Africa.

The formation and performance of national development foundations (NDFs) is an important Latin American movement that suggests approaches for Africa. In 1963, the U.S.-based Penny Foundation established an NDF in Guatemala. Based upon this experience, the Penny Foundation set up NDFs in most Latin American countries to provide technical assistance and loan funds to low-income, principally rural groups. NDFs thus became a structure for directing private sector assistance to the poor in Latin America and the Caribbean. In the early years and subsequently in the Caribbean, the U.S.-based Pan American Development Foundation played an important role in the NDF movement.

In 1972, fourteen NDFs united in a consortium, the Council of American Development Foundations—SOLIDARIOS. They formed the consortium to provide members with information, technical assistance, and, most important, access to credit. A.I.D. granted \$4 million to SOLIDARIOS to capitalize its "endowment" fund. The fund was disbursed to NDFs in the form of income-generating,

dollar-denominated loans to finance productive activities of low-income beneficiaries.

NDFs individually reveal a very mixed performance record, but as a whole, according to one analyst,² they seem to have been successful collectively in transferring resources from the formal sector to the informal sector (from the formal private sector and international donors to small-scale entrepreneurs, farmers, and artisans throughout Latin America and the Caribbean). The data on NDF performance in the Latin America and Caribbean region are not complete, but in the late 1980s the Pan American Foundation estimated that more than \$100 million had been disbursed by NDFs to the rural and urban poor.

*Salvadoran Fund for Economic
and Social Development*

The Salvadoran Foundation for Economic and Social Development (FUSADES), established in 1983, is a successful NGO whose broad mission is to invigorate the private sector. Data from USAID/El Salvador show that during the last five years, FUSADES has generated some 51,000 jobs in industry and agriculture and accounted for \$195 million in export earnings, and it has been responsible for \$75 million of new private investment, local and foreign.

A.I.D. has provided FUSADES with technical assistance and training, but most support has taken the form of grants that the Agency has made to a trust (managed by a bank in the Bahamas) used when FUSADES offers credit to specific private sector borrowers. FUSADES can lend reflows of principal;

² Alfredo Cuellar, "The National Development Foundation Concept: A Review of the Literature" (report for A.I.D.).



reflows of interest go to FUSADES for its own use. In addition to interest income, FUSADES charges fees for its services, such as economic studies and forecasts and a quality control laboratory.

FUSADES has achieved success and recognition by making important contributions to economic and social development in a complex military-political-economic-social environment. USAID/El Salvador has used FUSADES to implement all or part of several mission projects that have benefited an impressive range of private sector elements and activities, including agrarian reform, industrial growth, free zone development, and policy dialogue. However, FUSADES is not exempt from criticism; its size, perceived arrogance, and the richness of its financial support have also generated unfavorable reactions.

Although A.I.D. has yet to obligate about \$50 million of funding authorized for the trust fund, FUSADES's financial sustainability after A.I.D. assistance terminates is open to question. FUSADES is sometimes considered an endowed foundation (see Table 1). Technically, however, it is not endowed; the confusion arises because of the trust to which A.I.D. advances funds to be loaned to the private sector.

Fundación Privada Ecuatoriana

The Fundación Privada Ecuatoriana was established to meet a constraint to private sector development—a lack of qualified private enterprise managers. The project produced twenty-four masters of business education from the University of Houston, who were well regarded by Ecuador's private sector, but it was terminated before its scheduled completion date because of the following implementation problems:

- Foundation support for the A.I.D.-funded activity was inadequate.

- Communication between the foundation and the university was poor and their relationship was characterized by conflict.
- Most important, a preoperations agreement between the university and the foundation, spelling out roles, responsibilities, and relationships, was never achieved.

Honduran Foundation for Agricultural Research

The Honduran Foundation for Agricultural Research (FHIA) was launched in 1984 by the government of Honduras, A.I.D., and the private sector—primarily, United Brands, which was prepared to donate its renowned and long-established Division of Tropical Research if sufficient financial support was assured. Starting with a ten-year grant from A.I.D., FHIA has subsequently received support from the governments of Honduras (Public Law 480 counterpart) and other countries (for example, Ecuador and the United Kingdom) interested in the quality and results of FHIA's respected agricultural research.

FHIA's early decision to concentrate its fund-raising among public sources spotlights the advantages and disadvantages of relying on governments for foundation support: Theoretically, this approach works well when the foundation's government and country are long-term political priorities to other governments (governments, presumably, can also make substantial donations). However, either the foundation's government or the donor governments could lower the foundation's priority abruptly; further, public donor support is frequently characterized by failure to meet time commitments.

FHIA's early reliance on project funding, which was less than anticipated, and its inadequate protection of A.I.D.'s original grants against inflation resulted in serious financial pressure. A.I.D. is now seeking an agreement



with the government of Honduras to establish an endowment, funded by Public Law 480 and ESF counterpart. Agreement has been held up by the Honduran government's unwillingness to approve adequate maintenance-of-value provisions for the prospective endowment. It is the judgment of USAID/Honduras that without an endowment to cover FHIA's core budget, the foundation may not survive.

Funds

Central and Eastern Europe Enterprise Funds

The East European Democracy Act of 1989 (the "SEED Act") created the authority for the U.S. government to set up individual enterprise funds in selected Central and Eastern European countries for the purpose of promoting the development of the indigenous private sectors and the policies and practices conducive to such development. Although the act encouraged the promotion of U.S. joint ventures with indigenous firms, this was a secondary focus, and not its principal intent. The act specifically established the Polish American and the Hungarian American Enterprise Funds. Since then the Czech American and the Bulgarian American Enterprise Funds have been established under the same authority.

Each enterprise fund is a not-for-profit corporation under U.S. law; the president of the United States selects the chairperson and the manager. The fund chairperson nominates a managing board of directors composed of both U.S. and host-country financial and investment experts, who guide investment decisions and management. The enterprise fund has both a U.S. headquarters office and a host-country office. Its operations are considered to be fully within the private sector, with the U.S.

government acting solely as a financing agent that will allow the fund to become self-sufficient over time. Each enterprise fund has its own bylaws and characteristics.

The following enterprise funds have been established:

- The Polish American Enterprise Fund, established in May 1990 with a U.S. government grant authority of \$240 million, focuses substantially on small business lending, small to medium business equity investment, house construction and mortgage banking, and lending and investing in larger, viable Polish enterprises.
- The Hungarian American Enterprise Fund, established in May 1990 with U.S. government grant authority of \$60 million, focuses on small business lending and invests in and lends to privatized companies and enterprises that could diversify Hungary's economy.
- The Czech American Enterprise Fund, established in April 1991 with U.S. government grant authority of \$60 million, emphasizes lending to and investing in enterprises that expand employment and exports or that promote environmental protection, agriculture, or energy development.
- The Bulgarian American Enterprise Fund, established in November 1991 with U.S. government grant authority of \$50 million, focuses principally on agribusiness and export industries.

A.I.D. provides annual funding to these funds for specified periods. The fund managers hope that project financing (grants) will be continued after the project's current completion date. Given the political and program priorities enjoyed by these projects in the U.S. executive and legislative branches, continuity of assistance is probable.



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African Capacity Building Fund

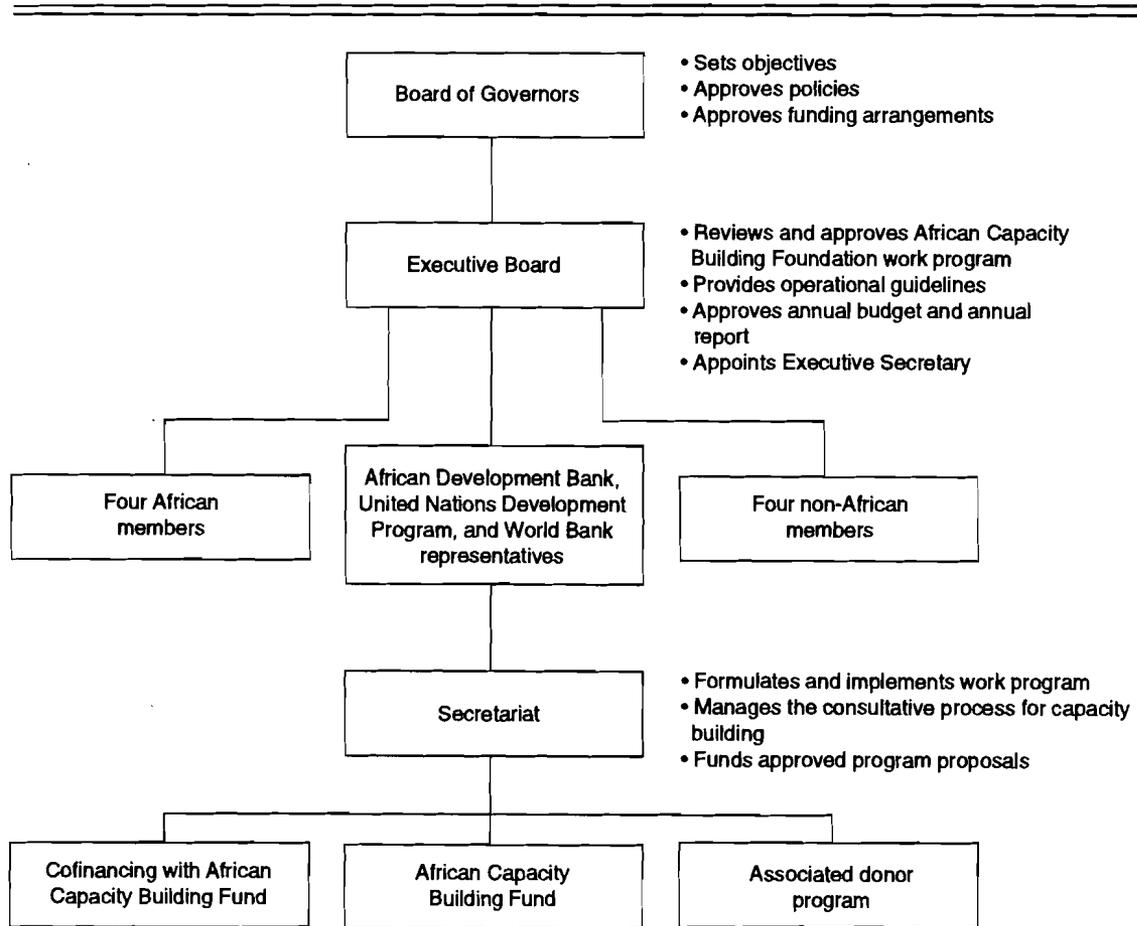
As a component of the African Capacity Building Initiative, the African Capacity Building Fund supports the expansion of African skills, knowledge, and institutions. The African Capacity Building Foundation is dedicated to improved economic policy analysis and research and to development management. It seeks to mobilize financial and technical resources for investment in human capital and institutions on a consistent and long-term basis. Its lead cosponsors are the African Development Bank, the United Nations Development Program, and the World Bank.

Its organizational structure (Figure 1) allows for flexibility, features strong African participation, facilitates donor coordination, and emphasizes sustainability. The foundation's board of governors includes representatives of donors and African contributors to the fund. The executive board consists of African and non-African experts in policy analysis and development management. The foundation's operations began in 1991.

Africa Growth Fund

The Africa Growth Fund is a regional project that established a privately owned and managed

FIGURE 1. AFRICAN CAPACITY BUILDING FOUNDATION ORGANIZATIONAL STRUCTURE





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investment company to provide equity and quasi-equity financing to private industries throughout sub-Saharan Africa. The fund is managed by Equator Holdings Limited.

Mozambique Private Sector Development Fund

The Mozambique Private Sector Development Fund will help to expand exports from Mozambique and to rehabilitate the construction and building materials industry in preparation for privatization. The fund is administered through a commercial bank.

Fondo Ganadero de Honduras

The Fondo Ganadero de Honduras, a for-profit enterprise directed at livestock raisers, is a commodity version of the traditional revolving money fund. It is patterned after commodity revolving funds in Ecuador, Colombia, Bolivia, and Peru for purchases of livestock, coffee, and construction materials. The Fondo Ganadero de Honduras provides farmers with in-kind animal loans, technical assistance, training, and credit. Repayment in kind offers automatic maintenance of value.

Institutes

Institute for Liberty and Democracy

The Institute for Liberty and Democracy (ILD) is a Peruvian private voluntary organization that has received significant funding from U.S. public and private sources for several years. A.I.D. has been its major financial supporter.

ILD's initial and, for some years, its principal work related to analysis of the role of the informal sector and of governmental constraints on its growth. The institute's research and its director, Hernando de Soto, have made important conceptual, analytical, program-

matic, and policy inputs to the understanding of the informal sector and to ways to increase that sector's contribution to national growth and development. Until recently, ILD was a significant partner to the democratically elected Peruvian government in terms of economic policy and in the development of the government's antidrug program.

In the last few years, ILD has promoted the establishment of similar organizations in Latin America and has provided training to representatives of other regions, including Africa. ILD's mandate continues to expand, most recently in A.I.D.'s multicomponent Democratic Initiatives project in Peru, in which the institute will receive additional funding to simplify public administration, democratize governmental decision making, and fight corruption. ILD owes much of its recognition and success to the uniqueness of its director, but in many respects it provides a model to be emulated wherever possible.

Institute of Small Enterprise Development

The Institute of Small Enterprise Development, incorporated in Guyana in 1985, changed its name to the Institute of Private Enterprise Development to reflect its greater emphasis on the business ethos and entrepreneurial spirit in Guyana. This evolution has been facilitated by the current government's more hospitable view of the role of the private sector in that country's struggling economy.

The institute is a privately managed entity whose board of directors consists primarily of Guyanese private sector representatives. Public Law 480 counterpart (loaned by the government of Guyana to the institute), along with funds from the Canadian High Commission, the British High Commission, and the Inter-American Development Bank, as well as modest donations from the Guyanese private sector, have financed the provision of credit,



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technical assistance, training, and business guidance to the Guyanese private sector. Because of the quality of its management staff and directors and its multidonor and indigenous private sector support, the institute has been unusually successful in helping small enterprises, despite unfavorable economic circumstances and, at least at the outset, uncertainties with respect to the Guyanese government's attitude.

Superior Institute of Agriculture

The Superior Institute of Agriculture (ISA), in the Dominican Republic, was founded in 1962 by a Dominican development association. The institute has benefited from A.I.D. grants and loans and an endowment for its Center for Development Administration (CADER). The

institute focuses on agricultural education, extension, and research.

In 1990, USAID/Dominican Republic signed a contract with the Midwestern Universities Consortium for International Activities to provide five years of technical assistance and training to ISA. This contract should sustain the tradition of quality institutional linkages with U.S. universities, initiated by Texas A&M many years ago. Two other factors have contributed to ISA's success: (1) continuous dynamic support and commitment from its founding association and (2) development of a consistently strong and positive relationship between ISA and its agricultural college, on the one hand, and the institute's primary bureaucratic constituency, the Ministry of Agriculture.

*Appendix B***GUIDELINES FOR PROVIDING ASSISTANCE
TO THE PRIVATE SECTOR**

A.I.D. missions in Africa should consider the following guidelines for providing assistance to the private sector:

- A.I.D. should tailor methods and mechanisms to ensure that they are site and situation specific, because there are different subsectors within private sectors in Africa generally, as well as within countries. The mission should take the following characteristics, among others, into account:
 - Type of business
 - Size of business
 - Formal or informal sector
 - Labor force composition (gender, ethnic or tribal makeup)
 - Markets served
 - Priority constraints (infrastructure, policy environment, business systems, credit)
- A.I.D. should select methods and mechanisms that respond to significant constraints on private sector development and growth, that are socially sound and feasible (or that can readily be made so). One or more of the following constraints are typical of the environments in most African countries:
 - Macroeconomic framework
 - Institutional framework
 - Training, technical, and financial service gaps
 - Insufficient financial and management know-how, labor force skills, and business systems (including information access and management)
 - Physical and marketing infrastructures
- Methods and mechanisms should address long-term constraints to commercial private sector development and should be sustainable (or could credibly be made so), with minimum or no dependence on indefinite donor assistance; they should not be vulnerable to political whims or short-term economic or personnel fluctuations.
- Inasmuch as the informal sector in many African countries is a significant, if not the majority, component of the private sector, those methods and mechanisms that serve, build on, and otherwise relate to it would make a significant economic and social contribution.
- Whenever fitting and possible, methods and mechanisms should reflect the importance A.I.D.'s Partnership for Business and Development, an important aspect of which is to benefit the U.S. private sector.

Once it uncovers a capable indigenous institution, A.I.D. has occasionally exhibited a tendency to convert it to an umbrella agency on which A.I.D. piles on implementation responsibility for more and more A.I.D. project activities (for example, the Coalition for Development Initiatives in Costa Rica [see Table 1] and FUSADES in El Salvador). This inclination should be avoided, because it risks dilution of the institution's objectives, overstretching of its capacity, and encouragement of political enmity within the host country.



