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PRIVATE ENTERPRISE DEVELOPMENT INITIATIVES

Case Study Examples

Compiled by

Private Enterprise Development Support (PEDS)
Project Team

For

Bureau for Private Enterprise
U.S. Agency for International Development

The case studies contained herein are presented in alphabetical order according to country. The index indicates the functional categories covered by the examples. Comments, corrections and additions are welcomed by the PEDS Project Team.

PRIVATE SECTOR AND MARKET-ORIENTED DEVELOPMENT INITIATIVES

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B.1. ARGENTINA: Export Tax Reduction

Problem Addressed: Inward-orientation of the economy which limited competition and foreign exchange earnings needed to meet foreign debt payments.

Initiative: Argentina progressively reduced export taxes on all goods in stages between April 1986 through May 1987 as part of a general effort to reduce the anti-export bias inherent in its tax codes, and overall economic policies. While the export tax on manufactured goods was eliminated, the cutting of agricultural export taxes is of much greater importance for several reasons. Agriculture dominates Argentine exports, making up about two-thirds of the total. Export taxes on agricultural goods were much higher, ranging from 15-35 percent, compared to 5 percent for manufactured goods, and revenues from agricultural export taxes were a major source of government revenue. Finally, the decision to cut agricultural export taxes, which results in a rise in food prices, was the first clear demonstration that the Government of Argentina (GOA) was moving away from the several generation long policy of subsidizing urban dwellers at the expense of the agricultural sector.

Implementation: Agricultural taxes were cut in two steps. Both cuts were conditions for disbursement of tranches of a $300 million World Bank Agricultural Sector Loan. The cuts took place during a period of stagnating agricultural prices, which moderated the impact on domestic food prices, and therefore also moderated political opposition.

(1) April, 1986, as a precondition for the loan, the weighted average rate of agricultural export taxes was reduced from 25 to 15 percent.

(2) January, 1987, the GOA exceeded the cuts prescribed as conditions for the second tranche of the Agricultural Sector loan reducing the weighted average export tax on agricultural goods by a further 8 percent. Argentina, however, never received the $150 million second tranche of the Agricultural Sector Loan because a replacement land tax was not implemented.

At the end of January, 1988 export taxes on some processed agricultural products were raised due to U.S. government pressure. The U.S. argued that the differential between processed and unprocessed goods acted as an implicit subsidy to agricultural processors.

Export taxes on manufactured goods were eliminated in May, 1987 as a pre-condition for a $500 million World Bank Trade Sector Loan. Argentina also liberalized its system of tariffs and streamlined trade regulations as part of this loan.

Impact: Taxes are only one among many variables which affect agricultural exports and production. Accordingly, their impact cannot be quantified directly. However, it is clear that lower taxes have increased production incentives. The combination of higher world prices and lower export taxes lead to a sharp increase in cultivated area for the 1988 harvest. Preliminary results indicate that the 1988 harvest will exceed the 1987 crop by 25% in volume terms, and 50% in revenues, or $2 billion.

While production and export revenues have been promoted by the export tax cuts, tax revenues have been reduced, which has contributed to Argentina's major macro-economic problem, a growing fiscal deficit. The negative fiscal impact of these tax cuts could have been overcome by the implementation of an efficient land tax or through expenditure cuts, but the GOA has not had the fiscal or political discipline to enact these necessary complementary measures.

Lessons Learned: Periods of declining world prices are proptitious times for eliminating export taxes, as the impact on domestic consumers is reduced.

Further Information: See World Bank Economic Memorandum: Argentina, 1988.

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H.1. BANGLADESH: Privatization of Fertilizer Distribution

Problem Addressed: High cost and inefficiency of state-controlled and subsidized fertilization distribution.

Initiative: Since 1978 the Bangladesh government, with substantial assistance from USAID, has progressively transferred the distribution of fertilizer from a government monopoly operated by the Bangladesh Agricultural Corporation (BADC) to the private sector, as well as reducing subsidies for fertilizer. Before this reform process began, fertilizer subsidies used about 10 percent of the country's development budget. In addition, delivery of fertilizer was often late and shortages were common. Under the liberalized system registered private traders buy fertilizer from the BADC and sell it freely to consumers. It is planned that the fertilizer market will be completely privatized by 1992. The fertilizer subsidy was totally eliminated in 1987.

Implementation: This reform was coordinated with other agricultural liberalization measures designed to implement a more competitive market-based agricultural system in order to boost agricultural protection and obtain greater self-sufficiency in food supplies. USAID has been involved in the fertilizer liberalization process from the beginning both through policy dialogue efforts and with significant financial assistance to construct distribution infrastructure.

Impact: The fertilizer distribution liberalization has been extremely successful. Even though the subsidy was removed, fertilizer use has increased by 7 percent per year since 1981. Part of this increased use is due to the fact that the price of agriculture products have been increased concurrently towards internationally competitive levels. The price of fertilizer in terms of the price of rice and wheat, the primary food crops, increased about 10 percent since 1980. Although fertilizer was more expensive, private distributors supplied it at the right time, increasing its utility. Moreover, with a higher price for agricultural products, the higher yields resulting from increased fertilizers made its increased application more attractive. In sum, agriculture production has increased while reducing government costs and increasing overall efficiency.

Lessons Learned: Even strategic commodities, such as key agricultural inputs, can ususally be most efficiently allocated by competitive markets.

Further Information: World Bank Reports: #7105-BD, "Bangladesh Adjustment in the Eighties and short-term Prospects" 1988; Fertilizer Distribution Improvement Project reports.

I.1. BANGLADESH: Industrial Sector Liberalization and Privatization

Problem Addressed: Poor industrial performance due primarily to excessive government control (in 1982, 85 percent of industrial assets were owned by public enterprises) and restrictive investment and import regimes.

Initiative: In 1982, the Government of Bangladesh (GOB) initiated the New Industrial Policy (NIP) designed to revive the flagging manufacturing sector by: (1) expanding private sector participation and encouraging an export orientation through the liberalization of investment and import regimes; (2) reducing the role of public enterprises through privatization; and (3) improving the efficiency of public enterprises that were retained.

Investment deregulation included a classification exercise, which restricted the public sector to a "reserved list" of heavy and strategic industries, with the remainder classified as "free sectors." With the liberalization of investment approval regulations, most private investment within the free sector no longer need government approval, except for some import licenses.

Extensive privatization has been conducted. Over 650 industrial units were transferred to the private sector, leaving only 160, while the public sector's share of industrial assets declined to 40% by 1966. More recently, the Government has begun the partial divestment of public enterprises, where 49% of the equity is sold to the private sector, but majority control is maintained by the public sector. Only limited steps have been taken to improve public enterprise performance. They include a program to develop an integrated system of planning, budgeting and performance evaluation.

Some steps have also been taken to open the Bengali economy through import liberalization. Import procedures have been simplified and most imports (70 percent) are now transacted through the free secondary foreign exchange market. Quantitative restrictions have been relaxed and tariffs have been rationalized. Finally, the "positive"list of items specifically permitted to be imported was replaced with a negative restricted list, which has been gradually reduced in size.

Implementation: This policy has been conducted in steps starting in 1982, and then accelerated in 1986 with the Revised Industrial Policy. Implementation has been adequate for policies affecting the private sector, but not for those to reform retained public enterprises.

