PD-ABI-441
88033

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: Original — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Africa Bureau

3. PROJECT NUMBER: 698-0344

4. BUREAU/OFFICE: AFR/ONI/PSD — ONI

5. PROJECT TITLE (maximum 40 characters): Private Sector Support Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 06 DD 30 YY 00

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
A. Initial FY 94 B. Quarter [ ] C. Final FY 99

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(6,500)	( )	(6,500)	(32,000)	( )	(32,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	6,500		6,500	32,000		32,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) DFA	790	840				6,500		32,000	
(2)									
(3)									
(4)									
TOTALS						6,500		32,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans, consistent with Development Fund for Africa's (DFA) strategic objectives.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 95 | MM YY | Final MM 09 YY 99

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[ ] 000 [X] 941 [X] Local [X] Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

BEST AVAILABLE COPY

17. APPROVED BY
Signature: Jo F. Hicks
Title: John F. Hicks, Assistant Administrator
Date Signed: MM 10 DD 01 YY 93

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OCT 1 1993

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/ONI, William G. Kaschak

SUBJECT: Project Authorization -- Private Sector Support Project (PSSP) 698-0544

I. PROBLEM:

Your approval is required to authorize funding in the amount of $32.0 million from the Development Fund for Africa (DFA) for the Private Sector Support Project (PSSP). The proposed funding level consists of an estimated $19.2 million in AFR/ONI core funding and $12.8 million of Mission funding. It is planned that DFA funding of $6.5 million will be obligated in FY 1994.

II. DISCUSSION:

A. Summary Project Description:

The goal of the project is to improve the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority. The purpose of the project is to strengthen the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans. This objective will be achieved by putting in place resources and a quick and flexible mechanism to provide initiatives in priority areas that strengthen entrepreneurial development and expansion of private opportunities in general, and strengthening of A.I.D. Mission private sector programs in particular. The project will have three major components: 1) Policy, Legal and Regulatory Reform; 2) Institutional Development; and 3) Financial Sector Development. In addition, the project will address the question of impact, both direct and indirect, of private sector interventions on economic growth and social development in Sub-Saharan Africa. The project will serve as a clearing house for liberalizing ideas and will provide a synergy between private investment and democracy, thereby helping to diffuse such liberalizing concepts, broaden the societal participatory base, and further participatory democracies.

Implementation of activities under the project will be similar to that of its predecessor APEF project. Programming will only be undertaken in African countries where a commitment to reform exists and if supported by the concerned Missions. Identification, planning, implementation and follow-up of initiatives will be facilitated by ONI/PSD staff, who have developed close contact with Mission managements, Africa Bureau country development officers, and appropriate individuals in other parts of the Africa Bureau and A.I.D., including PRE, R & D, and POL. PSD staff also meet and communicate frequently with staff of the TDP, IESC, World Bank/IFC, African Development Bank, commercial banks, and private companies to stay abreast of private sector activities being undertaken by other organizations.

In implementation of the PSSP, Missions will typically take the initiative for new activities by submitting proposals to PSD. They may request core funding for the desired technical services or, alternatively, finance a portion or all of such services through buy-ins or budgetary transfers, whereby a portion of the Mission's OYB is transferred to this regional project. In either case, priority is given to interventions that have positive multiplier effects. ONI/PSD may also initiate, in consultation with field Missions, new activities to demonstrate or test new techniques or ideas that could prove to have wider regional application or where a particular Mission lacks the knowledge or expertise to carry out and test the desired activity. Regardless of its source of initiation, no intervention under this project will be undertaken until it has been determined that: (1) the activity is unlikely to lead to relocation of U.S. enterprises or a reduction in the number of employees in such enterprises and it, therefore, can proceed in full compliance with Section 599 of P.L. 102-391, of the Fiscal Year 1993 Foreign Operations Act; and (2) that the activity will not violate internationally accepted worker rights.

ONI/PSD is responsible for overall project implementation, including management, selection of activities to be supported, reviewing documents, drafting reports, formulating programs, programming and budgeting. Implementation will be carried out by a combination of contracts with private sector firms, firms already under contract to other A.I.D. offices, agreements with other international donor groups and private voluntary organizations and, to a limited extent, other U.S. government agencies. ONI/PSD is also responsible for overseeing development and implementation of a monitoring and evaluation plan for the project by the contractors.

ONI/PSD currently has an agreement with the Department of Agriculture for three RSSA employees who are housed in A.I.D. space. As ONI/PSD will not fund additional RSSA positions under this project, there is no need to lease additional government-funded space for program-funded personnel.

A Project Advisory Committee chaired by ONI/PSD and composed of AFR/DP, AFR/ARTS, AFR/SA, AFR/CCWA, AFR/EA, AFR/SWA, GC/AFR, PRE and other interested bureaus has provided advice to PSD on the development of the PSSP. This Committee will continue to meet periodically upon call from ONI/PSD to review policy and progress under the project and approve future activities.

The funding level for the project is $32.0 million. Of this total, an estimated $19.2 million will come from the ONI regional budget. The balance of $12.8 million will be provided from Mission controlled funding. The PACD is June 30, 2000.

B. Summary Financial Plan ($000):

Project Elements	Costs
1. Technical assistance	$21,055
2. Grants (Financial insiitution & network develop)	5,475
3. Invitational travel, seminars & workshops	2,210
4. Other A.I.D. and USG Programs	2,381
5. Evaluation	500
6. Audit	544
Total	$32,165
Rounded to	$32,000

C. Review Committee Action

The Executive Committee for Project Review (ECPR), chaired by DAA/AFR Tim Bork, met on April 30, 1993 and approved the project subject to the revision of the project paper. The project paper has been subsequently revised according to the recommendations of the ECPR, and the ECPR Committee approved the revised document on June 18, 1993.

III. MAJOR ISSUES AND BUREAU DECISIONS

See Attachment A.

IV. INITIAL ENVIRONMENTAL EXAMINATION:

A categorical exclusion for this project was approved by the Bureau Environmental Officer on January 12, 1993.

V. JUSTIFICATION TO CONGRESS:

This project was included in the Agency's FY 1993 Congressional Presentation (page 412 of the Main Volume). No other notification is necessary.

VI. RECOMMENDATION:

The ECPR recommends approval of the project paper and the project and further recommends that you (1) sign the PP facesheet to approve the PP and (2) sign the attached project authorization to authorize the Private Sector Support Project at a level of $32.0 million in DFA funds.

Attachments:

A. Major Issues and Bureau Decisions
B. Project Authorization
C. PSSP Project Paper

Clearances:

A-DAA/AFR:TBork	[signature]	Date: [illegible]
GC/AFR:ESpriggs	[signature] for	Date: 8/30/93
AFR/DP:MBonner	DRAFT	Date: 7/1
AFR/ARTS:JWolgin	DRAFT	Date: 6/23
AFR/ONI:MUnger	DRAFT	Date: 6/22
AFR/SWA:JGilmore	DRAFT	Date: 6/29
AFR/EA:PGuedet	DRAFT	Date: 6/25
AFR/SA:KBrown	DRAFT	Date: 6/25
AFR/CCWA:MGolden	DRAFT	Date: 7/13
AFR/MRP:BRyner	DRAFT	Date: 7/22

ATTACHMENT A

MAJOR ISSUES AND BUREAU DECISIONS

The issues meeting for the PSSP PP was held on April 20, 1993. The ECPR took place on April 30, 1993 with the A-DAA/AFR presiding. In addition, the ONI Office Director circulated a redraft of the PP to Bureau senior management with a request for comments or clearance by June 18, 1993. The major issues raised in this review process and their resolution are described below:

A. In light of the possibility of new Congressional earmarks for DFA-funded projects (the private sector and agriculture are not included in the current earmarks for 70% of FY 94 DFA funds), should the Africa Bureau support such a large private sector project?

DISCUSSION:

Sustainable economic growth and increased social benefits in Africa will come chiefly from new investment and wealth generated by a vibrant private sector and active financial markets. This is particularly true given the leveling of multilateral and bilateral direct foreign assistance to the region. Many African nations have recognized this and are adjusting their policies to provide for a more effective enabling environment that permits the private sector to flourish and social wealth to accumulate.

In his April 22, 1993 statement before the Subcommittee for Africa, Committee on Foreign Affairs, U.S. House of Representatives, the Acting Assistant Administrator, Bureau for Africa, said,

> "Economic growth is paramount to achieving participatory, broad-based, sustainable, socio-economic development in Africa. The fundamental purpose of the Congress in establishing the Development Fund for Africa was to alleviate poverty through economic growth that is both sustainable and equitable.
>
> The pillars of economic growth in Africa, around which A.I.D. has built much of its assistance strategy, are agriculture and the private sector....private sector expansion helps provide badly needed off-farm employment, and it broadens the tax base so that better health, family planning and education services can be made available to more people. Increased agricultural productivity and private sector growth are both necessary conditions to broad-based and sustainable socio-economic development."

The Acting Assistant Administrator went on to say, "Sustainable economic growth is only possible with a vibrant private sector--one which creates jobs and wealth....private sector expansion also contributes to the provision of social services; it generates critically needed government revenue so that health and education services can be upgraded and expanded, while increases in income enable governments to initiate cost recovery programs so that these services can be sustained."

Section 601 of the Foreign Assistance Act of 1961 (as amended) contains the most detailed statement of U.S. 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."

In its 1993 Congressional Presentation, A.I.D. listed as the first of three areas of concentration "support (of) economic and political reforms that will generate employment, promote broad-based, sustainable and environmentally sound economic practices, and encourage political freedom and good governance." At the heart of this effort must be the development of a dynamic private sector, encouraging entrepreneurial growth and new wealth, incomes and jobs, and participating in debates over policy reform and the role of government. The private sector is critical to success in two of the Africa Bureau's DFA "Action Plan" four objectives: (1) to help Africans improve the management of their economies and provide public services equitably and efficiently, and (2) to foster strong competitive markets that provide incentives for production and trade and ensure that market reforms bring benefits to the vast majority of producers and consumers. Improved management of economies means movement to free and open economies, a liberalized market and increased opportunities for private business. Increased private businesses means more jobs and incomes and a larger tax base permitting government to provide increased social benefits to those in greatest need. More efficient public services can come from an increased role of the private sector in areas traditionally the purview of government -- in health, education, agriculture, and infrastructure development.

There is a continued and growing interest in Missions to work with the private sector. A review of recent Mission CPSPs clearly demonstrates Mission commitments to expanding their private sector programs taking into account the fundamental changes in the awareness and commitment of African governments to private sector-driven development. Even more recently, following their review of the Bureau approved PID, both REDSOs and several Missions reiterated their overwhelming support for a follow-on project to build on activities initiated under the APEF.

This project will provide resources to work with field Missions to address problems, to create an environment encouraging new investment, to strengthen the private sector's technical and managerial skills and to widen the opportunity for private sector participation on policy formulation and implementation. It will complement and strengthen programs of field Missions, especially in countries where there is movement toward liberalization of the economy, but not yet a strong bilateral private sector program, to help build bases for outward-oriented, private sector-led economic growth. In addition, it will support new, pilot activities aimed at stimulating private sector growth which, if successful, will later be assumed by field Missions.

Finally, the project provides resources additional and complementary to those available through bilateral projects or through other A.I.D. Bureaus such as Private Enterprise (PRE) and Research and Development (R&D). The experience under the Africa Private Enterprise Fund has demonstrated that there is need for resources which complement PRE and R&D activities. There are instances when PRE and R&D projects are unable to respond to Africa Bureau field Missions due to management, financial, policy or contractual constraints. The availability of the APEF has meant that Missions were able to obtain services they required on a timely basis when PRE and R&D could not be responsive. In addition, APEF funds were used as buy-ins to PRE and R&D in activity areas such as privatization and strategy development, facilitating use of these resources by Africa Bureau field Missions. These buy-ins leveraged PRE funds for the Bureau, bringing in well over $1 million beyond Africa Bureau resources in support of Africa Bureau private sector initiatives.

B: Is the project consistent with the mandates of the DFA? Specifically does this project address the needs of the poor majority?

DISCUSSION:

Chapter 10 - Development Fund for Africa, Section 496(c), paragraphs (1) and (2) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, of 1991 (as amended), sets forth the purpose of the DFA as follows: (1) Purpose. - The purpose of assistance under this section shall be to help the poor majority of men and women in Sub-Saharan Africa to participate in a process of long-term development through economic growth that is equitable, participatory, environmentally sustainable, and self-reliant, and (2) Use of Assistance to Encourage Private Sector Development. - Assistance under this section should, in a manner consistent with paragraph (1), be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector.

The December, 1992 GAO report to the Chairman, Committee on Foreign Affairs, House of Representatives entitled "Foreign Assistance - AID's Private-Sector Assistance Program at a Crossroads" points out, at the bottom of page 15, that, "The Development Fund for Africa was designed to provide missions in that region with greater flexibility by eliminating functional accounts. This flexibility permits African missions to concentrate on private-sector support when circumstances warrant. For example, AID/Cameroon developed a highly focused program wherein about 63 percent of Mission obligations in 1990 and 1991 served directly to facilitate development of private marketing mechanisms in the agricultural sector." The GAO report goes on to conclude that although, "Critics of AID's increased focus on the private sector question the impact of this approach on the poorer elements of developing country populations.....our review indicates that AID private-sector development assistance does benefit poorer people directly and indirectly."

The goal of the project is defined in terms of improving the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority and the purpose in terms of strengthening the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans. Both direct and indirect means to create income generating opportunities for the poor, particularly in rural areas, will be financed. It is a given that increased private sector business opportunities will lead to additional investment, resulting in increased job opportunities, greater income levels and higher social development. Also, a higher tax base should develop at both the business and personal levels thus permitting governments themselves to provide higher levels of social services.

The project will provide assistance to activities in key pilot sectors, such as the ATI edible oils project involving at least 6,000 Africans, the production and marketing of sesame in Gambia that will affect thousands of small producers and individuals engaged in processing the sesame (mostly women), the introduction of new fishing techniques employing 200 Gambians, and assistance to a local joint venture in jojoba production which involves hundreds of outgrowers in raising and marketing a dry land agricultural crop that will ultimately involve larger numbers of Kenyan growers with potential for replication elsewhere in Africa.

In choosing activities, criteria will be used to ensure that those activities with the greatest potential for positive development impact are selected. The criteria used will be flexible and will be a function of various factors such as size of the sector and its overall importance to the economy; the number of individuals, especially poor individuals expected to benefit by the intervention; the developmental effect of African entrepreneurs; the demonstration effect a pilot project could have; or the policy benefits that could be expected from the activity's success. An activity selected will clearly meet one or more of these criteria. The ATI edible oils project, for example, as noted above, is expected to benefit thousands of small, economically disadvantaged producers and individuals by means of an innovative and appropriate technological improvement.

The provision of technical and financial support to A.I.D. Missions and to African implementing organizations in the design of Small and Micro-Enterprise (SME) development programs, as well as the expansion and upgrading of existing programs has also had an important impact on the African poor. For example, financial and technical support for the development of black-led community-based micro-enterprise support institutions are expected to provide credit and training to between 20,000 and 30,000 South African entrepreneurs. Technical assistance for credit delivery and monitoring to the Kenya Rural Enterprise Program and its 12 affiliated Kenyan NGO's has matured into a Kenyan-managed program which provides credit and advisory services to over 8,000 small and micro-entrepreneurs and is already responsible for the creation of 25,000 jobs. A.I.D.'s South African SME program currently reaches over 12,000 borrowers in the informal sector. Under the existing APEF, assistance has been given to establishing venture capital companies in Kenya, Ghana, Tanzania and Zimbabwe. Kenya Equities alone has invested the equivalent of $3.8 million in six projects and has eight new venture funds under management. These provide employment opportunities to hundreds of Africans.

It is commonly recognized that for Africa to achieve broadly-based and sustainable economic growth, leading to improved living conditions for the population, development needs to be led by the private sector. That is, a healthy, growing, private sector led economy benefits all segments of the population. In dialogue with African countries there is no longer a question of whether growth should be market driven and based on the emergence of a strong and diverse private sector. The issue has now become how to create competitive markets that will bring incentives to producers and through greater efficiencies in processing and distribution, reduce prices for consumers.

C: Considering the possibility of a reduction of Africa Bureau funds, should the project continue to provide both institutional and technical assistance to venture capital firms or should the activities be more focussed? Can some mechanism be established to recoup some of the funds directly invested in venture capital firms, i.e. a trust fund.

DISCUSSION:

Assistance to venture capital firms is but one of a number of financial sector development mechanisms promoted under the project aimed at mobilizing indigenous financial resources for productive private enterprise. We anticipate that less than 15 percent of the funding available for the financial sector will be devoted to venture capital activities.

The lack of a well functioning financial system, including banking institutions, capital markets, formal and informal rural credit and savings organizations, business and professional organizations, and specialized financial institutions is a key obstacle to the development of the private sector in Sub-Saharan Africa. The need for debt and equity financing for small and medium sized enterprises is widely recognized. Existing commercial banks as a matter of practice do not provide more than limited short-term trade finance or working capital loans. Earlier development finance institutions and banks were not well managed and generally made poor loan and investment decisions. The result is insufficient capital to finance the start-up and growing small and medium sized enterprises.

Because of the reduction in official development assistance and the reductions in commercial bank lending to developing countries, many countries have turned to the market and to new financial institutions and instruments to mobilize savings and to allocate credit to priority sectors of the economy. The formation of equity markets and venture capital investment companies are two examples of this financial innovation and efforts to support the development of such financial initiatives in Sub-Saharan Africa are beginning to show encouraging success.

Extraordinary attention and emphasis, however, was placed on venture capital interventions in early drafts of the Project Paper, partly resulting from the level of attention focused on the issue of venture capital in Project Committee meetings. Therefore, although assistance to promote venture capital companies, and thereby leveraging A.I.D. financial resources, remains as a possible private enterprise promotional tool under the project, the Financial and Institutional Development sections of the Project Paper have been rewritten to place venture capital within its proper context. Also, although A.I.D. grant funds will only be targeted at supporting a portion of the start-up operating costs for the establishment venture capital management companies (the selected venture capital company is responsible for raising investment funds), measures to recoup A.I.D. funds invested in successful venture capital companies will be structured on a case by case basis.

D. Should this effort be continued as a primarily regional effort or should significant portions of the activity be shifted to bilateral Missions? Is the budget level too high? Should there be a different portion of core vs. Mission-controlled funding?

DISCUSSION:

Selection criteria for activities to be funded under the project have been developed and are included in the PP. Although selection, for the most part, will be Mission demand-driven, priority will be given to activities with regional and/or cross-cutting benefits. The budget level has been reduced from the $48 million proposed in the PID to $32 million. Mission participation through "buy-ins" and OYB transfers, etc. has, however, been maintained at 40% of total project funding (a doubling of the participation rate in the APEF predecessor project reflecting increased Mission and host country interest in private sector development).

E. Can project impact be addressed solely by Missions? Should there be more core effort on impact assessment? Can indicators be developed to measure not only project success but the impact of private sector activities on country regional economic and social development?

Discussion:

Assessment of overall project impact will be carried out at both the Mission and Bureau levels. Missions will be expected to evaluate bilateral activities to measure impact on reaching their Country Program Strategy Plan goals (CPSPs) while the Bureau will address regional concerns. Indicators to provide systematic evidence of economic and social benefit deriving from institution building and Mission support activities under the project have been developed and are included in the PP.

F. Can the project design be more tightly focused while at the same time more clearly describe the relationship between private sector institutional development and the development of civil society?

DISCUSSION:

In accord with the sense of the ECPR, the project design has been revised and focused more tightly to address the key cross-cutting constraints to broad-based sustainable market-led economic growth in Africa. By cross-cutting we mean the critical underlying factors that are inhibiting economic development and that apply to all countries and more than one sector or program area. These constraints are: 1) deficient enabling policy and regulatory environments; 2) institutional inadequacies; 3) inadequate financial sectors; and 4) a cultural world view which inhibits entrepreneuerism (e.g. risk-taking). This project will attack these impediments and, in so doing, will address a critical problem (viz. the absence of a vibrant private sector) to African development. It is important to note that the development of private sector institutions, as set forth in the PP, entails a very real and very important civil dimension. To wit, professional associations, private foundations and other interest groups provide vehicles through which the citizenry at large can express a voice over matters of economic consequence. It is an important way of broadening the societal participatory base and is central to the argument of a positive feedback dynamic between the development of private investment and the furtherance of participatory democracies.