Chapter 3

BUSINESS
AND
PROFESSIONAL ASSOCIATIONS

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BUSINESS AND PROFESSIONAL ASSOCIATIONS

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INCREASED INTEREST IN PRIVATE sector development and the growing recognition that business interest groups can play an active role in democratic as well as economic reforms have combined to focus attention on assistance to business associations.

Private associations can have a significant impact on private sector development in Africa. By investing in building the capabilities of such institutions as business associations, A.I.D. can improve the infrastructure necessary for the support and growth of a vibrant private sector. Associations represent an effective conduit for donor assistance to other institutions and individuals. They can also provide an important voice for the private sector in dialogue with government on policy reform.

A.I.D. can minimize its management burden and leverage its resources by using associations as intermediaries to “wholesale” services to members of the private sector. A.I.D. and other donors have provided private sector assistance to and through associations and have demonstrated the potential of such assistance (see Appendix A). It is worthwhile for A.I.D. to consider ways to expand its current level of assistance to private associations both through mission programs and through Washington-based regional programs.

An association can address obstacles to private sector development and contribute to their removal by various means:

- Representing the interests of its members in discussion with government on issues of policy and regulation;
- Providing members with information on the policy, regulatory, and market environments;
- Facilitating access to credit;
- Supplying technical assistance and training; and
- Establishing standards.

This chapter provides a brief review of the current state of private associations in sub-Saharan Africa and of A.I.D. experience in assisting private associations. It then reviews potential resources from U.S. associations. Finally, the report suggests options for expanding A.I.D.’s support of private association development.

CURRENT STATE OF PRIVATE ASSOCIATIONS IN AFRICA

Belief in the potential of business associations to strengthen the private sector is at the root of much current A.I.D. activity. Private



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associations exist throughout sub-Saharan Africa. Their extent of connection to government, level of influence, and success in meeting members' needs vary widely. Associations range from chambers of commerce to informal sector groups. Many of them need assistance to reach their potential for meeting their members' needs and for contributing to the development of the private sector.

Most countries in Africa have chambers of commerce, but there is a dramatic difference between chambers in Anglophone and Francophone countries. In most Francophone countries, the chambers of commerce are closely tied to government and have compulsory membership for registered businesses. Dues are withheld as government taxes, and in many cases members do not feel that the chambers represent their interests to government or meet their most pressing needs. Chambers of commerce in Anglophone countries generally have more independence and influence. Although specific sectoral or industry groupings are most likely to respond to specific member needs, chambers of commerce in Anglophone countries can have a significant impact on policy formulation and implementation.

Moribund and ineffective chambers have been challenged in a number of countries by associations of employers determined to engage government in serious dialogue about the regulatory environment. Examples include Senegal and Côte d'Ivoire. Conflict frequently exists between the competing groups.

A.I.D. studies, including those from Manual for Action in the Private Sector (MAPS) exercises and Private Sector Training Needs Assessments, reveal that members of associations and unaffiliated members of the private sector are very articulate about what they need from associations. Large and small businesses' priorities tend to differ. In general, large firms are most interested in their associations' act-

ing as a lobbying force in expressing their needs to government, whereas small companies want their associations to assist them in accessing credit. Both groups express a need for information on relevant government regulations, on export promotion schemes, and on national and export markets. Both also want more management and labor training. Many businesses express a need for technical assistance and for associations to help in setting product and service standards.

Existing associations currently offer a range of training and assistance services, and many make significant investments in fostering constructive relationships with government. Horizontal associations (such as chambers of commerce and employers' federations, which represent diverse conglomerations of businesses) tend to focus on interaction with government and other general issues; professional associations that have a defined sector or industry constituency generally provide more specific services for members. Both categories of associations have valuable roles to play, and the roles frequently overlap.

The more focused an association is, the more likely it is to improve the economic performances of its members. A chamber of commerce's ability to affect business registration regulations can be a critical input to the development of an environment that promotes private sector development. However, when a taxi association, for example, implements a group purchasing program for insurance or tires that reduces members' operating costs and thus directly enhances their competitiveness, the association is having a more direct impact on economic performance of its members.

Appendix A is an illustrative table of representative private associations in selected African countries, showing structure, activities, and donor involvement.



A.I.D. SUPPORT OF PRIVATE ASSOCIATIONS IN AFRICA

A.I.D. assistance to and through associations in Africa has included efforts to improve management, lobbying, research, data collection, training, and technical assistance capabilities. A.I.D. missions have provided support through locally funded projects and through regional projects, such as the Africa Private Enterprise Fund of the A.I.D. Africa Bureau Office of New Initiatives (ONI), the Africa Bureau's Human Resources Development Assistance (HRDA) Project, and worldwide programs, such as the Private Enterprise Development Support project of AID/PRE. A.I.D. has provided assistance in various forms:

- Funding of operating costs,
- Provision of local and U.S. consultants to assist in technical areas,
- Provision of research grants,
- Provision of in-country and U.S. training,
- Arrangement of study tours, and
- Provision of computer equipment and systems.

Several Washington-based regional programs have been implemented through African associations, in some cases using the resources of U.S. associations. For example, since the early 1970s, A.I.D. has supported efforts to develop democratic, independent unions through the AFL-CIO's African American Labor Center. The programs included seminars for union officials and leaders, training programs for members and officials, and the establishment of centers to provide services to members.

A.I.D. has supported the development of the African Cooperative Savings and Credit Union Association (ACOSCA) by strengthening its income-generating capabilities, its financial management, and its ability to provide leadership to the credit union and cooperative movement in Africa.

Bilateral programs have included a variety of efforts:

- A.I.D. has worked in Mali and Niger through associations. In Niger, the Agency assisted in the development of herder associations to represent herder interests and to increase productivity. In addition, A.I.D. funded a project in Niger to link local farming organizations with policy-making, research, and extension services managed by the government of Niger. In Mali, the Agency supported multi-disciplinary training in development promotion for rural women through the National Union of Malian Women.
- A.I.D. has assisted the Botswana Chamber of Commerce, Industry, and Mines (BOCCIM) to organize regional branches and to provide financial management courses. The Agency has provided the Association pour le Développement du Marketing en Côte d'Ivoire (ADEMCI) with funds to finance its conference and publications.
- A.I.D. has provided hardware and consultants to the Kenya National Chamber of Commerce and Industry to computerize its membership files and install a management information system and has provided assistance to the chamber through Private Enterprise Development Support to strengthen its marketing information services. The Agency is also assisting the Kenya Association of Manufacturers in



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improving its policy analysis and design abilities.

- In Lesotho, A.I.D. has provided training to the officers of the Exporters' Association and marketing training to some of its larger members through HRDA. HRDA has sponsored a study tour in the United States for members of the Senegal Chamber of Commerce. A major effort to strengthen the Guinea-Bissau Chamber of Commerce is showing early success with the assistance of the Africa Private Enterprise Fund.

Since 1987, A.I.D. has provided assistance to informal and formal sector business associations in South Africa. The Agency has advanced black economic empowerment through specific projects that have enhanced the capabilities of black business associations to meet the needs of their members. A.I.D. has provided the African Builders Association with

a grant to develop computer software that will improve members' capabilities to successfully bid on construction tenders and will facilitate implementation of contracts won. In addition, the association will use the grant to fund a study of a successful assistance program to determine the potential to replicate it in other regions. Also in South Africa, A.I.D. has assisted the African Council of Hawkers and Informal Businesses to upgrade its legal support activities and advocacy of deregulation. The planned Black Integrated Commercial Support Network program will provide South African entrepreneurs with training and technical assistance, much of which will be implemented through existing private associations.

A number of other A.I.D. projects currently planned for implementation in Southern Africa will use private associations to accomplish their objectives of developing small and medium en-

STRENGTHENING BLACK PRIVATE ORGANIZATIONS IN SOUTH AFRICA

Under a two-component Black Private Enterprise Development project, A.I.D. will provide direct assistance to South African nongovernmental organizations and associations to assist the black private sector. This approach will allow USAID/South Africa to respond to black initiatives in the private sector in a nonprescriptive manner and will provide sufficient flexibility to respond to opportunities as they arise within the present unstable and unpredictable environment.

One component of the project involves institutional development and advocacy, in which business organizations, such as the National African Federated Chamber of

Commerce and Industry (NAFCOC), the Association of Black Accountants of South Africa, the Black Management Forum, and the African Council of Nyangas and Hawkers Association, receive support for their efforts to develop networks and structures with the broader black community, the white private sector, international organizations, and the South African government. The second component is a micro- and small enterprise development effort that will provide grant assistance and technical support groups in response to the financial and business skills needs of both potential and existing informal small-scale black entrepreneurs.



POLICY, TRAINING, AND INVESTMENT PROMOTION

In several countries, A.I.D. has provided support to institutions, such as national chambers of commerce, that have predominantly advocated private sector development. These institutions are generally quasi-independent and are principally financed by dues from formal sector enterprises.

USAID/Burundi will work the Chamber of Commerce and Industry of Burundi to analyze the broad spectrum of policy constraints faced by Burundi's formal and

informal enterprises. USAID/Botswana has assisted the Botswana Chamber of Commerce, Industry, and Mines (BOCCIM) to organize regional branches and to provide financial management courses. USAID/Kenya has provided hardware and consultants to the Kenya National Chamber of Commerce and Industry to install a management information system and to strengthen its marketing information systems.

terprises. In Zimbabwe, A.I.D. will implement a small business training program through the National Chamber of Commerce. In Lesotho, A.I.D. will provide funding for the Chamber of Commerce to implement a program to advise and encourage entrepreneurs. In Botswana, the Agency will support a program to nurture entrepreneurs and stimulate policy dialogue through the Botswana Confederation of Commerce, Industry and Manpower. In Swaziland, one of the objectives of A.I.D.'s Small Business Development Program will be to enhance the capabilities of business associations to provide services to members and to lobby for the advancement of Swazi-owned business.

A.I.D. projects assisting private associations have generally been successful in enhancing the associations' capabilities, and they indicate the Agency's potential to have significant impact on the development of the private sector through private associations. However, it is critical to such a project's success that before designing or providing any assistance, A.I.D. establish that the recipient has a clear constituency and demonstrated potential to meet that

constituency's needs. In addition, before proceeding with the design or provision of assistance, A.I.D. must conduct a thorough analysis of organizational needs.

Programs have worked best where A.I.D. has made an up-front investment in defining goals. The most effective programs have combined strategy development, focused short-term training, and medium- to long-term technical assistance. For example, A.I.D. contractors or consultants can assist an association in defining its goals and objectives, identifying the training necessary to meet organizational goals, implementing the training, and then providing ongoing technical assistance in implementing the strategy. HRDA experience has shown that study tours to the United States and long-term U.S. training, in particular, require clear definitions and evaluations of objectives prior to provision of assistance.

In selecting existing institutions to support, A.I.D. needs to continue to find associations that have the following characteristics:

- Democratically structured,



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- Interested in serving the needs of clear constituencies, and
- Accountable to members.

Where there is no potential for the needs of a constituency to be met within the current structures, A.I.D. can consider assisting in the initiation of new associations. In fact, new associations have been formed in a number of countries, especially where existing institutions have been moribund, politically motivated, or unresponsive to the needs of small and medium enterprises. However, commitment of the founding members, grass roots support, and clear definition of constituency demands and needs are critical to the Agency's decision to support the establishment of a new institution.

In selecting associations for assistance, A.I.D. should consider their potential to sustain themselves without donor assistance. In addition, the Agency should evaluate each assistance program on the basis of its contribution to progressive self-sustainability.

Associations serve a variety of purposes for their members, including representation, education, and services. Developing the capability to provide services to members is a priority in establishing a viable institution. Membership grows as a result of an association's offering valuable services. A mandate to lobby on government policy grows out of a strong membership base, as do the resources to invest in training and technical assistance. However, membership fees are usually a small part of an association's revenue. More significant potential sources of revenue include fees for services, trade shows, annual meetings, sale of directory information on members, grants, and contracts.

An institution's viability thus hinges on its ability to generate revenue as a result of providing valuable services. A.I.D. should evaluate its support in light of its contribution to these objectives. Successful associations are

solidly grounded in activities that meet the needs of their members. A.I.D. should focus its assistance efforts on associations with this potential and on programs that contribute to these goals.

Assisting the development of the private sector through private associations takes time, and it does not usually have a direct impact on the creation of jobs. In addition, existing organizations frequently represent large, entrenched groups and, in the current environment of structural reform, often take protectionist stands. However, successful assistance to and through high-potential associations can contribute to the lasting institutionalization of the private sector and creates a mechanism for providing resources to many individuals and businesses that cannot be easily replicated.

U.S. PRIVATE ASSOCIATION RESOURCES

In addition to the resources available to A.I.D. missions in Washington, D.C., and in the field, there is a large and diverse community of private associations in the United States. These associations represent a significant potential resource for developing associations in Africa.

U.S. associations can package (and in many cases have packaged) many areas of their expertise for training purposes. How associations set standards and how association standards affect codes and regulations are subjects of interest to developing associations. Internal management systems, including strategy formulation, membership development, and implementation of programs, are also subjects that lend themselves to training. Interviews conducted with a sample of associations reveal



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that there are a number of U.S.-based private associations that have an active interest in assisting associations in Africa and that have experience in the field.

There are more than 22,000 registered national associations and 47,000 regional, state, and local associations in the United States. Their constituencies range from interest groups and collectors to professions, industries, and economic sectors. Many U.S. associations have resources that could be useful in the development of associations in Africa.

There are at least three categories of assistance that U.S. associations can provide to African associations:

- Technical information on the methodology and substance of industry- and professionwide standards,
- Expertise in building and managing institutions (methods for membership drives, dues structures, ongoing communication), and
- Industry- or profession-specific services to members (training programs, information systems).

In a recently conducted survey among U.S. associations concerning their interest in working with their counterparts in Africa (see Appendix B), their general response was that they were interested in developing programs to strengthen similar organizations in other countries, and in some cases they already had programs in place that had been applied in Africa or that could be adapted for application in Africa.

Most of the U.S. associations surveyed had not had extensive experience in Africa, and any focus abroad was more likely to be on Eastern and Central Europe or Latin America. However, although the associations had limited resources to develop new programs in Africa, many of them expressed interest in doing so if

they were supported by A.I.D. Most of the associations surveyed stated that with the necessary resources, they could develop programs to aid African associations.

There is significant potential to mobilize the resources of U.S. associations and to cooperatively develop effective programs. There is an active interest in overseas involvement in many associations, and there is a particular commitment to Africa from a number of groups, such as the International Executive Service Corps and Entrepreneurs International. However, an A.I.D. program to link U.S. associations' resources with African associations' needs will require extensive groundwork. The Agency will have to support a significant effort to develop productive working relationships that ensure sound program design and effective implementation. Development of relationships between associations and A.I.D. will take time, and the Agency's challenge will be to invest in the development of programs that meet clear, articulated needs from the field and that use proven capabilities of the U.S. associations.

OPTIONS FOR FUTURE A.I.D. INITIATIVES

Because associations constitute a critical aspect of an advancing private sector and because they provide A.I.D. with an effective mechanism for dispensing assistance to large numbers of recipients, this report suggests that there is an opportunity to expand A.I.D. support of private association development. This can be accomplished in a number of ways:

- A.I.D. missions can increase their focus on private associations as they design their private sector programs;



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- A.I.D./Washington-based regional programs, such as HRDA and Private Enterprise Development Support, can increase the resources that they make available for A.I.D. missions to use in advancing the development of associations; and
- In addition to these changes within the current structures, A.I.D./Washington could initiate a new regional program that focuses on association development and takes advantage of the resources that exist in the U.S. private association community (an appropriate home for such a program might be the Private Sector Division, ONI, A.I.D. Africa Bureau).

A focused regional program for Africa could become the fulcrum of expertise with regard to the role of private associations in the development of a vibrant private sector. In addition, it could take advantage of a number of the opportunities presented by the U.S. association network to enhance A.I.D.'s capability to assist private associations in Africa. Such a program could also advance the objectives of the Partnership for Business and Development initiative in that it would be accomplished through cooperation between A.I.D. and the U.S. private sector.

To increase their support of associations, missions need assistance in the following areas:

- Identifying associations to support,
- Assessing the needs of target associations and defining their strategies,
- Designing the appropriate assistance,
- Coordinating the implementation of assistance, and
- Evaluating the impact of assistance programs.

Current structures could meet these needs with additional resources. However, to pursue the opportunities represented by the U.S. association community, current programs would have to introduce new activities. Effectively implementing linkages between U.S. and African associations will require preliminary steps:

- Comprehensive study of relevant U.S. association resources,
- Design (in cooperation with U.S. associations) of appropriate assistance programs to meet defined needs,
- Coordination of implementation, and
- Careful oversight of the activities until independent relationships are established. Once linkages between U.S. and African associations are established, they should take on a life of their own and benefit both parties.