Impact: Until a series of natural disasters struck Bangladesh in 1986 and 1987, the private sector reacted very positively to the industrial reforms. Private industrial investment rose sharply, particularly in export-oriented industries. Public enterprises, however, continue to perform poorly. This is due primarily to the government's continued control of their prices.

Lessons Learned: For industrial entrepreneurs from extremely impoverished nations such as Bangladesh demand from foreign markets for industrial goods is more consistent than domestic demand.

Further Information: "Bangladesh: Adjustment in the Eighties and Short-Term Prospects," World Bank Report # 7105-BD, March, 1988.

A.1. BOLIVIA: Liberalized Financial Markets

Problem Addressed: Immobilized financial intermediation due to regulated interest rates and financial transactions in the midst of hyperinflation.

Initiative: One of the first steps of the new Paz Estensorro government in August 1985 was the liberalization of financial markets. Interest rates were freed, and all remaining restrictions on financial transactions, (such as indexed deposits), were lifted. In short, competitive market-based forces were allowed to determine key financial variables.

As part of this move towards a market-based financial system steps were also taken to shrink direct financial intervention by the Central Bank. Central Bank financial support of commercial banks was reduced. In addition, the Central Bank is working to shed its role as the commercial bank for public enterprises and development banks, and will allow private commercial banks to fill this role.

Implementation: These financial liberalization measures were implemented as part of a far reaching market-based economic stabilization and structural reform program which began several weeks after the Paz Estensorro government was inaugurated. Other components of the program included, the establishment of an auction-based foreign exchange system and the liberalization of tariffs (see Case C.2) as well as fiscal reforms (Case B.2).

Impact: The combination of these measures have lead to the remonetization of the Bolivian economy and the renewal of economic stability. Due to hyper-inflation, which reached 60% per month during the first half of 1985, the monetary base fell from $561 million in 1980 to only $71 million in 1985. By late 1987 it had grown again $530 million, indicating renewed confidence in the currency and the financial system.

Private financial institutions have had difficulty dealing with the financial liberalization, as high real interest rates and continuing high administrative costs have cut into their margins. The devaluation also has made many of their dollar based loans non-performing. Although there is little indication of a reflow of flight capital, the reforms have worked to stop the outflow.

Lessons Learned: Established private enterprises will often be strongly opposed to the reduction of the state economic intervention and the establishment of competitive private markets. Even though these changes present great opportunities, they usually prefer the greater certainty provided by a controlled economic environment.

Further Information: World Bank Report #6455-BO, "Updating Economic Memorandum on Bolivia" December, 1986.

B.2. <u>BOLIVIA: Tax and Public Sector Reform</u>

<u>Problem Addressed</u>: Insolvency of the national government and over-regulation of the economy in the midst of hyperinflation (60 percent per month) and unprecedented economic decline (per capita GPD had declined by one-third over the six preceding years).

<u>Initiative</u>: Starting only several weeks after the new Paz Estensorro government was inaugurated in August 1985, the new administration completely restructured the tax system and began a series of ambitious administrative and financial reforms of the public sector. Reforms included: (1) the establishment of financial ceilings for all public agencies and departments and the requirement of detailed budgets; (2) limits on public sector salaries and employment, with incentives for early retirement; (3) increase in petroleum prices to international levels and (4) reform and privatization of state-owned enterprises; and (5) a complete reform of taxes, including an innovative self-enforcing system of a 10 percent value-added tax (VAT) and a 10 percent withholding tax on all income, against which any VAT taxes could be deducted. This deduction encourages salaried persons to demand receipts for the VAT, and therefore, acts as a powerful enforcement mechanism to force vendors and producers to pay the VAT. Other taxes include personal property taxes ranging from 2-3 percent, which allow the government to obtain significant revenues from cocaine smugglers.

<u>Implementation</u>: This tax and public sector reform was conducted as part of a far reaching economic stabilization and structural reform program which transformed Bolivia from a dirigiste economic regime to a market-based system with a transparent and efficient policy framework within six months. The government was politically able to carry out these measures, because of the total collapse of the economy under the previous system. However, the lack of qualified managers has crippled effective implementation of these measures.

<u>Impact</u>: The fiscal deficit, excluding external obligations reached near balance by 1986. This fiscal stability contributed significantly to Bolivia's success in achieving stable low inflation of around 10% per year. However, reorganization of the public sector has lead to the closing of several state owned-enterprises and the lay-off of 1/3 of employees of the state tin company. Moreover, strong economic growth has not returned, due primarily to adverse external factors.

<u>Lessons Learned</u>: Economic crises,which demonstrate the inadequcy of existing economic policies, create political opportunities for fundamental economic reform.

<u>Further Information</u>: World Bank Report # 6455-BO, "Updating Economic Memorandum on Bolivia, " 1986.

C.1. BOLIVIA: Foreign Exchange and Trade Liberalization

Problems Addressed: Debasement of local currency due to combination of hyperinflation and controlled exchange rates and weak non-traditional exports due to overvalued currency and highly protected local industry.

Initiative: Almost immediately following the innauguration in August, 1985 the new Paz Estensorro government moved to reform the foreign exchange and trade systems. The controlled exchange rate system was replaced with a weekly auction system. The auction system unified the official and parralel raes, and lead to an effective 93 percent devaluation. (Before the reform, the parrallel rate was 15 1/2 times greater than the official rate.) In addition, controls on imports, exports and foreign exchange transactions were lifted. Access to foreign exchange was opened to anyone with local currency, and all taxes and commissions on foreign exchange transactions were lifted.

The tariff system was also completely reformed. Initially tariffs were reduced to a flat 10 percent plus 10 percent of the previous tariff. However, by August, 1986 the system was further simplified to a flat 20 percent tariff on all goods. Export incentives were simplified as well to a flat 10 percent rebate applied against direct and indirect taxes.

Implementation: These measures were implemented as part of a far reaching market-based economic stabilization and structural reform program designed to address hyperinflation and unprecendented economic decline (per capita GDP had declined by one-third since 1980). (See Cases B.2 and A.1 for descriptions of other measures.) Most of the program was announced in August, 1985 and quickly implemented in stages over the next several months.

Impact: The new foreign exchange system has lead to renewed confidence in the peso, and unemcumbered access to foreign exchange. While there is no evidence of a reflow of flight capital, foreign exchange now remains in the country voluntarily. The devaluation and reform of the tarrif system has also contributed to an annual average 20 percent real increase in non-traditional exports since 1985. Finally, the combination of foreign exchange and tariff reform has lead to an equalization of effective protection across sectors which should lead to greater economic efficiency.

Lessons Learned: Controls on currency cannot be effective if they allow the exchange rate to vary significantly from a competitive level. Moreover, the best remedy against capital flight is a system that maintains a competitive exchange rate.

Further Information: World Bank Report # 6455-BO, "Updating Economic Memorandum on Bolivia," December, 1986.

H.2. BOTSWANA: Rural Sector Development

Problem Addressed: Need to increase employment and incomes in rural areas of Botswana.

Initiative: The private sector component of this general USAID grant of $9.3 million (633-0077, covering 1980 to 1988) amounts to about $2.7 million. The Phase I project goals are to increase both small farmer agricultural production and off-farm employment opportunities through the promotion of small rural industries.