PROJECT AUTHORIZATION

Name of Country/Entity:	Africa Regional
Name of Project:	Private Sector Support Project (PSSP)
Number of Project:	698-0544

1. Pursuant to Section 496 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Support Project for the Africa Region involving planned obligations not to exceed Thirty-two Million U.S. Dollars ($32,000,000) in grant funds over a seven-year period from date of initial authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The level of funding includes an estimated $19.2 million of core funds in AFR/ONI funding and $12.8 million of Mission funding. The Project Assistance Completion Date is June 30, 2000.

2. The project will improve the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority by strengthening the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans. This objective will be achieved by putting in place resources and a quick and flexible mechanism to provide initiatives in priority areas that strengthen entrepreneurial development and expansion of private opportunities in general, and strengthening of A.I.D. Mission private sector programs in particular. The project will have three major components: 1) Policy, Legal and Regulatory Reform; 2) Institutional Development; and 3) Financial Sector Development. In addition, the project will address the question of impact, both direct and indirect, of private sector interventions on economic growth and social development in Sub-Saharan Africa. The project will serve as a clearing house for liberalizing ideas and will provide a synergy between private investment and democracy, thereby helping to diffuse such liberalizing concepts, broaden the societal participatory base, and further participatory democracies.

3. The Project Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major

conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

Source and Origin of Commodities, Nationality of Services. The nationality for suppliers of services and commodities, including ocean transportation services, and the source and origin of commodities financed under the project shall be as set forth in the Africa Bureau Instructions on Implementing Special Procurement Policy Rules Governing the Development Fund for Africa (DFA) dated April 4, 1988 ("DFA Guidance"), as may be amended from time to time, except as A.I.D. may otherwise agree in writing.

John F. Hicks
Acting Assistant Administrator
Bureau for Africa

Date: 10/1/93

Clearances:

A-DAA/AFR:TBork		Date: 7/30/93
GC/AFR:ESpriggs		Date: 7/30/93
AFR/DP:MBonner	DRAFT	Date: 7/1/93
AFR/ARTS:JWolgin	DRAFT	Date: 6/25/93
AFR/ONI:WKaschak	for	Date: 8/20/93

PRIVATE SECTOR SUPPORT PROJECT
(698-0544)

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ANNEXES

PRIVATE SECTOR SUPPORT PROJECT
(698-0544)

PROBLEM: It is commonly recognized that if Africa is to achieve sustainable economic growth, it will need a strong, vibrant private sector that will provide employment opportunities and improved social well being for a majority of its citizens. A strong civil society requires an active private sector giving voice to its members. However, Sub-Saharan Africa, as a region, has not fully taken advantage of its opportunities or fully realized the potential of its resources. In most countries the private sector has been held in low esteem. There are few successful local private entrepreneurs. Accusations of speculation and unfair trading practices by business persons, including non-African entrepreneurs, have further provoked governments to monopolize and "indigenize" markets. In sum, Africa's private sector is not responsive to the economic and social needs of its peoples and is inhibiting economic progress.

I. BACKGROUND:

A. The Private Sector in Africa

Africa needs an active private sector if it is to ignite and sustain growth to mobilize resources, transfer technology, create wealth, provide jobs and deliver services. Only with the development of a significant number of new employment opportunities can the development needs of Africa be met in the medium- to long-term. As citizens of the continent are gainfully employed in a productive capacity, they can then assure adequate shelter and nourishment for their families, obtain required preventative and curative health care, and afford to permit their children to receive basic education. As these needs are met, the physical quality of life in African nations will improve and the countries of the region will profit from an expansion of the middle class, with prospects of upward mobility becoming more tangible. Furthermore, the improvements in quality of life and standard of living that will be fostered by a vibrant private sector will contribute directly to the emergence of political environments that promote active participation of the citizenry in the conduct of social activity.

It is clear that governments alone lack the financial resources and technical and management expertise to produce the required growth or provide services necessary to meet the needs of Africa's burgeoning population. The experiments of government-based growth in Africa and elsewhere in the world over the past several decades have shown less than satisfactory results. Furthermore, to emphasize the point, Africa needs a strong and articulate private sector as part of its civil society as a basis for expansion of

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democratic and participatory governance. A vibrant private sector can be both a source for management and capital necessary for growth and a voice to advise government on policy issues.

A major thrust of donor programming in Africa, in the recent past, has been macroeconomic and sectoral structural reform, and many countries have committed themselves, and are moving rapidly to implement far-reaching, market-oriented economic policy reform programs.

Recent results, while mixed for the continent as a whole, do demonstrate more than isolated progress and suggest cautious optimism. Countries with structural adjustment programs have shown higher rates of economic growth than elsewhere in Sub-Saharan Africa. Botswana, Lesotho, Ghana, Gambia and Uganda experienced GDP growth rates well above population growth between 1988 and 1990, and the 22 countries designated by A.I.D. with growth objectives had growth rates for the period averaging 3.9 percent, nearly double their rates at the beginning of the decade.

Such gains, while encouraging, are fragile. They are threatened by growing population rates and political pressures. They cannot be sustained by donor aid or donor conditionality alone. The World Bank estimates that a modest one percent growth rate per year during the 1990s will require a four percent annual increase in foreign aid, a percentage that appears unlikely given new demands for foreign aid from Eastern Europe and the Independent States of the former Soviet Union. Many African countries now have a debt-to-GNP ratio larger than those in Latin America, and their debt burden continues to grow with new aid loans.

New private investment,in significant amounts, has yet to materialize despite improvements in macroeconomic policy, foreign exchange, and internal fiscal and monetary policy reforms. It takes time to build the confidence of local and foreign investors. The World Bank estimates that African citizens hold about $40 billion in assets outside Africa. Nevertheless, progress in changing direction of this capital flow is becoming evident and that is the critical point.

In many cases, sound market based macroeconomic policy frameworks have either been or are in the process of being adopted, It is now time to intensify efforts to put the policy regimes into full implementation. Conditions must be created to mobilize local resources, and to encourage foreign investors to take chances in Africa, based on clear messages from African governments that there will be a positive investment climate. The capital outlay required to stimulate significant growth in Africa cannot be supplied by donors and host governments alone. The private sector must intensify its participation in the process. At this time when scarce global capital is looking for sound returns on investment, Africa must compete strongly with other parts of the world if the

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investment necessary to stimulate needed growth is to be attracted. The competition will be fierce but there is a window of opportunity for Africa to attract foreign investment capital over the next decade which may close as these other societies put in place the necessary structure to attract investment.

B. Constraints to Development of the African Private Sector

Project design related research has identified four key cross-cutting constraints to achieving broad-based sustainable market-led economic growth in Africa. By cross-cutting we mean the critical underlying factors that are inhibiting economic development and that apply to all countries and more than one sector or program area. These constraints are: 1) deficient enabling policy and regulatory environments; 2) institutional inadequacies; 3) inadequate financial sectors; and 4) a cultural world view which inhibits entrepreneuerism (e.g. risk-taking). This project will attack these impediments and, in so doing, will address a critical problem (viz. the absence of a vibrant private sector) to African development.

1. Enabling Environment -

The ability to conduct business depends on a transparent, predictable environment where entrepreneurs can assess the risk and profitability of ventures. Even as African countries implement a macroeconomic framework conducive to business development, there remain significant obstacles in the legal, regulatory and judicial milieu which impede a private sector response to macroeconomic changes. Costs of doing business, both in terms of taxes, fees and other payments, as well as in terms of time to carry out a transaction must be rational, transparent and nondiscriminatory.

Throughout Africa, the legal and regulatory framework related to private investment requires, with few exceptions, serious alteration. Although legal and regulatory codes have been revised and adopted by several African countries, including Zambia, Ghana, Malawi, the Gambia, and Guinea, the implementation of these measures has lagged considerably. Onerous requirements, fees, and authorization procedures lead to costly delays, especially for marketing agricultural products. Commercial activity and productive investment are hampered by: the lack of clear procedures to establish private businesses; the non-existence of land titles and lack of property ownership legislation and registration procedures; and the lack of a functioning judicial system and therefore the lack of clear guidelines on contractual obligations. Additionally, Africa lacks public procurement, commercial, and labor codes necessary for ensuring that competition is fostered and access to resources is fair and unbiased.

The decision to redefine and reorient the role of the state and

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simultaneously enhance the role of the private sector in the conduct of their economies has proven extremely difficult to implement in most African countries. A primary example of this is the difficulty in privatizing or liquidating key state-owned enterprises where governments have often failed to prevail over special interest groups who stand to lose from public enterprise restructuring.

2. Institutional Constraints -

The gap between the apparent success in economic reform and the lack of new investment comes, in part, because policy reforms do not perforce translate into significant changes in actual procedures and processes. Reforms may be opposed by bureaucrats who slow their implementation, and lack of enthusiasm for assistance to the private sector is traditional from government officials and from the public at large who see private companies as dominated by foreign -- or minority -- interests or engaged in exploiting national resources.

Most countries lack the institutional infrastructure that business needs. Lack of clarity on property rights, contract law, procurement procedures and the fair judicial process combine with political uncertainty to discourage investors.

Frequently, the indigenous private sector is weak. For decades, Africa's private sector has been overshadowed by African governments and parastatal companies which have monopolized business opportunities. Those companies which have survived such domination have often done so with collusion of government and protectionist regulations. Many have been owned or operated by foreign businessmen or local minorities. Africans have concentrated on traditional areas of entrepreneurship. Moreover, concerned about state harassment they (African entrepreneurs) have opted for a relatively low profile -- choosing to eschew growth and to seek the anonymity of the informal sector. The informal sector may be vibrant and growing but it offers little opportunity to broaden technical or managerial expertise. The sector continues to grow, free from regulations, but also apart from a formal, tax-paying sector involved in public policy and civic development.

In Africa, people must daily confront ineffectual structures and procedures to enlist support for their initiatives. To actually achieve results, they must rely on their own network of personal relations, because of a lack of private sector institutions to facilitate productive investment, such as a chamber of commerce or a formal business association that could possibly give them leverage to effect positive change. Producer, manufacturer and exporter associations, cooperatives, and banking institutions serving the private sector are either totally absent or incompetent and weak and commercial activity and productive investment are hampered by their rudimentary capabilities. Public sector institutions are often too large and cumbersome and need to be made more relevant to the private sector. They are plagued by their own institutional constraints (e.g. poor management capacity, need for technical training and assistance, overly centralized and inefficient government administration, and insufficiently transparent financial accounting systems) which affect economic growth objectives.

Various levels of gifts are often required to assure a favorable outcome from such personal relations. Pervasive corruption causes a general lack of confidence in institutions and has led to the misallocation of public resources; it has also raised the transaction costs of doing business in Africa to the extent that many foreign and domestic investors are reluctant to invest in Africa.

3. Financial Sector Constraints -

The lack of a well functioning financial system, including banking institutions, capital markets and specialized financial institutions is a key obstacle to the development of the private sector in sub-Saharan Africa. In general, the financial sector's contribution to economic development has lagged. The current banking system limits itself to short-term self-liquidating loans, and financing imports of food and consumer goods. Financing is generally not available to manufacturing or other productive enterprises because only a few of these are or have been profitable. For the vast number of savers in Africa, there is no formal institution which will accept their savings because of high administrative costs associated with small savings. Interest rate policies must be strengthened. Competition in the savings market needs to be stimulated and distortions removed in lending markets. Banks' failure to mobilize savings is often due to the lack of profitable lending opportunities. A high proportion of non-performing loans in existing portfolios restricts banks from lending except for short-term trade credit with low expected levels of risk. This is exacerbated by the very restricted range of acceptable banking collateral available, which itself is a result of the failure of land tenure systems to ensure transferability of land rights.

The need for debt and equity financing for small and medium sized enterprises is widely recognized. Existing commercial banks as a matter of practice do not provide more than limited short-term trade finance or working capital loans. Earlier development finance institutions and banks were not well managed and generally made poor loan and investment decisions. The result is insufficient capital to finance the start-up and growth of small and medium sized enterprises. In addition to the general lack of long-term finance for new businesses, there is a lack of adequate debt and

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equity instruments, a lack of solvent institutions and a lack of clearing and settlement mechanisms to serve the private sector. Therefore, many countries have turned to the market and to new financial institutions and instruments to mobilize savings and to allocate credit to priority sectors of the economy. The formation of equity markets and venture capital investment companies are two examples of this financial innovation. Efforts to support the development of such financial innovation in sub-Saharan Africa are beginning to show encouraging success.

4. Cultural Constraints -

The principal cultural constraint to private sector led development in Sub-Saharan Africa is a world view which mitigates against risk-taking and entrepreneurship. The legacy of socialism, with which most African states experimented for two generations after independence, has left a residue of antipathy and mistrust between private entrepreneurs and public officials. In those instances, and there were many, in which the experiments took a malevolent turn and became despotic, the private sector was persecuted and risk-taking was discouraged. A second cultural constraint centered around the persistence of a hierarchy of loyalties. Typically, allegiance is given first to the family, and afterwards in descending order to the village, ethnic or religious group, and finally to the nation state. This hierarchy determines bureaucratic processes and decision-making. Furthermore, it does so in a way that is antithetical to the efficiency and objectivity required for sound judgements and investment.

II. PROJECT DESCRIPTION

A. Project Goal -

The goal of the project is to improve the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority. Sustainable economic growth and increased social benefits in Africa can come only from new investment and from wealth generated by African entrepreneurs. Foreign aid and investment from abroad cannot make up the shortfall in capital from which Africa suffers.

Moreover, it is increasingly clear that African governments cannot provide the public services required by a rapidly growing population. Increasingly, if services in areas like education, agriculture and health are to continue to expand, they will have to come from the private sector.

Finally, the process of establishing reforms necessary to attract new investment requires the active participation of the private sector in policy formulation and implementation. The private sector can play an active role both in developing the policies required for growth and holding government accountable for their successful implementation.

B. Project Purpose -

The purpose of the project is to strengthen the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans, consistent with the DFA strategic objectives. This will be accomplished by putting in place resources and a quick and flexible mechanism to provide technical assistance and start-up funding for private sector initiatives in priority areas that strengthen entrepreneurial development and expansion of private opportunities in general, and strengthening of A.I.D. Mission private sector programs in particular. It is clear from the 1991 evaluation of the Africa Private Enterprise Project (APEF), the Missions' annual Assessments of Program Impact, and responses to November, 1992 and March, 1993 cables soliciting interest in a new private sector project, that most Missions are committed to increasing the private sector element of their programming and that they consider Bureau support for their efforts important. (Further details of Missions' response are found in Section V. of this paper).

At the same time, given declining resources and pressures on both Mission and AID/W management, it is necessary to focus on priority areas. The project's principal activities will augment Mission capacities to deliver technical assistance to improve the enabling environment, to increase institutional capacity in business and professional organizations and in organizations working with the informal sector, and to further the development of the financial sector.

One of the project's major contributions is to establish a flexible mechanism by which the Missions can get access quickly to resources in priority areas. Missions lack staff and may not know the full range of resources available for private sector-related activities. They may also lack initial start-up funds to test possibilities or do preliminary analysis. This project is designed to provide quick response to Mission needs. Through established contracts and buy-ins, the project will be able to provide resources on a task-order request basis. Turn-around time in procurement can be reduced to less than a week. The major constraint will not be processing of paper, but in matching appropriate personnel against specific needs.

Once the ideas and approaches have been tested through the PSSP, it will be incumbent on the Missions to fund follow-on activities as part of their ongoing programs.

C. Project Components -

The project will have three major components: 1) Policy, Legal and

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Regulatory Reform; 2) Institutional Development; and 3) Financial Sector Development. In addition, the project will address the question of impact, both direct and indirect, of private sector interventions on economic growth and social development in Sub-Saharan Africa. Missions have expressed interest in help to set benchmarks, develop and establish indicators, and to put in place systems of monitoring and evaluation. The PSSP will provide assistance to Missions to quantify more accurately the impact of private sector assistance at the people level.

Development of indicators and dissemination of the results of these evaluations in a format which both provides lessons learned for the Bureau and identifies the next generation of needed interventions will be a major output of this initiative. The project will build up a body of information, by sector, about what assistance to the private sector is effective and which approaches have failed to have their desired impact.

1. Policy, Legal and Regulatory Reform:

As noted in Section I.B., both the macroeconomic and sectoral policy environment is a key constraint to sustainable economic growth across the continent. Without proper economic frameworks, improved standards of living and enhanced qualities of life will be beyond the grasp of most Africans. A growth oriented enabling environment is a prerequisite and is a key ingredient to fueling sustained equitable development in Sub-Saharan Africa, improving the lot of the region's inhabitants and reducing its dependence on outside assistance. Accordingly, the PSSP will assist in addressing this constraint through the provision of technical assistance and other inputs to aid the governments of participating countries to set policy agendas and, in cases where they already exist, to develop plans for the efficient implementation of their principle tenets. These efforts represent a vital and effective use of resources to spur free capital investment and flow of goods in the continent. Investment reform lays the basis for a long-term process that informs African leaders what capital requires to invest in their nations, to create jobs and lay the basis for growth.

In particular, this initiative will support efforts to improve the enabling environment required to foster entrepreneurial activity. It will enable Missions to strengthen their input to host country policy reform programs, to develop new programs aimed at regulatory and legal reform, and, above all, the implementation of reform measures once adopted. While the specified agenda will vary from country to country, it is certain that the menu will include exchange rate policy, fiscal policy, interest rate and savings mobilization policies, and privatization as well as their respective implementing regulations. At the end of the project, a number of A.I.D. Missions will have identified specific policy, legal or regulatory constraints on business and will have programs or projects underway addressing them. Consultancies and studies in areas such as commercial, contracts and property law, accounting and judicial process, investment codes, trade and tariff regimes, tax and commercial codes, streamlining of bureaucratic requirements, property registration and tenure rights will have been completed. Missions will have launched initiatives actively involving local businesses and business organizations in identifying, addressing and overcoming key constraints on private entrepreneurs. As part of the project's assistance to monitoring and evaluation, this project will provide assistance to Missions to report on resultant changes in specific policy, legal and regulatory constraints affecting private development.

Regional initiatives will become more important under the PSSP than under its predecessor APEF as the reforms and democratization which are taking hold across Africa are providing an opportunity for regional approaches which did not exist in the past. Work will be carried forward on the harmonization of laws and regulations affecting the private sector and development of structures to facilitate cross border trade and investment. The PSSP will work with organizations such as the Club du Sahel and World Bank as well as with other donors in their efforts to establish and implement efficient regional private development approaches. Under the PSSP work will continue to bring together private sector actors, both entrepreneurs and individuals from supporting entities in the not-for-profit universe as well as involve those government officials responsible for policies and regulations affecting private sector development.

2. Institutional Development:

Section II.B., "Constraints", also highlighted the fact that institutional weaknesses are a serious impediment to private sector growth in Africa. By extension, this constraint puts a serious break on all developmental progress in the continent. Support, under the PSSP, for the development of business associations and networks, through regional and sectoral meetings, TA and organizational reenforcement, is another important role in building private sector infrastructure. In an effective African business environment, a broad band of associations, representing competing sectors and interest groups, would address obstacles to private sector development by representing the interests of its membership to government and other industries with regard to the substance of policy and the process of regulation, providing members with information on policy, regulatory and market environments, facilitating access to credit, supplying technical assistance and training and establishing industry standards. After initial APEF efforts, Missions in Cameroon, Kenya, Ghana, Guinea, Swaziland, Tanzania and Uganda are working with business associations and groupings to strengthen their ability to participate in policy dialogue through studies, publications and the promotion of fora where such exchange can occur.

a. Bilateral:

Institutional development will focus specifically at business and professional associations, chambers of commerce, and organizations working with small formal and informal business development and regional organizations with an aim to build responsible corporate citizens. Such networks will enable African businessmen to share information among themselves and among countries, benefit through demonstration of successful ideas and activities, and to mobilize and marshall forces to bring pressure on governments to effect policy reforms. In so doing, the project will be making a direct contribution to the enhancement of civil societies throughout the Sub-Saharan region. The establishment and maturation of associatioal groups will provide for participation in processes which affect the society at large.