A possible program design for a new regional initiative could have the following features:

- A full-time staff of technical and administrative personnel, funded through the Africa Private Enterprise Fund or follow-on projects, to manage program implementation;
- Pooling of skills of its own staff, HRDA, Private Enterprise Development Support, private organizations, and experienced consultants to assist in the identification of associations, to assess the needs of associations, and to design assistance;
- Use of the resources listed above as well as the resources of U.S. private associations, wherever possible, to implement assistance;
- Program staff serving to link U.S. associations, A.I.D. missions, and recipient associations;



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- Program staff paying careful attention to the design of training materials and programs as well as to implementation; and
- Devotion of significant resources to identifying interested associations, developing relationships with them, and cataloguing their capabilities and resources in order to match African associations' needs to U.S. associations' resources.

The demand for assistance exists, the potential to have an impact on private sector development is evident, the resources in the United States are substantial, and there is evidence of U.S. association interest in participating in the program. Either expanding current initiatives or starting new initiatives could have a significant additional impact on the development of the private sector through private associations.

Appendix A

PARTIAL OVERVIEW
OF PRIVATE ASSOCIATION ACTIVITIES IN AFRICA

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
BOTSWANA			
Botswana Chamber of Commerce, Industry, and Mines (BOCCIM)	Nationwide chamber of commerce, organized into regional branches A.I.D. has proposed the creation of industry-specific groups within the chamber	A.I.D. has proposed using industry-specific groups to deliver industry-specific training courses Currently provides a labor advisory service and A.I.D.-sponsored financial management courses	A.I.D. is helping BOCCIM to organize regional branches and to provide financial management courses
BURKINA FASO			
Chamber of Commerce and Industry (CCIA)	Has links to the Ministry of Commerce	Sponsors courses in business skills training Offers management advice and assistance in preparing business proposals Offers telecommunications and related services to members Sponsors trade fairs	N/A
CAMEROON			
Chamber of Commerce and Industry	Based on the French chamber model, with the automatic participation of all registered businesses in the country	Offers government-subsidized technical and vocational training to the private sector	Heavily reliant on government funding to operate

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<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
CAMEROON (continued)			
Cameroon Cooperative Credit Union League (CAMCCUL)	Nationwide grouping of 240 individual credit unions	Provides extensive in-house training for its staff Interested in providing credit and technical and support services to new businesses and agricultural cooperatives	Seeking outside training for members to expand capacity to provide services
Groupement Interprofessionelle Camerounais (GICAM)	Association of Cameroon's oldest and largest businesses, including many parastatals and major unions	Key representative to government on behalf of the Cameroonian business community Provides information on customs and investment codes and trade laws Publishes a bulletin on business trends in Cameroon	N/A
Syndustriacam (Employers' Union of Cameroonian Industry)	Mix of private and parastatal members, representing only the industrial sector Small but influential	N/A	N/A
Central Union of Western Agricultural Cooperatives (UCCAO)	Groups major agricultural cooperatives in the Western Province Members produce a large portion of Cameroon's export crops: coffee and cocoa	Markets crops and provides agricultural inputs at the beginning of each season Provides training for its staff and for member farmers and extension agents, ranging from computer and electrical training to cooperative management Hopes to start courses elsewhere in the country to encourage crop diversification	Has received funds from a World Bank integrated rural development program Has also sent several people to HRDA-sponsored courses on various management topics

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
CHAD			
Chamber of Commerce	Based on the French chamber model, is more oriented toward the government than toward the private sector	Principal function is to serve as an intermediary between the government and business, especially on trade issues Has set up the Centre de Formation Professionnelle to provide training to members	The chamber and its center have received assistance from the Versailles Chamber of Commerce and the French Caisse de Cooperation
Conseil National du Patronat Tchadien (Employers' Union)	Has a membership of more than 40 enterprises, most of which are local subsidiaries of foreign enterprises	Acts as an advisory body to the government on economic policy and issues related to private sector development Plans to institute a donor-assisted training program	Receives most of its assistance from the International Labor Organization
CÔTE D'IVOIRE			
Chamber of Commerce	Based on French chamber model, with automatic participation of all registered businesses Financed through taxes collected by the government; very strong links to the state	Operates a school that provides a training program for businesses Has been proposed that the chamber also offer short-term training programs and consulting services in business management and finance	Heavily reliant on the government to collect funds from businesses, but the government does not always allocate all the funds collected to the chamber
Chamber of Industry	Same setup as the Chamber of Commerce Very small	Used as an intermediary between business and industry and the government Collects and updates information on existing and newly created firms Has provided technical and business training to small and medium-sized enterprises	Like the Chamber of Commerce, heavily dependent on government funding, but, also like the Chamber of Commerce, frequently short of funds

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
CÔTE D'IVOIRE (continued)			
Union Patronale de Côte d'Ivoire (UPACI)	Umbrella organization for individual business sector associations	<p>More influential than the Chamber of Industry</p> <p>Acts as an intermediary between the business community and the government</p> <p>Provides legal assistance to members regarding labor law</p> <p>Provides assistance in formulating and assessing training needs and plans</p> <p>Advises government on industrial policy</p>	N/A
Association pour le Développement du Marketing en Côte d'Ivoire (ADEMCI)	Brings together marketing experts from the business and academic communities	<p>Collects market information on Côte d'Ivoire</p> <p>Brings together marketing professionals to facilitate the exchange of ideas at a yearly conference</p> <p>Operates a school of sales and marketing</p>	A.I.D. provided ADEMCI with FCFA 8.5 million in 1988-90 to help finance its conference and publications
Mouvement des Petites et Moyennes Entreprises	Currently has 500 members, but is growing rapidly	<p>Provides inexpensive, collectively bargained insurance, legal services, and transport for members</p> <p>Acts as an intermediary between small and medium enterprises and government</p> <p>Plans to create a fund to provide loan guarantees to members to facilitate access to bank credit</p>	N/A

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
GHANA			
Ghana National Chamber of Commerce	Has about 3,500 members, 80% of which have only 1 or 2 employees	Primarily represents the interests of retailers and small traders Interested in programs to help members to improve their operations	N/A
Association of Ghanaian Industries	Has just over 1,000 members, most of which have 20 or fewer employees	Primarily represents the interests of the manufacturing and industrial sector Interested in sponsoring business development programs	N/A
GUINEA-BISSAU			
Chamber of Commerce, Industry and Agriculture of Guinea-Bissau	1-year-old nationwide 100% private sector chamber with 500 members and a national headquarters plus 6 regional branches Supported by member fees and income-generating activities	How-to courses and instructional materials Policy papers National forums on private sector issues Business leadership conferences and development Business English courses for members and TOEFL English training for A.I.D. participants Periodic business news magazines Trade fair preparation Business advisory services	A.I.D. contractor LABAT-ANDERSON Incorporated is working on a 16-month development program started in 1991

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
KENYA			
Kenya National Chamber of Commerce and Industry	<p>Has 38 branches around the country and a fairly broad-based membership, although some branches are weak</p> <p>Membership ranges from multinational corporations and some parastatals to smaller-scale enterprises</p>	<p>Main role is information dissemination and serving as a liaison between local business and government</p> <p>Conducts economic analysis and makes policy proposals to government</p> <p>A major objective will be to increase members' access to credit</p>	<p>A.I.D. has proposed strengthening the chamber's marketing information services under the Private Enterprise Development program</p> <p>A.I.D. has provided computers and a consultant to computerize membership files and install a management information system</p>
Kenya Association of Manufacturers	<p>Has more than 600 members, including all the largest manufacturing firms, ranging from multinational corporations to local entrepreneurs</p>	<p>Acts as a lobbying group for the business community</p> <p>Provides business consulting and other support services</p>	<p>A.I.D. has proposed helping the association to strengthen its marketing support services and has helped to fund some of its expert staff</p> <p>Under the Private Enterprise Development program, A.I.D. would like to improve the association's policy analysis and design ability</p>
LESOTHO			
Exporters' Association	<p>Composed of exporters, including many that have received assistance from parastatal development organizations</p> <p>No paid staff</p>	<p>Would like to explore market opportunities in the Preferential Trade Area (East and Southern Africa) and in North America</p> <p>Would like to provide in-country marketing training for members</p>	<p>HRDA has proposed providing in-country training to the officers of the association and marketing training to some of its larger members</p>

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
LESOTHO (continued)			
Lesotho Chamber of Commerce and Industry	<p>Covers 10 districts, with a membership of 1,800 small firms and about a dozen large ones</p> <p>Income from membership dues remains insufficient to pay for full-time staff</p>	<p>Provides weekly circulars and a bimonthly publication to its members</p> <p>Institutional weakness has prevented the chamber from developing an effective voice on behalf of its constituents</p>	HRDA has proposed providing a development grant to the chamber for staff training and some equipment
MADAGASCAR			
Fivondronan' ny Mpandraharaha Malagasy (FIV.MPA.MA) (Federation of Malagasy-Owned Businesses)	<p>Membership of 350 is entirely Malagasy (as opposed to foreign or domestic Asian), mostly in the commerce and service sectors</p>	<p>Acts as a representative for members in discussions with government on private sector issues</p> <p>Does not provide training activities</p>	Has expressed an interest in obtaining HRDA assistance for member training
Groupe ment des Entreprises de Madagascar	<p>Employers' association that includes private local- and foreign-owned businesses, as well as parastatals</p> <p>With an estimated membership of more than 500, this is the largest business association in Madagascar</p> <p>Membership is concentrated among larger enterprises</p>	Represents the business community to government and in discussions on economic policy	N/A
Association for the Promotion of Malagasy Enterprise (APEM)	<p>Created by members of the Groupe ment des Entreprises de Madagascar in 1988</p> <p>Includes many younger, U.S.-trained senior managers</p>	<p>Goal is to promote the development of small to medium-sized businesses through the provision of technical advice, seed capital, and loan guarantees</p> <p>Plans to set up a "mini-venture capital" arm, SIAPEM, to help promote small and medium enterprise development</p>	<p>SIAPEM has received funding from French nongovernmental organizations and is hoping to receive funding from the IFC</p> <p>HRDA has identified APEM as a good candidate for private sector training support</p>

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
MADAGASCAR (continued)			
Jeune Chambre Economique de Madagascar	The local affiliate of Jaycees International, the chamber has branches in five major cities, with more than 120 members	Has been active in small and medium enterprise promotion, having organized symposia on small and medium enterprise development in the past A primary goal has been to provide university-trained Malagasy with practical experience in order to increase their marketability; has pursued this goal in part through its links with similar organizations in other Indian Ocean countries and in Europe	Has received assistance from the World Bank Has been identified by HRDA as a good candidate for private sector training support
Madagascar Chamber of Commerce, Industry, and Agriculture	Set up along the French chamber model (similar to Senegal and Cameroon) Is run by the government, with all established businesses in the country required to join (most in the private sector do not regard it as a likely candidate to promote private sector development)	Although theoretically the representative of all private and public sector businesses in the country, the chamber is regarded as more or less dormant The World Bank has plans for the "privatization" and extensive restructuring of the chamber, although it is not clear whether these plans will be implemented	HRDA has recommended waiting for any restructuring of the chamber to take place before providing it with any funding
MALI			
Chamber of Commerce and Industry in Mali	Based on the French model— heavy government involvement and automatic membership, with member dues collected through a mandatory tax Staff composed entirely of seconded government officials	Acts as an intermediary between government and the private sector, although its membership is limited to operators in the formal sector Sponsors business skills and vocational training courses	The U.S. Peace Corps works with the chamber to provide commercial training in urban centers

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
MALI (continued)			
Fédération Nationale des Employeurs du Mali	Serves as an umbrella organization, grouping 11 associations that represent specific business sectors	Works on several issues, including illegal imports and taxation Government has asked the federation to propose changes in the tax code	N/A
MOZAMBIQUE			
Mozambique Chamber of Commerce	Organizationally weak, the chamber has very strong government connections Tends to favor larger enterprises	Plays a role in promoting small enterprise development and in facilitating joint ventures	N/A
Association of Mozambican Private Enterprises (AEPRIMO)	Set up with the assistance of A.I.D. Has about 275 members, 70% of which are small Fully and partially state-owned enterprises and foreign-owned businesses are prohibited from joining	Provides assistance in project development, obtaining credit, and management improvement	USAID/Maputo helped to organize AEPRIMO A number of other bi- and multi-lateral organizations have expressed interest in providing assistance
NIGER			
Chamber of Commerce	Has more than 9,000 nominal members from the commercial, industrial, transport, artisanal, and agricultural sectors, and has five regional offices; nonetheless, has significant organizational weaknesses	Has 5 departments responsible for administration, research, information and documentation, infrastructure evaluation, and training Sponsors training courses on management and marketing, as well as on vocational skills Has a department that works with informal sector businesses	The United Nations Development Organization has provided a staff member, but HRDA cited lack of organizational focus in recommending against A.I.D. funding for the chamber

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
NIGER (continued)			
Association of Women Merchants (AFC)	Has 540 general members and 2 field offices Members typically run micro-enterprises in the commercial and trading sectors	Sponsors a tontine (savings group) and loan guarantee fund for members Organizes meetings for members who deal in specific commodities to discuss and attempt to resolve problems	A.I.D. and the World Health Organization have sponsored members of the AFC to attend international conferences on women in development
Syndicat Patronal des Entreprises Industrielles au Niger	Has 40 members, most of which are large enterprises Works closely with the Chamber of Commerce	Primary activities include liaison with the Ministry of Labor and addressing social and business problems facing its members, such as the need for adequate housing	N/A
RWANDA			
Rwanda Chamber of Commerce and Industry	Set up along the French chamber model, with mandatory membership for all formal businesses Members are taxed to fund the chamber's activities; consequently, most small businesses do not join	Like most other Francophone chambers, this is essentially an arm of the government, and the business community does not view it as an effective advocate	Funds extracted from members by the government are channeled to the chamber to cover expenses
KORA (an artisanal business association)	Organized by artisanal businesspersons	Viewed as a more effective representative of the private sector than the Rwanda Chamber of Commerce and Industry, because it was organized by its members rather than by government	Has been recommended that A.I.D. channel training efforts through this and other existing private sector associations rather than through the Rwanda Chamber of Commerce and Industry

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
SENEGAL			
Chamber of Commerce	Based on the French chamber model, the chamber has heavy government involvement and is generally regarded as being in serious need of restructuring if it is to effectively meet the needs of the private sector	Operates a secretarial and accounting skills training center, as well as a training center for microcomputers	<p>HRDA has sponsored a study tour in the United States for chamber members</p> <p>Members may also participate in HRDA-funded training courses in the United States</p>
Chambre de Métiers	Chamber for artisans, started at the initiative of government, but run by the artisans	Runs projects aimed at supporting and providing training to artisans	<p>The United Nations Development Program and the International Labor Organization have funded a project through the chamber aimed at setting up community training workshops in several regions</p> <p>HRDA has recommended evaluating this organization to determine its need for further assistance</p>
Conseil National du Patronat	<p>Union of all the other unions and professional associations in the country</p> <p>Combined membership represents 90% of Senegal's business activity</p>	<p>Represents its members in discussions of employment, labor, tax, and trade policy with government</p> <p>Monitors the impact of government policy on the economy</p> <p>Has organized some training activities</p>	<p>The International Labor Organization has assisted the council to organize training activities</p> <p>The council would like to be assisted in providing further training for its staff in order to strengthen its membership service, business advocacy, and information-processing capabilities</p>

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
SENEGAL (continued)			
Conseil National des Employeurs du Sénégal	The only employers' union in Senegal not founded by the government More than 70% of members are small and medium enterprises	Maintains close ties to the Conseil National du Patronat Has played a large role in policy discussions with government Institutional weaknesses have inhibited the Conseil National des Employeurs du Sénégal from providing adequate services and information to its members, but it would like to strengthen its abilities in these areas	Has requested assistance from A.I.D. in strengthening its information management capabilities and for training internships in the United States
Conseil National des Jeunes Dirigeants du Sénégal	A relatively new organization serving the interest of small and medium enterprises owned by people less than 45 years old	Serves as a study and proposal group for young small and medium enterprise owners Members have expressed an interest in increased access to marketing and business skills training courses	A.I.D. has helped to fund the council's conferences for its members
SWAZILAND			
Federation of Swazi Employers	Represents 350 Swazi employers, which account for up to 90% of all wage earners in Swaziland	Represents employers' interests to government on legislation Provides advice and legal council to members Set up in response to the perceived ineffectiveness of the Chamber of Commerce	N/A