Implementation: The project is being administered by the Rural Development Unit of the Ministry of Finance. Activities in Phase I included the creation of a cadre of rural industrial officers, surveys of existing and potential industries in each district, and support to small industries through the Small Projects Fund administered by the industrial officers. In general, the private enterprises envisaged have been low volume, rurally located businesses with one or two employees. Using a simple technology they supply goods and services demanded in rural areas, such as concrete block making, sewing and carpentry. Project funds have been used for materials, operations and training of the new entrepreneurs. Phase II began in 1983 and built on the lessons learned in Phase I, focusing directly on increasing rural employment opportunities in agribusiness and services.

Impact: As of July 1984, the Rural Industry Officer extension service and assistance to small rural producers had achieved all targets specified in the project paper. Further information is required to indicate subsequent progress.

N.1. BOTSWANA: Small Enterprise Management Training

Problem Addressed: Need to improve business skills.

Initiative: This USAID-sponsored initiative (633-0228) was funded at $452,000 and covered the period 1982-1986. The project sought to establish business advisory services extending management assistance and business skills training to 200 to 300 existing small businesses and assisting in forming 150 to 250 new businesses, thereby increasing the number of viable small enterprises in the target area.

Implementation: The project was carried out by Partnership for Productivity/Botswana. Project activities included the preparation of local market studies to identify the potential for new small repair, service and production businesses; technical assistance to new and expanding businesses in identifying local markets and products and managing a small business; business skills training in accounting, cash flow management and marketing; and training for eight Botswana business advisors.

Impact: At the end of the project period, the business advisory service had been established, and 84 clients were assisted. Eight local business advisors were trained. Types of businesses served included food canning factories, printshops, trucking companies, vehicle repair shops, charcoal production firms, and blacksmiths. Botswana Development Corporation assumed responsibility for the business advisory services.

J.1. CAMEROON: Credit Union Development Project

Problem Addressed. Provide financial and technical assistance to the Cameroon Cooperative Credit Union League.

Initiative: This project (631-0044) was funded by USAID at $1.6 million and covered the 1980-1985 period. The private sector component of the project amounted to about $900,000. The project was designed to provide the Cameroon Cooperative Credit Union League with management technical assistance so that it could develop the financial resources, stability and technical ability to offer member credit unions training in financial management, savings and membership building and credit administration. The network of individual credit unions were encouraged to expand because each union was better able to offer reliable savings and credit facilities than existing institutions in rural centers. Credit programs would be expanded beyond the existing Small Farmer Production Credit (SFPC) program to include non-farm credit.

Implementation: Technical assistance to unions included training in loan application appraisal, loan follow-up and servicing, and business advisory services to individuals granted small (less than $150) loans. A sub-project evaluated the feasibility of the small, non-farm producers credit program. Targets included increasing the SFPC program from 15 to 28 unions, increasing loans from 79 to 340, raising savings to about $400,000, and introducing 420 union officers to the SFPC program. The USAID grant of $1.6 million was allocated to technical assistance personnel, credit training, and staff support. Other donors provided staff and funds valued at $3.3 million.

Impact: As of December 1984, 28 unions had become members of SFPC and all had been trained to grant and collect loans. Some 1,700 additional individual members above those projected were recruited, but only 320 new loans were made and savings fell short of the target by $40,000. The SFPC had become 97.4 percent self-supporting from membership dues and interest on invested member savings, not including assumed costs (e.g., the cost of replacing expatriate volunteers). The study on non-farm credit was completed but the results were not reported.

K.1. CARIBBEAN ISLANDS: International Teleports

Problem Addressed: Shortcomings with traditional international telecommunications systems have limited the growth of data entry and other offshore information processing activities.

Initiative: The Dominican Republic, Jamaica, and St. Lucia are instituting private sector-financed and operated "teleports"--new satellite earth stations that offer companies affordable and high quality direct communications links with their overseas operations. Traditionally, dedicated private voice and data lines between the Caribbean and the United States cost companies US$400 or more per month, and suffered in their transmission quality and reliability as a result of being routed through the public telephone system. The new teleports, ranging in cost from US$2 to US$8 million, offer much higher quality links by bypassing the public phone systems, connecting customer premises directly to new satellite ground stations. Fifty percent cost savings are being achieved.

Implementation: Following a 1984/5 USAID study that identified high growth potential for telecommunications-intensive firms, the Government of Jamaica opened negotiations with several international telecommunications firms about establishing a private sector-led joint venture teleport in the Montego Bay Free Zone, to attract telemarketing and "800 number" operations. INTELSAT, the international satellite communications cartel, made a precedent-setting "transborder" decision enabling Jamaica to access U.S. domestic satellites for the teleport. A consortium including AT&T and Cable & Wireless was ultimately selected, with the US$8 million facility opening in the summer of 1988. In the Dominican Republic, a subsidiary of GTE established a fully private teleport to serve as that country's communications hub for data entry and other offshore information processing firms. This facility began operations in December 1987, connecting to the San Isidro Free Zone. St. Lucia, in late spring of 1988, inaugurated a teleport for similar uses.

Impact: Several large information processing firms in the Caribbean are now making use of the teleport. American Airlines, which employs more than 300 data entry operators in the Dominican Republic, has been using the teleport links to receive source documents transmitted by high-speed facsimile from the United States. After being entered by the offshore operators at labor costs as low as 20 percent of U.S. levels, completed files can be sent back via modem rather than air-freighted. In Jamaica, one company already employing 600 data entry personnel has begun training telephone operators for 800 number contracts. It estimates that at least 100, and as many as 1000 reservations center and telemarketing personnel will be hired to serve the North American market.

Lessons Learned: Private telecommunications providers--in joint venture with government or alone--can upgrade services and reduce

costs for users i a geographically targeted area.
Labor-intensive information industries have proven responsive to moving operations to countries offering teleports and attractive labor rates.

Further Information: Suzanne Brooks, Offshore Services Center, 1815 North Lynn Street, Suite 200, Arlington, Virginia. 703/528-7444

O.1. CARIBBEAN: Small Enterprise Development

Problem Addressed: Lack of credit, support services and training for small businesses.

Initiative: Working through national development foundations, A.I.D. instituted a program to provide funds and resources for small businesses. A.I.D. provided both grants and loans to these national bodies to be used for infrastructural support, training and marketing assistance. In addition, the project was designed to improve small businesses' access to credit from these national development foundations.

P.1. CARIBBEAN: Joint Venture Feasibility Fund (JVFF)

Problem Addressed: Lack of U.S.-Caribbean joint ventures that would lead to a greater flow of US capital and technology to the area to boost investment, employment and foreign exchange earnings.

Initiative: A.I.D. created the Joint Venture Feasibility Fund to boost U.S. investment, especially from the dynamic small and medium sized firms, in the Caribbean region. The Fund links host country and potential U.S. joint venture partners and provides limited seed capital (up to $15,000) to conduct feasibility studies.

R.1. <u>CARIBBEAN BASIN: Private Free Zone Development</u>

<u>Problem Addressed</u>: The performance of some government-sponsored free zones has suffered from lack of sufficient public sector resources and the absence of a businesslike approach to development and operations.

<u>Initiative</u>: In recent years, there has been a growing trend toward the private development of free zones in the countries of the Caribbean Basin, as evidenced in the free zone programs of the Dominican Republic, Costa Rica, and Jamaica. The financial and technical resources of private developers, coupled with their marketing acumen, businesslike management practices, and responsiveness to concerns of clients have proven highly successful in a range of zone projects. Zones with substantially private ownership and management have tended to out-perform their wholly public sector counterparts.