To this end, the project will complete studies, conduct workshops and seminars, carry-out consultancies in each of these areas, and Missions will have incorporated the result of these activities into their programs. The project will have increased the capacity -- in terms of services provided to members -- of business and professional associations in at least ten countries. Five programs encouraging regional networks -- including a business network in West Africa, one in East Africa and another in the southern part of the continent, a network to develop and transfer appropriate technology, a network focusing on women's issues in business, and a network for small business training -- will have been developed and will be operating on a sustainable basis.

b. Regional:

The first business network which AFR/ONI assisted was the African Business Roundtable (ABR), an organization established with the support of the African Development Bank. The Roundtable is composed of businessmen and women from countries throughout the African continent who meet regularly to exchange ideas on improving inter-regional trade and alleviating constraints to private sector development. In December, 1990, at the first official annual general meeting of the ABR held in Lagos, Nigeria, Roundtable members held a series of meetings with Nigerian government officials, including General Ibrahim Babangida, the President of Nigeria. The Nigerian officials were sensitized to the need to establish new incentives to attract foreign investment. Shortly thereafter a new and improved investment code was issued and a regional export processing zone was established

In the case of the West African Network for Implementing Policy Change (composed of business associations from seven West African nations), AFR/ONI supports technical assistance in implementing policy change to a business association in each country, and funds a conference in which association members exchange ideas on policy

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change. It also supports a newsletter to foster communication among members. No administrative support is provided to the individual associations which are funded entirely by members. For associations to become self-sustaining, we believe that the members must shoulder the major share of operational costs. Most of the technical assistance provided is directed toward assisting association members identify and prioritize specific constraints to private sector growth, including government rules and regulations, and assisting the development of a plan to lobby for alleviating the constraints.

The Network Conference provides the opportunity for the members of the various associations to come together to exchange ideas on how to best implement policy change, to meet other Africans and discuss concrete examples of how this change has occurred in African countries similar to their own. We believe the lessons learned have a more immediate applicability and a tried and tested weight than the same lesson conveyed by an American or European consultant. Further, the conference provides an opportunity for the businessmen to discuss regional trade opportunities and specific deals. The opportunity to do business is a strong incentive to attend the conference, participate in the associations and strengthens the chances that the network will continue to grow and develop.

The PSSP project will continue to expand the network idea as an important tool in implementing policy change. International donors may reiterate the need and importance of improving economic policies and the enabling environment for business to flourish. But, only the Africans themselves can effect the changes needed. We propose that through empowering a variety of business associations to identify their needs and dialogue with their governments to improve the policies affecting the growth of their businesses, the enabling environment can be improved. Associations such as the African Business Roundtable, a group of top business leaders from countries throughout Africa established by the African Development Bank, is an example of the type of association which can influence the enabling environment for private sector growth and facilitate inter-regional trade. We are attempting to stimulate the formation of an East African Network to increase inter-regional trade which would also serve as a mechanism to implement policy change.

Support for the development of business associations and networks, through regional and sectoral meetings, TA and organizational support, is an important role in building private sector infrastructure as well as building support for private sector activities in African nations. In addition, the regional networking activities have contributed to the awakening interest across the Sub-Sahara in pluralistic participatory political systems. They have served as a clearing house for liberalizing ideas. By extension, they have provided synergy between private investment and democracy thereby helping to diffuse such liberalizing concepts. Under this project, the regional networking gains made under the initial APEF will be broadened and deepened, particularly those initiatives related to the strengthening of regional markets.

It is important to note that the development of private sector institutions entails a very real and very important civil dimension. To wit, professional associations, private foundations and other interest groups provide vehicles through which the citizenry at large can express a voice over matters of economic importance. It is yet another and important way of broadening the societal participatory base. While this point has been made before, it is so central to the argument of a positive feedback dynamic between the development of private investment and the furtherance of participatory democracies that it merits repetition.

3. Financial Sector Development -

A well functioning financial system is essential to the efficient operations of a market economy. Clearly, deficiencies in systems of financial intermediation are a significant constraint to private sector growth, as well as overall development in Sub-Saharan countries. Private enterprises competing in a market economy are the best generators of economic growth and hence the most effective way to provide basic human needs to individuals and families. A diversified and well functioning financial sector, which can efficiently and effectively mobilize capital, is essential for the financing of small and medium enterprises in Sub-Saharan Africa. To that end technical assistance will be provided under the project to:

- improve regulatory policies to strengthen banking and non-banking financial institutions;

- improve institutional infrastructure, such as pension funds, insurance and leasing companies, and venture capital funds in order to mobilize capital and facilitate the development of the private sector;

- create and introduce new financial mechanisms and instruments, such as equity securities, bonds, and money market instruments;

- develop rural and informal financial institutions and policies to help meet the financial needs of farmers, agribusinesses and disadvantaged rural families; and

- train public and private sector officials in essential managerial and technical skills.

In small business, the project will work with a multi-country association of small savings and loan organizations to increase the availability of credit to small business. One of the major constraints to increasing small business growth is the lack of financial institutions that are willing to provide small loans, the kind that most small businesses require. Yet, there are a number of savings and loan associations and group lending credit organizations that are successfully providing small loans to an increasing number of clients. If these success stories could be replicated throughout Sub-Saharan Africa, credit to small businesses would be increased significantly. Working through the newly formed "Best Practices" association, we will identify, train and up-grade existing small credit providers in the techniques and practices that the most successful credit organizations have identified as the basis for their success. A "Best Practices" handbook compiling the lessons learned from the most successful African credit unions has been produced. We must emphasize that these are lessons of African experience compiled by Africans. We will use the African executives of the successful credit unions to teach these "Best Practices" and to up-grade the second level credit organizations. Once these organizations are up-graded they would be linked to the "Best Practices Association". We will also use the association to implement policy change, similar to the West African Network mentioned above. Policies constraining small business growth will be identified and the association will be assisted in developing a plan to lobby their respective governments to alleviate the constraints identified.

Services will also be provided to the financial sector aimed at fostering the development of venture capital investment among institutions, professionals, and the general public toward the goal of mobilizing indigenous financial resources for productive private enterprise.

D. INPUTS:

1. Technical Assistance:

Much of the work of the project will be done through short- and long-term technical assistance contracts funded by core funds under the project or through Mission controlled funding (buy-ins, OYB transfers, etc.). In order to leverage the project's limited resources, technical assistance will also be supplied through participation in other A,I.D. projects in R&D, PRE, FHA/PVC, etc. In select cases, participating agreements or memoranda of understanding with other U.S. government agencies or other donors may be entered into when such agencies or donors can bring particular skills to bear that are unavailable from other resources. In all cases, selection will be closely monitored by AFR/ONI staff to ensure efficient use of financial resources and full compliance with the project's goals and objectives and, where project inputs in excess of $100,000 are anticipated, approval of the Project Advisory Committee will be obtained prior to taking any action committing A.I.D. financial resources.

The principle mechanism for provision of technical assistance will be through a contract or contracts with an 8-a firm or firms for private sector development, including the formulation of indicators and benchmarks for private sector activities, enabling environment reform, private provision of social services, trade and investment services, export promotion, business association development, and small enterprise development, and for services in financial sector development, including banking sector reform and development, non-banking financial development including credit and savings, venture capital, capital markets development, privatization, and the legal/policy reforms required for financial sector development. In providing these services, the technical assistance contractor will identify, study and review informal financial mechanisms to signal systems, subsystems and mechanisms which can be adapted to provide equity finance at the micro, small and medium enterprise levels.

2. Grants:

Funds may be made available on a grant basis for institutional capacity building in small- and medium-sized enterprise development or for business associations. They will be administered through contracts with private consulting firms or cooperative and participating agreements with other U.S. Government agencies or international donors, which includes technical assistance. Such grants will be limited to administrative and start-up costs and participating organizations will be expected to provide a portion of their costs from their own resources. Grant funds may also be targeted at supporting a portion of the start-up operating costs for the establishment of financial intermediary organizations aimed at mobilizing indigenous financial resources for productive private enterprise, such as rural credit and savings institutions, equity markets, and venture capital companies. In the case of venture capital management companies, while A.I.D. funds may be used to finance administrative and start-up costs, the selected venture capital company will be responsible for raising investment funds from other than A.I.D. resources. Measures to recoup A.I.D. funds invested in successful venture capital companies will be structured on a case by case basis.

3. Training:

The above contracts or grants firms will include provision for invitational travel and per diem, to facilitate contacts between entrepreneurs in Africa and to expose business and government planners working on business development to new approaches to entrepreneurship promotion. These "in-service" training encounters will also endorse the critical role that responsible corporate citizenship can play in contributing to a polity's economic and social development.

4. Commodities:

Limited commodity assistance, such as office equipment, computer and printing equipment,and reference materials, to support business associations and organizations in Africa promoting business development, and to support private sector advisors may be financed through the technical assistance contracts.

E. COST ESTIMATE AND FINANCIAL PLAN:

A key assumption of the project is that it is the Private Sector Support Project's role to act as facilitator and stimulator of private sector activities in Africa, not as a fund to supplement operating year budgets of underfunded Missions. Therefore, the project contains provision for Mission controlled funding and assumes that over the life of the project Missions will provide approximately 40% of the total anticipated project funding of $32 million. It is also assumed that the project will cover initial costs of activities supporting the private sector which, once tested, may be continued with full funding by individual Missions that incorporate the activities into their long-term programs.

In line with recent experience with the APEF project, the average budget per year could exceed $6 million, to be disbursed as follows (illustratively):

PSSP (698-0544) BUDGET BY PROJECT COMPONENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	TOTALS
ENABLING ENVIRONMENT							
Technical Assistance	995,301	1,045,066	1,097,319	1,152,185	1,209,794		5,499,665
Commodities	20,500	19,560	20,621	21,652	22,735		105,068
Invitational Travel (Conferences/Workshops)	120,000	126,000	132,300	138,915	145,861		663,076
ACTIVITY SUBTOTAL	1,135,801	1,190,626	1,250,240	1,312,752	1,378,390		6,267,809
INSTITUTIONAL DEVELOPMENT/ GOVERNANCE							
Technical Assistance	995,301	1,045,066	1,097,319	1,152,185	1,209,794		5,499,665
Commodities	20,500	19,560	20,620	21,651	22,734		105,065
Invitational Travel (Conferences/Workshops)	120,000	126,000	132,300	138,915	145,861		663,076
ACTIVITY SUBTOTAL	1,135,801	1,190,626	1,250,239	1,312,751	1,378,389		6,267,806
FINANCIAL SERVICES							
Technical Assistance	1,327,068	1,393,421	1,463,092	1,536,247	1,613,059		7,332,887
Commodities	27,000	26,080	27,494	28,869	30,312		139,755
Invitational Travel	160,000	168,000	176,400	185,220	194,481		884,101
Grants	1,150,000	1,150,000	1,150,000	1,100,000	925,000		5,475,000
ACTIVITY SUBTOTAL	2,664,068	2,737,501	2,816,986	2,850,336	2,762,852		13,831,743
TOTAL ACTIVITY SUBTOTAL	4,935,670	5,118,753	5,317,465	5,475,839	5,519,631		26,367,358
FEE @9%	444,210	460,688	478,572	492,826	496,767		2,373,063
TECHNICAL ASSISTANCE TOTALS	5,379,880	5,579,441	5,796,037	5,968,665	6,016,398		28,740,421
Other AID and USG Programs	350,000	367,500	385,875	405,169	425,427	446,698	2,380,669
EVALUATION	0	0	250,000	0	0	250,000	500,000
AUDIT	80,000	84,000	88,200	92,610	97,241	102,103	544,154
PROJECT TOTAL	5,809,880	6,030,941	6,520,112	6,466,444	6,539,066	798,801	32,165,244
ROUNDED TO:							32,000,000

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PSSP (698-0544) BUDGET BY FUNCTION

			YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	TOTALS
TA Contract									
Professional Staff	5	65,000	325,000	341,250	358,313	376,229	395,040		1,795,832
Support Staff	7	35,000	245,000	257,250	270,113	283,619	297,800		1,353,782
Fringe (27%)			153,900	161,595	169,675	178,159	187,067		850,396
Subtotal			723,900	760,095	798,101	838,007	879,907		4,000,010
G&A (@80%)			579,120	608,076	638,480	670,404	703,924		3,200,008
Total Direct			1,303,020	1,368,171	1,436,581	1,508,411	1,583,831		7,200,018
Consultants (PM/YR)	130	5,500	715,000	750,750	788,288	827,702	869,087		3,950,827
Travel (trips/yr)	187	4,200	785,400	824,670	865,904	909,199	954,659		4,339,832
Per Diem (14 days/trip)	2618	125	327,250	343,613	360,794	378,834	397,776		1,808,267
Phone/Fax Communications			54,000	56,700	59,535	62,512	65,638		298,385
Equipment			14,000	8,500	9,200	9,660	10,143		51,503
Other Direct Costs (per trip)	187	1,000	187,000	196,350	206,168	216,476	227,300		1,033,294
Subtotals:			3,385,670	3,548,754	3,726,470	3,912,794	4,108,434		18,682,126
Invitational Travel									
Travel/Per diem/Insurance			400,000	420,000	441,000	463,050	486,203		2,210,253
Financial									
Institutional Development			1,150,000	1,150,000	1,150,000	1,100,000	925,000		5,475,000
TA SUBTOTALS			4,935,670	5,118,754	5,317,470	5,475,844	5,519,637		26,367,375
FEE (@9%)			444,210	460,688	478,572	492,826	496,767		2,373,063
Totals:			5,379,880	5,579,442	5,796,042	5,968,670	6,016,404		28,740,438
Other AID and USG Programs			350,000	367,500	385,875	405,169	425,427	446,698	2,380,669
EVALUATION			0	0	250,000	0	0	250,000	500,000
AUDIT			80,000	84,000	88,200	92,610	97,241	102,103	544,154
TOTALS:			5,809,880	6,030,942	6,520,117	6,466,449	6,539,072	798,801	32,165,261
ROUNDED TO:									32,000,000

The project will offer short and long-term technical assistance, funds to support field missions in their efforts to enhance the private investment enabling environment in participating countries, business and professional associations or organizations servicing the private sector, support for financial intermediaries, and limited commodity support and training. Funds will be provided under the Development Fund for Africa. An estimate of the breakdown of the proposed budget is provided in the following table:

Budget Summary
($000)

Project Elements	Costs
1. Technical assistance	$21,055
2. Grants (Financial institution & network develop)	5,475
3. Invitational travel, seminars & workshops	2,210
4. Other AID and USG Programs	2,381
5. Evaluation	500
6. Audit	544
Total	$32,165
Rounded to	$32,000

Methods of Financing

1. Technical Assistance	
8-a firm(s)	contract
Cooperative/Participating Agency Agreements	grant
2. Financial Institution/Network Support	grant
3. Commodities	contract
4. Training, Seminars, Workshops	contract

F. Conformity with Congressional, Agency and Bureau Priorities

In his April 22, 1993 statement before the Subcommittee for Africa, Committee on Foreign Affairs, U.S. House of Representatives, the Acting Assistant Administrator, Bureau for Africa, said, " Economic growth is paramount to achieving participatory, broad-based, sustainable, socio-economic development in Africa. The fundamental purpose of the Congress in establishing the Development Fund for Africa was to alleviate poverty through economic growth that is both sustainable and equitable.

The pillars of economic growth in Africa, around which A.I.D. has built much of its assistance strategy, are agriculture and the private sector....Private sector expansion helps provide badly needed off-farm employment, and it broadens the tax base so that better health, family planning and education services can be made available to more people. Increased agricultural productivity and private sector growth are both necessary conditions to broad-based and sustainable socio-economic development."

He went on to say, " Sustainable economic growth is only possible with a vibrant private sector--one which creates jobs and wealth....Private sector expansion also contributes to the provision of social services; it generates critically needed government revenue so that health and education services can be upgraded and expanded, while increases in income enable governments to initiate cost recovery programs so that these services can be sustained."

Section 601 of the Foreign Assistance Act of 1961 (as amended) contains probably the most detailed statement of U.S. 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."

In its 1993 Congressional Presentation, A.I.D. listed as the first of three areas of concentration "support (of) economic and political reforms that will generate employment, promote broad-based, sustainable and environmentally sound economic practices, and encourage political freedom and good governance." At the heart of this effort must be the development of a dynamic private sector, encouraging entrepreneurial growth and new wealth, incomes and jobs, and participating in debates over policy reform and the role of government. The private sector is critical to success in two of the Africa Bureau's DFA "Action Plan" four objectives: (1) to help Africans improve the management of their economies and provide public services equitably and efficiently and (2) to foster strong competitive markets that provide incentives for production and trade and ensure that market reforms bring benefits to the vast majority of producers and consumers. Improved management of economies means movement to free and open economies, a liberalized market and increased opportunities for private business. Increased private businesses means more jobs and incomes and a larger tax base permitting government to provide increased social benefits to those in greatest need. More efficient public services can come from an increased role of the private sector in areas traditionally the purview of government -- in health, education, agriculture, and infrastructure development.

Chapter 10 - Development Fund for Africa, Section 496(c), paragraphs (1) and (2) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, of 1991 (as amended), sets forth the purpose of the DFA as follows: (1) Purpose. - The purpose of assistance under this section shall be to help the poor majority of men and women in sub-Saharan Africa to participate in a process of long-term development through economic growth that is equitable, participatory, environmentally sustainable, and self-reliant, and (2) Use of Assistance to Encourage Private Sector Development. - Assistance under this section should, in a manner consistent with paragraph (1), be used to promote sustained economic growth, <u>encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector.</u>

The December, 1992 GAO report to the Chairman, Committee on Foreign Affairs, House of Representatives entitled "Foreign Assistance - AID's Private-Sector Assistance Program at a Crossroads" points out, at the bottom of page 15, that, "The Development Fund for Africa was designed to provide missions in that region with greater flexibility by eliminating functional accounts. This flexibility permits African missions to concentrate on private-sector support when circumstances warrant. For example, AID/Cameroon developed a highly focused program wherein about 63 percent of Mission obligations in 1990 and 1991 served directly to facilitate development of private marketing mechanisms in the agricultural sector."

The GAO report goes on to conclude that although, "Critics of AID's increased focus on the private sector question the impact of this approach on the poorer elements of developing country populations.....our review indicates that AID private sector development assistance does benefit poorer people directly and indirectly". This project too has been designed to benefit the poor majority of men and women, both directly and indirectly.

The goal and purpose of the project are defined in terms of improving the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority and strengthening the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans. Both direct and indirect means to create income generating opportunities for the poor, particularly in rural areas, will be financed. It is a given that increased private sector business opportunities will lead to additional investment, resulting in increased job opportunities, greater income levels and higher social development. Also, a higher tax base should develop at both the business and personal levels thus permitting governments themselves to provide higher levels of social services.

The Project Paper also gives examples of transactional assistance provided under the predecessor APEF project, such as the ATI edible oils project involving at least 6,000 Africans, the production and marketing of sesame in Gambia that will affect thousands of small producers and individuals engaged in processing the sesame (mostly women), the introduction of new fishing techniques employing 200 Gambians, and assistance to a local joint venture in jojoba production which involves hundreds of outgrowers in raising and marketing a dry land agricultural crop that will ultimately involve larger numbers of Kenyan growers with potential for replication elsewhere in Africa. The new project will continue to provide such assistance to transactions in key pilot sectors.