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
SWAZILAND (continued)			
SIBAKHO Chamber of Commerce and Industry	<p>Composed of about 400 members from the manufacturing, agriculture, construction, commerce, and service sectors</p> <p>Formed in response to a perceived lack of interest in small business by the Chamber of Commerce and the Federation of Swazi Employers, which were believed to be dominated by expatriates</p>	<p>Provides loans to small businesses</p> <p>Would like to expand its ability to provide technical and business advice and training to small businesses in Swaziland</p> <p>Hopes to develop a centralized warehouse and central supply facility for members</p>	<p>SIBAKHO has received funding from CARE to provide loans to small businesses</p> <p>Would be interested in A.I.D. assistance to increase its training capabilities</p>
TANZANIA			
Association of Tanzanian Employers	<p>Originally formed as a federation of local employers' unions, declined in membership during the late 1970s</p> <p>More recently, has revitalized, with membership rising to more than 450, about 75% in the private sector and 25% parastatals</p>	<p>Negotiates with the state-controlled labor unions on behalf of the business community</p> <p>Makes proposals to government regarding tax and investment codes</p> <p>Offers some training in labor relations and business skills development to its members</p>	<p>Has received funding for its training programs from the International Labor Organization and the Norwegian government</p>
Tanzania Chamber of Commerce, Industry and Agriculture	<p>Serves as an umbrella organization for the entire private sector</p> <p>About 5 years old</p> <p>Hopes that eventually, all existing local chambers will affiliate to this national chamber</p>	<p>Represents the entire private sector in its dealings with government</p> <p>Aims to provide training and information about export promotion and regulation to its members</p> <p>As a relatively young organization, activities are not yet well developed</p>	<p>The United Nations Development Program has proposed providing assistance to strengthen member services</p> <p>Has received assistance from the European Economic Community</p>

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
TANZANIA (continued)			
Dar es Salaam Chamber of Commerce (DESCC)	<p>More than 70 years old</p> <p>Traditionally has represented the larger commercial ventures in Dar es Salaam, mostly dominated by Indians and parastatals</p> <p>Has about 400 members</p>	<p>As a much more well-established organization than the Tanzania Chamber of Commerce, Industry and Agriculture, is able to provide many more services that the other chamber would like to eventually offer as well, including matching foreign buyers with local exporters and providing consulting services on trade in the Preferential Trade Area region</p> <p>Has sought to promote entrepreneurship among women</p>	N/A
Tanzania Business and Professional Women's Association	<p>A fairly new, privately funded organization seeking to address the needs of women entrepreneurs</p> <p>Based in Dar es Salaam, but hopes to extend its membership throughout the country</p>	<p>Although this group receives no financial support from government, it has received government tacit support</p> <p>Hopes to provide a support network to women entrepreneurs and enable them to share their experiences</p>	USAID/Dar es Salaam has proposed that HRDA provide assistance to promote private and public sector training of women
CADICEC	A Christian businesspersons' organization with more than 250 members	Provides training seminars for small and medium enterprises and enterprises in Kinshasa's informal sector	HRDA has recommended that A.I.D. provide grant money to assist CADICEC in providing program materials and to cover tuition costs

<i>Name of Organisation</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
ZAIRE			
Association Nationale des Entreprises du Zaïre (ANEZA)	Zaire's only national chamber of commerce, and the largest employ- ers' association Has 8 regional offices and 38 sub- regional offices Claims about 2,300 members, 70% of which are small and medium enterprises	Although it has some administrative ties to government, ANEZA is an independent or- ganization and is self- and donor-financed Represents the business community to gov- ernment and provides members with infor- mation about government policy changes Provides members with market information and technical and business training	Has received assistance from a vari- ety of sources, including the World Bank, the United Nations Development Organization, and the European Economic Commu- nity The United Nations Development Program set up a department serv- ing small and medium enterprises in 1985 A.I.D. has supported ANEZA par- ticipants for training and study tours in the United States
Fédération Nationale des Petites et Moyennes Entreprises du Zaïre (FENAPEZ)	FENAPEZ is a fairly recent cre- ation, claiming a membership that includes 1,200 small and medium enterprises in Kinshasa alone	FENAPEZ advises government on policy issues FENAPEZ has initiated a member-created savings and loan association that provides small working capital loans to members	HRDA has recommended that both groups be consulted on the design and implementation of fu- ture training projects
Union Nationale des Petites et Moyennes Entreprises (UNAPME)	UNAPME is FENAPEZ's sister organization, comprising mostly young university graduates and civil servants	UNAPME works mainly on policy issues	
ZAMBIA			
Zambia Confederation of Industries and Chambers of Commerce (ZACCI)	An umbrella organization repre- senting local and regional cham- bers and trade associations Membership remains weak among small and rural businesses	Acts as an advocate on behalf of members to government and updates members on gov- ernment policies affecting the private sector Provides information to members on market opportunities and joint-venture possibilities	Chronic understaffing has led ZACCI to request funding and training assistance from the donor community

<i>Name of Organization</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
ZAMBIA (continued)			
Small Scale Industries Association of Zambia	Has about 1,200 members, representing small-scale businesses in the formal and informal sectors	Promotes small-scale business development by coordinating with financial institutions, government bodies, and multilateral institutions Provides information and training workshops and courses to members	Institutional weaknesses have caused active membership to decline, which could be reversed with financial and training assistance to administrative staff
Zambia Association of Manufacturers	Has about 220 members, representing medium- to large-scale industrialists and manufacturers	Seeks to provide the government with input from the industrial sector for consideration when formulating its economic policies	N/A
ZIMBABWE			
Confederation of Zimbabwe Industries	Represents 1,200 manufacturing companies, which contribute about 95% of Zimbabwe's manufacturing output	Offers Price-Waterhouse short training courses to members' management staffs, covering management, financial, and other business-related topics Is trying to promote the idea of small and medium enterprise development to members	Participating firms pick up the costs for management training courses
Zimbabwe National Chamber of Commerce	Has 1,600 member companies, 60% of which are small businesses in the commercial sector	Is developing a series of courses and workshops for small and medium enterprise owners and managers, staffed by professional training consultants; workshops will cover the basics of management, accounting, finance, and marketing, and will require a nominal tuition fee	Workshops were developed with a grant from the Friedrich Naumann Foundation

<i>Name of Organisation</i>	<i>Type and Structure</i>	<i>Activities</i>	<i>Donor Involvement</i>
ZIMBABWE (continued)			
Employers' Confederation of Zimbabwe (EMCOZ)	Serves as an umbrella organization for all the chambers and some of the industry associations in Zimbabwe	Acts as the voice of the Zimbabwe business community to the government on a wide range of labor issues Publishes a quarterly bulletin to members Provides training courses to senior and middle management, as well as in-company training and courses on running small and medium enterprises	Has received support for its training program from the International Labor Organization and from the United States, Norway, and Canada
Zimbabwe Entrepreneurs' Association (ZENA)	Has about 150 members in the small and microenterprise sector	Seeks to address the needs of the formal very small and microenterprise sector and of the informal sector Hopes to provide training to entrepreneurs in these areas to make business proposals more creditworthy	N/A
Construction Industry Federation of Zimbabwe (CIFOZ)	Represents about 400 firms, which account for 90% of the construction industry	Represents the interests of the construction industry to government, including complaints about lack of access to foreign exchange and equipment	N/A

N/A = Not available.

Sources: A.I.D. Manuals for Action in the Private Sector; HRDA Private Sector Training Needs Assessments. Compiled by Arthur Rubin (LABAT-ANDERSON Incorporated).



Appendix B

INTERVIEW SUMMARIES

(Based on a survey of senior executives at the following organizations during November and December 1991 for their experience and interest in linking with similar associations in Africa to promote their development.)

AGRI-ENERGY ROUNDTABLE

Members: 40

Budget: \$300,000

The Agri-Energy Roundtable has worked with a number of A.I.D. offices and other organizations in the past ten years to establish associations of private sector agricultural enterprises in countries around the world. The roundtable has worked in a number of African countries, including the Gambia, Kenya, Nigeria, Tanzania, and Uganda. The organization's priority is to establish an international network of agricultural associations.

The associations that the Agri-Energy Roundtable establishes focus on providing their members with cost-effective access to the international market as well as on entering into dialogue with government. The roundtable frequently needs only a small sum of money (\$1,000 to \$5,000) to set up an association that can have a significant impact on agribusiness development. Effective support requires sustained contact however, and any new initiative should emphasize continuity. The roundtable is interested in continuing to participate in any A.I.D. initiatives in this area.

AMERICAN BANKERS ASSOCIATION

Members: 11,000

Budget: \$62 million

The American Bankers Association has significant experience in training in its members' fields of expertise. The association has done work with the World Bank in the former

Soviet Union and in Eastern Europe. Possible areas of association contribution are sponsoring attendance at American Bankers Association schools, conferences, and courses; translating and adapting training materials for use in other countries; facilitating the development of training programs and conferences abroad; and providing technical assistance. The association is committed to helping similar groups grow and would be interested in joining an A.I.D. effort in the banking area.

AMERICAN BAR ASSOCIATION

Members: 360,000

Budget: \$50 million

The American Bar Association participates in a number of programs in Africa, including an internship program for black South African lawyers and litigation seminars in South Africa. The association's Africa Committee consists of members with an active interest in Africa.

The American Bar Association is an institutional member of the International Bar Association, based in London. The International Bar Association has initiated the Twinning Project, which links bar associations in developed countries with those in developing countries. There are now around 40 of these relationships, many of which (for example, the Minnesota-Zambia link) have been very successful.

The American Bar Association has found links on a smaller scale to be more effective, and the association is eager to act as a



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facilitator in developing more programs of this nature or in initiating new programs.

The American Bar Association is committed to assisting in the development of a professional infrastructure for African lawyers. The association has experience in this area in Latin America, working with the Inter American Bar Foundation, and it is developing programs for Eastern Europe. The association would be very interested in getting involved if A.I.D. were to implement a program to link U.S. and African associations.

**CENTER FOR INTERNATIONAL
PRIVATE ENTERPRISE**

(Part of the Chamber of Commerce of the United States)

Staff: 10

The Center for International Private Enterprise has extensive experience in working through private associations to advance the development of private sectors around the world. The center currently has nine active projects in Africa. One project supports an ongoing conference among private and public sector leaders of six Southern African countries that has led to a plan to create a regional center to analyze common private sector issues and generally overcome the problem of scarce information and communication among private sectors in the region. The center is also working in Ghana to implement the Legislative Advisory Service, following a model developed in the Dominican Republic, which will analyze upcoming legislation affecting business and promote discussion of the issues. In addition, the center has provided management training for SADCC association executives in Gaborone, Botswana. The center has a number of other initiatives under way, including a couple of projects in South Africa.

The center has recently submitted a proposal to the A.I.D. Africa Bureau ONI to

increase its level of activity in Africa and would be very interested in participating in or implementing any new efforts to support the development of business associations in Africa.

**INTERNATIONAL FRANCHISING
ASSOCIATION**

Members: 703

Budget: \$4 million

The International Franchising Association is currently working with A.I.D. in a program whereby the Agency guarantees 50 percent of loans made by commercial banks to franchisees in developing countries. The association's membership is actively pursuing secondary markets, and the association is committed to assisting in the establishment of franchisor associations in developing countries wherever opportunities arise. The International Franchising Association's experience has shown that a franchisor association stimulates the development of a franchising industry by creating a point of contact and a central source of information.

The International Franchising Association feels that it has much to offer by sharing its technical information, bylaws, programs, dues structure, membership systems, and other features. The association has experience in setting up similar associations and feels that its current programs, with appropriate adaptation, could be successful in Africa.

**NATIONAL ASSOCIATION OF
MANUFACTURERS**

Members: 13,500

Budget: \$14 million

The National Association of Manufacturers is primarily a lobbying organization; it provides limited technical services to its members. The association executive expressed reservations about the applicability to Africa of his organization's expertise in lobbying the U.S.



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government. He did not feel that there would be much value in creating training material based on the association's structure or methods of operation. He thought that the association's experience was inapplicable in Europe, let alone Africa. He believed that this opinion would hold for most "horizontal" associations (for example, the Chamber of Commerce of the United States, the Business Roundtable, and the American Business Council).

However, the association executive believed, and thought that many members would agree, that there would be value in sharing industry- and product-specific standards with parallel associations in Africa. Members would see a benefit in sharing technical knowledge with regard to U.S. or international standards that could greatly enhance the prospects of trade. He believed that such a program would receive far more support than the notion of the association assisting in the development of a similar association in an African country.

**NATIONAL ASSOCIATION OF
SECURITY DEALERS**

Members: 6,000

Budget: \$150 million

The Qualifications Department of the National Association of Security Dealers

develops standards for qualification of different categories of securities dealers. Head office staff stated that the Qualifications Department might be most appropriate for the training of African counterparts. The association follows a process of member panel reviews to establish qualification requirements by product. The association's system of qualification and the substance of its standards could be packaged for training purposes, and the association is interested in exploring opportunities to do this.

**NATIONAL FOOD PROCESSORS
ASSOCIATION**

Members: 600

Budget: \$18 million

The National Food Processors Association devotes significant resources to food safety. The association has one hundred scientists on staff and has advanced expertise in labeling and product safety standards. In addition, the association has programs to lobby on relevant legislation and communicate the implications for its membership. The association believes that it could package its technical expertise for training programs to be conducted either in the United States or in Africa. It is very interested in participating in an A.I.D. program to develop similar associations.



Chapter 4

**PRIVATE PROVISION
OF PUBLIC SERVICES**
EXPERIENCE IN HEALTH, FAMILY PLANNING,
EDUCATION, AND AGRICULTURE

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TODAY, AFRICAN GOVERNMENTS ARE conceding that without miraculous increases in funds and institutional capacity, they cannot hope to be the primary providers of health care, family-planning, education, and agricultural marketing and extension services for everyone. Failures to meet these ambitious goals and the great and increasing demand for private products and services have prompted a rethinking of the role of government in providing these services. Increasingly, Africans are looking to private sources for these services. Despite enormous regulatory, legal, and tax barriers, private sector firms and individuals are responding to unmet demand by stepping in to fill the needs that governments have been unable to satisfy.

Appendix A shows how A.I.D. has promoted a greater role for the private sector in the provision of services, using such techniques as the following:

- Provision of foreign exchange and credit to private firms;
- Provision of funds, technical assistance, and training to agricultural cooperatives and private agricultural services;
- Development of training programs and provision of financial assistance for private educational institutions; and
- Promotion of communication among the private sector, donors, and host governments to reduce barriers to private sector participation in the provision of services.

These techniques and others that A.I.D. can use to promote sustainable, broad-based, and market-oriented economic growth in Africa are described below.

This chapter reviews experience in the private provision of services in health, family planning, education, and agriculture, sectors in which A.I.D. has concentrated attention and resources in recent years. The accompanying publication *Private Provision of Public Services: Opportunities and Issues in Telecommunications, Electric Power, Transport, Water and Sanitation, and Solid Waste* reviews opportunities and issues in the private provision of services in water and sanitation and in other sectors in which A.I.D. has been less active.

BACKGROUND

After independence, most new African governments undertook to provide certain fundamental services—including health care and family-planning services, universal education at least at the primary level, and agricultural marketing and extension services—for their citizens. Their commitments to provide these services often greatly exceeded their financial and institutional capacities, however, with the following present-day consequences:

- Frequently, government services are inefficient, fail to recover costs, are of poor



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quality, and fail to provide adequate coverage for all, or even most, of the population, and

- Many citizens already get these services from private firms (in some countries, up to 50 percent of the population get at least part of their health care services from the private sector and up to 88 percent of all money spent on health care is spent in the private sector¹).

Recent experience in providing services has reemphasized that people in Africa and throughout the world share two important characteristics:

- A tendency to place a higher value on services (including health care, pharmaceuticals, contraceptives, education, and agricultural and veterinary advice and inputs) that they receive from private providers and
- A willingness to pay for private services that they perceive as being of higher quality.

In spite of these tendencies, many African governments remain committed to acting as primary service providers. Because so many Africans are already turning to the private sector for health, family-planning, education, and agricultural services, a large number of private firms have emerged to provide them. Nevertheless, private providers of these services continue to emerge. They generally fall into three major categories:

- Small and microenterprises, including
 - Practitioners of traditional medicine,
 - Midwives, medical assistants, and other paramedical practitioners,
 - Small retailers of pharmaceuticals and contraceptive devices (who often offer medical and family-planning advice), and

– Schools organized and funded outside formal education systems;

- Employers offering vocational training and health, family-planning, and other services to employees; and
- Large multinational enterprises, including
 - Agribusiness firms that conduct research and provide inputs, training, and advice to local farmers, frequently through contract farming arrangements,
 - Seed companies that perform research on new varieties and those that provide extension services and advice to increase demand for seed,
 - Pharmaceutical companies that perform social marketing functions as part of their overall marketing strategies, and
 - Manufacturers of veterinary medicine that provide advice on disease control to the livestock sector to increase demand for their products.

CONCEPT AND SCOPE

This report confirms that one key to increasing the provision of low-cost services in health, family planning, education, and agriculture will be reduction of the tremendous obstacles that prevent both existing and potential private service providers from serving the market. This process will require commitment from the donor community and from African governments that must reform their tax, legal, and regulatory structures to facilitate the creation of new firms and service providers and to create incentives for private actors to enter the

¹D. de Ferranti, *Paying for Health Services in Developing Countries—an Overview*, World Bank Staff Working Paper no. 721 (Washington, D.C.: World Bank, 1985).