<u>Implementation</u>: The Dominican Republic has been one of the leaders in private zone development initiatives. Beginning with the first Dominican zone at La Romana, the private sector has played a leading role in the successes of the Dominican zone program. At present, seven of the country's ten operational free zones are private sector for-profit or nonprofit initiatives, as are seven of the 12 zones under construction. Firms locating in the newest state-of-the-art Dominican private zones include high-tech electronics and pharmaceutical companies and data entry service providers. In Costa Rica, while early efforts to establish government free zones languished, the privately financed and developed Cartago Free Zone has been a laudable success. Authorized in 1985, twenty firms committed over US$15 million in the first year of operation and there were approximately 45 firms in operation in 1987 employing an estimated 5,000 workers. In Jamaica, the first privately developed free zone is scheduled to be established outside the capital city of Kingston later this year.

<u>Impact</u>: The presence of well-run, attractive private facilities has been a strong drawing card to foreign investment in export manufacturing operations in the Dominican Republic and Costa Rica, and is expected to have much the same effect in Jamaica. Delays in construction, uneven services provision and problems in facilities maintenance which have plagued numerous public sector initiatives have proven to be less common in privately developed zones. Moreover, the private sector projects have been able to consistently show a profit unlike many of their public sector counterparts.

<u>Lessons Learned</u>: The private sector is well-equipped to take a leading role in long-term investment projects such as free zone development that have traditionally been considered the responsibility of the government in the developing world.

S.1. CARIBBEAN: The Caribbean Association of Industry and Commerce

Problem Addressed: Weak voluntary business associations.

Initiative: A.I.D. provided financial assistance to strengthen the capabilities of the Caribbean Association of Industry and Commerce (CAIC), a regional voluntary business organization. Specifically, A.I.D. funding was used to provide institutional support and to finance economic research, technical assistance and training.

CAIC itself is involved in a broad scope of activities to support the private sector throughout the Caribbean, including: initiatives to increase trade within the region, assisting several members to obtain management training and specialized technical assistance, and the provision of financial and technical support to collaborating Eastern Caribbean Chambers of Commerce.

K.2. Movement of the Information Services Industry to the CBI Countries

Problem Addressed: Rising U.S. costs of commonplace labor-intensive operations in the information services industry, such as data entry, typesetting, recordkeeping, and other computer-related services.

Initiative: The CBI region, with its abundant, inexpensive labor supply, and geographic proximity and economic links with the United States, is exploring opportunities in the growing offshore information services industry. CBI countries have moved to capitalize on their significant cost advantages (as high as 80 percent in some instances) and offer assurances of service quality and timely processing. These countries originally targeted relatively simple information processing operations requiring relatively minimal skill levels or capital investment, such as data entry and typesetting.

Implementation: In order to capture the growing offshore market, several countries in the CBI region, notably Mexico, the Dominican Republic, Haiti, Barbados, and Jamaica, concentrated their efforts on the development of world-class office parks and telecommunications facilities. Such facilities are crucial in successfully attracting offshore firms. Teleport systems were installed and interested CBI governments sought to insure the free and unregulated flow of information to and from the country by removing barriers in obtaining dedicated telecommunications service. However, deficiencies in air-freight (to carry source documents to be input) and bureaucratic customs procedures have hampered some countries' efforts to offer adequate offshore service.

Impact: Since 1980, employment in offshore data entry operations in the Caribbean area (including Mexico) has risen by 600 percent to over 12,000 workers. With the increased dissemination of low-cost microcomputers and facsimile equipment, "turnaround" times in information processing have been greatly reduced and the variety of firms and institutions utilizing the service has expanded substantially. As a result of the success of data entry operations, other related information services operations have moved offshore. Opportunities are arising in voice center operations, translation, software development, and media services. Although these operations require higher levels of worker skills and more advanced computer equipment, experience has shown that CBI offshore service centers are extremely responsive to training and innovation.

Lessons Learned: Opportunities for employment generation and revenue creation in non-traditional, labor-intensive industry sectors are increasing in low-cost, labor-abundant countries throughout the developing world. However, the establishment of requisite infrastructure, as well as the development of an outward-oriented economic perspective, is crucial to the development of non-traditional industries worldwide.

O.2. CENTRAL AMERICA: Improvement of Business Training Opportunities (INCAE Project)

Problem Addressed: Lack of quality business training opportunities in the Central American region.

Initiative: The INCAE project is an ambitious multi-component AID project designed to fundamentally improve the quality and accessibility of business training in the Central American region. The first and largest component financed the construction of a new campus in Costa Rica of the Central American Institute for Business Administration (INCAE) to allow its move from Nicaragua. The rise of the socialist Sandinista regime in Nicaragua inhibited the teaching of private oriented management skills.

The second component set up a private sector training program that offered courses in Guatemala, Honduras and El Salvador. The third component was the Non-Traditional Export Management Program which provided seminars on export strategies, operations, finance and marketing throughout the region.

Q.1. CENTRAL AMERICA: Trade Credit Insurance Program (TCIP)

Problem Addressed: Lack of trade credit insurance at reasonable rates inhibited trade to and from Central America.

Initiative: To help facilitate Central American trade with the United States, A.I.D. signed an agreement with the U.S. Export Import Bank to provide trade credit insurance to businesses in five Central American countries. The program p[rovides insured short-term trade credits.

G.1. CHILE: Divestiture of Nationalized Banks

Problem Addressed: Return nationalized commercial banks to private ownership and management, restore financial integrity in the banks, and diversify their ownership base to avoid non-arms length lending decisions.

Initiative: In the early 1980s, the Chilean government assumed operational responsibility for ten financial institutions, including the country's two largest private banks, that were on the brink of collapse. Since the government had no interest in maintaining control over these institutions, it implemented a program to return them to private hands. Using three innovative mechanisms, the government has completely returned ownership of the institutions to the private sector.

Implementation: The first tool the government used was the self-imposed time limit for divestiture. Soon after intervening in the troubled institutions, the government announced that they would be returned to the private sector by December 31, 1986. the last bank was "divested" nearly on schedule in April 1987. In order to improve the banks' balance sheets to make them attractive to private investors, the Central Bank bought, at book value, nonperforming loans in amounts up to 3.5 times each bank's capital base, in return for Central Bank notes. The banks were required to divert future dividends on common stock to the Central Bank up to the point where they had repurchased the entire loan portfolio. Banks were allowed to issue preferred shares, which can pay 50 percent of normal dividends. Through this mechanism, the Central Bank acquired $3 billion in nonperforming loans. Once the bank balance sheets were improved, the Central Bank utilized another innovative tool, which was named "popular capitalism," to encourage the public to buy shares in the banks. The Central Bank offered 15-year loans at zero percent interest to small scale investors that bought shares.

Impact: A total of 400,000 people have taken advantage of "popular capitalism" financing, and have purchased $400 million in the two leading banks, Banco de Chile and Banco de Santiago. The Central Bank estimates that this program recapitalized the banks at a cost of only 8-10 percent of what it would have cost to liquidate the banks. The banks have been returned to private control, and ownership is far less concentrated than in the past.

Lessons Learned: Divestiture of nationalized enterprises is feasible if pursued as inevitable and if private purchases are given sufficient incentive and capability to purchase shares. Also, transfers to private hands may require that some costs be borne by public owners/authorities, but these costs may fall well below those incurred by continued public ownership.