The provision of technical and financial support to A.I.D. Missions and to African implementing organizations in the design of Small and Micro-Enterprise (SME) development programs, as well as the expansion and upgrading of existing programs has also had an important impact on the African poor. For example, financial and technical support for the development of black-led community -based micro-enterprise support institutions are expected to provide credit and training to between 20,000 and 30,000 South African entrepreneurs. Technical assistance for credit delivery and monitoring to the Kenya Rural Enterprise Program and its 12 affiliated Kenyan NGO's has matured into a Kenyan-managed program which provides credit and advisory services to over 8,000 small and micro-entrepreneurs and is already responsible for the creation of 25,000 jobs. A.I.D.'s South African SME program currently reaches over 12,000 borrowers in the informal sector. Under the existing APEF, assistance has been given to establishing venture capital companies in Kenya, Ghana, Tanzania and Zimbabwe. Kenya Equities alone has invested the equivalent of $3.8 million in six projects and has eight new venture funds under management. These provide

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employment opportunities to hundreds of Africans.

It is commonly recognized that for Africa to achieve broadly-based and sustainable economic growth, leading to improved living conditions for the population, development needs to be led by the private sector. That is, a healthy, growing, private sector led economy benefits all segments of the population. In dialogue with African countries there is no longer a question of whether growth should be market driven and based on the emergence of a strong and diverse private sector. The issue has now become how to create competitive markets that will bring incentives to producers and through greater efficiencies in processing and distribution, reduce prices for consumers.

III. PROJECT ACTIVITY SELECTION CRITERIA -

Activities will only be undertaken in African countries which have adopted or are demonstrating a commitment to policy reform, a reduction of government involvement in the market place, movement towards a pluralistic society, and if supported by the concerned Missions. Missions will typically take the initiative for new activities by submitting proposals to AFR/ONI/PSD by cable or letter following informal discussion of the matter in person or by telephone. They may request core funding for the desired technical services or, alternatively, finance a portion of all of such services through buy-ins or transfers, whereby a portion of the Mission's OYB is transferred to this regional project. In either case, priority is given to activities that may entail follow-up work by Missions and have positive multiplier effects. AFR/ONI/PSD may also initiate new activities to demonstrate or test new techniques or ideas that could prove to have wider regional application or where a particular Mission lacks the knowledge or expertise to carry out and test the desired activity.

Because of a dearth of funds, strong criteria must be used in project design to support private sector activity in Sub-Saharan Africa. Three levels of screening will be utilized.

Level I Screen - Is the government committed in the right direction?

A. The government exhibits a distinct movement toward free market policies.

B. Government policies toward currency valuations, public and private sector debt and levels of taxation are consistent and logical, meeting basic needs for private sector activity.

C. The A.I.D. Mission has included the private sector in its CPSP as a major objective.

Level II Screen - What project activities are suitable for assistance?

A. The activity reduces government involvement in the market place, replacing it with viable and competitive private sector institutions.

B. Assistance works to improve the competitive environment and does not undermine other private sector initiatives or does not supplant one public sector subsidy with another.

C. The activity involves an increased role for the private sector, be it in dialogue on policy reform or in governing boards of regulatory bodies.

Level III Screen - What "transactions" are suitable for assistance?

A. The activity focuses on development of African entrepreneurs.

B. Any transactional support should have clear benefit beyond the specific business transaction which is under consideration.

C. The activity does not sustain nonproductive enterprises, in the public or private sector.

D. The activity mobilizes financial and management resources on a market basis (in investment finance, debt, or equity).

E. The activity will generate new employment opportunities, particularly non-farm employment.

Permeating themes for project support shall include:

- assistance should build on market-based mechanisms and should neither distort nor circumvent such market mechanisms;

- businesses by their very nature have their own funds and should be expected to pay for services to the maximum extent possible;

- assistance should not be in the form of direct subsidies to specific businesses and transactions which do not clearly offer promise to additional business development aside from the players in a particular "deal"; and,

- goals and objectives of assistance should be clearly guided to increasing competitive private production and expansion of markets; where assistance is provided to institution-building, this support must be for "lean and mean" institutions with minimal core staff and maximum use of contracting for services and products (both to assure clear definition of the desired procurement goal and to develop the local private sector) and should have from the outset clear plans for disinvolvement by A.I.D.

Related criteria for assistance in private sector development include:

- the activity is undertaken in a country where there is a commitment to reform and where policy reforms are underway or about to begin;

- the activity reduces government involvement in the market place (e.g., privatization);

- the activity involves an increased role for the private sector (e.g., private/public sector dialogue on policy reform; private sector involvement on the board and in decision-making in investment promotion and regulatory bodies);

- the activity mobilizes local private sector intervention and resources;

- the activity focusses on promotion of African entrepreneurs. In the case of investment promotion, whether investment missions or other activities, the focus must be on activities which enable African entrepreneurs to obtain market information they need to succeed and grow;

- the activity builds on existing African practices and efforts;

- the activity mobilizes financial and management resources on a market basis (investment finance, debt or equity, is limited in time and exit strategies are developed and the environment is developed for them to be executed); and,

- activities geared toward financing lending to support equity share development and technical assistance/training to start venture capital groups.

All activities undertaken under the project will be in compliance with the African Bureau's "Development Fund for Africa Action Plan" and will generally track budgetary allocations under the Bureau's Annual Budget Submissions (ABS).

IV. IMPLEMENTATION PLAN -

Implementation of activities under the project will be similar to that of the APEF. Activities will only be undertaken in African countries where a commitment to reform exists and if supported by the concerned Missions. Identification, planning, implementation and follow-up of activities will be facilitated by PSD staff, who have developed close contact with Mission management, Africa Bureau desk officers, and appropriate individuals in other parts of the Africa Bureau and AID, including PRE, R & D, and PPC. PSD staff also meet and communicate frequently with staff of the TDP, IESC, World Bank/IFC, African Development Bank, commercial banks, and private companies to stay abreast of private sector activities being undertaken by other organizations. Communication is further enhanced through a well-received project newsletter which is sent to all Missions.

In implementation of the PSSP, Missions will typically take the initiative for new activities by submitting proposals to PSD by cable or letter following informal discussion of the matter in person or by telephone. They may request core funding for the desired technical services or, alternatively, finance a portion or all of such services through buy-ins or budgetary transfers, whereby a portion of the Mission's OYB is transferred to this regional project. In either case, before it proceeds, priority is given to activities that may entail follow-up work by Missions and have positive multiplier effects. ONI/PSD may also initiate new activities to demonstrate or test new techniques or ideas that could prove to have wider regional application or where a particular Mission lacks the knowledge or expertise to carry out and test the desired activity. In either a Mission initiated new activity or one initiated by ONI/PSD, a determination will be made that the activity is unlikely to lead to relocation of U.S. enterprises or a reduction in the number of employees in such enterprises and it, therefore, can proceed in full compliance with Section 599 of P.L. 102-391, of the Fiscal Year 1993 Foreign Operations Act. Similarly, a determination will be made that the activity to be undertaken will not violate internationally accepted worker rights or otherwise violate Section 599. The Bureau consulted in March 1993 with the Agency's Directorate for Policy on the major elements of this project (and others which have not been included); the Directorate advised that the proposed project activities fall within those permitted under the Directorate's guidance. As determinations are made, as noted above, the Bureau will consult, as appropriate, with the Directorate and with GC/Africa to ensure that any necessary further steps are taken to ensure compliance both in terms of the spirit and the letter of Section 599.

Once the project or activity proves viable or worthy of replication, responsibility for the activity will be turned over to the Mission or Missions to manage. Funding and management for monitoring and evaluation for each activity will rest with the management authority of the activity. ONI/PSD initiation of new activities is expected to be only a relatively small amount of the total.

The implementation arrangements employed heretofore on the APEF, essentially as described above, were found to be functioning satisfactorily in a 1991 project evaluation. Implementation procedures under the PSSP will follow similar procedures. However, Missions will be relied upon for a greater share of the funding of activities and certain management responsibilities have been clarified.

A. Roles and Responsibilities -

1. ONI/PSD - ONI/PSD is responsible for overall project implementation, including management, selection of activities to be supported, reviewing documents, drafting reports, formulating programs, programming and budgeting. Implementation will be carried out by a combination of contracts with private sector firms, firms already under contract to other A.I.D. offices, agreements with other international donor groups and private voluntary organizations and, to a limited extent, other U.S. government agencies.

ONI/PSD is also responsible for overseeing development and implementation by the contractors of a monitoring and evaluation plan for the project. The plan is discussed in section VII of this paper.

2. Project Advisory Committee - A Project Advisory Committee chaired by ONI/PSD and composed of AFR/DP, AFR/ARTS, AFR/SA, AFR/CCWA, AFR/EA, AFR/SWA, GC/AFR, PRE and other interested bureaus has provided advice to PSD on the development of the PSSP. This Committee will continue to meet periodically upon call from ONI/PSD to review policy and progress under the project and approve future activities. The Project Advisory Committee is expected to play an important role in implementation of the PSSP. ONI/PSD will prepare appropriate documentation including annual work plans and budgets for the review and concurrence of the Committee and, as noted above, prior to taking any action to commit A.I.D. financial resources in excess of $100,000 to obtain technical services from other U.S. Government agencies or from other donors, approval of the Project Advisory Committee will be obtained.

Prior to the start of activities under the project, offices listed above will be requested to name an individual to serve as its permanent representative on the Project Advisory Committee. This individual will serve as the point of contact for that office, will be notified of committee meetings, and will be given authority to speak on behalf of his/her office. At the first committee meeting, members should decide if project committee meetings are to be held at regular, specified intervals or at less regular intervals at the discretion of the PSSP project officer.

3. <u>Contractors/Grey Amendment</u> - In providing technical assistance under the Project, the use of Grey Amendment concerns will be maximized. Principal technical assistance under the project will be provided through a contract or contracts with private sector 8-A firms. Subcontracts with other private sector 8-A or Grey Amendment firms to provide expertise not available in-house to prime contractors are encouraged. The prime contractor or contractors will be selected using 8-A set-aside procedures and the contract(s) awarded to financially qualified firms. Based on previous experience with the Africa Private Enterprise Fund, it is anticipated that the prime contractor(s) will need to access a considerable amount of credit or self-financing in order to continue functioning while awaiting progress payments from A.I.D. or payment for completed work. A prime contractor should also demonstrate capability and experience in maintaining complex financial and other project management records. A minimum of three pre-selected 8-A firms will be solicited and invited to submit proposals. 8-A firms will also be encouraged to submit proposals for subcontracts. Contractors under the project will be encouraged to employ, to the maximum extent possible, qualified local indigenous personnel in performing work under the contract. Where feasible, Missions will be encouraged to contract directly with qualified indigenous consulting firms and, similarly, U.S. based contractors will be encouraged to enter into subcontracts with qualified local firms.

Grants and or cooperative agreements for technical assistance may also be provided to a variety of entities for institutional building in small-and medium size enterprise development, and organization and operation of business associations.

Training assistance, to be provided by contractors or subcontractors, will cover international travel and per diem in order to facilitate contacts between entrepreneurs and trade or business association members in Africa and their counterparts in the United States, and to expose African business and government planners working on business to new approaches to entrepreneurship promotion.

During implementation of the African Private Enterprise Fund, a role of the prime contractor, in addition to assisting field Missions, has been to provide direct support to PSD through a number of specialized consultants, data processing technicians and administrative personnel. These individuals, working under the direction of the PSD, fill staffing gaps and enhance PSD's ability to take initiatives and be responsive to field requests. Under the PSSP a contractor will perform a similar role. The contractor's responsibilities include, among other tasks, preparation of quarterly and monthly technical and financial reports, coordination of activities by grantees and sub-contractors, recruitment of individuals to fulfill positions as private sector advisors, bank restructuring and privatization experts, and assisting ONI/PSD to develop project and impact baseline indicators.

A limited amount of commodities will be supplied under the project for business associations and organizations in Africa promoting business development, to support private sector advisors, and for firm level assistance. The commodities will be procured by technical assistance contractors or grantees in accordance with A.I.D. rules, regulations and approved procedures, from the U.S. or from eligible recipient countries.

4. Procurement Plan - Project procurement will be conducted according to procurement guidelines for activities financed under the DFA and general A.I.D. procurement regulations. Most procurement actions planned for the project are for technical assistance; a limited amount of commodity procurement will take place.

B. Implementation Schedule -

During the first months, once the project has been approved, PSD will work with AFR/DP, FA/OP/A, and FA/FM to prepare the PIO/Ts, RFPs, and any OYB transfers required to get the project underway. Following is an illustrative calendar for project implementation:

B. Task	Duration	Start	Finish
1. Draft PP	four months	1/15/93	5/20/93
2. PP Approval Process and initial year obligation	four weeks	5/20/93	6/14/93
3. OYB transfers to R&D, PRE and FHA/PVC prepared/ approved	one month	6/14/93	7/9/93
4. PIO/Ts for buy-ins prepared	two weeks	7/12/93	7/23/93
5. PIO/Ts for buy-ins approved	two weeks	7/26/93	8/6/93
6. RFPs prepared	six weeks	6/7/93	7/16/93
7. CBD notices prepared	two weeks	10/04/93	10/15/93
8. Notice sent to CBD/published	one week	10/18/93	10/25/93

9. Proposals prepared/ submitted	three months	10/26/93	1/26/94
10. Selection made	one month	1/31/94	2/28/94
11. Contract negotiated	six weeks	3/1/94	4/11/94
12. Teams mobilize	six weeks	4/11/94	5/16/94
13. Second Obligation	two weeks	1/15/95	1/30/95
14. Mid-term evaluation	two months	1/1/97	2/28/97
15. Third Obligation	two weeks	6/1/97	6/15/97
16. Final Evaluation	two months	11/1/99	12/31/99
17. Project Completed	-	-	6/30/00

V. NEED FOR BUREAU SUPPORT TO THE MISSIONS -

The Africa Bureau's private sector office, started first as the Private Enterprise Office in 1984, then converted to Market Development and Investment (MDI) in 1988 and to the Private Sector Division (PSD) of the Office of New Initiatives (ONI) in 1991, has as its primary role support for Missions in establishing their private sector programs. The office has helped Missions profile the private sector in their countries, establishing the framework for their assistance strategies, aiding in strategic planning and program design. It has provided long-term technical assistance in program and project implementation and short-term help aimed at specific activities. It has also developed and tested initiatives -- such as venture capital and debt for development -- that can later be incorporated as aspects of individual Mission programs. It works on region-wide programs, coordinating and supporting multi-donor efforts such as the African Development Bank and the Africa Project Development Fund, and it monitors, evaluates and documents Bureau and Mission experience in private sector development, and apprising Missions of results.

During the period of this project, it is clear that Missions will need access to a wide range of technical assistance for private sector development. The rapidity of political change in Africa -- matched only perhaps by changes in eastern Europe and the former Soviet Union -- places great strain on the normal bureaucratic processes of project design and development traditionally followed by A.I.D. This is particularly true as it relates to private sector development. Changes in Ethiopia, Zambia, Angola, Mozambique, Namibia and South Africa in the last year offer opportunities and challenges that demand speed, creativity and flexibility. Donor support for private sector programs can not

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only strengthen the process of economic reform, but it can also provide help to the political underpinnings of the new movement for democracy. The Bureau needs to put in place a speedy and effective mechanism that allows Missions to respond to opportunities to support both economic growth and the political changes that can sustain it.

A. Mission Interest -

In January, 1992, the Private Sector Division sent Missions a cable soliciting interest in continued AID/W support for private sector programs. Missions responded across a broad spectrum. Kenya asked for help with the Central Bank, for example, and Burundi, while praising the current private sector project as "the single most important centrally-funded project to the success of USAID's policy reform and business development efforts," asked for help on a MAPS, labor code analysis and development and promotion of non-traditional exports. Madagascar expressed interest in privatization of public services, trade and investment promotion, sector studies and business association development. Cape Verde, Mali, Chad, Ethiopia and Zambia sought assistance in privatization, and Gambia wanted continued help in banking reform, registration of companies, and agribusiness. Tanzania, Zimbabwe, and Ghana asked for help in venture capital development.

In February and early March, 1993, REDSO/ESA, REDSO/WCA and the Kenya, Gambia, Zimbabwe, Tanzania, Uganda, Zambia, Botswana, Senegal and Mali Missions, following their review of the PID, reiterated overwhelming support for a follow-on project to build on activities initiated under the APEF. Several offered comments and suggestions, reflecting the diversity of country specific programs and interests, to enhance and improve the Project Paper preparation process. This diversity is recognized in the implementation plan for the PSSP, which is essentially Mission initiated and driven, with AFR/ONI reserving the right to also initiate new activities to demonstrate or test new techniques or ideas that could prove to have wider regional application.

REDSO/ESA greatly appreciates the support which the proposed project will offer REDSOs in terms of financing private sector development expertise, although it questioned to some extent the broad scope of the project fearing that it might create a program support infrastructure that will be difficult to maintain in the future. REDSO/ESA would like to utilize the project to strengthen urban-based services such as privatizing solid waste collection and treatment or private management of abattoirs. USAID Mali is especially interested in the project's proposed work in policy, regulatory and institutional aspects in the legal, financial, trade and investment areas and is allocating $100,000 of its own budgetary resources for technical assistance through the PSSP to assist in the Mission's policy reform program. The Kenya Mission indicated that it is in the process of developing a second phase of

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its own Private Enterprise Development Project and foresees the PSSP as being helpful during its implementation. In particular, it is looking forward to help in developing methods to measure the impact of policy reforms on the overall economy and private sector firms, and to attribute impact to specific interventions. Kenya also envisions that business association development and enhancement will be an important part of its new project and is interested in mechanisms to develop contact with well developed associations elsewhere. USAID Uganda welcomes the PSSP concept and would hope that the bulk of the available resources can be allocated to ongoing and planned field Mission programs to maximize access and fit with each country strategy.

USAID Zimbabwe stated that it strongly supports the proposed project and believes it will be an essential tool for the Mission to meet its bilateral and regional mandates with regard to promoting private sector development, increasing employment, and increasing foreign exchange earnings. USAID Zimbabwe has been a consistent user of technical services under the APEF, and anticipates use under the new project to be at the same or higher levels. Specifically, USAID Zimbabwe anticipates that its regional program will be moving ahead on increasing private sector participation in the telecommunications and rail transportation sectors and that on the bilateral level, it will engage in the field of improving intermediation of capital by increasing competition in the financial sector. Also, policy issues related to improving the policy and regulatory environment, especially as related to increasing the role of the indigenous population, will be major factors in the Zimbabwe Mission private sector agenda over the life of the proposed PSSP. USAID Zimbabwe applauded the proposed project's recognition of the appropriateness of regional aspects of some private sector interventions and noted that the sharing of regional "lessons learned" often has dramatic positive impact. The areas noted for regional emphasis - regional economic integration, harmonization of trade and tariff laws and regulations, investment and commercial codes, and stimulation of regional trade - feature highly in current and projected Southern Africa Regional Project activities and USAID Zimbabwe would anticipate using the mechanisms provided under the PSSP to help further define needed interventions in these areas in Southern Africa. Finally, USAID Zimbabwe underscored its support for the proposed project's emphasis on the development of indicators and benchmarks to measure the impact of private sector activities.

USAID Banjul found the APEF to be an extremely flexible mechanism in providing quick responses to a wide range of technical assistance needs under its private sector-led programs and, therefore, strongly endorsed a follow-on project. It extensively and effectively utilized the APEF to access critical resources to carry out its private sector activities under the finance and private enterprise program. As an example, two task orders included feasibility studies on introducing court reporting in the

Gambia's Supreme Court and on the potential of expanding the production of sesame seed for bulk export as part of an agricultural base diversification strategy. Both task orders were successful and are in the process of implementation. APEF core funding was also made available for a multi-faceted feasibility study on the constraints to and opportunities for a venture capital facility in the Gambia. USAID Banjul believes that the future focus of the program should include Mission access to expertise dealing with institutional development of private sector organizations, including local industry, trade and marketing associations, access to resources aimed at the development of a private sector culture-mentality, specific firm level training in strategic planning, and quality control. The timeliness and quality of the expertise provided under the APEF has been invaluable to date. Therefore, USAID Banjul anticipates buy-ins to the new project of at least $200,000 focusing on resource based export-oriented industry level activities. Specific areas of focus will include development of key sector trade associations, the Gambia Chamber of Commerce and Industry, and technical assistance in agriculture, horticulture, livestock, fisheries and tourism. PSSP core funding assistance is required to continue with the analysis and development of a venture capital facility as well as the establishment of an Africa Project Development Fund (APDF) satellite office.