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market. Donors can work with private providers of services, along with community organizations, business organizations, and other nongovernmental organizations (NGOs), to strengthen their capacities to deliver higher-quality services to more people at lower prices.

The following steps are keys to maximizing private participation in the provision of services:

- Admission by African governments that they lack the resources to successfully provide all the services that their populations need, along with acceptance of a vastly increased role for the private sector in providing those services;
- Removal of legal, tax, and regulatory barriers that inhibit the growth of existing firms and restrict the entry of new firms into the market, complemented by creation of tax and legal incentives for individuals or firms to enter the market; and
- Enhancement—through technical training and assistance, foreign exchange, or access to inputs or technology—of existing firms' capacity to provide a broader range of services more efficiently.

Community-based groups and business associations, such as farmers' cooperatives, craft guilds, industry associations, chambers of commerce, and parent-teacher associations, can participate in the private sector's growing role in the following ways:

- By providing services for their members. For example, farmers' cooperatives can supply extension advice and agricultural inputs to members, chambers of commerce can organize vocational training courses, and local community groups can construct their own schools and raise money to hire teachers. These organizations are often able to

recover costs for services provided by charging membership fees.

- By serving as intermediaries between communities and donors in defining what services are needed and what people are willing to pay for them. This can help ensure that donor assistance to private providers is demand driven, helping to maintain efficiency and cost-effectiveness.

NGOs and private voluntary organizations already play an important role in providing services in African countries. Donors and governments could work to remove the barriers that these organizations face in expanding and improving their activities, as well as to strengthen their capacity to do so.

A.I.D. missions and other donors can take a variety of approaches, alone or in combination, to stimulating the private sector to provide more services previously performed by the public sector:

- Government financing or contracting of private sector services, such as meal preparation in hospitals;
- Partially or completely private management of a still-public function, such as a national blood bank;
- Promotion of private sector provision of services in conjunction with public sector institutions, for example, in education; and
- Total divestiture of a public sector service, such as seed development and distribution.

Although issues of gender are not directly addressed in this report, A.I.D. missions should factor such considerations into their planning for promoting the private sector's role in providing services.

This report is intended to provide A.I.D. missions with a comprehensive view of privatization opportunities in health,



family-planning, education, and agricultural services; it does not attempt to encompass the following:

- Other sectors, such as energy, housing, and urban development;
- General strengthening of NGOs in their selected development activities, unless a new role is to be promoted—one that would replace or expand a service that is traditionally in the public sector;
- General promotion of private enterprise—through establishment of export processing zones, assistance to business associations and credit unions, credit windows, or training in business skills—unless an enterprise would be helped to provide services new to its portfolio and usually provided by the public sector;
- Allocation of foreign exchange for commodity imports, or local-currency generations from those imports, to private firms or NGOs; and
- General participant training programs that would benefit private sector individuals but that would not be part of a program to promote private assumption of public services.

LESSONS LEARNED

Because they do not face competitive pressures that would force them to minimize costs, public providers of services tend to be inefficient. Their failure to recover costs constitutes a constant drain on the public purse.

Expansion of the private sector's role in providing services should increase the efficiency with which services are provided and reduce

the financial burden borne by government. To achieve these goals, however, private providers of services must face genuine competition, and they must not become addicted to subsidies from well-intentioned donors.

Experience and analytical studies have shown that such services as health, family planning, and education, which governments and donors have often considered appropriate only for the public sector, can be provided privately at competitive standards and prices. If the private sector is permitted and encouraged to take a greater role in service delivery, the public sector can be freed to accord greater attention to providing genuine public services, such as armed forces, countrywide disease control programs, education for those who cannot afford to pay, judicial system, police, radio broadcasting, and water treatment.

Fees for Service

It is important that A.I.D. and other donors promote cost recovery by the public sector. User fees for public services, however, are not always sufficient to ease the strains on public budgets imposed by continuing commitments to provide services to expanding populations.

Governments and donors have usually assumed that fees for such services as health care must be kept low and that costs must be subsidized to ensure that poor people will be willing and able to pay for them. Experience indicates, however, that poor people pay for health services, though they pay more willingly for curative than for preventive care. They pay traditional healers, private health practitioners, and retailers of pharmaceuticals (from whom they also receive advice).

More than half of all moneys expended on health care, by providers and consumers, are accounted for by private practitioners and institutions and by fees paid for health ser-



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vices.² People frequently perceive private care as superior to public care, and they pay higher fees to obtain the private care that is often more accessible than the nearest health post. In Pakistan, for example, where only 18 percent of patients seek medical care in government facilities, 21 percent go to private hospitals, 29 percent go to private physicians, and 32 percent go to traditional practitioners. In Togo, where annual per capita income averages \$390, a recent household expenditure survey has shown that people seeking care for an illness spent an average of almost \$15 on each occasion.

Encouraging the private sector thus can provide greater relief to the public purse than can instituting complex fee schedules and accounting systems. Moreover, private sector bodies that provide services on a sustainable basis can recover their costs through sales, fees, or regular charitable contributions. A legitimate and useful government role, at least during a transition period, would be to provide administrative or financial incentives to newly established private providers.

Cost-Effectiveness

Private sector service delivery is generally more cost-effective than public delivery. There is evidence that the unit costs of private schools are lower than those of public schools in Colombia, the Dominican Republic, the Philippines, Tanzania, and Thailand.³ The most significant advantage of private schools over public systems is the inherent incentive to efficiency created by greater accountability to parents. Nevertheless, devolution of responsibility for education to private schools will not necessarily lead to greater efficiency in a

country's education system if government regulation reduces the schools' abilities to strive for greater effectiveness and efficiency.

Subsidies and Marketing

To be sustainable, a private sector operation must be profitable or at least recover its costs. A subsidy can boost a socially beneficial private activity, but the recipient must analyze the potential for profit in its overall operation when the subsidy ends.

Subsidies in materials or pricing are common elements of social marketing of health, family-planning, and educational commodities. A.I.D. and other donors have to face up to the limited role of such subsidies and recognize the more essential role of market strategies: by subsidizing the social marketing of products whose values have not yet been recognized by potential consumers, donors can help to create demand for socially beneficial products. For example, A.I.D. can persuade firms in the private sector to produce and sell oral rehydration salts and help them to develop a marketing strategy; in contraceptive social marketing, the Agency can subsidize or donate the commodity, as well as help in marketing.

In any such case, the donor subsidy must terminate in the long run, and the manufacturing or retailing firm then must decide whether it will cross-subsidize the product or raise the price to ensure its profit. Some firms will continue a "social" contribution to attract business or to demonstrate their concern for general public welfare. If demand for the product is not sustained, however, firms will discontinue it.

A.I.D. should work to ensure the eventual financial viability of the social marketing programs of nonprofit organizations. That

²D. de Ferranti, *Paying for Health Services in Developing Countries—an Overview*, World Bank Staff Working Paper no. 721 (Washington, D.C.: World Bank, 1985).

³Emmanuel Jimenez, Marlaine E. Lockheed, and Vicente Paqueo, "The Relative Efficiency of Private and Public Schools in Developing Countries," *The World Bank Research Observer* 6, no. 2 (July 1991): 205-18.



viability may be achieved through fees to recover variable costs. Those fees may or may not be sufficient to cover some of the more general costs of organizations that are usually covered by charitable contributions from their sponsors.

Nongovernmental Organizations as Intermediaries

Strengthening NGOs' development activities and helping NGOs to promote social services and enterprise development are major elements in A.I.D.'s mandate and general approach. The Agency can also seek to expand the role of NGOs in relation to the public sector.

Because of the outside support that they receive, which permits them to acquire tools for the job (medical supplies or books), and their ability to attract staff at relatively low salaries, nonprofit private organizations frequently are better equipped to provide services than are governments. Profit-oriented organizations are motivated to gain returns on their investments. Both types of organizations can be more efficient than the public sector in their use of resources to meet their objectives. Thus, in addition to providing funds to NGOs, A.I.D. and A.I.D. missions can contribute technical assistance, analysis, and support for dialogue to persuade governments to permit larger roles for NGOs and to devolve responsibilities to them.

Policy and Regulation

An essential condition for promotion of private sector delivery of services is government acceptance of the effort. For example, excessive government regulation of firms capable of pro-

viding health and family-planning services inhibits their entry into the market. In health and family planning, as in education, A.I.D. can encourage governments to formulate certification requirements that facilitate, rather than inhibit, the emergence of new providers while preserving minimum standards to protect the public.

Heavy tax burdens also inhibit individuals and firms from providing services. Governments could restructure tax codes to provide fiscal incentives for service providers to enter the market. Beyond this, changes in overall government policy are also usually necessary.

Competition

Without competition, private motivation for cost-effective delivery of services will lag. When a donor seeks to change the mix of public and private service delivery, it should try to ensure the presence of an element of competition. If a school system wants to privatize textbook publication, the obvious way to introduce competition is through a bidding process.

Other instances may not present such clear options, but a donor can work through associations of recipient bodies or through community-based groups. Community-based groups are often the most powerful influences in rural areas, and they often provide avenues to high-risk populations. An association can design, implement, and handle internal competition according to donor guidelines.

A.I.D. can offer the means to upgrade resource-poor private rural schools through an intermediary, packaging assistance as a menu of benefits. The ultimate private recipient would select from the menu and enter into a contract with the intermediary, specifying its objectives for improvement. The Agency has used this method in Haiti, through a newly formed apex association of school sponsors.



MARKETING ORAL REHYDRATION SALTS

In Pakistan, the private sector has replaced the government as the public's primary provider of oral rehydration salts, expanding outreach and increasing the availability of a lifesaving product to all Pakistanis.

The Pakistani government had initiated the National Control of Diarrheal Diseases Program to promote oral rehydration therapy (which it defined as a combination of fluid replacement, continued breast-feeding, and feeding, particularly with starches) for infants with diarrhea—a major killer in Pakistan among children under five years old. The government intended to distribute oral rehydration salts packets through its health facilities; the private sector's role was to be confined to production and packaging of the salts.

Within its limitations, the program was successful, but the government found that it could not afford to purchase enough oral rehydration salts to supply everyone at no cost. Distribution via the public sector was also limited by the fact that the majority of Pakistanis relied on the private sector for health care.

The National Control of Diarrheal Diseases Program joined with the U.S. firm Management Sciences for Health and A.I.D. (PRITECH project) to take advantage of Pakistan's well-developed commercial sector, the sizable consumer market potential for oral rehydration salts, and the positive competitive environment to expand the effort through the private sector. The partnership's regulatory reform and social marketing program stimulated the private sector (including firms not usually thought of as being in the public health sector, for example, juice producers) to build upon its strengths and respond to government cooperation and market opportunities, transforming Pakistan's profile of oral rehydration salts distribution. Oral rehydration salts products are now more numerous and much more widely available in the commercial market than ever before.

Source: Lucia Ferraz-Tabor and William H. Jansen II, "Forging New Partnerships: Mobilizing the Commercial Sector for ORS Marketing in Pakistan," Background Paper no. 3 (PRITECH, Arlington, Va.).

Coordination with Other Donors

A.I.D.'s efforts to privatize the provision of services and to promote policies conducive to private sector actions will be more effective if they are carried out in collaboration with other donors. Indeed, without other donors' collaboration, Agency efforts may be undermined. For example, the viability of a private firm's undertaking the production of contraceptives

may be jeopardized by the continued provision of subsidized contraceptives by another donor.

HEALTH

Most governments of developing countries have taken on the task of providing health services to all citizens, regardless of ability to pay. As populations have grown and fiscal burdens



have increased, however, the levels of service per capita have declined. Health systems are overextended, staffs are strained, and other resources are inadequate.

What happens when a national health system's budget is inadequate is that personnel are kept on the payroll, but they have to operate without transport, supplies, or supervision. Staff performance also suffers from lack of accountability and lack of incentives to cut costs and increase productivity.

In spite of the views of these governments that they must be responsible for all health services needed by their citizens, in most developing countries the private sector is already an active and important source of health care. A large part (usually well over half) of most populations is served mainly or only by private sector health practitioners, entrepreneurs offering pharmaceuticals or treatments, and traditional healers. In some developing countries, expenditures on private health care account for as much as 88 percent of total health expenditures.⁴

In Africa many people prefer traditional systems and use modern facilities only as a last resort. Availability of free or low-cost modern services does not prevent the poor from spending significant sums from their meager incomes for health care; typically, they choose to go to a public or a private supplier in accordance with their view of the effectiveness of the service. In a rural area where clinic staff are operating without supplies and are not always on the scene, and where a visit to the clinic involves a long trip, the choice frequently is to seek a traditional healer, a hawker, or some other private source.

Experience

The potential for broadening the private sector's role in health delivery is good. Physicians and other health providers will expand their services if regulations allow them. Physicians working for governments may become more dedicated to their public responsibilities if they are also permitted to earn money in private practice. In Sudan, for example, when government physicians were permitted to work on a fee basis in the evenings, they opened urban clinics and reinvested income earned to improve and expand equipment and services.

To fulfill their potential, pharmacists, physicians, nurses, midwives, and traditional healers would benefit from training in approved or tested methods of dispensation, management, and marketing; access to cost-effective technology and supplies; and, in many instances, access to financing. Private sector providers in rural areas, many of whom are outside the formal health sector, need knowledge, equipment, commodities, and training to bring their capabilities closer to those of the formal sector.

Privatization of health care financing usually begins with user fees, but those fees generally do not cover all costs, and in many instances they are not recaptured for investment in expanded health services. Prepayment and flat-fee plans have had some success at the community level, but these services are sustainable mainly when they are curative and sponsored by a dedicated NGO. Recent studies indicate that third-party financing of health services, through insurance or health maintenance schemes, will be necessary for full cost recovery by either public or private providers.⁵

⁴D. de Ferranti, *Paying for Health Services in Developing Countries—an Overview*, World Bank Staff Working Paper no. 721 (Washington, D.C.: World Bank, 1985).

⁵Charles C. Griffin, *Strengthening Health Services in Developing Countries Through the Private Sector*, International Discussion Paper no. 4 (International Finance Corporation, 1989), and "User Charges for Health Care in Principle and Practice," World Bank (EDI Seminar Paper no. 37, 1988).



Opportunities for Assistance

Promotion of the Private Sector

For-profit health care firms have invested in their capacity to produce products or services. They are dependent upon consumer demand for adequate financial returns on their investment, but their ability to respond to that demand is often circumscribed by government regulation and legal constraints that affect their supply of inputs, the prices they charge, and their freedom to enter the market. Even with access to supplies, private entrepreneurs may be discouraged by excessive governmental oversight that raises the cost of doing business.

Donors that provide drugs and other supplies to governments at highly concessional rates can also jeopardize private sector viability.

A.I.D. missions can consider the following opportunities for promoting the private sector in health care:

- Persuading governments to reduce legal restrictions on private providers and financiers of health care;
- Analyzing for governments the alternative costs of public versus private sector management, marketing, and delivery of donated drugs and other supplies (the Health Financing and Sustainability project of A.I.D.'s R&D Bureau is available for such efforts; see Appendix A);
- Recommending incentives and changes in regulations and laws (import tariffs, licensing, and taxation) to promote expansion of the following private alternatives for financing health care:
 - Employee benefit services,
 - Health maintenance organizations,
 - Insurance, and
 - Voucher schemes;

- Providing access to capital to finance construction of health care facilities and the establishment of insurance schemes; and
- Encouraging groups of small firms to cooperate in providing health care for their employees by establishing a clinic or using the services of an NGO.

Privatization

Governments have encouraged limited privatization in the health sector by hiring the private sector to undertake discrete tasks or encouraging it to do so. The mechanisms of privatization include the following:

- Contracting out for supply and services, such as meal services, cleaning, and hospital beds (in Jamaica, hospital laundry services are contracted to a private firm),
- Leasing out the management or operation of public hospitals (in Singapore, the government began a scheme to lease dental clinics to beginning dental officers before they established their own private offices),
- Issuing vouchers that cover reimbursement of private providers for services to clients (this practice, which is very common in industrial countries, is intended to increase consumer choice and market competitiveness in the supply of goods), and
- Selling government facilities to private investors.

Privatizations of specific hospital services through supplier or management contracts with private sector firms have been generally successful. However, the heretofore rare moves to privatize entire hospital functions (Kenyatta Hospital in Nairobi, Kenya, for example) have proven complex and risky unless they have been carefully analyzed and planned in advance.



PRIVATE PROVISION OF PUBLIC SERVICES: EXPERIENCE

An alternative to the transfer of existing public facilities to the private sector is for governments to encourage the private sector to establish new facilities. The Asalam Hospital of Cairo, Egypt, which opened in 1982, services the patients of its staff physicians and provides fixed-rate services to certain ministry employees.⁶ It also provides specified services to patients referred from the public system, and it has contracts with companies to cover employee health services.