I.2. CHILE: Establishment of Private National Pension System

Problem Addressed: Desire to establish a viable, privately managed pension system.

Initiative: Reacting to concerns over the long-term viability of the government operated social security system, the government of Chile instituted a private pension system in 1981.

Implementation: Employees, employers, and self-employed individuals are required to contribute 10 percent of workers' total wages to private pension funds (Administradoras de Fondos de Pensiones, or AFPs), which create personal retirement accounts and invest the funds in government securities and low risk bonds and shares. At retirement, individuals can either begin receiving monthly payments from their AFP, the value of which will fluctuate in accordance with fund performance, or sell their account to a private insurance company for a monthly annuity that is fixed in real terms. Most choose the second, more secure option. Individuals were able to choose among twelve pension funds that were operating as of mid-1987. The funds are subject to careful supervision by government authorities, and are required to meet strict income performance guidelines. Individuals who are recently retired receive a portion of income from the government system according to a phased transition program.

Impact: The establishment of this system has resulted in the creation of a large pool of financial capital available for investment in both government and private securities. As of March 1987, the pension funds had combined assets of $2.3 billion. Each month, the pension funds invest an additional $20 million, representing the difference between contributions and retirement annuity payments. The top three pension funds all have substantial foreign participation. In 1986, Bankers Trust purchased a 40 percent share of Provida, S.A., the largest pension fund, using pesos obtained through a debt-to-equity conversion. Aetna owns 50 percent of the second largest fund, Santa Maria, and American Insurance Group (AIG) has a substantial participation in La Interamericana, the third largest fund.

Lessons Learned: Under appropriate conditions, privately-operated pension systems are feasible, and can provide considerable and regular infusions of funds into local capital and credit markets. However, careful supervision and regulation are necessary to protect workers' vested retirement accounts.

Further Information: Superintendency of Pension Fund Administrators, Santiago, Chile.

H.15. PEOPLE'S REPUBLIC OF CHINA: Deregulation of Vegetable Market

Problem Addressed: Inefficient state-controlled vegetable production and distribution.

Initiative: Until 1982, all legitimately traded excess vegetable production within the PRC was subject to a lengthy and inefficient distribution process. Under this system, problems in procurement, transportation and storage facilities, coupled with the complexity of the distribution process itself resulted in shortages in supply and high percentages of spoiled goods. In 1982, the PRC government launched a liberalization program in five major "test" cities, whereby the marketing and trade of vegetables was opened up to private traders with the prices of goods determined by supply and demand. State markets remained in place and competed with the private sector as distribution centers for the farmers. The test program was so successful that in 1984 the Government decided to open the vegetable market entirely.

Implementation: Since liberalization, the degree of Government involvement in the distribution and sale of agricultural products fluctuates with seasonal supply and demand. In the winter, consumer demand far exceeds the available supply and most produce is sold privately at high prices. In the summer, when the supply is far greater, about 50 percent of the farm production is sold to the state at lower prices.

Impact: After twenty-five years of stagnation, vegetable production in the PRC has been increasing steadily over the past three years. National agricultural production has been stimulated by the higher prices farmers can now obtain for their goods. Moreover, the quality of goods has also risen, reflecting both consumer preferences and the competitive pressures now at work.

Lessons Learned: The introduction of competitive markets can improve both the volume and the quality of agricultural production.

Further Information: Ms. Tong Zhong, International Food Policy Research Institute, (202) 862-5618. China -- Agriculture to the Year 2000. World Bank Country Study. 1985.

J.2. COSTA RICA: Debt-Equity Swaps

Problem Addressed: Costa Rica's external debt had grown to US$4.3 billion by the end of 1986, one of the highest per capita debt levels in the world. The cost of servicing the debt requires over 51 percent of export earnings. Meanwhile, business opportunities in Costa Rica are limited by a severe lack of capital.

Initiative: The government of Costa Rica felt these two problems could be simultaneously dealt with through the institutionalization of debt-equity swaps. Implementation: In August 1986, the Costa Rican government instituted a debt conversion program. Potential investors bought Costa Rican debt on the secondary market, where in January 1988 it was trading at a discount of over 80 percent. The government then redeemed the debt at 60 percent of its face value in exchange for colon-based investment certificates. These certificates could be traded either on the local stock exchange or invested in government approved projects. Capital repatriation was restricted under this program although profits could be remitted freely.

Impact: There was a significant amount of interest in this scheme as US$94 million of debt was converted into equity investments. A portion of the debt was exchanged for the upgrading of industrial facilities at the Cartago Free Zone to meet client specifications. Demand for Costa Rican debt was so great that the Central Bank temporarily suspended the program for fear that debt-equity swaps would increase inflationary pressures. However, it is expected that a second phase of this program will be established in the near future.

Lessons Learned: Debt-equity swaps are an effective method of reducing external debt in small quantities. More importantly, the conversion program is an important instrument to attract foreign investors by reducing their capital costs. The prospect of utilizing debt swaps in free zone financing and development is especially promising, as it combines two of the most effective methods to catalyze foreign investment in an LDC location. In the future, inflationary pressures might be best treated through a payment-in-kind conversion program allowing for exchanges of debt for fixed assets owned by the government.

Further Information: Additional information can be obtained from:

Dr. Eduardo Lizano
President
Banco Central de Costa Rica
(506) 33-4233

0.4. <u>COSTA RICA: Investment Promotion: The Private Investment Corporation (PIC)</u>

<u>Problem Addressed</u>: Lack of innovative and flexible forms of investment capital.

<u>Initiative</u>: A.I.D. provided a loan that was leveraged to generate $5 million of equity for the Private Investment Corporation. This corporation then used its capital to provide debt and equity financing and corporate services for export-oriented investments in Costa Rica.

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P.2. COSTA RICA: Investment Promotion (MINEX)

Problem Addressed: Need to promote investment and exports to strengthen the private sector and the overall economy.

Initiative: A.I.D. supported several activities of the Ministry of Export and Investment Promotion (MINEX). MINEX was established in 1983 as part of a general program to improve the economic climate in Costa Rica. A new ministry devoted exclusively to investment and export promotion was deemed necessary to design and implement an efficient and comprehensive investment and export promotion strategy and to demonstrate the high priority of these efforts.

A.I.D. support of MINEX activities included:

- the design and implementation of an export and investment promotion strategy with special emphasis on the management of the Caribbean Basis Initiative;
- the creation of a one-stop export and investment promotion center to streamline investment and export procedures;
- the funding of a study analyzing Costa Rica's comparative advantages to be used to develop its export strategy; and
- the coordination of export/investment promotion activities being conducted by other official agencies and local private associations.

0.5. <u>DOMINICAN REPUBLIC: American Chamber of Commerce Offshore Training</u>

<u>Problem Addressed</u>: Lack of quality business training opportunities.

<u>Initiative</u>: A.I.D. provided funds to finance offshore training for Dominican business executives under the auspices of the Dominican American Chamber of Commerce. Seminars and courses have included:

- Export Market Entry Strategies, World Trade Institute, New York;
- Planning and Budgeting, American Management Association, New York;
- Investment Negotiation Seminar, Georgetown International Law Institute, Washington, DC;
- Physical Distribution and Materials Management, American Management Association, Pennsylvania;
- Plant Management, American Management Association, Florida; and
- Human Resources and Personnel Management, American Management Association, Illinois.