USAID Botswana applauds the case developed regarding the central importance of private sector development for achieving broad based sustainable growth in Africa and feels that the proposed project constitutes an excellent vehicle for consolidating and building upon AID/W's and field Missions' extensive experiences over the past decade. USAID Botswana feels strongly that a centrally managed Africa-specific private sector support project is necessary and appropriate to ensure that fruits of past labors in liberalizing economies and in creating appropriate enabling environments for increased private investment and expansion of private sector output and employment are fully realized. Although the Botswana Mission does not anticipate being a large volume user of the project over the first two or three years, it will likely draw directly on the PSSP for monitoring and evaluation services of its own bilateral private sector development project, promotion of U.S.-Botswana trade and investment activities in collaboration with OPIC and perhaps for financial sector development notably the venture capital component. It would also like to see the PSSP used to meet Southern Africa regional private sector needs.

USAID Zambia registered its strong support for the PSSP and in particular commends the inclusion of the following areas in the proposed project: a) Assistance for improvement of legal/policy/regulatory frameworks and addressing of specific constraints; b) Assistance in developing indicators and setting benchmarks for private sector reform; and c) Assistance for regional networking, specifically in financial markets, professional associations, women in development and ATI oils.

USAID Tanzania strongly endorses the PSSP, which will provide an essential central mechanism for continued access to high-quality technical support services for private sector program development in the field. Because it feels that this new program will play a key role in the Africa Bureau's private sector development program for the 1990's, USAID Tanzania cautions against too much A.I.D. official direct involvement in specific transaction negotiations; fearing that such involvement could be interpreted as something other than disinterested professional support for economic development objectives of mutual interest. It would like to see the area of policy, legal and regulatory reform highlighted as well as the need for active donor coordination in the field and in Washington. USAID Tanzania feels that the PSSP should provide access to a full menu of financial sector development support services, and make arrangements that allow field Missions to continue to access the diverse array of U.S. resources required to tackle the range of private sector and financial sector issues in Africa. In looking to the future, it feels that the PSSP should incorporate a forward-looking project strategy to include: a) financial markets - There is no other single factor that constrains investment, growth, and the evolution of a sound policy environment more thoroughly than weak financial systems. The answer is not traditional technical assistance, training and office equipment, but rather well-focused problem-solving assistance that tackles and removes specific impediments within the framework of an overall financial market development system; b) trade and investment - A.I.D.'s approach to trade and investment needs to recognize ongoing ground-level commercial developments, understand the factors that encourage and constrain them, and find an institutional means of supporting them; c) telecommunications - After financial markets, this area holds the most potential for moving East Africa competitively into the 21st century. A.I.D. should be in the forefront of information management and technologies and systems which are at the heart of todays commercial world; d) regional integration - Support to regional institutions should be designed to foster regional integration that is founded upon genuine private sector business relationships and initiatives; e) ethnic minorities - Resources should be provided to allow Missions to examine and work toward a resolution of private sector issues that often tend to be colored by ethnic considerations; and f) pluralism - The PSSP should incorporate a governance dimension to the private sector strategy incorporated in the PP.

USAID Senegal advised that, while the "private sector" as an institution is not part of the Mission's stated strategy, its program does include privatization of two major components of the agricultural sector: rice processing and marketing, and groundnut processing and marketing. Recent experience in Senegal has demonstrated that timely, high quality assistance from a central project such as proposed by the PSSP is essential, especially for a Mission such as Senegal where privatization and private sector initiatives are part of a broader strategic objective, rather than a direct part of the Mission strategy. USAID Senegal is looking forward to continued support from the PSSP as its groundnut privatization program moves into the critical operational phase. The Sonacos/Sonagraines groundnut assembly, processing, and marketing complex is Senegal's second largest industry and Senegal's fourth largest industrial employer. Income from groundnuts is the principal source of cash revenue for most of the rural population. Support from a source such as the PSSP is essential because no field Mission could hope to have the kind of skill and experience necessary to address a program of this magnitude.

Missions are moving into new areas -- the new governments in Ethiopia and Zambia have brought a spate of new requests and REDSO is now asking for help for Eritrea. Some are uncovering what they see as targets of opportunity -- essential oils in Burundi, sesame in Gambia and hibiscus in Senegal, and are looking for support in testing the potential before any major commitment. Others are developing new mechanisms -- Guinea, Tanzania, Swaziland and South Africa are all establishing trusts for private sector-related activities. Mozambique is in the process of reviewing the local situation and formulating an approach to private sector promotion.

B. Bureau Interest -

The Bureau can help locate and mobilize technical expertise to address these specific requirements. It can also fund studies to evaluate the experience or to test new possibilities on a regional basis. This project will put in place resources to meet what Missions have already expressed as their highest priority requirements for assistance in developing the private sector. It will also put aside funds and provide a mechanism for buying into existing resources available in other bureaus, R&D, FHA/PVC, and PRE, and will include funds for testing and evaluating new initiatives -- such as regional trade organizations or capital markets, technology or market networks -- that have regional implications. Rather than duplicate other central or regional projects, the project will coordinate with these projects to assure availability of the limited resources to African countries which, based on performance, the Bureau identifies as priority countries for assistance, particularly countries in which there is not a bilateral program which can readily buy-in directly to these activities. In addition, the project will assist regional programs in supporting regional private sector development initiatives through the provision of necessary technical support; support for REDSOs is especially important if these regional Missions are not given their own operating year budget to contract directly for such assistance or to buy-in to regional projects. Finally, the project will help document and report on Mission, Bureau and other donor

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experience in private sector development -- this will include support to Missions in the development of private sector indicators.

There are numerous reasons which justify, even during a period of declining resources, the funding of a regional private sector project. The first is unified technical coordination and backstopping of activities. The PSSP brings together a vast array of resources to meet a complex assortment of requirements across the entire continent. It permits a sharing of experience and an ability for Missions to benefit from lessons learned in other countries on similar activities. Where resources already exist, it will provide Missions easy access to them through a buy-in mechanism. It will keep Missions informed as to what is available and how to obtain these services whether they be in PRE, R&D, or FVA. Mission officers seeking help on private sector development will be able to go to a single office rather than parcelling requirements among a number of offices and trying to arrange a number of buy-ins and contracts. The Private Sector Division through standing buy-ins to existing projects will be able to provide Missions quick access to resources available under those projects, and where requirements cannot be met through existing projects, the PSSP project will have the ability to bridge the gap with resources of its own. This has proven to be of particular importance given the late availability of funds in each successive new fiscal year. Further, a central databank of project experience throughout Africa and around the world can serve to maximize benefits of new activities and assess the overall impact of the Bureau's private sector activities.

A second reason is rapid and thorough access to information and resources. Frequently it is far easier for AID/W to identify appropriate U.S. technical assistance than it is for project officers in the field. This is also true for follow up to ensure that resources once identified are provided as requested, that the technical assistance is properly matched to the requirements, and that the quality is what the Mission requires.

A third reason is economic and management efficiency. It is less costly to have a regional project with a wide variety of short-term advisors available to help Missions than it is for Missions to have to draw upon their own contracts each time they need short term work. A regional project also enables the Bureau to build up a roster of Africa-specific consultants and advisors. Work underway currently on venture capital demonstrates this as does a proposed regional initiative to set up the introduction and dissemination of appropriate technology in oil pressing that takes a micro/small enterprise approach. Rather than five Missions each having an oil pressing project, a single activity can support commercial oil pressing across a region, creating cost-efficiency in program implementation, maximizing transfer of knowledge, and taking advantage of economies of scale in developing regional productive

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capacity and market development. The same is also true for an ongoing look at capital market development in West Africa where, instead of a dozen or more studies on capital market development, the ONI regional project is funding one comprehensive action study.

Other reasons for a regional private sector project include continuity, quality control and leverage. The regional project facilitates coordination among Missions and between Missions and the Bureau on implementation of and meeting the objectives of the DFA. Having the PSSP gives Missions an alternative which provides a safety net and some guarantee that work they require will be continued as long as the Missions require assistance.

VI. ADDITIONAL AID RESOURCES -

Experience has demonstrated that a regional project can facilitate Mission use of other projects available to promote private sector development. Under APEF and under PSSP it will be possible for the Bureau to buy into those projects where initiatives are probable. For example, knowing in advance that privatization is increasing in importance in Africa with liberalization of the market place and of the political systems, the PSSP would undertake a modest buy-in to develop an approach to privatization in Africa together with the PRE Bureau. This will enable the PSSP to ready the PRE project for specific needs of African countries -- in particular those which do not yet have resources available but anticipate expanded assistance in developing economic growth -- and also ensure that Africa's requirements will be attended to. However, management constraints can at times mean that a central project in the PRE Bureau cannot respond in as timely a fashion as is required given the quick movement of events in some African countries. Having money already in place helps to reduce the contractual delays but having an Africa Bureau regional project able to provide assistance provides an important back up. This has happened most recently in the cases of Zambia and Ethiopia where the APEF was able to provide resources to enable both Missions to respond to urgent requirements and where the assistance provided was extended under both PRE projects and the APEF contractors. The timeliness issue arises in particular at the beginning of a fiscal year, once deadlines have passed for contractual actions in AID/W and when Missions do not as yet have projects or funding in place.

The role of the PSD unit is to keep Missions aware of the variety of resources available, and to advise on combinations of expertise available to meet Mission needs. Trying to juggle the various central projects in the field, and knowing at each step which is most suited, is difficult at the very least. The PSD unit can help a Mission sort this out while taking an active role to assure that quality and appropriate assistance is provided. This means helping to review the calibre and qualifications of individuals recommended to Missions for services they require. This coordination by the PSD unit between other Africa Bureau offices, particularly

AFR/ARTS, A.I.D. central bureaus, and our field Missions is essential to ensure continued success as has been the case under APEF.

In implementing the PSSP, it is essential that systems and procedures be worked out to assure full participation and collaboration between ONI/PSD and AFR/ARTS to maximize the effectiveness of their respective resources for the overall benefit of the Africa Bureau and the project per se.

Under the APEF, ONI has been transaction oriented promoting such activities as agribusiness investment missions to African nations with a positive private sector policy environment, reverse missions bringing African entrepreneurs and government leaders to the United States or Western Europe to observe and learn, development of specific industries such as tanneries, sesame seed production and oil refining, development of non-traditional exports such as cut flowers and shrimp production, promotion of innovative financial mechanisms including debt swaps, use of blocked currencies, cooperatives, evolving credit practices and mutual guarantees, and has carried out numerous studies aimed at improving the private sector policy environment or attempting to benefit from lessons learned. ARTS, on the other hand, while more research oriented, has been conducting private sector agribusiness marketing activities, sponsoring agribusiness strategy missions and reverse missions, attempting to involve U.S. private agricultural research organizations, and has also carried out numerous lessons learned studies.

To improve coordination and collaboration between ONI and ARTS in implementing the PSSP, it has been suggested that several measures should be adopted, such as: a) identifying responsible individuals in each office to share copies of things each are working on; b) obtaining clearance from the other office on proposed travel plans prior to the departure of direct hire individuals or consultants to African countries when their work might overlap with the interests of the other office; c) use the internal "E-mail" system to exchange ideas and keep the other better informed; d) develop and exchange lists or catalogs of ongoing or proposed activities; e) obtain the respective clearance of each office before agreeing to proceed with Mission proposed activities, and most importantly; f) hold face to face meetings between senior members of each office at least quarterly to exchange ideas and to better inform the other of activities proposed or underway. In addition, the PSSP Project Advisory Committee will include ARTS representation. It is understood that no system or procedure is an adequate substitution for will and commitment to "make it work".

Again, by having a regional project with funds which can be placed in advance into several of the central projects, the PSD unit can work in advance with the other offices and bureaus to anticipate Africa Bureau requirements. However, even this at times proves inadequate because of constraints which may exist for other central Bureau projects: for example, the Private Enterprise Development Support Project (PEDS) of the PRE Bureau will end this year. Although no new project is yet in place, PEDS lacks adequate funding levels to accept additional Africa Bureau buy-ins.

There are also several areas where other central projects do not provide the assistance required such as for venture capital, debt swaps, and private sector association development. If APEF did not exist and without PSSP, Africa field Missions would have no alternatives for finding technical assistance they require in many areas.

The list of other central Bureau projects for which the PSD unit will provide coordination and under PSSP limited buy-in cost sharing is:

<u>Private Enterprise Bureau</u>

The Financial Sector Development
International Executive Service Corps
Private Enterprise Development Support
Private Sector IQC
Privatization and Development
Growth and Equity Through Microenterprise Investment
Institute for Contemporary Studies
Institutional Reform and the Informal Sector
Peace Corps/Microenterprise Development

<u>Research & Development Bureau</u>

Agricultural Marketing Improvement Strategies
Financial Resources Management
Implementing Policy Change
Entrepreneurs International
ATI Oils Project

<u>Bureau for Food & Humanitarian Assistance/Office of Private & Voluntary Cooperation</u>

Support to Cooperatives

VII. MONITORING AND EVALUATION PLAN -

In order to determine progress towards the goal and objectives of the project, it is important to provide on-going measurement of program success. This requires close monitoring by Missions and the Agency alike with an active and flexible response to positive as well as negative developments. In addition to direct project monitoring, as a means to reinforce policy reform and further project objectives, ongoing programs should be modified and, if appropriate, withdrawn from nations where there has been erosion in

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enabling environments, Also, the Agency must coordinate closely and communicate with other, multilateral donors to which US funds are contributed in order to determine if funds are being used effectively.

Development of a monitoring and evaluation plan for a centrally funded project presents greater difficulty than for that of a bilateral project, notably in the selection of baseline indicators to measure project progress and the economic and social impact of private sector interventions. Several problems arise in the case of a project that seeks to be primarily Mission driven, addresses several areas of constraints to private sector development, but has as one of its key objectives to provide a regional perspective.

A major problem arises from the fact that while Missions across Sub-Saharan Africa seek to provide greater well-being for citizens, the role that private sector activities play in reaching that goal varies widely from one Mission to another, both in scale and focus. While for some Missions private sector projects and activities are a prominent part of the portfolio, for others, they play a relatively peripheral role. The problem in establishing a pre-determined set of measurable indicators arises from the uncertainty in knowing what specific Mission activities the PSSP will be called upon to provide, the role that private sector activities play in the overall Mission portfolio, and the extent to which a particular activity may or may not take place in other Missions. An example of the latter can be seen in the private sector portfolio from Zimbabwe. Several private sector activities in the Mission portfolio aim at assisting the black majority to gain a greater influence and control of Zimbabwe's previously white minority controlled private sector. While those activities, and the indicators established by the Mission to track bilateral project impact are important for AID/Zimbabwe, retaining these indicators as part of a project baseline monitoring system for the PSSP would have little if any relevance for most other Missions that the PSSP will assist. On the other hand, the degree of growth in private sector employment should be important to all Missions, even those for which private sector activities account for a relatively small proportion of their portfolios.

The monitoring and evaluation plan will address two areas: how well is the project being managed and implemented, and what has been its development impact.

Monitoring - Monitoring of the project will allow a base of data to be established and maintained that will help to track progress under the project, provide a means of identifying problem areas that need improvement, and provide information that can be used in evaluation. A baseline will be established in the early stages of project implementation.

Through extrapolation of Mission data reported in their annual

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"Assessments of Program Impacts" (APIs), a pro rata division between Mission and project funding will serve as a detailed means of immediately assessing project impact. In addition, certain data will be selected to be used as indicators at a central level in measuring the project's development impact. The project will provide support to Missions to further develop or refine their API indicators for use measuring the impact of the private sector components of their portfolios.

As part of overall project monitoring, a means of monitoring contractor performance will also be established early on in the project. A one or two-page reporting form (see Annex G for sample form) will be given to the Mission upon a contractor's arrival with a request that the Mission officer in charge of the activity complete the form within two weeks of the contractor's departure and send it directly to the PSSP project officer. The form should ask questions pertaining to contractor performance and the degree of success in accomplishing objectives. These will be supplemented at a later date by evaluation of completed contractor reports against their scopes of work for those activities. Missions will also need to evaluate the actual impact of individual activities in their own impact evaluations; and PSD will schedule evaluations of contractors' overall performance where more than a single Mission is involved.

Based on the types of activities that have been implemented under the APEF and that are anticipated under the PSSP, the following are types of activities for which data is relatively easy to record and maintain and which can serve to immediately initiate the process of measuring the economic impact of private sector initiatives.

Privatization Programs: By the end of the project, 15 Missions will have established approaches and programs for privatization.

Institutional Strengthening: Institutional strengthening will concentrate on financial institutions. By the project's completion, institutional strengthening activities with 20 private banking institutions will have taken place, rural credit and savings institutions will be assisted in 10 countries, and venture capital institutions will be strengthened in 8 countries.

Business Networks: At least 5 regional business networks will be assisted

In the early stages of the project, the prime contractor, adding to or modifying the indicators shown in this section, and working with the PSSP project officer and project advisory committee, will prepare an annual monitoring workplan. The plan will include how frequently data will be recorded, sources of data, and in what form and how often they will be reported and to whom. Responsibility for gathering data and reporting also needs to be clearly laid out in the development of the plan. The plan should include a timetable for visiting a selected number of missions during the first year and, using the Mission APIs as a guideline, work with the identified Missions to develop, modify, measure and test indicators as needed.

Since it will clearly have an impact on program success in a particular country, it will be worthwhile for individual Missions to establish means for measuring change in the climate for private sector development and in meeting Mission and Africa Bureau agreed upon CPSP goals and objectives. This will be subjective as well as objective. While any exact measurement of programs to support private sector development is difficult to develop, some statistical basis does exist to determine the viability of the enabling environment taken together with periodic monitoring. The formation rate of new, non-farm businesses is a good indicator of how well private sector reforms are being implemented. In addition, the level of foreign direct investment (FDI) and the relation between the level of public sector to private sector investment are also important. Progress should also be assessed in areas such as policy reform and implementation, reduction in tax and tariff levels, growth of non-trade, private lending for business growth, formation rate of non-farm business, the level of foreign direct investment (FDI), the relation between the level of public sector to private sector investment.

Central level indicators have been selected following a review of Africa Bureau Assessments of Program Impact for FY 1992 as shown in the Compendium published in January 1993. Selection was based on the following: the indicators or variations occur in a number of Mission portfolios, they appear to have a reasonable expectation for providing measurable data, and will have value and be of interest for assessing trends in the development of the Africa private sector in general and the impact of private sector reforms and activities in particular. Some of these central level indicators may to subject to modification after the first year of the project, depending on availability of the data.

On the central level, the following data indicators can be used to measure general or cross-cutting trends:

- growth in private sector employment
- overall climate for private sector development
- formation rate of new, non-farm businesses
- number and size of loans to small and micro-enterprises
- change in the level of foreign direct investment (FDI)
- the private sector share of total fixed investment
- GDP per capita
- growth in number or membership of producer or trader organizations
- change in the number of private sector financial

institutions
- quantity and value of exports

A means of assessing an across the board climate for private sector development in Sub-Saharan Africa will also need to be established and agreed upon between the Missions, the contractor, and the project advisory committee. Factors used to assess the overall climate will include the following: attitude of the private sector toward the government; reduction in barriers to business entry; reduced number of parastatals; number of private sector financial institutions; passage and implementation of regulations and policies that enhance the enabling environment, etc.

By the end of the first year of project implementation, the contractor will prepare a report on the usefulness of the selected indicators to measure the project's development impact. The report should include an assessment of both the availability and the reliability of the data. Modifications for improving or refining the indicators will be recommended. Progress toward achieving bench marks will be recorded and reported on once annually.