Multinational pharmaceutical firms are playing a role in health care, without subsidy, through their social outreach programs. In The Gambia, a group of U.S.-based firms has established a system for distributing pharmaceuticals and improving health care. The group has helped the Gambian government develop efficient procurement policies, stock management systems, and distribution networks. These efforts are parts of the marketing strategies of the firms; they fall short of privatization of health care delivery. The next steps, however, could include privatization of responsibility for testing of pharmaceuticals for safety and effectiveness and devolution of the management and distribution systems to the private sector.

A.I.D. missions can consider the following opportunities for promoting privatization of health care:

- Urging governments to analyze the relative costs and benefits of public and private production of services and identifying the regulations and practices that must be liberalized to encourage private contracting;
- Helping private suppliers that are just getting involved in this area by providing advice on management or access to working capital;

- Promoting privatization of midwifery by training nurses and midwives in modern practices and in business operations;
- Getting private firms into pharmaceutical supply and distribution; and
- Where the pharmaceutical manufacturing sector is strong, helping it work with government to identify a stronger private sector role in drug testing, setting of standards, and control of the industry.

Social Marketing

Social marketing uses market incentives to distribute and market supplies and services through private channels. Public subsidies are involved, at least initially, to cover the cost of market analysis and sometimes also the cost of supplies and administration. Pharmaceuticals and oral rehydration salts, together with contraceptives, are the products most commonly distributed through social marketing. Health education is often an element of the marketing strategy.

There is potential for further assistance to institute effective manufacturing and marketing of oral rehydration salts, as has been done with A.I.D. assistance in Uganda, Ghana, and elsewhere.

The A.I.D. project Technologies for Primary Health Care (PRITECH; see Appendix A) is active in Africa and elsewhere, expanding the role of private sector manufacturers and providers in collaboration with governments, the United Nations Children's Fund, and other organizations. To achieve better control of diarrheal diseases, PRITECH has worked with major employers to help them spread the message that hand-washing and breast-feeding can prevent diarrhea, with ministries

⁶Gabriel Roth, *The Private Provision of Public Services in Developing Countries*, EDI Series in Economic Development (Oxford: World Bank, Oxford University Press, 1987).



PRIVATE PROVISION OF PUBLIC SERVICES: EXPERIENCE

and commercial firms to produce written materials for physicians and pharmacists, and with pharmaceutical, food, and consumer goods firms to increase production of oral rehydration salts and revise their marketing strategies. The purpose of the project and related efforts of other donors has been to stimulate, but not to finance, the commercial sector, to help gain approval and collaboration from ministries of health, and to provide assistance with technology, communications, and marketing.

A.I.D. missions can consider the following opportunities for supporting social marketing:

- Expanding social marketing in health products and health education beyond the work of SOMARC and PRITECH by including it in bilateral projects and
- Designing marketing campaigns for private firms that are ready to start manufacturing pharmaceuticals and other health products.

Nongovernmental Organizations

NGOs play an important role in health care in Africa. These private service delivery organizations are committed to improving the health status of the society and ensuring people's access to preventive and curative services. In rural areas, health services of NGOs are often more accessible than public services. NGOs may charge fees, but many operate from the objective of charity and are not motivated to cover all their costs because their income is supplemented from outside sources.

A.I.D. projects in the health sector have supported and worked through NGOs with some success. Pilot community health programs of NGOs have yielded important lessons, and national child care campaigns have benefited from their participation. As Lewis points out, however, the overall cost-effectiveness of their

operations has not been evaluated and measured.⁷

A.I.D. missions can consider the following opportunities for supporting NGOs in health care:

- Continuing to help NGOs develop their service delivery capacities and the management skills that will lead to greater cost-effectiveness,
- Stimulate and design realistic cost recovery schemes for NGOs, and
- Selectively (depending upon efficiency of operations) wean NGOs from dependence on government subsidies, seeking government approval of expanded functions.

FAMILY PLANNING

The private sector has been active in providing family-planning services through social marketing of contraceptives; commercial sales by pharmacists, private clinics, and physicians; NGO programs; and community-based distribution programs organized by governments or by NGOs. Nongovernment distribution systems and workplace clinics generally offer contraception through methods that require resupply of commodities. Clinical methods of contraception (for example, vasectomy, tubal ligation) are more usually offered by government facilities and by private physicians.

Experience

Recognizing that a purely public sector strategy will not be adequate to meet the rapidly expanding need for family planning services,

⁷Maureen A. Lewis, "Financing Health Care in Jamaica" (draft Project Report no. 3714-04, The Urban Institute, Washington, D.C., November 1988).



PRIVATE PROVISION OF PUBLIC SERVICES: EXPERIENCE

A.I.D. has been in the forefront in the effort to find new avenues for private sector delivery of family-planning information and services. Together with other donors, A.I.D. has supported the work of multinational and national philanthropic associations, providing contraceptives, surgical equipment, teaching aids, and training modules and helping expand the library collections, information campaigns, and counseling capacities of voluntary associations. Although donors traditionally have been willing to maintain their subsidies to NGOs working in family planning, they are now concerned about establishing sustainable programs. Experience has shown that if the top managers of an NGO are firmly committed to family planning and are willing to adopt management practices modeled on those used in business, a donor can help them achieve financial sustainability in family-planning service.

Beyond its work with NGOs, A.I.D. has helped trade unions mount family-planning education campaigns, spurred members of the association of midwives in Ghana to establish for-profit facilities through which to offer their services, and pioneered in the addition of family-planning services to the benefit programs of private firms. Donors and country governments now can transfer much of what has been learned about employer-based delivery to other purposes, such as maternal and child care and acquired immunodeficiency syndrome (AIDS) education.

The Technical Information for Private Provision of Services (TIPPS) project of the (now) Research and Development Bureau was influential in demonstrating to the management of an enterprise that they could save costs by adding family-planning services to other health services they offered directly through an in-house clinic, or financed as an employee benefit. Similarly, TIPPS personnel were able to

persuade insurance companies to include family planning among health benefits.

The Enterprise project was instrumental in testing the potential of the private sector to provide and pay for family-planning services and in evaluating various settings and strategies for establishing new service delivery programs. The project proved the feasibility of sustainable cost-effective private sector family-planning services, increased the volume of services actually provided by the private sector, and leveraged private sector investment in family planning. The project's dual approach encompassed expansion of services by employers and NGOs as well as establishment of new market-based enterprises (contraceptive manufacturers, physicians, traditional health providers).

The employers most likely to undertake new initiatives in family planning are commercial firms that already provide relatively generous nonwage benefits to employees and dependents, have large employee populations (more than 5,000), and enjoy good financial health. Other positive factors include isolation (in terms of distance from public health facilities) and the existence of an umbrella organization that can actually provide the services. Firms have found that in addition to the financial savings stemming from a healthier maternal and child community, the project had other benefits, such as improvement in employee relations, easier recruitment of scarce labor, and an improved corporate image in the community. A strong commitment by top management is an important factor for success.

The experiences of the Enterprise project and of SOMARC (Social Marketing for Change) in promoting commercially marketed family-planning services also provide some lessons. Sustainability is a direct function of the overall profitability of the market-based opera-



FAMILY PLANNING FOR PLANTATION EMPLOYEES

A project on Sri Lankan tea plantations has demonstrated that provision of high-quality family-planning services benefits the plantations and their employees, reducing costs and improving workers' welfare.

In recent years, increasing populations on Sri Lankan tea estates have had detrimental effects on land use, employment creation, and the quality of life of plantation families. In November 1987, the U.S. firm John Snow, Inc.'s Enterprise Program and the Janatha Estates Development Board, with the Sri Lankan NGO Population Services Lanka, launched the three-year first phase of the Family Planning Plantation Project on sixty Sri Lankan tea estates. The project focused on temporary family-planning methods and included the training of plantation staff in family-planning methods and counseling.

A Janatha Estates Development Board task force, with Enterprise Program

assistance, is now extending the project's initial success on 60 estates to 255 more. The second phase is projected to cover a population of about 405,000 and reach a potential 40,000 acceptors by 1996. Most funding has come from the board.

In June 1991, the Janatha Estates Development Board and the Enterprise Program cosponsored a seminar for government leaders, the plantation sector, private industry, and the donor community to disseminate lessons from the first phase of the project as well as the board's plans for phase 2. The Ministry of Plantations and Industry has expressed an interest in replicating the project throughout the nation's entire parastatal plantation sector.

Source: Enterprise Program, "Enterprise in Sri Lanka: Plantation Program Expands into Second Phase," *Family Planning Enterprise*, n.d., pp. 1-2.

tor. The most successful are those that can integrate their lower-profit family-planning services with other, more highly demanded health services. Increasing accessibility to clients by expanding the number of service points is often the key to attracting large numbers of acceptors. Economies of scale can be achieved by working through an umbrella organization representing a large number of market-based operators, or through prepaid service institutions with large numbers of beneficiaries. Nonprofit market-based operators tend to have easier access to free or cheap capital and also, often, to have been granted some tax relief.

Opportunities for Assistance

The Promoting Financial Investments and Transfers (PROFIT) project (see Appendix A) of the R&D Bureau, authorized in 1991, is intended to expand family-planning services in six to eight countries with large populations. Through concessional assistance financed by appropriated funds and through grants of blocked local currencies, PROFIT will promote commercial trade, production, and marketing and endow NGOs and other groups for advocacy and service delivery roles. The project will accommodate unlimited buy-ins.



PRIVATE PROVISION OF PUBLIC SERVICES: EXPERIENCE

The Options for Population Policy (OPTIONS) project of the R&D Bureau has been active to date in Latin America and the Caribbean as well as North Africa and Asia, but it is also available to missions in Africa. The project is designed to improve the public-private sector interface by increasing public sector awareness of the potential for a private sector role in serving the market of fee-paying family-planning clients, promoting reforms in laws and regulations, and working with the private sector to establish family planning operations. Project activities have included planning for social security agency involvement, analysis of the market for different contraceptives, planning for targeting of subsidies, and analysis of consumer willingness to pay for services.

A.I.D. missions can consider the following opportunities for supporting private family-planning services:

- Persuading governments to remove taxation and other disincentives to private family-planning providers;
- Helping governments face the fact that they may not be able to depend forever on donor-supplied contraceptives in the future, and helping manufacturers start producing contraceptives;
- Providing start-up assistance by supplying otherwise unavailable resources, such as technical training, equipment, and commodities;
- Analyzing costs and the market for products;
- For large private sector employers, demonstrating how the cost-benefit ratio will offer major returns on investment in services, and promoting the likelihood of that positive return with technical assistance and training and linkages with professional service providers;

- For smaller employers, demonstrating the feasibility of adding the benefit at small cost through umbrella programs or other service approaches;
- For NGOs, offering to investigate markets; helping NGOs to add or upgrade diagnostic services, establish or strengthen clinics, add upscale clinics to subsidize other operations, or establish themselves in market niches as service providers to employers; and
- On occasion, acting as a venture capitalist for initial funding.

EDUCATION

In most developing countries, the public sector has a near-monopoly on education, or at least is the predominant supplier and regulator. Facing the realization that these countries' public education systems cannot fulfill their mandate to provide universal education (a responsibility usually enacted or decreed for the primary level at least) or meet the aspirations and demands of expanding populations, educators and donor agencies have proposed steps toward privatization. Public education systems' problems range from inadequate numbers of school places and teaching staff to inefficiencies in the systems to failures in results. Many African governments are staggering under the weight of the costs of education, which can range from 25 to 40 percent of recurrent budget.

In Africa, most of the early formal educational institutions teaching secular subjects were introduced under the auspices of Christian missionaries. In Muslim areas, Islamic schools, teaching only or mainly the Koran,



were widespread. Gradually the colonial powers offered some public subsidy to existing schools, and when independent governments expanded their responsibility for education, they designated many institutions "government aided" schools within the national school systems. In most of these countries today, elite schools still serve minor portions of the populations.

Although the prevailing view that has guided these countries' educational policies has equated private education with elite schools that benefit only the socially and economically well-off, private education often exists because public schools cannot accommodate students. Today, further privatization to ease the burden on the public system looks attractive.

To address the problem of the strain on the public purse, some reformers advocate user fees in the public school system. Such a move may further privatize the financial burden that is already borne by parents of public school students, though it does not privatize the provision of service.

Other reformers advocate changes in regulations to permit the expansion of private education or the selective transfer of public schools to private hands. Privatization advocates who fall into this group tend to believe that such steps would simultaneously increase the options available to consumers, improve the cost-effectiveness of delivery, and render the supply and distribution of education more equitable.

Experience

Research and experience have shown that the people of developing country societies place a high value on education, as a means to socio-economic mobility and as an indicator of pres-

tige. Even poor families are willing to pay in order to give their children a chance for paid employment and upward mobility. Even in nominally free education systems, a significant percentage of a poor family's cash income is often spent on such educational items as school uniforms, books, and school maintenance campaigns.

In Kenya, it is customary for a community to identify a site, build a school, and hire a teacher or two on a *harambee* (self-help) basis. After a few years, when the community has proved its commitment of interest and resources, it can petition the government for incorporation of the school in the public system and provision of a principal and additional teachers.

In Haiti, where education is highly valued and the public system has failed to meet its goals, a vast private education sector has arisen. Religious organizations, communities, and individuals establish schools, usually on an extremely low budget. A few private schools serve the elite, but the majority serve mainly the rural and urban poor—and serve them minimally, with meager budgets, little or no supplies, and underqualified teachers. By offering a menu of assistance modules (such as teacher training, curriculum guidelines, and student record keeping) through an association of private schools (the Fondation Haïtienne de l'Éducation Privée [FONHEP; see Appendix A]), A.I.D. has helped Haiti's private parallel education system to upgrade itself. The Agency has initiated a similar effort in the Dominican Republic.

In rural areas in Africa, steps toward privatization of primary and secondary education may actually entail reversion to historic private education providers. The policy and regulatory issues will vary, but they should be amenable to analysis and remedy with donor assistance.



Opportunities for Assistance

Policy Actions

Government policy influences the supply of private education by regulation and by provision of subsidies.⁸ The R&D Bureau project Improving the Efficiency of Educational Systems is available for analysis of the conditions in a system that promote effectiveness and identification of needed policy corrections. Donors supporting education sector development may find it possible to promote private education as a component of a government action plan to expand education, as has been done in the Philippines.

A.I.D. missions can consider the following opportunities for supporting policy reform:

- Promoting removal of overly restrictive regulations on private schools that inhibit the efficient provision of education,
- Promoting measures to relieve private schools from duties and other taxes on educational materials,
- Helping private institutions become eligible for public grants to support school improvements, and
- Helping establish systems for regular assessment and accreditation of high-quality private schools.

Private Provision of Educational Services

The privatization of educational services can relieve some of the pressure on a government's limited fiscal and management capacities. For example, if a public school system runs relatively large institutions, a degree of privatization is possible by contracting for such services as catering for meals, hostel management,

grounds keeping, and building maintenance. Such a change would certainly relieve the administrative burden on the public system and permit a reduction in government personnel. It might also reduce the total costs of the services involved.

A more fruitful area for privatization is the publication and distribution of textbooks and other teaching materials. Private publication results in improved products that are developed to meet the demands of a market. Private sector publishing is frequently cheaper than government publishing, although the latter may appear cheaper because of hidden costs.⁹ Commercial publishers can be flexible and responsive to changing needs, are able to handle small pressruns for specialized markets, and are motivated to maintain low overhead and increase production efficiency. Private distribution, not surprisingly, is usually more timely and efficient.

A strong state presence in publishing inhibits the growth of private sector publishing. Before the government could use A.I.D.'s assistance to carry out the pilot project for the projected Privatization of Education and Support Service Project in Indonesia, the government had to change the law to eliminate its monopoly of educational materials production; the pilot project was then able to demonstrate that educational materials designed and produced by a private firm could succeed in the market. The firm reproduced the materials in three versions, at three cost levels; each level found a market.

Mexico is an example of a large country that has brought the private sector into textbook production. The government recognizes that extensive use of textbooks raises academic standards and increases the efficiency of school systems. In its education budget, it gives the

⁸Estelle James, "Private Finance and Management of Education in Developing Countries: Major Policy and Research Issues" (paper prepared for the International Institute of Educational Planning, June 1991).

⁹Joseph P. Farrell and Stephen P. Heyneman, *Textbooks in the Developing World: Economic and Educational Choices*, World Bank Economic Development Institute Seminar Series (Washington, D.C.: World Bank, 1989).



ADVANTAGES OF PRIVATE EDUCATION

Comparative studies of public and private secondary school achievements in Colombia, the Dominican Republic, the Philippines, Tanzania, and Thailand support the argument that private education not only is more responsive to the needs of students and their parents, but is also more efficient than public education. The researchers found that students in private schools generally surpassed those in public schools in achievements in mathematics and language. The data also indicated that the advantage provided by attendance at private schools persisted at all socioeconomic levels, though performance of some students of lower

socioeconomic status was not as high as that of students of higher status. Because ability to pay is an important factor in choice of school, the average private school student in developing countries comes from a more advantaged background than the average public school student, but the difference in family income between the two is not as great as in developed countries.