0.6. DOMINICAN REPUBLIC: The Association for the Development of Micro-Businesses, Inc. (ADEMI)

Problem Addressed: Lack of credit at reasonable rates for small businesses.

Initiative: A group of leading Dominican businessmen created ADEMI, a PVO, to provide short-term working capital to small indigenous businesses at market interest rates. A.I.D. has assisted the group in its efforts with financial support.

0.7. DOMINICA: Small-Enterprise Development

Problem Addressed: To broaden small island nation's entrpreneurial base.

Initiative: This A.I.D. project was aimed at stimulating income and employment generation through the promotion small and micro businesses. The project helped to establish the National Development Foundation of Dominica, which provided credit, technical assistance and other services to small businesses. As of end-1985 329 loans had been made, none of which exceeded $6000, and with an average of $1100.

P.3. DOMINICAN REPUBLIC: Investment Promotion Council

Problem Addressed: Lack of coordinated, business-like, professional investment promotion in country.

Initiative: USAID funded a private, non-profit organization, the Investment Promotion Council of the Dominican Republic (IPC), to coordinate the nation's investment promotion campaigns, provide guidance to the Government concerning the investment policy climate, serve as a central clearinghouse for investor inquiries, and spearhead the campaigns in light manufacturing. (Existing agencies took the lead role in promoting investment in agriculture and tourism.)

Implementation: The IPC was developed in two phases. The institution building phase focussed on staff recruitment and training. Training was provided to staff members on English Business Correspondence and Procedures and Marketing Techniques (included developing advertisements and sales messages, manning a trade booth, making "cold calls," and follow-up techniques). The IPC prepared promotion materials, including a video, a computer graphics presentation, sector profiles on textiles, electronics, and information industries, a guide to "Investing in the Dominican Republic," and fact sheets on the footwear industry and twin plants. In addition, the IPC designed and implemented a computerized investor tracking system to facilitate lead follow-up, purchased computers and trained staff in the use of the system. Throughout the institution building phase, the IPC closely monitored policy developments affecting the investment climate, and initiated policy dialogue with the government concerning the exchange rate, minimum wage, and other policies.

The second phase, which overlapped the end of the first phase, marked the beginning of proactive marketing, that is, generating investor leads as opposed to merely responding to requests for information. The IPC evaluated trade show opportunities and attended or manned booths at those shows with the highest potential. A clipping service was hired to monitor the foreign press regarding the image of the country as an investment location. A press agent generated articles on business conditions for trade journals in the United States. The IPC undertook direct mail campaigns in targeted sectors to elicit interest among potential investors.

Impact: To date, the Investment Promotion Council has not been evaluated. An internal evaluation at the end of 1987 indicated that in its first year the IPC promoted the established of 29 new industrial plants, representing a total of $32 million, and more than 7,500 direct jobs. The IPC acted as an intermediary in "indispensable administrative procedures" in the establishment of 27 additional businesses, representing $35 million and 6,500 jobs.

Lessons Learned: Staff recruitment is one of the most critical tasks for a new organization. The process must not be rushed in order to facilitate start-up; staff must be carefully selected. In addition, a promotion organization should conduct a careful assessment of the "assets and liabilities" of the country seeking investment, in order to prioritize the issues for policy dialogue, and to select the key messages to include in the promotion campaign. Promotion campaigns should be carefully targeted to reach appropriate audiences. Advertising in general-audience publications is extremely expensive on a per lead generated basis.

Further Information: Contact USAID/Dominican Republic, Office of the Private Sector or the Investment Promotion Council, P.O. Box 21291, Santo Domingo, Dominican Republic, (809) 532-3281.

R.2. DOMINICAN REPUBLIC: Industrial Free Trade Zones

Problem Addressed: Policy and regulatory structures involving business operations are complex and unattractive to foreign investors. Importing is difficult due to high tariffs and duties and lengthy delays. In addition, competitor countries offer attractive investment incentives to foreign investors.

Initiative: Seeking to provide a hassle-free environment for exporters, and thereby attract jobs and technology and generate foreign exchange, the Dominican Republic legislated industrial free zones. The government has sanctioned not only government-run zones but also private ones.

Implementation: In 1969, Gulf and Western constructed the first free zone, a privately operated one, in the Dominican Republic. Since then, ten additional additional zones have been constructed, and fourteen more are in the construction or planning stages. This growth can be attributed to competitive labor rates, high-quality zone managements, and attractive incentives for firms located in the zones. These incentives include:

- Duty and tax-free importation of all machinery, equipment, spare parts, construction materials and other items needed to construct and operate a production facility;
- Duty free entry of imported raw materials and other goods destined for re-export;
- Complete exemption from all taxes, including corporate income taxes, for 8 - 20 years depending on the location of the free zone;
- Freedom from all foreign currency holding and exchange restrictions;
- Unrestricted repatriation of profits; and
- No financial reporting requirements, other than local expenses.

Impact: Free zones have generated tens of thousands of jobs for Dominicans. In 1984, free zones employed 20,000 people. By the end of 1988, free zones are expected to employ nearly 100,000 individuals. More than 120 U.S. companies have located in the zones, as have companies from the Far East. Because of the variety of types of infrastructure available, free zones are attracting an increasingly diversified mix of firms. Garment and footwear assembly are still significant free zone activities, but several new industries, including electronics assembly, pharmaceuticals, and data entry have entered Dominican free zones.

Lessons Learned: Unlike many free zones built by governments in other countries, which languish for years without tenants, Dominican free zones have elicited such high levels of interest from the foreign investment community that firms in the mid 1980s waited in lines up to 3 years for industrial space. This high level of foreign investor interest is a result of 1) competitive wage rates; 2) a set of attractive investment incentives; and 3) high quality zone management, which results in large part from private ownership of free zones.

Further Information: Additional information can be obtained from the Private Sector Office at USAID/Dominican Republic, or:

Ms. Arelis Rodriguez
Executive Director
The Investment Promotion Council
P.O. Box 21291
Santo Domingo
Dominican Republic
Phone (809) 532-3281
Fax (809) 533-7029

H.3. EASTERN CARIBBEAN: Caribbean Agricultural Trading Company

Problem Addressed: Lack of export marketing facilities and information.

Initiative: A.I.D. assisted in the development of a regional agricultural trading company, the Caribbean Agricultural Trading Company (CATC). Through economies of scale and improved management, a larger regional marketing enterprise was expected to help reduce the cost and increase the efficiency of the existing uncoordinated fruit and vegetable marketing system of the Eastern Caribbean. The relatively limited potential production of each individual small island nation inhibited the development of an effective marketing agency.

P.7. EASTERN CARIBBEAN: Investment Promotion

Problem Addressed: Need to attract viable private investments simultaneously in a series of small, economically vulnerable island economies.

Initiative: The Eastern Caribbean region consists of a series of small, independent countries with limited economic and government institutional resources. In an effort to stimulate private investment in these countries, the Regional Development Office/Caribbean of A.I.D. established a unique investment promotion activity, known as Project Development Assistance Project (PDAP), which was implemented by the private U.S. firm of Coopers and Lybrand. The goal of the program was to provide a common set of promotion capabilities to countries too small to warrant individually administered programs.