Evaluation: There are two evaluations scheduled during the life of the project, a mid-term evaluation in year three, and a final evaluation to take place during the last three months of the project. Funds are budgeted for the evaluations.

Using data developed and maintained through the monitoring plan, along with other sources of information and data, e.g., Mission APIs, the evaluations will examine project impact, both at a country and regional level, in addition to overall project management and implementation. The first evaluation will examine both areas, but will concentrate more on project management and implementation. Both evaluations will take into consideration lessons learned from the Africa Private Enterprise Fund Project.

Following are some of the issues evaluators should examine in assessing impact and project management. For example, in assessing impact on the country level, did the technical advice have an impact? Is it helping private entrepreneurs? Did a study on regulatory reform get used by a chamber of commerce or other similar organization in discussions with the government and did it affect a new investment code? Did a business association develop new services that are being provided members on a fee-paying basis? On a regional level, are their any regional links that have been established between business associations? Are there success stories that are similar and that have possibilities for being replicated elsewhere?

At the level of project management and implementation, individual activities can be evaluated for the extent to which technical assistance, commodities or training provided reached the objectives spelled out for that activity. For example, did a consultancy

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provide the information sought on privatization or the market potential? Did the consultants fulfill their scope of work? Is contract administration functioning well? Is the project as a whole working -- is it providing Missions the type of assistance they need on a timely basis; is it supplying them with new ideas and an overview of trends in thinking about how best to foster private sector development? Are the contractors effectively managing their assistance program? Is the Private Sector Division doing what it should to manage the contractors?

In order to answer these and other questions, an effective monitoring plan and data base should be in place by the end of the first year of activities.

VIII. SUMMARY PROJECT ANALYSES -

A. Overall Economic Conclusion:

The objective of the Private Sector Support Project is to develop effective programs that will work towards the overall goal of improving the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority. These programs must provide for quick and flexible technical assistance for rapid responses to changing conditions and yield measurable results and benefits.

Sustainable economic growth and increased social benefits in Africa will come chiefly from new investment and wealth generated by a vibrant private sector and active capital markets. The Africa Bureau should continue its strong support for reforms of enabling environments in the region as an economically efficient manner to promote social well being, job creation, capital development, and technological transfer.

The key successes of the Africa Private Enterprise Fund (APEF) has been its ability to be flexible and innovative in response to rapidly evolving enabling environments in Africa and to provide technical support for governments on an ad hoc basis. In Africa, where political and economic change requires rapid response, the APEF ability to react to Mission's needs has yielded considerable and measurable successes.

The emergence of an environment conducive to private sector development is an evolutionary process that requires patience as well as an institutional capability, within A.I.D., to understand and to respond rapidly to changes. In those circumstances where there exist poor enabling environments and governments exhibit no willingness to change, the Agency must be prepared to withhold or withdraw support.

There has been little assessment to date, on an organized basis, of the impact of changes in enabling environment in those Sub-Saharan

African (SSA) nations that fall under the "concentration" category or that have received substantial Africa Bureau assistance fc private sector development. One of the activities of the PSSP will be to develop baseline indicators to measure such changes.

B. Management Capacity:

The ONI Private Sector Division, as supplemented by contractors has sufficient staff and the capability to manage the project. The PSD division chief will designate a senior project officer to manage the project. The project manager will be responsible for all areas of project management, including selection, supervision and oversight of contracts, liaison with other U.S. government and international donor agencies, and contact and coordination with field Missions and between Bureau and other A.I.D. offices concerned with project implementation.

C. Social Considerations:

As with any regional support project, a conventional social soundness analysis is inappropriate since social, cultural and economic conditions vary widely across Africa. In addition, the project is designed to be demand-driven, and, therefore individual activities remain to be determined. Only after the Bureau has received specific requests from Missions for assistance will it be possible to assess social impact. It will be the responsibility of the Missions to incorporate activities funded under the project into their overall portfolio and to gauge their particular social impact as a part of that portfolio. Some of the activities will be aimed directly at the development of the private sector, with impact measurable in terms of jobs and incomes. Some will be directed specifically at small- and medium-sized enterprises or at relatively disadvantaged groups. Finally, activities focusing on reform of the enabling environment will have indirect impact on the private sector.

The project will include funds and expertise to assist Missions in establishing benchmarks, appropriate indicators and evaluation programs to measure social impact, including support for an initiative in Women in the Market Place. It will encourage collection of gender-specific data where appropriate.

Participation of Africans was identified as a concern in the initial PID review. While Africans are the ultimate beneficiaries of PSSP activities, and while Missions are expected to undertake monitoring and evaluation of this impact under projects where these exist in their portfolio, the PSSP will also provide support to help in the monitoring and evaluation of people level impact of the activities undertaken under the PSSP. In addition, through the development of private sector networks in Africa and strengthening of private sector associations, the PSSP will identify African expertise available as technical assistance under the project to ensure African involvement and participation in PSSP activities. Efforts will be made to identify African consultant groups as has already been done under MAPS activities in over thirteen countries. To the greatest possible extent, local African expertise will be used to implement PSSP activities so that knowledge is transferred to and remains with Africans capable of continuing to do the kinds of tasks required under PSSP. ONI/PSD sees this as essential to achieve a sustained development of private sector activity in Africa.

D. Environmental Analysis:

A categorical exclusion, as per 22 CFR, Part 216, Paragraph (c) (2) (vi), was approved for this project on January 12, 1993. Further environmental review is not required. (see Annex B).

E. Gender Considerations:

As noted throughout the paper, consideration has been given to gender in a number of important respects. First, there will be benefits to the poor majority of men and women as noted on pages 18 and 19. Second, specific programmatic elements will address gender concerns, such as networks focusing on women's issues in business, women in development, and support for initiatives in women in the market place. Finally, the Project will encourage collection of gender specific data to measure the economic and social impact of private sector development.

ANNEXES

- Annex A Project Design Summary - Logical Framework
- Annex B Initial Environmental Examination or Categorical Exclusion
- Annex C PID Approval Memorandum
- Annex D Statutory Checklist
- Annex E Economic Analysis
- Annex F Venture Capital Operational Procedures
- Annex G Mission Report of Consultant Services

ANNEX A

Project Design Summary
Logical Framework
Private Sector Support Project
698-0544

Life of Project: US$32 million
PACD: 06/30/2000
Date Prepared: 6/93

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
GOAL: To improve the climate and capacity for the economic and social development of Sub-Saharan Africa's poor majority.	-Increased levels of private sector employment as percent of total employment; -Increased private investment as a percent of GDP; -Increased GDP per capita; -Increased levels of foreign investment.	Trade and economic data from: -AID -State -Embassies -IFIs, IMF -Files	-Governments will continue to implement structural adjustment programs; -Sufficient political stability exists in most of Africa; -Enabling environments for private sector growth continue to improve; -Reliable trade data and other indicators will be available in a timely and accessible manner.
PURPOSE: To strengthen the ability of Africa's private sector to be responsive to opportunities to provide greater employment and income for Africans.	EOPS 1. Increased private sector trade as a percent of GDP; 2. Privatizations completed in targeted countries; 3. Financing expanded for private sector; 4. Regional trade expanded/increases in qt. of exports; 5. Growth in membership or number of private sector support organizations; 6. Increased lending to small and micro enterprises	-Private sector assessments and evaluations; -TA Contractors' reports/assessments; -Mission reporting (SARs, APs, APIs, Evals) -Trade data collected; -IMF, IDB -Project baseline monitoring system (clear and meaningful links between indicators and project activities will be identified).	- Private sector individuals respond positively to enhanced enabling environment; - Host governments transfer greater economic decision making to private sector; - USAIDs adopt private sector programs and projects into portfolios; - HC policy dialogue environments are open and productive; - Effective baseline project monitoring system will be in place by completion of first year of project.

<u>OUTPUTS:</u> 1. Missions will have new programs to address specific private sector constraints; 2. AFR/ONI will establish a quick and flexible mechanism to provide technical assistance and start-up funding for private sector initiatives; 3. Strategy Development; 4. Policy, Legal and Regulatory Reform; 5. Institutional Development; 6. Trade and Investment.	<u>Output Indicators:</u> - 15 Missions will establish approaches and programs for privatization; - Financial institution strengthening activities will take place in 20 countries; - Venture capital institutions will be created and/or strengthened in 8 countries; - Rural credit and saving institutions will be assisted in 10 countries; - At least 5 regional business networks will be assisted; - Market information will be more readily available.	-TA Contractor reports; -Mission Assessment reports; -LAC USAID's SARs, APs, PPs and oligation documents; -Evaluations -Project baseline monitoring system.	-USAIDs agree to participate in private sector assessment and strategy development activities; -Timely contracting and execution of task service orders. -Sufficient funds are available in annual budgets to meet project objectives;
<u>INPUTS:</u> 1. Technical Assistance 2. Grants 3. Invitational Travel, Seminars, Workshops 4. Other AID and USG programs 5. Evaluations 6. Audit TOTAL Rounded To	<u>Budget (US$000):</u> $21,055 5,475 2,210 2,381 500 544 32,165 32,000	-SARs -OYB -MACS reports -TA Contractor reports	-Planned OYB levels made available.

ANNEX B

INITIAL ENVIRONMENTAL EXAMINATION or CATEGORICAL EXCLUSION

PROJECT COUNTRY: Regional

PROJECT TITLE AND NO.: Private Sector Support Project (698-0544)

FUNDING: FY(s) 93-98 US $40 million

IEE PREPARED BY: Jim Vermillion, AFR/ONI/PSD

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	________
Negative Determination	________
Categorical Exclusion	X
Deferral	________

SUMMARY OF FINDINGS:

A.I.D. is required to ensure that the environmental consequences of A.I.D.-financed activities are identified and considered prior to a final decision to proceed and that, where necessary, appropriate environmental safeguards are adopted. The Initial Environmental Examination (IEE) is the first review of the reasonably predictable effects of a proposed action on the environment.

Under Part 216.2(c) of 22 CFR, IEEs are generally not required when a project to be funded is primarily activities "which may have an effect on the physical and natural environment but will not have a significant effect, as a result of limited scope, carefully controlled nature and effective monitoring" or "analyses, studies, academic or research workshops and meetings."

The proposed project provides technical assistance and start-up funding for private sector initiatives that stregnthen entrepreneurial development and expand private opportunities in general. Funds will be used, for example, to increase the capacity of business and professional organizations and to establish regional networks for business associations, training, and technology transfer. The project's execution involves data gathering, management, analyses, studies, monitoring, and evaluation. No infrastructure or capital projects will be supported. It is therefore recommended for a categorical exclusion. Further environmental review is not required.

CONCURRENCE:

Bureau Environmental Officer:
John J. Gaudet, AFR/ARTS/FARA

APPROVED: ✓
DISAPPROVED: ________
DATE: 1/12/93

CLEARANCE: GC/AFR: ________ DATE: 14 Jan 93

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USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ANNEX C

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, AFR

FROM: Warren Weinstein, AFR/ONI

SUBJECT: Minutes of the Executive Committee Project Review (ECPR) for the Private Sector Support Project (698-0544)

PROBLEM: Your approval is required of the minutes recorded herein of the subject meeting as a final condition of approval for the Project Identification Document (PID) for the Private Sector Support Project (698-0544). This memorandum and the appended minutes of the ECPR meeting will be appended to the PID and serve as a record of the decisions made by the Executive Committee for development of the Project Paper.

DISCUSSION:

This ECPR, chaired by DAA John Hicks, was a follow-on of two earlier meetings on the Private Sector Support Project. An interim review of "lessons learned" in private sector programming was prepared as a result of the last meeting and this paper was reviewed by the Bureau, leading to an overview of implications for programming under the new project.

The Private Sector Support Project is proposed as a six-year, $48 million project which will be a follow on project to the Africa Private Enterprise Fund, a ten-year, $40 million activity which helped establish private sector programs in Missions around Africa. The project will refine assistance by building on Mission programs, providing initial assistance to activities which will then be picked up by the Missions, focus on regional activities which cannot be supported by bilateral Missions, and support innovative activities which will help Missions examine new directions for their private sector portfolios, consistent with their respective country assistance strategies.

The project will work with technical assistance contractors as well as with other U.S. government agencies to implement the program.

It was clarified that the next step in the approval process would be the development of a Project Paper (PP).

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

A. ECPR Guidance on Issues Unresolved by the Project Committee

The ECPR considered issues which were unresolved in the previous two meetings on the PID by the Project Committee and the following guidance was given for preparing the PP. The issues are repeated here for convenience.

Issue #1. Should this effort be continued as a primarily regional effort, or should significant portions of the activity be shifted to bilateral Missions? Is the budget level too high? Should there be a different portion of core vs. Mission-controlled funding?

The ECPR concluded that the central test for funding should rest on whether proposed project funds should be allocated to the Missions, or whether a centrally-funded project is required. It was not clear that the proposed $48 million is justified as the funding level for the project and that there is a need to consider how to bring the funding level down to a more reasonable level. For example, the project proposes to do institutional development of financial institutions, small and microenterprise assistance institutions, business associations, etc. and this could be tightened up considerably. In terms of assistance in the legal, regulatory and judicial area, many bilateral Missions are already undertaking work in these fields and that this might be able to be handed over to bilateral Missions. There is a need to tighten the scope and budget of the project to manageable proportions with activities being demand-driven as the driving principle. The PP needs to be clear in terms of priorities, better defining operational modalities and using economies of scale. The DAA concluded that it makes sense to do the project, but that it needs to be tightened and contained. The ECPR authorized a funding level in the range of $35 million to $40 million for the project over six years, with decreases in funding coming from both Washington and Mission-controlled funds. Therefore, it is anticipated that approximately $18 million will come from Mission controlled funds while approximately $21 million to $22 million will be allocated from ONI OYB. In addition, it was noted that the dividing line between ARTS and ONI on agribusiness and indicator development should be defined in the PP.

Issue #2. Should other USG agencies be engaged in carrying out A.I.D.'s program in Africa?

The ECPR concluded that the USDA activity in the project should be the subject of discussion with ARTS; the project should look at foregoing the DOC activity in the early stages; and OPIC should remain in the final design. The PP should lay out the criteria for what countries would receive assistance from interagency activities.

Issue #3. Can project impact be addressed solely by Missions? Should there be more core effort on impact assessment?

The ECPR noted that assessment of overall project impact could not be conducted at a bilateral level and that the project will include a mid-term and final evaluation of overall impact built into the design. The logframe will be refined to identify specific criteria against which the project will be evaluated. Bilateral Missions will continue to evaluate bilateral activities which fall within their portfolios. In addition, the project will work on the development of indicators for assessing private sector activities throughout the Bureau.

Issue #4. Why can't training activities under this project be included in ATLAS or HRDA?

The ECPR concluded that in the first instance for training, HRDA and ATLAS should be the source, not the new project. If this can't be accomplished, then ONI should look to building in this training under HRDA. Specific networking activities which are not formal training activities would still be carried out under this project. There is a proposed budget of approximately $2 million for international travel and it was concluded that there should be selection criteria in the PP. Jerry Wolgin suggested that activities of this nature should support mainly regional activities. DAA Hicks noted that both the volume and management of these activities are key concerns which must be addressed in the PP.

Issue #5. Should the "Buy America Initiative" which is annexed to the PID be considered separately or as part of the PID review? How will it be managed and funded?

The ECPR concluded that this initiative would be reviewed separately.

B. Other ECPR Guidance

There was agreement of the ECPR to move ahead with the PP for the project. The design should have a budget in the $35 million to $40 million range. The PP will include more tightening and focusing of activities. In Missions with large bilateral private sector activities, use of core funds from this project will be the exception rather than the rule. The PP preparation should look at costs and benefits of activities with other USG agencies. The evaluation plan should look at investments over the longer term in terms of impacts, both positive and negative, on the economies of countries in which activities take place. To the maximum extent possible, training should be accommodated through HRDA; international travel costs should be re-examined since a $2 million budget over six years is unrealistic. The design for this project should be looked at as a watershed for examining all Africa Bureau private sector activities, both in terms of management and operational aspects. There is a need for creative mechanisms, but also a need to do better at managing project activities and informing Missions about project activities.

It was decided that ONI would work with ARTS to develop the required IEE before the PID is presented for approval. The ECPR also concluded that a project committee should be formed to oversee the project, including geographic offices, ONI, ARTS and DP. GC/AFR also has been added to the project committee in light of the unique issues affecting regional projects.

RECOMMENDATION: That you approve the PID and the minutes as recorded in this Action Memorandum which will be appended to the PID and serve as a record of ECPR guidance for the Project Paper.

Approved: ____________________

Disapproved: ____________________

Date: 3/2/93

Attachments:
- Issues Paper
- Minutes of ECPR Meeting, 12/15/92
- Environmental Examination

Clearances:

JWolgin, AFR/ARTS	DRAFT	Date: 12/22/92
KBrown, AFR/SA	DRAFT	Date: 1/27/93
MBonner, AFR/DP	DRAFT	Date: 12/23/92
ASisson, AFR/DP	DRAFT	Date: 12/23/92
PGuedet, AFR/EA	DRAFT	Date: 12/28/93
PTuebner, AFR/CCWA	DRAFT	Date: 1/7/93
JSmith, AFR/ARTS	DRAFT	Date: 12/22/92
CReintsma, AFR/ARTS	DRAFT	Date: 12/22/92
JGilmore, AFR/EA	DRAFT	Date: 1/21/93
ESpriggs, GC/AFR	DRAFT	Date: 2/3/93
TBork, A-DAA/AFR		Date: 2/23/93

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics Certification**

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 542 of the FY 1993 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct

N/A. Regional Project.

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the April 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance? N/A.

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification. N/A.

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2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

N/A.

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

N/A.

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1993 Appropriations Act Secs. 512, 543): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by

N/A. Regional Project. None are Communist countries.

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? N/A.

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? N/A.

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A.

8. **Loan Default** (FAA Sec. 620(q); FY 1993 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? N/A.

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9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

PSSP is funded from DFA sources and is a grant.

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No assistance will be provided to any country that has severed relations with the U.S.

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

N/A.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1993 Appropriations Act Sec. 554; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

N/A.

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

N/A.

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

N/A.

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

N/A.

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Although several countries in the region derived from a revolt against the previous authoritarian regime, they have committed to a democratic initiative and have confirmed their friendly relations with the U.S.

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16. **Military Coup** (FY 1993 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

N/A.

17. **Refugee Cooperation** (FY 1993 Appropriations Act Sec. 538): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

N/A.

18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

N/A.

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

N/A. Regional Project.

2. **Abortions** (FY 1993 Appropriations Act Sec. 534): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary

N/A.

sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

N/A. DFA-funded.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

(a) through (e), Yes. (f), No. Strengthening labor unions is being addressed through another project.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will encourage U.S. private sector trade and investment by fostering the growth of the private sector and market economies, which will create a "hospitable" climate for U.S. trade and investment. U.S. private enterprise will participate in the project as a supplier of services.

3. **Congressional Notification**

a. **General requirement** (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Project is included in FY 1993 Congressional Presentation.

b. **Notice of new account obligation** (FY 1993 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A.

c. **Cash transfers and nonproject sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a), N/A.
(b), Yes.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

None needed.

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

N/A.

7. **Cash Transfer and Sector Assistance** (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (*e.g.*, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) through (e), Yes. (f), No. Strengthening labor unions is being addressed through another project.

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10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This program will encourage such activities by promoting the growth of the sub-Saharan private sector and market economies.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

U.S. does not own excess FCFA.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A.

c. **Separate Account** (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1993 Appropriations Act Sec. 520(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Assistance will not be provided for products in surplus on the world market.

b. **Textiles (Lautenberg Amendment)** (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of

No.

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

Project does not relate to tropical forests.

14. **PVO Assistance**

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Yes.

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Yes.

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

It will be.

YD

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A.

17. **Women in Development** (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes. The project will help women in the region, especially those in the non-formal sector where women are heavily represented.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. However, project encourages regional cooperation.