Source: Emmanuel Jimenez, Marlaine E. Lockheed, and Vicente Paqueo, "The Relative Efficiency of Private and Public Schools in Developing Countries," *The World Bank Research Observer* 6, no. 2 (July 1991): 205–18.

same priority to books as to teacher salaries and buildings. With government backing and support, the most dynamic private publishing industry in Latin America has developed in Mexico. Although production of primary school textbooks now has been centralized in a parastatal organization, the government continues to support private publishers through joint projects, licenses to import paper and equipment, and export subsidies to the book trade. In addition, the existence of a public library system that purchases books in large quantities, together with rapid growth in secondary and university enrollment, has provided expanding markets for Mexico's book industry.

The private sector has shown how it can surpass most public sector systems in its ability to manage a testing system, preparing test materials on time, using commercial transport for distribution, and maintaining confidentiality.¹⁰

In Tanzania, the Canadian International Development Agency has promoted publication of children's literature. By underwriting about 40 percent of a pressrun, the agency has offset the risk of publication. It has also helped to develop a marketing strategy.

A.I.D. missions can consider the following opportunities for supporting privatization of educational services:

- Promoting publication of textbooks and teaching materials for schools;
- Improving general education levels by promoting publication of children's literature;
- Persuading governments to eliminate public monopolies in the production of educational materials;
- Helping the private sector gain contracts to provide teacher training modules, video presentations, teachers' manuals, workbooks, and supplementary readers; and

¹⁰Joseph P. Farrell and Stephen P. Heyneman, *Textbooks in the Developing World: Economic and Educational Choices*, World Bank Economic Development Institute Seminar Series (Washington, D.C.: World Bank, 1989).



- Gaining permission for private sector preparation and distribution of testing instruments.

Community Support for Public and Private Schools

A.I.D. can promote community support for local educational institutions, particularly at the primary level. In Mali, a new project will promote a process through which the community can express its needs and influence what is happening in the classroom. In Namibia, where the education system is large enough to educate most children but produces few successful graduates each year, the education sector program supported by A.I.D. will attempt to involve local community residents in preparing children for schooling and clarifying objectives for local schools. A pending case study of the Bangladesh Rural Advancement Committee, which has founded an alternative primary school, may yield useful lessons.

A.I.D. missions can consider the following opportunities for encouraging community support for public and private schools:

- Promoting community support for local educational institutions, particularly at the primary level, where schools are geographically and socially closest to local residents and
- Finding ways to involve the local community in preparing children for schooling and clarifying schools' objectives.

Vocational and In-Service Training

Recent World Bank investments in public vocational education and training for industrial employment in low-income countries, especially in sub-Saharan Africa, have been less

successful than those in middle-income countries, and bank-supported institutions have been less viable.¹¹ The bank has been especially successful in creating national training systems in middle-income countries when it has emphasized nonformal modes and linkages with employers. The bank has found that its potential for linkages to the labor market, efficiency in delivery of training, and flexibility of response to the needs of employers is greatest when responsibility for training is separated from the government ministry.

The World Bank's experience demonstrates that training for employment should be driven by the demands of employers and employees. Willingness to pay for the training is the best affirmation of demand. In African countries, private training of employees is not well developed. Nevertheless, there are a surprising number of training businesses whose skills and productivity that A.I.D. and other donors could help to update and increase.

In Zimbabwe, where homegrown industrial skills are well developed, A.I.D. has found that there is sufficient demand for training at established private institutions, and for training and equipping of in-house trainers at corporate facilities to justify fee-paying programs. In these circumstances, A.I.D. assistance can provide a de facto subsidy to the private sector by helping to cover foreign exchange costs of training to local firms in an environment where currency regulations would otherwise have a limiting effect on training options.

Private enterprises need to devise realistic corporate training policies as bases for developing annual personnel training programs. Small firms—particularly, growing ones—may need to develop tailor-made in-house training rather than use externally developed or packaged solutions.¹² Larger firms that need to train

¹¹John Middleton and Terry Demsky, *Vocational Education and Training: A Review of World Bank Investment*, World Bank Discussion Paper 51 (Washington, D.C.: World Bank, 1989).

¹²Frederick W. Greig, *Enterprise Training in Developed and Developing Countries*, PHREE Background Paper Series, 89/21 (Washington, D.C.: Population and Human Resources Department, World Bank, September 1989).



their employees in simple and routine skills can make good use of general external training, but larger firms will find in-house training more effective when the skills involved are highly job or industry specific. In any case, professional trainers are needed, and A.I.D. can help.

A.I.D. missions can consider the following opportunities for supporting vocational and in-service training:

- Developing marketable training programs totally in the private sector (if a training entrepreneur rents space in a public vocational or other school, the program would also be contributing to the financing of the public education budget),
- Insisting on full cost recovery by training institutions, and
- Discouraging national public vocational training systems based on levies on industry (which generally get lost among general revenues).

AGRICULTURE AND NATURAL RESOURCES

Experience

Public sector extension services, input supply agencies, commodity boards, and credit organizations often perform poorly, have too many employees, absorb large government subsidies, and take up available supplies of credit. Some are also plagued by corruption and nepotism.

The same problems may occur in the private sector, but a competitive market usually provides a remedy. The private sector is generally motivated to move into production of

chemicals and machinery, extension and research, seed supply, and natural resource management, but it may require training, access to technology, help in organization and management, and some training.

In Africa, A.I.D. is deeply committed to reforming agricultural policy to promote private sector functions in place of governmental or parastatal functions. For the past decade, the Agency has been promoting such reforms as the following (see Appendix A for specific examples):

- Elimination of government monopolies and expanded roles for the private sector in grain marketing (in domestic trade, imports, exports, storage, and processing),
- Rationalization or elimination of price controls on agricultural inputs and products, and
- Privatization of import and distribution of inputs, such as fertilizer and seed (continuing work to identify and seek changes in policies that are disincentives to private investment will be necessary).

Opportunities for Assistance

Research and Extension

African governments have been slow to involve the private sector in national research programs. The vast potential for private participation in agricultural research—either in the research itself or in its transfer—thus remains largely untapped.

In commercial agriculture, large producers (often multinationals) and producer associations undertake their own research on adapting varieties and experimenting with various cultural practices. In outgrower (contract farming) schemes, the primary producer or processing firm extends the results of research to



PRIVATE PROVISION OF PUBLIC SERVICES: EXPERIENCE

farmers under contract, often providing inputs as well as advice and monitoring the farmers' compliance with instructions.

When agricultural producers' activities become technically more complex, they need such resources as fertilizers, seeds, insecticides, and storage. By providing information on the use of those resources, the sellers thus play an important role in information exchange, or extension, as part of their marketing strategy. NGOs involved in community or smallholder development, producer and marketing cooperatives, and farmers' associations also provide extension. In more advanced agricultural systems, private consultants provide such services on a fee basis. In some countries, for example, Zimbabwe, commercial farmers have joined together to support an agricultural research trust that disseminates results of research and field trials to the trust's supporting members.

Most farmers pay for advice when purchasing inputs or participating in membership organizations. Advanced commercial farmers are likely to be willing to pay for the goods and the information that comes with them, or even to hire a consultant. Noncommercial small-scale farmers may value information, but they have fewer resources to pay for it. All types of farmers tend to consider the extension personnel of private firms to be more credible and more accessible than government staff.

A.I.D. missions can consider the following opportunities for research and extension support:

- Identifying policies that discourage private sector organizations—such as input supply companies, processing firms, and marketing organizations—from providing information;
- Locating the elements of the private sector that require technical research before they can attempt to compete in international markets in sales of traditional or non-

traditional agricultural products, and finding ways to bring the private sector into collaboration with the public sector to conduct the research;

- Promoting the use of the Decision Support System for Agrotechnology Transfer (developed by the University of Hawaii under a cooperative agreement with the A.I.D.'s R&D Bureau) by U.S. and developing-country investors to evaluate crop management strategies and prospective sites for expanded cropping;
- Stimulating commodity-oriented farmers' associations, perhaps in collaboration with NGOs, to work with subsistence and smallholder farmers to improve production of a crop; stimulating successful producers to help farmers organize profitable association or cooperative ventures;
- Collaborating with governments to identify areas of redundancy with private sector extension, so that the public extension services can be concentrated where they are most needed; and
- Strengthening training programs, emphasizing the following:
 - Encouragement of graduating students to move directly to private sector, rather than to government, employment,
 - Development of curricula focused on areas of current interest to farmers and agribusiness, and
 - General training in diagnostic and farm management skills (to balance the specialized sources of advice that will be available from the private sector).

Outgrower Schemes

In outgrower schemes (also referred to as contract farming or satellite farming), growers under contract to private or public corporations



SELF-SUSTAINING COOPERATIVES

In Zimbabwe, by approving allocation of local currency generations to cover the in-country costs of a volunteer from Volunteers in Cooperative Assistance (VOCA) and the travel costs of participating farmer-mentors, A.I.D. was able to improve the financial viability of the input supply cooperatives of small farmers. The volunteer helped organize a program through which members of the Farmers Cooperative (an organization of large-scale commercial farmers) offered their time to help the newer cooperatives

organize their financial records, manage inventory, and establish controls to ensure that members were current in their payments.

In several instances, the adviser helped cooperatives establish retail outlets as adjuncts to their supply warehouses. The cooperative members thus had access to consumer goods at retail prices lower than those of commercial outlets, and the cooperatives had profit-making operations.

benefit from transfer of technology and access to markets at assured prices.¹³ Typically, the contracting corporation, often an affiliate of a multinational or a parastatal, is in food processing and has an assured market connection; to offset its relatively high fixed costs, the firm seeks to ensure a steady flow of produce to the plant by contracting with smallholders. The firm supplies the growers with inputs, machinery, credit, and technical instructions. Producer credit may come from the firm or from an outside source, but many firms prefer to leave the financing to intermediary associations, which can often obtain development bank credit at subsidized rates.

Factors detrimental to farmers in outgrowing schemes have included the manipulation of quality standards to reduce prices paid and progressively deeper indebtedness of smallholders. The distribution of benefits is more likely to be positive for outgrowers if they can organize as an association, cooperative, contractor, or some other bargaining unit. The

outgrowers' association can serve as a credit intermediary for the contracting firm and monitor management and quality controls.

A.I.D. missions can consider the following opportunities for supporting outgrower schemes:

- Helping local firms launch outgrower schemes by offering training in quality control, subsidizing initial costs of equipment and extension agents, or providing working capital for first-year credit and purchases (see the example from Kenya in Appendix A); local firms will also have a critical need for access to research and market information and
- Identifying barriers to market entry by local firms and seeking corrective measures.

Livestock Services

The provision of services to livestock producers is dominated by the public sector in most developing countries, whose governments see

¹³ George M. Flores, *Private Sector Satellite Farming Support Program: A Feasibility Study—Research Report* (Asian Institute of Management, 1986); David J. Glover, "Contract Farming and Smallholder Outgrower Schemes in Less-developed Countries," *World Development* 12, no. 11/12 (1984): 1143–57; Dorte von Bulow and Anne Sorensen, *Gender Dynamics in Contract Farming: Women's Role in Smallholder Tea Production in Kericho District, Kenya*, CDR Project Paper 88.1 (Copenhagen: Center for Development Research, September 1988).



A PARASTATAL EXAMPLE

The Commonwealth Development Corporation has helped finance parastatal schemes concentrating on traditional tropical cash crops in many English-speaking African countries. The technologies for these crops are relatively known and standardized; they generally require some form of processing shortly after harvest, and they are grown for export. The Kenya Tea Development Authority, a parastatal supported by the

Commonwealth Development Corporation, is a widely studied and reported success. It has received preferential treatment in the assignment of government extension agents and has organized local tea growers' committees and brought growers' representatives onto its board of directors. Elements of this experience with a parastatal should be transferrable to totally private operations.

the public good as being best served by state-sponsored programs of vaccination, vector control, and treatment of diseased livestock.

The private sector is significant in these countries mainly in the production and distribution of veterinary supplies (such as vaccines and semen). However, production of veterinary drugs tends to be dominated by a few multinational firms. Yet private veterinary practice and clinical care are potentially profitable and sustainable, especially if directed to the improved breeds that are more susceptible to disease, if the livestock population is relatively dense, and if the veterinarian can supplement income through the sale of drugs. Outreach to smaller farmers is possible through veterinary auxiliaries supervised by a veterinarian.

In much of Africa, where the government veterinarians who serve the majority of farmers are prohibited from private practice, the minority of large-scale commercial cattle and dairy farmers and vertically integrated poultry raisers are virtually the only users of private veterinarians. As government services deteriorate, however, and fail to keep up with demand, government veterinarians do in fact render services to farmers who offer transport

and payment in kind and in money. The inadequate government system thus suffers even more from their lack of dedication, and perhaps also from their diversion of government supplies.

A.I.D. missions can consider the following opportunities for livestock services support:

- Encouraging governments to do the following:
 - Remove barriers to private veterinary practice,
 - Eliminate restrictions on private importation of drugs and supplies,
 - Abolish subsidized and controlled prices for veterinary products, and
 - Ban monopoly dealing in inputs and
- Analyzing the demand for veterinary auxiliaries that could take responsibilities now carried by the public sector and, if the use of auxiliaries would be viable, establishing the required authorization for their training and employment.



Private Marketing Associations

Historically, in Africa, where commercial crops were grown almost exclusively for export and for the benefit of the colonial rulers, the private sector was excluded from agricultural marketing. Marketing boards created within the government or established by statute were accorded monopolies for the buying and selling of the major commercial agricultural crops. After independence, as governments continued the monopoly rights of the marketing boards, restriction of private sector marketing persisted. Thus, as governments begin structural adjustment programs and take steps to liberalize crop commodity marketing, the private sector must organize to purchase and market the commodities.

A.I.D. missions can consider the following opportunities for supporting private marketing associations:

- Analyzing marketing institutions, diagnosing marketing problems, and persuading governments to remove disincentives to private marketing (the A.I.D. R&D Bureau project Decentralization: Finance and Management is available for such work) and
- Providing technical and financial assistance to restructure provincial cooperative associations and farmers' unions so that they can perform new marketing functions and improve the quality of commodities.

Seed Supply Systems

Multiplication and marketing of seeds can be a beneficial and successful agricultural industry in private hands, though many governments have considered a national seed program a public responsibility. Even granting government a legitimate public role in plant breeding for research purposes, initial testing and certification, the private sector can play a significant role in multiplication and distribution.

The multiplication industry requires managerial competence, trained technicians, relatively small parcels of land, some working capital, and access to a pool of available temporary labor. Through extension, the industry can encourage farmers to adopt well-planned crop production campaigns that will stimulate demand for seed.

Foreign seed enterprises have been active in developing countries, supplying germ plasm, establishing subsidiary distribution networks, offering franchises and consultants, and sometimes making direct investments, in order to exploit local conditions for their overseas markets. The maize seed companies of Kenya and Zimbabwe are well known for their roles in ensuring supplies of hybrid seed and for their management capacities. They are also active in varietal development and testing.

A.I.D. missions can consider the following opportunities for supporting seed supply systems:

- Persuading governments to privatize seed production and marketing,
- Helping local seed companies gain access to technology to expand their operations, and
- Encouraging U.S. seed firms to expand their efforts to promote private production systems for local seeds.

Natural Resource Management

A.I.D. is actively promoting private sector management of natural resources. In Madagascar, the private and public sectors have gotten together to establish a national association for the management of protected areas and adjoining peripheral zones on a sustainable basis. In Niger, A.I.D. is seeking changes in policy to permit local associations and NGOs to operate under management plans. In Peru, local



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residents are in charge of an experiment in sustained commercial production of forest products under A.I.D.'s Tropical Forest Management project. In Southern Africa, where a program to devolve authority from central governments to local communities enables the communities to manage and make profits from wildlife, A.I.D. is providing resources to expand and evaluate the differing approaches of four countries. In the South Pacific, a new A.I.D. project will demonstrate working models of profitable commercial and community enterprises to enable the long-term conservation of biologically and economically vital ecosystems.

A.I.D. missions can consider the following opportunities for supporting private natural resource management:

- Identifying opportunities for decentralization of authority to rural administrations and

community control of rural areas (the decentralized authority should include control of the local natural resources and retention of revenues gained from responsible exploitation of those resources);

- Promoting private sector ventures to manage natural resources and the environment, such as environmental services in waste management and reuse of industrial chemicals, environmental assessment consultants, and scientific and technical experts;
- Encouraging policy support for environmentally responsible ventures, such as ecotourism, marketing of natural products, composting, and other uses of agricultural and forestry by-products; and
- Helping enterprises to adopt environmentally responsible approaches by providing environmental information, market analysis, and technical adaptations.