Implementation: The PDAP "model" included the following organizational components -- a set of resident advisors in St. Vincent, St. Lucia, Dominica, Antigua, Montserrat, St. Kitts, Grenada and Belize; a team leader resident in Barbados; a Washington-based investor search group; and administrative support for the team leader, each resident advisor, and the Washington-based operations. The functional activities of the project team included investment promotion (investor search, promotion, and investor assistance) and institution building, aimed at transferring responsibilities from resident advisors to local organizations. Among the unique aspects of the project were that it was a multipurpose activity, was fully funded by A.I.D., included "multinational promotion," and was almost fully operated by expatriates.

Impact: The project produced a range of promotional efforts which yielded new investments in and exports from the countries in the region. However, the effort suffered initially from management difficulties and later from logical conflicts between the goals of investment promotion versus institution building. Since the contractor had promised to "create" a certain threshold of new jobs, the project team focused heavily on meeting this goal, rather than on developing local capabilities or on improving local policy climates for investment. The strongest facet of the project was the work of the resident advisors, who often assumed responsibilities beyond those initially envisioned. Organizational problems limited the development and usefulness of the Washington-based investor search capability. The PDAP "model" was basically sound, and initial inconsistencies were eventually corrected. The promotional activity has been transferred to a locally-operated program.

Lessons Learned: Joint investment promotion for a group of investment sites can be achieved under a single project and organizational entity. However, the complexities involved require that functional goals be clearly defined at the outset, and that major attention be placed on management and coordination.

Further Information: SRI International, "Investment Promotion in the Eastern Caribbean: PDAP Evaluation," May 1986.

C.2. ECUADOR: Exchange Rate and Tariff Reform

Initiative: In the face of a very difficult external economic environment caused by the sharp drop in oil prices, Ecuador implemented a range of market-based structural reforms during the first several years of President Febres-Cordero's administration, which began in 1984. An important part of this reform process was to make economy more outward-oriented and reduce anti-export biases. The Government of Ecuador (GOE) from late 1984 through August 1986 moved progressively from a fixed, tiered foreign exchange rate system to a unified floating exchange rate. During this period the exchange rate for traded goods was devalued by over 35 percent in real terms. Concurrently, the GOE has removed about 40 percent of quantitative restrictions on imports as well as reducing the average tariff from 51 to 38 percent. Further reductions are expected. In addition, all export taxes, except implicit ones on petroleum, were eliminated during this period.

Implementation: Exchange rate reform was conducted in three steps. In late 1984 all private foreign exchange transactions were transferred from the fixed official exchange rate to the pegged intervention rate. In September, 1985 all international trade was unified at the intervention rate. Finally, in August 1986, the GOE established a free-floating exchange rate. Substantial central bank intervention in the foreign exchange market, however, does take place. Politically, these measures have not been popular. The final measure to float the exchange rate, combined with financial market liberalization reform enacted in August 1986, led the opposition-controlled Congress to impeach the Finance Minister.

Impact: These reforms have worked well to promote exports and efficiently inhibit imports. Since 1984, non-oil exports have increased by over 40 percent in volume terms. In addition, even with the collapse of oil prices and the destruction of a section of the country's sole oil pipeline which terminated oil export for six months in 1987, the country has not suffered from crippling levels of capital flight. If these reforms had not been instituted, the effect of the earthquake on the economy would have been much more devastating.

Lesson Learned: The last remedy against capital plight is a competitive exchange rate. Foreign exchange constraints work at best as a holding action, and lead to the development of illegal markets.

Further Information: World Bank Report # 6592-EC, "Ecuador Country Economic Memorandum," 1987.

H.16. ECUADOR: Liberalization of the Corn Market

Problem Addressed: Overdependence of domestic agricultural sector on government-determined production levels and prices.

Initiative: Historically, the Government of Ecuador has maintained a policy of control over both prices of domestic agricultural production and imports of these goods. Consequently, over the past 15 years production of corn in Ecuador has fluctuated in relation to the minimum producer price levels set by the Government along with prevailing weather conditions. However, in 1986, the Government launched initial liberalization activities with the introduction of a transaction market for grains, the decontrol of prices, and the partial divestiture of one of the key agricultural parastatals, the Empresa Nacional de Almacenamiento y Comercializacion de Productos Agropecuarios (ENAC). The scope of ENAC's activities had included both the purchase and storage of agricultural products, ostensibly to maintain prices at a minimum level during the harvest months with the intention to return its stock to the market after the "glut" had passed at prices sufficient to recover costs. The agency proved, however, unable to fulfill its stabilization function or to guarantee minimum prices to farmers. Most often ENAC was forced to sell its stock on the market at only a distressed value and massive backlogs of inventory resulted. Consequently, in 1986 the Government established a new program, launched in 1986, which relied heavily on the private sector for the sale, storage and distribution of agricultural goods

Implementation: In 1985, the Government established a private non-profit market for commodities trading, BOLSA, using start-up funding provided by USAID and the Ministry of Agriculture, with the intention of obtaining financial self-sufficiency through sales of seats on the exchange and the commissions generated. A counterpart entity, ALMACOPIO, was established to handle the storage and distribution functions of ENAC. Originally intended as a 100-percent private company, due to the perceived riskiness of the proposition, the private sector took on only 20 percent of the ownership with the majority shares held by Government banks and ENAC. Ownership is slated to be turned over in full to the private sector by 1990. As presently structured, the producer takes his goods to ALMACOPIO and receives a warehouse certificate which can then be presented at BOLSA for cash at the prevailing market prices. The certificate can also be presented to a participating bank in exchange for a loan which is repaid at the actual time of sale of the commodity.

Impact: Prior to the inception of the transaction market, all corn prices were determined by the Government and set at artificially high levels; during the period 1984-85 averaging 200 percent over world prices. Consequently, farmers continued to produce corn in the absence of real demand simply to benefit from the high prices. Since the start of the program, prices have become more in line with international levels, and additional private commodities markets are being established in the country.

Lessons Learned: Liberalization of the corn market has allowed prices to more accurately reflect demand and has helped to rationalize agricultural production.

Further Information: The 1985-86 Transition in Ecuadoran Grain Price and Marketing Policies, Economic Perspectives, Inc., June 1986.

P.4. EGYPT: Private Sector Feasibility Studies

Problem Addressed: Stimulate U.S. investment in Egypt.

Initiative: This effort was funded by USAID under the Private Sector Feasibility Studies Project (263-0112, with a total of $8 million in grant aid over 1979-1988). The project was designed to help defray the costs of reconnaissance visits and feasibility studies conducted by U.S. investors in Egypt, provide ten sectoral studies to potential U.S. investors, and establish the policy and procedural framework for an investment promotion program.

Implementation: The project was implemented through the General Authority for Investment and Free Zones (GAFI) and a contract with Chase World Information Service. Promotional materials were mailed to 4,500 companies and the ten sector studies were completed and distributed to 365 interested U.S. executives. The latter would then apply and be reimbursed for reconnaissance visits and feasibility studies for investment projects in Egypt. The preparation and distribution of the ten sector studies and other materials cost about $1 million.

Impact: Disappointment with the results of the promotion campaign and problems with processing procedures led to a partial hiatus and redesign during 1984. Nevertheless, of eight feasibility studies and five reconnaissance visits completed by 1984, three U.S. companies sought GOE permission to establish joint ventures with the potential for creating 500 new job opportunities. The project was amended and extended in 1985. The USAID mission has concluded that it would have been more efficient to locate the project within the private sector (i.e., within banks), rather than in the government investment authority.