19. **Abortions** (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No.
b. Will any funds be used to lobby for abortion?	No.
20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	Yes.
21. **U.S.-Owned Foreign Currencies**	
a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A.
b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
22. **Procurement**	
a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?	Yes.

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c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

Yes.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

Yes.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

Yes.

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facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. **Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

j. **Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes.

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

N/A. Project will primarily provide technical assistance.

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

Not a capital program.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

No construction will be financed.

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A.

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Yes.

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes.

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

31. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

Yes.

32. **Payment of U.N. Assessments** (FY 1993 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

Yes.

33. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Yes.

34. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

35. **Repression of Population** (FY 1993 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes.

36. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

37. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes.

38. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

39. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

No.

40. **Impact on U.S. Jobs** (FY 1993 Appropriations Act, Sec. 599):

No.

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

No.

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(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Although project will assist development of agribusiness, no assistance will be provided to promote export of products in world surplus.

2. **Tied Aid Credits** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

PSSP will support deregulation of the economy and support economic development through encouragement of private energies and individually owned enterprises.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

(a) Project will support micro-enterprise and small enterprise promotion policies.

(b) Project will work where feasible to promote group and credit union lending.

(c) This project supports the stated self-help measures.

(d) See Item 17 above.

(e) The project will promote regional trade by fostering the growth of regional trade associations and networks.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

N/A.

methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

N/A.

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Project will utilize open competitive selection procedures.

11. **Disadvantaged Enterprises** (FY 1993 Appropriations Act Sec. 563): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

selection process will encourage participation of economically and socially disadvantaged firms, etc.

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A.

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13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

Project does not relate to tropical forests.

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Project has received a Categorical Esclusion; see Annex B, IEE.

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation,

Project does not relate to tropical forests.

and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

N/A.

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A.

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A.

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

Project does not relate to energy.

15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A.

16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as

N/A.

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originally obligated, and have the House and Senate Appropriations Committees been properly notified?

17. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.	N/A.
b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	Yes.
c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	N/A.
d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	Project will not provide assistance to any products in world surplus.
18. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical	(1) PSSP will encourage entry of small firms into the formal economy. (2) Cooperatives will be encouraged along with other small and informal enterprises.

assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

(3) PSSP directly supports the self-help measures implied.

(4) Yes, by promoting the informal sector in which women are heavily represented.

(5) Yes, it will encourage regional trade by encouraging growth of the private sector in various sub-Saharan economies and reducing government controls.

19. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

Project is designed to increase the income of rural poor through development of agribusiness enterprises.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A.

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the

N/A.

poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

20. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A.

21. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A.

22. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of

Project does not relate to energy.

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research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

PVOs are utilized and assisted in the development of the private sector and the encouragement of regional cooperation.

c. research into, and evaluation of, economic development processes and techniques;

Project is used to research the status of private sector development and encourage its growth.

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

N/A.

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

N/A.

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

Project encourages the development of small and labor intensive enterprises, marketing systems for small producers and financial institutions to assist the private sector and help the poor.

23. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

N/A. Not a capital project.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability?

N/A. Project is DFA-funded.

To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? N/A.

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).) N/A.

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).) N/A.

5. **Cash Transfer Requirements** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)). If assistance is in the form of a cash transfer: N/A.

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A.

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and N/A.

conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. **U.S. Government use of local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA) or ESF purposes?

N/A.

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A.

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)

N/A. Not a capital project.

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Annex E.

PRIVATE SECTOR SUPPORT PROJECT: ECONOMIC ANALYSIS

Preamble

Sustainable economic growth and increased social benefits in Africa will come chiefly from new investment and wealth generated by a vibrant private sector and active capital markets. This is particularly true given the leveling of multilateral and bilateral direct foreign assistance to the region. Many African nations have recognized this and are adjusting their policies to provide for a more effective enabling environment, that permits the private sector to flourish and social wealth to accumulate. However, the legacy of thirty years of statist rule is a dearth of capital, business skills and a lack of understanding of private sector requirements.

In the 1970s and 1980s, economic and trade liberalization swept through Eastern Europe, Latin America and Asia, yielding impressive results. Korea, Taiwan, Mexico and Chile became beacons and models for other nations: Thailand, India, Argentina, Colombia and others. But despite high levels of assistance, efforts at private sector development in Africa did not yield similar results. Net resource flows to SSA in the 1980s totalled more than $100 billion, yet the region's economy grew at a mere 1% a year, with real per capital incomes dropping by 40%. In the first two years of the 1990s, Real GDP is declining 1% per year. Political instability, natural and public health disasters, corruption, excessive government regulation and the lack of a dynamic business sector were exacerbated by inappropriate development strategies focused on government-sponsored growth. Today, SSA is marked by low productivity, shortages of capital and credit, shortages of goods and services, high public sector debt and a sharp decline in infrastructure. Beyond this, the continued high rate of population growth, malnutrition, and low health standards maintain a constant economic pressure on the continent.

Perhaps the greatest indicator of failed policies in Africa is the erosion of agricultural production and food distribution. Nations that once were food exporters, such as Zambia and Cote d'Ivoire, have lost their agricultural capability. Government attempts at maintaining food costs deprived farmers of profit and thus, production declined. The key lesson is that those same factors that worked against agriculture worked against all sectors of business in Africa. The state piled on disincentive after disincentive and thirty years of statist ideology has imbued Africans with a profound distrust of the profit motive and individual entrepreneurship.

Africa is beginning to change. Governments and elite groups are adjusting their visions and ideologies under the combined pressures of international donors, especially A.I.D., and popular African discontent against failed, statist policies and ideologies. But Africa is a Gordian knot of entrenched groups, traditional practices, xenophobia, donor confusion and inexperience. Unraveling the old system while creating growth economies is not easy.

Today, an irregular business environment exists throughout sub-Sahara Africa, with different understandings, traditions, and regulations. The challenge is complex and multifaceted, ranging from promoting a general business environment favorable to large firms and financial institutions to developing microbusiness support for small scale agriculture, women in development and tradespeople. Most international donors now accept that an effective business environment must emerge with a strong physical, institutional and human infrastructure, with a consistent and logical macroeconomic policy framework and with a microeconomic incentive structure. Expressed in other terms, roads, computers and trained African managers must emerge in countries with legal structures that promote enterprise and without informal barriers to trade and investment and with markets that accurately reflect cost, demand and supply to allow farmers, entrepreneurs and other producers a fair return on their labor.

Lessons Learned

The challenge is to achieve maximum results, in the most efficient manner possible, without wasteful experimentation or counterproductive programs. Programs must be developed that are effective for the overall goal of promoting the private sector in Africa as well as yielding measurable results and benefits. They also must be able to provide quick and flexible technical assistance for rapid response to changing conditions.

The PSSP builds on the experiences of its predecessor project, the APEF as well as other multilateral and bilateral programs which have paralleled APEF initiatives. Above all, there is a recognition that, in Africa, the growth of capital, technological advance, modernization and, ultimately, job creation and social well-being, depends upon changing thirty years of statist rule and mentality.

The emergence of an environment conducive to private sector development is an evolutionary process that requires patience as well as an institutional capability, within A.I.D., to be flexible and to respond rapidly to changes. However, there exist poor enabling environments where A.I.D. assistance for private sector development goes for naught. In these circumstances, the Agency should be prepared to withhold or withdraw support where basic conditions no longer exist for growth. Not a small number of nations have not fulfilled commitments to reform or have done so in name only, without the withdrawal of support by donor agencies. Assistance must be applied to shore up effective reforms. Alternatively, donors must be willing to take difficult decisions and reduce or withdraw assistance rapidly, when governments and agencies fail to follow commitments to reform. In effect, rapid withdrawal of assistance programs is a positive initiative to support implementation of private sector reforms.

While political reasons for maintaining support may override economic concerns, the continuation of private sector support programs in nations where political and regulatory resistance is strong is wasteful of the scarce resources in the African Bureau. For example, attempts to provide assistance to promote foreign investment in nations where fundamental restrictions against foreign capital exist cannot work. Financial institutions cannot develop in a regulatory climate that is unpredictable, with interest rates, currency valuations, tax levels and regulations changing frequently and without notice or with an openly hostile legal structure. Even with substantial foreign assistance, credit markets will not open up when I.M.F. agreements prohibit any expansion of credit.

The implication of this analysis is that:

1. The area of private sector development requires close monitoring by Missions and the Agency alike with an active and flexible response to positive as well as negative developments. This is a particularly difficult role for Missions to undertake because of the long work that program development entails and understandings made with local authorities, all of which must be readjusted given the failure of local authorities to fulfill commitments.

   The PSSP should devote greater resources to support Missions and monitoring private sector reforms to ensure effective use of funding as well as to provide some understanding of the level of impact for the Agency. In the end, this will provide an efficient use of resources, eliminating wastage and promoting strategic implementation of funding.

2. Support for private sector development will tend to be considerably stronger in Eastern and Southern Africa rather than in Western Africa where traditional and ideological antipathy towards effective enabling environment and Structural Adjustment reforms is

greatest.

3. Support for private sector development will tend to concentrate in a few nations, where policies are progressing, and will not be region-wide in nature. However, care must be taken to maintain contact and communication with other African nations, through Missions and other, multilateral donors, to be able to respond to rapid changes in regulatory climates.

4. While the tendency in the Agency is to delegate more actions to field Missions, the wide degree of levels of private sector development and enabling environment reforms suggest that this core program is critical in providing efficient and ongoing support. In addition, because global business conditions and capital flows change rapidly, a knowledgeable, centralized font of information on competitiveness provides an efficient use of Agency resources.

5. The Agency must coordinate closely and communicate with other, multilateral donors to which US funds have been contributed to determine where private sector development funds are not being used effectively.

Determination of Impact

Some on-going measurement of program success should be provided to determine progress, if any, towards the general goal of specific projects. This will be subjective as well as objective. While any exact measurement of programs to support private sector development is difficult to develop, some statistical basis does exist to determine the viability of the enabling environment taken together with periodic monitoring. The formation rate of new, non-farm businesses is a good indicator of how well private sector reforms are being implemented. It is extremely important to be able to have data on the absolute size and growth of private sector investment as a percentage of total investment, the share of state owned enterprise contribution to GDP, etc. In addition, the level of foreign direct investment (FDI) and the relation between the level of public sector to private sector investment are also important. To be sure, mitigating circumstances may bias statistical results. Natural disasters, such as epidemics or drought, or political turmoil, may delay the impact of private sector reforms.

In the past, monitoring and understanding of private sector reforms has been carried out on an ad hoc basis, leading to misunderstandings at the Mission level and misapplication of resources. An effective and efficient monitoring program can easily ascertain the impact of private sector reforms and determine where programs should continue and where they should be reduced. Progress should be assessed in areas such as policy reform and implementation, reduction in tax and tariff levels, growth of non-trade, private lending for business growth, formation rate of non-farm business, the level of foreign direct investment (FDI), the relation between the level of public sector to private sector investment and other subjective and objective indicators. One of the activities of the PSSP will be to develop baseline indicators to measure such changes. With aggregate data that indicates growth of the private sector and decline of the public sector, activity level monitoring becomes more meaningful to decision makers interested in bottom line results from the enabling environment. Even if we have to rely largely on anecdotal evidence of success at the project level, positive aggregate measures at ther very least indicates we are witness to (if not driving) something much larger that is moving in the direction we want it to go.

Close, two-way communication with Missions, World Bank and other active organizations is critical to develop common understandings of policy and implementation flows in African nations as well as areas of opportunity for effective program development.

An effective monitoring program is also an efficient strategy to reduce expenditures in programs that are failing because of poor regulatory or business environments.

General Criteria

Because of the complexities of different African economies, differences in cultural and political values as well as different levels of private sector development, an understanding and implementation of criteria for assistance, for both PSSP as well as in U.S.A.I.D. Missions, should be used in deciding on donor assistance in support of private sector activities. These criteria are devided into three screening levels and should include:

Level I Screen - Is the government committed in the right direction?

1. The government exhibits a distinct movement toward free market policies. The activity is undertaken in a country where there is has been shown a substantial commitment to reform and where serious policy reforms are underway or about to begin. Whereas many African nations have had a long history of agreeing to liberalization reforms, many have not fulfilled their commitment. Furthermore, donor attempts to use carrot-and-stick approaches to nations that have not shown any tendency to reform have generally failed. Attempts to support business groups in nations where an enabling environment does not exist have also not succeeded.

2. Government policies toward currency valuations, public and private sector debt and levels of taxation must be consistent and logical, meeting basic needs for private sector activity. Frequently, nations agree to regulatory reform but impose confiscatory fiscal or currency policies that render reforms useless. This must be carefully monitored, especially in West Africa where a long history of unrealistic currency valuations has distorted business activities, rendering new formal investment extremely difficult.

Level II Screen - What project activities should be approved?

1. The activity reduces government involvement in the market place, replacing it with viable and competitive private sector institutions. Policies aim at reducing government presence in business, such as privatization, should be supported. But equally as important is a determination that such reforms insure the development of competitive business that will insure continued provision of services. The continuation of what had been a public monopoly in private hands does not yield economic benefit.

2. The activity does not supplant one public sector subsidy with another The replacement of domestic, public sector subsidies by multilateral or bilateral donor subsidies does not work towards development of a viable free market activity and is an inefficient use of funds.

3. The activity involves an increased role for the private sector, be it in dialogue on policy reform or in governing boards of regulatory bodies. Profitability should not be the sole criteria for support; Increased private sector intervention and resources in regulatory boards is an evolving step towards creating a vital enabling environment.

4. Assistance must work to improve the competitive environment and not undermine other private sector initiatives in similar sectors. Transactional assistance should insure that funds are not subsidizing attempts to eliminate competition, nor to subsidize competition against other private sector enterprises, nor to support one sector against another. Support for private bus lines, for example, may work against private taxi owners, or, support for private food stores may work against local, open markets.

Level III Screen - What "transactions" are suitable for assistance?

1. The activity focuses on development of African entrepreneurs. While support for investment from foreign

capital should be strong, a chief focus should be placed on African entrepreneurship to lay the basis for creation of a vital African business sector. This is a diverse group. Generally speaking, entrepreneurial talent in Africa derives from agriculture small- and large-holders; microentrepreneurs such as truckers, smugglers, craftsmen, and marketwomen; government-linked private suppliers; government managers of parastatal firms who must be retooled to operate in a market economy; offshore talent who left their nations or sent their capital abroad and who will return, and bring with them sophisticated knowledge of management and commerce; and African managers of multinational firms.

2. The activity does not sustain nonproductive enterprises, in the public or private sector. Donor assistance should not shore up public sector firms. Neither should it try to support privatization or other business efforts where self-sustainment cannot be clearly established. This is particularly true for financial schemes. In nations where financial institutions are unable to provide loans, because of I.M.F. credit strictures or because of the perception of high risk, donor assistance should be limited until a viable financial market can be established.

3. Any transactional support should have clear benefit beyond the specific business transaction which is under consideration. There should be a clear demonstration of broader implications for policy, social benefits and lessons learned from transactional support. In most cases, this indicates that businesses and transactions must be substantial in nature. Consideration should also be given, however, to supporting transactions to push for liberalization and forcing changes in the policy environment or demonstrating the viability of the new environment. An example where a transaction has pushed policy reform was the development of the mortgage banking industry in India. Formal mortgage banking virtually did not exist in India until the early 1980s when a small group of young turks, led by a retired director of one of the development banks, opened up the doors of a private mortgage bank with partial capitalization and TA from RHUDO. In about one decade, the Housing Development Finance Corporation (HFDC) through heavy lobbying at the center and state level changed numerous policies and regulations that had hamstrung mortgage banking, with the result that HDFC prospered. HDFC also acted as a snow plow opening up mortgage banking to a variety of major competition that followed in its wake. Without vested private business interests pushing for policy change, the

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financial wing of the state owned Indian equivalent of our HUD would still be slogging along doing close to nothing in mortgage business and would likely still be the primary source of formal banking sector mortgage money in India. Businesses should, where possible, have other, private sector funds (as opposed to those multilateral funds channeled through financial institutions) that will indicate confidence in the enterprise as well as having some logical basis for a profitable rate of return. Assistance should not be in the form of direct subsidies to businesses. Examples of broader implications are the impact of tax or tariff reform upon a specific sector, the viability of newly privatized firms if startup costs are supported, or the competitiveness of local products in regional African markets.

4. The activity mobilizes financial and management resources on a market basis (in investment finance, debt or equity). Where support for financial institutions is provided, it must be used to mobilize existing resources. However, before any support for financial development is provided, projects must determine how the investment environment has changed (reduced interest rates, reduction in IMF credit ceilings, improved operating environments because of tax reductions or altered currency valuation etc.) to allow for effective development of financial instruments.

5. Support for foreign investment initiatives must first determine a viable enabling environment. While some benefits may result from supporting foreign investment promotion to nations with poor enabling environments, such a use is not cost-effective and penalizes those nations where reforms have been enacted.

An activity that also improves the position of business associations, microenterprise groups, networks and cooperatives should be supported. Support for business and cooperative groups to represent their interests before the government, while not yielding immediate results, is a critical element in securing a continued and effective enabling environment. In those nations where enabling environments are particularly poor, strong support for fledgling organizations is an effective strategy to further private sector development. However, it should also be recognized that the private sector in Africa is not one group but a collection of different, frequently competing sectors. Support should be provided to those effective organizations that represent these competing sectors, to provide them strength within government as well as in public opinion circles.

Program Issues

A. Mission Support

The provision of technical assistance and business expertise to U.S.A.I.D. Missions has been the most cost-effective use of Africa Bureau core funds for private sector development. This program should be maintained and strengthened.

Under this role, the Africa Bureau has provided rapid TA on an as-needed basis and has been able to adjust its focus with changing global and regional economic conditions. It has given guidance and networking with private sector experts and business groups for Mission officials who have lacked private sector experience or who have been living in Africa for many years. Core expertise has been provided in developing and implementing private sector strategies and programs.

The Bureau has provided effective and timely short-term assistance on an as-needed basis for Missions that required expertise in specific industrial sectors, in private sector reform or in privatization. In Mozambique, where war relief was the central concern of the Mission, the Bureau provided guidance on establishing a Foreign Investment Code to lay the basis for growth in the rich mining and agricultural sectors for the post-war era; in Zambia, rapid political changes altered the Mission's focus from agricultural assistance to a privatization program in industry and commerce, the Bureau assisted the Mission in providing TA for the new privatization agency in a timely fashion. In South Africa, where the Bureau's program was limited, it assisted in assessing the possibility for developing black entrepreneurship in the post-apartheid era. Similar, ad hoc assistance took place in Togo, Ghana, Zimbabwe and other nations.

Through this program, the Bureau has provided communication between and among the Missions on new strategies being developed by other offices as well as new business and financial trends emerging in the global and African economies. This communication has been on an ad hoc basis and should be more formalized, especially if the monitoring role is expanded. It has also provided the Agency with invaluable information as to Mission needs and the changing economic developments in each African nation.

The Africa Bureau has been instrumental in providing long-term PSA technical assistance for Missions in ten countries -- Burundi, Zimbabwe, Gambia, Cameroon, Zaire, Ghana, Swaziland, Lesotho, Kenya (regional) and Ivory Coast (regional). This broad program will be narrowed somewhat in line with the growth of Mission capability in some of these countries (Zimbabwe, Ghana) and negative private sector policies in others (Kenya, Cameroon).

Mission assessments of the Bureau have been favorable; chief criticism has focused on the Bureau's inability to provide specific commercial information for the Missions' use. However, this was not an expressed role for the Bureau. Rather, the criticism is a sign of success. While the Bureau has endeavored to answer queries and network Missions with commercial experts, it did not have the capability to perform such specific functions.

A.1. Private Sector Strategy

The Bureau has worked to help Missions to develop private sector strategies and, in the past, to prepare project documents. These services were particularly valuable when Missions were first venturing into private sector activities, a role that has diminished in importance. They have been Mission-funded through buy-ins and development of Mission strategies should continue to be so. However, writing of Project Papers, or other activities which should be Project Development Support financed, should not be funded under the PSSP.