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Appendix A

ILLUSTRATIVE EXAMPLES SUGGESTING OPPORTUNITIES FOR A.I.D.

<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
HEALTH					
GLOBAL— Sustainable health financing	Broader basis for sustainable financing of health services	Dialogue with ministries of health and finance Analysis Assistance for expansion of private sector actions	National health delivery systems Users	Analysis of problems facing private practitioners Suggestions for reform of regulations Facilitation of market entry	Cultural and economic patterns vary; each approach must be country specific. The service deliverer must have incentives to do a good job. A government role to ensure equity may remain necessary.
BOLIVIA— Creation of an NGO for health delivery (PROSALUD): 511-0569	Development of a private entity to extend primary health care for low- and middle-income people on a self-financing basis	Network of community-sponsored health centers (rural health posts, rural health centers, urban health centers)	Staff of clinics, who earn bonuses for expanded delivery Users, who have gained access to services, and at less cost than from private practitioners	Personnel costs by ministry for rural clinics General subsidy for mayor's clinics Free use of buildings constructed or paid for by other entities	PROSALUD has an impressive record of constantly increasing levels of service provision and self-financing—91% by the sixth year. There has been cross-subsidization of preventive care by curative care, rural services by urban services, and newer clinics by older ones. PROSALUD has shown steady expansion in urban clinics. It offers consultation in health care management. Prices are below those of the for-profit sector.



<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
HEALTH (continued)					
PERU— Business analysis of employer-provided child health care— <i>and</i> ZIMBABWE— Analysis of insurance costs (Technical Information on Population for the Private Sector): 936-3035	Expansion of child care at company health facilities Addition of family planning to insurance coverage.	Assessment of child health in the community, and health utilization and costs of a preventive pediatric health program Comparison of costs and profits, with and without coverage of family planning	Company management, which can now make informed decision whether to change health care benefits Potentially, the family beneficiaries Subscribers to the insurance scheme	Cost of the analysis, nothing more	If preventive care for children is added, it will be entirely by private sector effort, with no subsidy. For the insurance company, analysis showed it would have to subsidize the family-planning services; it decided to do so.
GLOBAL— Blood transfusion services	Improvement in quality of services and consolidation to a single high-quality national service	Technology, training, analysis of costs, and equipment	A nonprofit private entity	Startup only (fees and sales must cover capital and recurrent costs)	There are advantages in having a single-agency blood donor program. In 20 countries, the national programs are entrusted to the Red Cross; only in Zimbabwe and Brazil are they entrusted to another NGO.
THE GAMBIA, THE PHILIPPINES, SENEGAL, THAILAND— Revolving drug funds (Technologies for Primary Health Care [PRITECH]): 936-5969	Government revenue Access for rural population Emulation of private sector marketing	Provision of appropriate essential drugs and information on their use at low cost	Users, who can purchase at more decentralized locations at less cost	Initial capital in the form of drug stocks (Philippines excepted), and subsidized replenishment—no operating subsidy Users usually pay flat fee	Capital is treated as seed money and rarely is paid back. If the market is not large enough to sustain private sellers, they can be organized on a community basis. Distributors must be adequately paid.



<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
HEALTH (continued)					
BENIN— Cost recovery for health services (PRICOR): 936-5920	Cost recovery Service to rural villages	Project management	Villagers otherwise not served by a health center People outside the project area (at higher fees)	Government pays salaries and electric- ity for the health center and the origi- nal supply of drugs Villages cover re- stocking, remunera- tion of community health workers, and maintenance of the center	The system is financed through drug sales; when revenue are in- sufficient, prices have been raised. Prices are kept below those of private vendors. Rev- enues permit focus on preven- tive care and health education.
THE PHILIPPINES— Health care financing: 492-0446	Improve the capac- ity of the Philippine government and pri- vate sector to oper- ate health insurance	Expertise on health care financing policy Private participation in medicare Seed capital for pri- vate financing	Insurance beneficia- ries Participants in public health programs	Technical expertise Training Seed capital	The private sector will establish a fiscal intermediary for the in- surance system. Expanded cor- porate enrollment will be promoted. Certification of health maintenance organi- zations will be established.
SUDAN— Evening clinics run by government employees	Expansion of ser- vices to low-income urban areas	Policy change to permit earning of extra income, and retention of that in- come to finance the clinics	Government physicians Users	Government facil- ities made available to practitioners with- out contribution to fixed costs Evening revenues may be used to up- grade buildings and equipment	Care is free at the same clinics in daytime, but physicians are not present. Extra income to physicians and other evening staff depends on the attraction of users. Users will pay to be seen by physicians. <i>Issue:</i> Are government resources diverted to private use?



<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
FAMILY PLANNING					
PAKISTAN— Wider distribution and use of oral rehydration salts (PRITECH): 936-5969	Increase in private sector manufacture and distribution	Promotion of com- mon public-private goals, market analy- sis, stimulus to pri- vate firms, and changes in regula- tion and pricing (all without diminishing competition)	General population (especially in rural areas) Sales and public im- age of manufacturers	Technical informa- tion, sales training, and market re- search, as well as re- bates on taxes on imports for packag- ing	The competitive environment was positive, involving a num- ber of firms with varying mar- keting strategies. A spinoff was a soap firm's decision to publi- cize the importance of personal hygiene. New firms are entering the market.
GHANA— Expansion of fam- ily-planning services by nurse midwives (Enterprise Pro- gram, ended 9/91)	Nonsubsidized prof- itable role for nurse midwives in family planning	American College of Nurse-Midwives: skills training in family planning and primary health care to members of local midwives' associa- tion Enterprise program: instruction in busi- ness skills and man- agement principles for private practice	Private nurses and midwives going into business 170,000 women pa- tients, many in areas without clinics	Initial provision of contraceptives, fol- lowed by provision at wholesale prices	Local association has developed into an internationally respected professional organization. The program motivated midwives to upgrade their skills in other health services. For long-term sustainable functioning, support from the Ghanaian government in the form of subsidized contra- ceptives would have to be phased out.



<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
FAMILY PLANNING (continued)					
KENYA, ZIMBABWE, OTHERS— Expansion of private sector family- planning services: 615-0223/0254, 613-0230	Addition of family planning to benefits provided by for- profit employers	Training and equip- ment for clinics (no construction) Help for ministry training and super- visory functions Contraceptive sup- ply (initial or con- tinuing)	Workers (conve- nient access, better health) For-profit firms or farms (healthier work force, less ex- penditure on health care) Unemployed and poorest of the popu- lation (as public ser- vice capacity is freed up)	Provision of equip- ment and training to private entities Contraceptives	Depending on the degree of in- volvement or supervision de- sired by the government, its capacity to fulfill its responsibil- ity can be an issue.
MEXICO— Expansion of private sector family- planning services (Enterprise Program)	High quality private sector family- planning services: replication of company-based programs, creation of community clin- ics, and promotion of contraceptive retailers	Financial and tech- nical support to em- ployers and NGOs in family planning Creation of PROTA, a self- sustaining business to procure and dis- tribute intrauterine devices (IUDs) to physicians and clinics	Employees of for- profit enterprises Economically mar- ginal populations (the incomes of more than 90% of clinic users are be- low the legal mini- mum salary)	Provision of the ini- tial supply of IUDs Technical assistance Establishment and equipment of new clinics and recruit- ment of staff (with minimum income guaranteed for 2 years)	Employers are convinced to par- ticipate partly because of potential savings from cost-effective family- planning programs, but also in re- sponse to social pressures. NGOs are strengthened to provide ser- vices to workplace programs, and to market their programs. Govern- ment subsidies for contraceptives limit the profitability of private sector family planning, but service can be sustained when it is of- fered as part of an integrated health care package.



<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
FAMILY PLANNING (continued)					
GLOBAL— Social Marketing for Change (SOMARC): 936-3051	Expansion in use of contraceptives made available through commercial outlets	Assistance in commercial market research, management, and communication	Families and women of child- bearing age (30–47% are new users), es- pecially those of low income (some 65–95%)	Systematic market analysis, dialogue with government, training, business organization, and design of marketing campaign	The most successful national programs are at the point where the commercial sector is financ- ing the contraceptives, and re- tailers can reduce the price to poor consumers without jeopar- dizing profits.
GLOBAL— Promoting Financial Investments and Transfers (PROFIT): 936-3056	Expanded family- planning services through financial le- veraging techniques	Debt swaps, nego- tiation for blocked currencies, etc., for manufacturing and distribution, employer-provided benefits programs, credit facilities for private service providers	Family-planning us- ers in countries of large population where financial leveraging appears possible and the business climate fa- vors private sector initiatives	Innovative financial schemes, training, and startup costs	Sustainability, in terms of com- mercial viability, will be a key factor in the selection of subprojects
GLOBAL— Private Sector Fam- ily Health Clinics (pending 1992 R&D project)	Access to essential health services for unserved or underserved resi- dents in peri- urban areas	Technical and fi- nancial assistance and policy dialogue in countries Operations research on approaches used Collection of infor- mation on private sector health services	Peri-urban residents in rapidly growing urban centers served by financially sus- tainable primary health care services	Start-up assistance: training, equipment, and marketing	A private sector management group to direct the activities of private sector providers. Data on objectives and operations of private practitioners, costs, and impacts will be gathered. Productive dialogue on public and private responsibilities in health service delivery will have begun.

<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
FAMILY PLANNING (continued)					
GLOBAL— Family Planning Management and Development	Upgrading of busi- ness skills of NGOs offering family planning	Training, organiza- tion, and analysis of costs and fee structure	Delivery organiza- tions, users, and families	One-time assistance, with follow-up	Continuing and expanding the role of NGOs may depend upon good business management.
EDUCATION					
INDONESIA— Diversification of sources of teacher training and instruc- tional materials (Pri- vatization of Edu- cational Support Services [PRESS]): 497-0370 (FY 1992)	Expanded in-service training supported by salary incentive More reading materi- al in the hands of people	Institution of incen- tives to seek train- ing in the private sector Assistance to local entrepreneurs: li- censing, training, fi- nancing (building on a successful pilot in one province); pric- ing of books at 3 levels; dialogue to persuade the Indo- nesian government to eliminate its mo- nopoly in produc- tion and distribution	Participating teach- ers and school- children Schoolchildren re- ceiving better in- structional materials Libraries better served by commer- cial sector Firms expanding their markets	Feasibility study and dialogue Technical assistance and materials to pro- ducing firm	PRESS is an R&D Bureau project under development.

<i>Sector— Need or Objective</i>	<i>Donor Objective</i>	<i>Intervention</i>	<i>Recipient or Beneficiary</i>	<i>Subsidy Involved</i>	<i>Comment</i>
EDUCATION (continued)					
BRAZIL— Job Training: Inter- national Bank for Reconstruction and Development Vocational Training Project	Training in industry commerce and farm sectors	Building and up- grading of training centers and mobile training units	Private sector em- ployers requiring skills Jobholders, rural residents, and farmers	Construction and equipment Payroll tax deduc- tion forgiven if train- ing is offered at the factory Instructor training	Performance of the decentralized private national service for indus- try (SENAI) was very good (some training at factory) and the more centralized service for com- merce was good, but the govern- ment-run service for rural training was poor.
ZIMBABWE— Foreign exchange for private training institutions (ZIMMAN II): 613-0229	Expansion of private postsecondary training	Teaching equip- ment, curriculum development, and overseas scholar- ships	Private training institutions Training programs of private employers Participants	Provision of foreign exchange (which is not otherwise avail- able) upon payment of local currency	Demand is evidenced by willing- ness of the private entity to pay all costs, though in local currency.
HAITI— Upgrade private education (69% of all students, 80% of primary students): Incentives to Im- prove Primary Edu- cation: 521-0190 Improving the Effi- ciency of Educa- tional Systems: 936-5823	Improved basic education	Grants to member schools through their association	Individual schools, but only under per- formance contract Primary students	Continuing grant support	The new association includes both Catholic and Protestant schools. A menu approach is used; each school selects pur- pose of its subgrant. (A similar program in the Do- minican Republic goes through an umbrella NGO with experi- ence in education credit and dis- tance education.)



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EDUCATION (continued)					
INDONESIA— Improve primary teacher training	New role for private universities in in- service training for teachers	Help prepare a cur- riculum in distance education to be of- fered by the open university (schools of education were not interested)	Subsidy to the open university of Indonesia Teachers are given the opportunity to attend, but must pay fees	Development and administration of the curriculum	The opportunity cost for a teacher is high, and it must even- tually be covered by better pay. The ultimate benefit is to pri- mary students.
AGRICULTURE AND NATURAL RESOURCES					
VARIOUS COUNTRIES— Privatization of in- put supply, market- ing, storage, etc.	Diminished govern- ment involvement in and restrictions on activities that are more efficient in the market-driven pri- vate sector	Policy dialogue Nonproject funding for the sector Analytical studies Technical expertise	Budgetary relief for government Improved availabil- ity and market prices for consumers	Financial transfer to government Possibly, organiza- tional development and initial financing for entrepreneurs	Thoughtful reports on experi- ence with agriculture sector as- sistance in Africa are available. One important lesson concerns the length of time and continuity of attention required for success.
VARIOUS— Contract farming schemes.	For the purchasing firm, a reliable source of quality product For the donor, ben- efit to smallholders through technology transfer and income	From the firm, orga- nization and super- vision, inputs, purchase contract From the donor, credit to growers (if not provided by the firm)	For the firm (often a multinational), profit For the growers, in- come, guaranteed market for product	Credit from special window, possibly at a preferential rate	Most common crops involved are traditional tropical export commodities. Transfer of tech- nology is not assured (growers may do not more than follow in- structions). The donor role has been more common when the firm is public or quasi-public.

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AGRICULTURE AND NATURAL RESOURCES (continued)					
GLOBAL— Analytical services: International Benchmark Sites Network for Agrotechnology Transfer: 936-4054 International Fertil- izer Development Center (IFDC): 936-0054 Agricultural Policy Analysis: 936-4084	Computerized Deci- sion Support System for Agrotechnology Transfer for crop models and expert systems to evaluate options IFDC for input and market analysis and training Policy Analysis Ma- trix for investors and agribusiness	Development and expansion of the models Training in the use of tools for predict- ing outcomes of al- ternative strategies and investments in agriculture	Private or public de- cision makers, farm- ers, and agribusiness	Development of models, validation under local condi- tions, training and backstopping	Especially appropriate for public decision makers and extension systems, input manufacturers, and larger commercial producers in the United States and overseas.
KENYA— Initial capital for a new contract farm- ing scheme	Private sector com- petition to parastatal processing and mar- keting of vegetable oils	Local-currency sup- port to an entrepre- neur offering contracts to grow sunflower seed	Farm families under contract to the en- terprise, who gain unprecedented cash income	Equipment for qual- ity control and grad- ing of the product and for record keep- ing and differential payments, depend- ing upon quality	Quality of extension is superior to public efforts. Success is demonstrated in raising incomes and obtaining high-quality pro- duce. However, entrepreneur's profit would be impossible if the Kenyan government prohibited sale of the processed product.
MOROCCO— Private Agriculture Extension: 608-0210	Dissemination and adoption of technology	Demonstration of profitability of new technologies and packaging Public-private on- farm demonstrations	Small and medium- sized farms in rain- fed demonstration area Service-oriented agribusiness firms	Technical assis- tance, training, credit through con- tracts with private sector demonstrators	Technologies are available for extension to rain-fed agriculture. Changes in policy on pricing of inputs will be necessary to pro- vide adequate incentives for agribusiness participation.



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AGRICULTURE AND NATURAL RESOURCES (continued)					
SRI LANKA— Privatization— Irrigation: 383-0113 (FY 1992)	Control of formerly public irrigation subsystems by farm- ers' associations	Assistance in forma- tion of water user associations Financial transfers to the Sri Lankan government as the roles and structures of agencies change	Farmers who use ir- rigation systems and other water users	Disbursement to the Sri Lankan govern- ment following policy change Some direct support to users' associations	Success will depend on legaliza- tion of users' associations and devolution of systems to them.
ZIMBABWE— Commodity-focused training center	Expansion of smallholder cotton production	Local currency to top up support from a commercial grow- ers' association and the parastatal mar- keting board to fi- nance targeted farmers' attendance at a training site	Farmers gaining in- come from high- quality cotton	Local-currency allo- cation to enable poor smallholders to obtain training	The program enabled expansion of acreage devoted to the cash crop and ensured high-quality product and an increase in smallholders' share of national production. Large farmers' asso- ciation motivated by political and production objectives.
SOUTHERN AFRICA REGIONAL— Natural Resource Management: 690-0251	Improved income and reduction in poaching through devolution of con- trol of and income from local resources to local communities	Technical leader- ship, equipment, and help in commu- nity organization and objectives	Local residents who improve incomes and can afford commu- nity projects The national wildlife estate	Expertise and equipment Organization of community interest and commitment Information gather- ing and dissemina- tion	Understanding and commitment at the local level and resolution of conflicts in objectives is es- sential. Revenues must remain at the local level.