A key component of this assistance has been MAPS (Manual for Action in the Private Sector) studies. These are designed to help identify the structure of the business sector, facilitate reform as well as to develop a dialogue between government officials and entrepreneurs who have heretofore lacked a political voice. The MAPS, developed by the PPC/Policy Bureau, occurs over a period of four to six months during which time the private sector is surveyed to establish its size and scope and to obtain insights into its attitudes and views. Where does business exist and where does government limit entrepreneurship?

This MAPS process involves local consultant and survey firms who are then trained to undertake MAPS surveys so that Missions and the private sector in the country can have local, experienced firms able to undertake MAPS updates. It brings together various segments of the private sector, some of whom have a history of antagonistic relationships, to discuss shared constraints. It also engages the AID Mission to learn how to find significant private sector actors and to engage in a dialogue with the private sector.

The MAPS program is a critical, learning tool for nations where reform of the enabling environment sector is just emerging and should continue to be employed in those nations where private sector reform is being undertaken for the first time. To date, it has succeeded in eleven African countries in identifying the structure of the business sector, as well as to develop a dialogue between government officials and entrepreneurs. Missions have come to understand the environment in which they work.

MAPS should continue for nations undergoing basic reform. However, the number of nations where this may happen is likely to decline.

Rather, some of the functions that MAPS performs should be expanded for Missions in those nations with more advanced enabling environments and provided on an, ad hoc, as needed basis. These should include:

1. Updated analyses of the state of the private sector for nations where PSAs do not exist or where fundamental reform has shifted the scope of economic activity.

2. Continued efforts to create strength among domestic business leaders and associations, through national and regional meetings. In addition, sectoral organizations should be encouraged to develop, through networking of Associations with their international or US counterparts, such as chambers of commerce, trade associations, industry groupings and financial associations.

3. General, ongoing assessment of Agency and Mission private sector activities in light of political and economic changes to determine the viability of such programs. Coordination with international agencies, in Washington, as to their views and plans with specific nations.

A.2 Enabling Environment

Governments' commitment to reform their enabling environment and to enact Structural Adjustment Programs (SAPs) are the keys to developing a successful business climate. If fulfilled, job employment will increase, capital investment will expand, new technologies will flow into countries and reliance upon donor agencies for subsistence will decline.

While the Agency supports SAPS, its major impact is on assisting in the development and implementation of reform of the enabling environment through provision of technical and financial assistance and conditionality. However, political resistance is strong against reform, especially in the bureaucracy and allied private groups. Even though governments agree to reform, informal barriers are frequently stronger than legal restrictions. To be cost-effective, the Agency must monitor continuously the willingness of nations to continue these reforms.

The areas where the Africa Bureau has assisted in enabling environment reform includes the provision of TA for investment codes, trade regimes, tax codes and privatization efforts. These efforts represent a vital and efficient use of resources to spur free capital investment and flow of goods in the continent:

Reform of investment codes is key to developing an environment that allows domestic as well as foreign capital to invest in African nations, rather than hide or export capital abroad. Property rights

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must be guaranteed and investors must be given confidence that the environment for their capital is safe. Investment reform lays the basis for a long-term process that informs African leaders what capital requires to invest in their nations, to create jobs and lay the basis for growth. Revision of foreign investment codes frequently leads to revision of domestic investment codes, because local entrepreneurs complain, rightly, that they are working at a competitive disadvantage. Furthermore, as the benefits of new capital are discerned in the form of job creation and technological replenishment, countries are more willing to relax restrictive requirements. Africa Bureau efforts have been successful in Mozambique and Uganda.

Investment promotion in nations that have basic flaws in the enabling environment is not effective, even if some partial reforms have been undertaken. Mission efforts throughout the 1980s at sponsoring trade & investment centers confirm this lesson in areas where there is minimal infrastructure (Cape Verde), where the business environment is inefficiently corrupt (Kenya), where repatriation of capital and profits is difficult (Cameroon), or in case of other major risks or impediments to operating and profit potential(Uganda).

Trade reform is required to spur exports and exports are not possible until nations become globally competitive. Almost all substantial growth among donor concentration nations, apart from donor funds, is from exports. To become competitive, all African enterprises must lose their traditional tariff, currency and legal protection from imports. Many African nations tax imports and exports. Their governments obstruct trade through burdensome procedures in ports. Poor maintenance in the transport sector, despite high taxation, works against trade. Government-supported cartelization of trade (shipping and trucking) further works to undermine the ability of nations to export. It is not surprising to find that the more vibrant sector of the economy is in informal trade (contraband) that thrives across many borders to circumvent government controls and inefficiencies. The Africa Bureau has achieved notable regulatory reform in Uganda, Burundi and Swaziland. Attempts at reform in Togo floundered because of political unrest.

- A predictable and fair and competitive tax code is required to provide confidence for new domestic and foreign investors. African leaders must come to understand that a reduced tax burden decreases the level of informal activity, bringing more economic activity within the formal sector, increasing state revenues.

- Privatization symbolizes a political will to take strong steps to end monopolies and favored treatment to quasi-corrupt elite groups and workers in bureaucracy and government-linked contractors who do not perform work for value, thereby taxing

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the productive sector of the nation, the farmer, the worker and the private sector. When successful, privatization reduces government spending and fiscal deficits, improves services to the general population, reduces patronage and burdensome taxation of the populace, frees-up resources for more productive, social and infrastructure uses, and improves the overall competitiveness of national bureaucracies in the face of global competition. African Bureau efforts have been successful in Tanzania, Uganda and Zambia.

A3. Developing Private Sector Networks and Organizations in Africa

Support for the development of business associations and networks, through regional and sectoral meetings, TA and organizational support, is an important role in building private sector infrastructure. The Africa Bureau has devoted considerable energy and technical support in this area, filling a vacuum among donor agencies. Its efforts to sustain networks has been particularly important in those nations, in West Africa, where the enabling environment is poor and where the private sector needs greatest support. It has worked to develop contacts between businessmen and groupings in Africa and the United States.

While measurement of the economic benefit in this area is difficult, the program plays a critical economic as well as political role in building support for private sector activities in African nations. The lack of sophisticated business networks in Africa is a key restraint to private sector growth. In the developed world, business associations represent individual industrial and agricultural sectors, provide up-to-date information on current business trends and opportunity and represent their sector to government and international associations. In Africa, the small and medium entrepreneur community works in isolation from other businessmen, neighboring countries and from the world economy. Because of hostile operating conditions, most businessmen work in secrecy, too insecure to cooperate with their compatriots.

The basic need for African entrepreneurs is to break out of the isolation in which they worked by establishing a strong network. African business must be kept aware of the impact of the rapidly changing African environment. Markets and sources will radically shift as government subsidies and protectionist policies are abolished and liberal import regimens are established with low or no tariffs. Above all, the entrepreneur sub-culture must develop confidence in its operating environment.

In an effective African business environment, a broad band of associations, representing competing sectors and interest groups, would address obstacles to private sector development by representing the interests of its membership to government and other industries with regard to the substance of policy and the process of regulation, providing members with information on policy, regulatory and market environments, facilitating access to credit, supplying technical assistance and training and establishing industry standards.

After initial Africa Bureau efforts, missions in Cameroon, Kenya, Ghana, Guinea, Swaziland, Tanzania and Uganda are working with business associations and groupings to strengthen their ability to participate in policy dialogue through studies, publications and the promotion of fora where such exchange can occur (see below, business associations).

B. OPIC and Investment Promotion

The Africa Bureau provides assistance in developing the investment and trade potential in Africa through technical assistance in legal and regulatory reform, in promotion, in development of market information and in establishing linkages with US firms. These efforts have been done on an ad hoc basic, using outside consultants, as well as through cooperation with the Overseas Private Investors Corporation (OPIC) and the Foreign Investment Advisory Service (FIAS).

The Africa Bureau's efforts to promote investment, including revision of investment codes, sponsorship of US investment missions and support for new investments through financial intermediaries has shown that investment promotion in nations that have basic flaws in the enabling environment yields minimal results, even if some partial reforms have been undertaken. However, once the political atmosphere is ripe for reform, investment promotion in these same nations where promotion once failed can work, as in the case of the Uganda Investment Authority after 1990.

Investment sites must have a clear competitive advantage, especially because their locale is in Africa. Investors prefer to keep their money in safer havens with greater predictability. However, they will invest if the risk/reward ratio is beneficial. Accurate information must be provided to facilitate outside investment interest and follow through.

OPIC missions have generally utilized regional approaches, yielding only minimal results in those nations where business environments are poor. While it is true that missions yield some political benefits as well as illustrating to African nations the requirements for investment, the benefits for increasing foreign investment is questionable in nations with poor operating environments.

In the eighteen months since OPIC and AID entered into a joint program of investment missions, more than 91 US firms visited ten African countries; of the 91 companies that participated on the missions, 35 have not notified OPIC of plans to "pursue investments." But, major questions exist as to how much of this data relates to trade rather than investment and whether these investments would have been accomplished without an OPIC mission.

OPIC investment missions have taken place in African nations where enabling environment reform has taken place. The number of new SSA nations where reforms will have similar impact in the future is unlikely to be large. The key issue is whether Africa Bureau efforts yield greater results in policy reform rather than in developing investment missions and whether investment missions should be financed on a per nation rather than regional basis to avoid high costs and poor enabling environment. The continuation of OPIC missions should be encouraged only when the enabling environment is positive.

C. Finance and Venture Capital

The lack of a well functioning financial system, including banking institutions is a key obstacle to the development of the private sector in sub-Saharan Africa. The need for debt and equity financing for small and medium sized enterprises is widely recognized. Existing commercial banks as a matter of practice do not provide more than limited short-term trade finance or working capital loans. Earlier development finance institutions and banks were not well managed and generally made poor loan and investment decisions. The result is insufficient capital to finance the start-up and growing small and medium sized enterprises.

Because of the reduction in official development assistance and the reductions in commercial bank lending to developing countries, many countries have turned to the market and to new financial institutions and instruments to mobilize savings and to allocate credit to priority sectors of the economy. The formation of equity markets and venture capital investment companies are two examples of this financial innovation.

Venture capital, defined as long-term risk capital -- equity or unsecured convertible debt, often accompanied by managerial involvement, has played a key role in mobilizing funds that allow investors to share in the rewards and risks of new company start-ups or expansion of existing companies. Efforts to support the development of such financial innovation in sub-Saharan Africa are beginning to show encouraging success.

Under the existing APEF, assistance has been given to establishing venture capital companies in Kenya, Ghana, Tanzania and Zimbabwe. Kenya Equities since 1988, has invested the equivalent of $3.8 million in six projects, 41% equity and 59% debt. In addition, Kenya Equities has eight new venture funds under management.

Under the new PSSP, technical and financial assistance will be provided to assist in the development of 4 to 6 new venture capital funds and the restructuring of 3 to 5 existing funds or organizations. In addition, the project will:

-- address policy and institutional constraints to the development of venture capital formation;

-- address the relationships and linkages between privatization and equity/venture capital market development;

-- institutionalize the promotion and development of venture capital activities in sub-Saharan Africa;

-- raise the level of awareness regarding the role of venture capital formation in sub-Saharan Africa; and

-- generate and disseminate information and lessons learned regarding the development of new financial instruments and venture capital for the financing for the financing of the private sector.

D. Assessment, Coordination and Monitoring

The Africa Bureau has provided periodic assessment of its performance. But there has not been any general monitoring of ongoing private sector activities in Africa, where enabling environments are effective and where they are not. This has not been within the mandate of the Africa Bureau to date. However, some ongoing monitoring mechanism should be established to provide the Agency and Missions with guidance as to current and future programs. Enforcement of conditionality provisions is critical for maximum economic usage of assistance funding. In those nations and areas where enabling environments are not succeeding, assistance should be reduced and negotiations with government officials begun. In those nations where success is greatest, additional help should be provided.

Coordination should be increased with other donor agencies at Agency and Mission levels. In those nations where there has been policy slippage, the Agency should take a strong position with multilateral donors to alter policy. The reverse is also true. Similarly, coordination is critical to avoid overlap of donor activities as well as competition between multilateral or bilateral donors for specific projects.

ANNEX F.

VENTURE CAPITAL OPERATIONAL PROCEDURES

Venture Capital Grants will be subjected to the following approval criteria. While exceptions may be made to the criteria provided below, all exceptions must be fully justified and approved by the Africa Bureau. Grant Funding Recommendation Memoranda will be evaluated and approved by the Africa Bureau for funding provided under core funds and by USAID Missions for funds contributed from their own budgetary resources.

A. General Considerations

1. Positive Country Conditions

The country must be in satisfactory status with the World Bank/IMF. If a Structural Adjustment Plan is in place, the country should be in compliance with that plan.

There should be a positive trend in overall country economic indicators; e.g., among others, GNP growth, fiscal responsibility, moderate money supply growth, moderate rate of inflation, etc.

Political stability and governmental effectiveness will be considered in approving venture capital projects.

Adequate financial/ capital markets structures to support venture capital funds must be evident.

2. Private Business Investment Opportunities

Viable private investment possibilities must be in evidence.

Local private business persons/investors should have indicated a willingness to undertake new investments, business expansions or turnarounds.

3. Potential for Mobilization of Private Investment Capital

Emphasis will be on raising financial resources, both domestically and internationally, from private sector capital markets, OECD investment banks and the multilateral financial institutions.

4. Exit Opportunities for Venture Capital Investment

Conditions for the establishment of stock markets and secondary markets will be a factor in selecting countries with appropriate enabling environments.

The potential for structuring management buy-outs and private placements as strategies for disinvesting from the venture capital funds will be an enabling environment factor taken into consideration. In many countries, education and technical assistance will be required to develop the required financial skill levels to structure and negotiate exit agreements.

B. GRANT SELECTION CONSIDERATIONS

1. Proposal Feasibility

The critical factor is the potential for raising capital and investing effectively. Grants to partially fund start-up expenses for venture capital management companies will not be preconditioned as to the nature of their operations. In the case of a venture capital fund, non-investment criteria, such as the size and nature of the business, will not be determinative.

2. Development Impact

The sub-project will be evaluated as to potential results on employment generation, effect on gender issues, business formation/expansion, capital markets development and production of goods/services, etc.

3. Sponsor Capabilities

In selecting a grantee, institutional strengths of the grantee, such as the stability and effectiveness of management, experience, creditability and financial soundness, will be considered.

4. Resource Leverage

A.I.D. grant funds will be targeted at supporting a portion of the start-up operating costs for the establishment of venture capital management companies in African countries in which a USAID Mission has a private sector development program which would benefit from the centrally managed project. The selected venture capital management company is responsible for obtaining all required governmental approvals, hiring staff and raising investment funds. The actual investment funds will be resident in a separate legal entity, "The Fund". Depending on the nature of the venture capital project, a significant multiplier effect will be expected from the A.I.D. funded financial and technical assistance provided. Projects are expected to meet a minimum leverage factor in excess of $1 for every $1 committed. When possible and appropriate, A.I.D. will be expected to participate in the profits/capital gains experienced from a successful venture capital fund. The use of "Trust Funds" established under Mission programs may be a vehicle for A.I.D. participation.

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C. ROLES AND RESPONSIBILITIES

Development of venture capital management companies and the raising of investment funds is a complex undertaking, with complementary roles involving AFR/ONI, USAID Missions, and the A.I.D. Contractor, as well as other Development Finance Institution (DFI) investors, local investors, and African government authorities. Clarity of communications and mutual understanding about roles and responsibilities is essential. Although roles will change over time, this section is intended to provide an initial framework.

1. USAID Missions

USAID Missions will have general over-sight for the activities under Mission private sector support and financial sector development programs, of which grants for venture capital start-up operation is a part. Therefore, the Mission must be involved in all programmatic and funding decisions. The Mission will approve or concur in all technical support work related to establishment of a venture capital initiative in a target country. The A.I.D. Contractor will establish appropriate procedures for the on-going monitoring and evaluation of the activity. The Mission will receive copies of all reports prepared by the Contractor and will participate in evaluations.

2. A.I.D. Contractor

The A.I.D. Contractor will be responsible for: coordinating negotiations with the Grantee; conducting due diligence in preparation of the Grant; assuring proper disbursement, control and auditing of Grant funds; and for monitoring and evaluating the Grant during the life of their A.I.D. contract. The Contractor will also provide technical assistance to the Grantee as required to support a successful launching of the venture capital fund following a scope of work agreed to by the USAID Mission, coordinated with the Grantee and approved by AFR/ONI. The Contractor will communicate directly with the USAID Mission involved and with the AID/W Country Desk Officer and AFR/ONI, as appropriate.

3. The Grantee

The Grantee will be accountable for the Grant to the Grantor (the Contractor), which reserves the right to manage the Grant in accordance with its A.I.D. contract and A.I.D. regulations. The Grantee may also communicate directly with the USAID Mission and with potential investors regarding the establishment and operation of the venture capital management company and the venture capital fund.

4. A.I.D. Washington - AFR/ONI

AFR/ONI has responsibility and final authority over the Project and must approve any grants or direct work performed utilizing A.I.D.

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funds. AFR/ONI will be fully involved in all decision making involving the project through direct contact with the Mission and the Contractor.

D. SOURCES OF FUNDING

The line item for venture capital and other grants contained in the PSSP Project Paper is $3.3 million with 82% provided from central funding and 18% from Mission contributions. While Mission involvement is critical, experience has shown that the "buy-in" mechanism is not a timely and flexible enough mechanism for contribution of Mission funds to a Grant structure. The "OYB" contribution mechanism has been more successful. However, a Mission may decide to make a separate direct grant to follow-on after the initial centrally funded grant if additional support or further venture capital activities are deemed appropriate.

F. TRACK RECORD FOR VENTURE CAPITAL PROJECTS TO DATE

The decision of A.I.D., and the development community in general, to support development of the financial sector in African countries, and the promotion of venture capital vehicles specifically, is relatively recent. Grant activities under the existing APEF project began in December, 1991. Given the 3-5 year start-up period for a venture capital fund to be self supporting as to administrative costs and a 7-10 year cycle before the financial success or failure of the fund's investment activities can be determined, the A.I.D. track record today must be measured in terms of initiatives started, training and public information, and generating Mission support and programs. Progress to date, so measured, has been encouraging.

MISSION REPORT OF CONSULTANT SERVICES

Please assist us in monitoring the quality of our work by completing and returning this questionnaire to AFR/ONI/PSD by fax [fax no. (202) 647-7430] upon the completion of consultant services. The Scope of Work for the assignment is attached.

PART I: TO BE COMPLETED BY CONSULTANT

DATE:

MISSION:

NAME AND POSITION OF MISSION CONTROL OFFICER FOR CONSULTANT SERVICES:

PHONE NUMBER: FAX NUMBER:

PROJECT TITLE AND NUMBER:

INDIVIDUALS WHO PERFORMED THE WORK:
OF (NAME OF FIRM OR AGENCY):

START DATE:
END DATE:

OBJECTIVES OF ASSIGNMENT:

PART II: TO BE COMPLETED BY MISSION

ASSESSMENT OF CONSULTANT PERFORMANCE

1.) In your opinion, were the above mentioned objectives accomplished? Please explain. If not, what factors limited success?

2.) Do you forsee the need for any follow-up or related work to be designed/executed? Please explain.

3.) How will the impact/results of the work be monitored?

4.) Did any remarkable performance-related problems or concerns arise during the execution of the assignment? Please explain.

5.) Please use this space for additional comments, question, or concerns.

Private Sector Support Project (698-0544)--Project Paper

Clearance:

A-DAA/AFR:TBork	DRAFT	Date:	6/18
GC/AFR:ESpriggs	DRAFT	Date:	6/18
AFR/DP:MBonner	DRAFT	Date:	6/18
AFR/ARTS:JWolgin	DRAFT	Date:	6/18
AFR/SWA:JGilmore	DRAFT	Date:	6/18
AFR/EA:PGuedet	DRAFT	Date:	6/14
AFR/SA:KBrown	DRAFT	Date:	6/18
AFR/CCWA:MGolden	DRAFT	Date:	6/18