Lessons Learned: The project was based erroneously on the premise that Egypt as an investment climate was fully prepared for targeted promotion. Greater emphasis on policy dialogue and institutional development seemed to have been warranted. In addition, provision of travel and research funds on a gratis basis is subject to abuse and does not require the active commitment of prospective investors to new projects. Evidence suggests that legitimate investors are willing to finance at least a portion of travel and research costs, and this willingness indicates relative level of interest and capability.

P.5. <u>EL SALVADOR: Export and Investment Promotion (FUSADES)</u>

<u>Problem Addressed</u>: Lack of a comprehensive investment and export promotion strategy and institution capable to provide high-quality business support services and conduct economic policy analysis.

<u>Initiative</u>: A.I.D. initiated a two component program to promote El Salvador's industrial stabilization and recovery through policy changes and institution building to create a more outward-oriented and market-based economy. The first component supported the Government of El Salvador's efforts to develop an export and investment promotion strategy, support mechanisms to implement the strategy and reactivate the San Bartolo Free Trade Zone. The second component is designed to strengthen the Salvadoran Federation for Economic and Social Development (FUSADES). FUSADES is a government agency which provides a broad range of business services and conducts investment promotion activities. In addition, it has a research department to perform policy studies on economic issues. Part of the A.I.D. funding is used for limited travel grants to private entrepreneurs and business associations working in the nontraditional export sector.

D.1. GHANA: Price Liberalization

Problem Addressed: An extensive system of price controls kept official prices far below black-market prices which better reflected the scarcity value of goods. This situation caused extreme economic inefficiency and misallocation of resources. With price controls, profits went to black-marketeers rather than to producers, discouraging production and encouraging smuggling. Access to goods at official prices became a primary economic activity, such that political decentralization almost failed because persons became politically active only to obtain goods at controlled prices.

Initiative: Price liberalization was adopted in stages in conjunction with macro-economic stabilization and reform measures, including a large devaluation and restrained fiscal and monetary management. The first step was to shift most commodities to system where producers simply notified the Price and Incomes Board of price changes, while the board retained its right to intervene. The list of goods requiring prior approval was reduced first to 23 and then gradually to 8 over 16 months. Firms were permitted to charge a provisional price approved quickly by the board, and the review of its recommendations was shifted from the Ministry of Finance to a tripartite commission with representatives from government, labor and business. This public review would intervene when price rises were considered excessive, but eliminated the practice of publishing official prices.

Implementation: Price decontrol was conducted gradually because the government felt that it could not abandon controls while monopolies and excess profits were seen to exist, especially during a period when it was trying to restrain wage increases. The reform program began in 1983 and continued through 1985. Ironically, it was conducted by a military government, which was considered by outsiders to be leftist.

Impact: Price decontrol was very successful in both improving the market situation for most commodities, without leading to large price increases. More products were brought to market as hoarded consumer goods were released, scarcity rents were shifted to producers, and agricultural producers, helped by good rains, responded favorably increasing food availability. Prices rises were also limited by restrained demand due to tight monetary and fiscal policies. For some commodities increased local supplies brought the market price to below the previous official prices, while increased imports constrained scarcity rents on other goods.

Lessons Learned: The success of Ghana's price liberalization was due principally to three factors. (1) Market prices already reflected scarcities, so that liberalization shifted scarcity rents from distributors to producers. (2) Complementary policies raised marketed supplies and restrained inflationary pressure. (3) Price decontrol was depoliticized by permitting provisional price changes, while retaining the right of review, and including a spectrum of society in the review process.

F.1. GUINEA: Reform of Legal and Regulatory Framework

Problem Addressed: Private sector activity was hampered by the lack of a firm legal framework governing economic activity. The lack of weak property rights inhibited the revitalization of the private sector that had effectively been prohibited, except in the agricultural sector, during 25-years of socialist policies under President Toure. With his death in the early 1980's, new leaders have begun an ambitious reform program to transform the economy into an outward-oriented market based system.

Initiative: Over a two year period beginning in 1986, the Guinean government enacted a series of new or revised legislative and regulatory measures designed to place private economic activities within a firm legal framework. A petroleum and mining code was enacted in 1986, and an Investment Code was promulgated in early 1987. The latter established clear property rights for private activities. Codes governing other activities are in the final stages of completion, including the Fisheries Code, the Code of Government Contracting and an Accounting Plan. The Accounting Plan sets forth management and accounting standards for established firms.

Implementation: Although these codes clearly express the government's effort to provide a legal basis for private sector activities, implementation requires that the courts and the civil service fully accept and enforce the new codes. Government reports acknowledge that "major persuasion, training and organization will be needed, especially for those civil servants who will be responsible for interpretation and implementation of the new texts."

Impact: Too early to assess impact.

Lessons Learned: Even the most statist oriented societies can shift directions.

Further Information: "National Recovery Program, Medium-Term Prospects", Republic of Guinea, prepared for the Consultative Group Meeting, January, 1987.

J.3. GUINEA: Establishment of a Private Banking System

Problem Addressed: After 25 years of socialist economic policies, Guinea was left with a bankrupt state banking system and no private banks or financial institutions. In order to reactivate the economy and especially domestic financial markets, the government felt a more market-oriented banking system was needed.

Initiative: State banks were liquidated, and three new joint-venture banks were established with three large French banks. The government accepted the liabilities of the state banks, even though many of these liabilities were of questionable legitimacy. These liabilities have been a drain on public revenues.

In addition to normal sources of funds such as deposits and rediscounts from the Central Bank, the private banks also manage lines of credit for development purposes from international financial institutions, such as the World Bank, and from donor governments. These managed lines of credit serve as a source of longer term financing for private sector projects. There is no public development bank.

Implementation: This reform process was implemented over two years. The government first thought that the state banks could be transformed into sound efficient operations. However, when it became apparent to the government that there was very little likelihood these institutions could be reformed, it was decided that they should be liquidated and new private banks should be established.

Impact: The new banking system is operating well. Services are being expanded to provincial cities and credit is being allocated in a much more efficient manner. Government interest rate controls and sectoral credit allocations, however, hamper the development of a competitive capital allocation system.

Lessons Learned: A new private banking system can be established quickly.

Further Information: "World Bank Financial Sector Loan", Fall, 1988.

Q.2. HONDURAS: Investment and Export Promotion

Problem Addressed: Lack of institutions providing services, technical assistance and promotion for traditional and nontraditional agricultural and other exports from Honduras.

Initiative: In the mid- 1980s, USAID funded two institutions to provide assistance in production, finance and marketing, one to service agricultural producers, and one to service manufacturers.

Implementation: The Federation of Honduran Agricultural and Agroindustrial Producers and Exporters (FEPROEXAAH), is a private federation of thirteen associations of producers of products such as vegetables, honey, flowers, citrus, and coffee. The goal of the institution is to assist farmers at every step in the production and marketing process, from "preparing the land to commercialization." FEPROEXAAH staff assist producers to locate financing, joint venture partners, and markets overseas. The organization also funds research to enhance productivity in cacao and vegetable, among other crops.

The Foundation for Business Research and Development (FIDE), provides assistance in production techniques, finance and marketing to nonagricultural producers. FIDE helps would-be exporters to improve productivity and quality, locate sources of finance, and identify overseas markets and joint venture partners. A subscriber to the Caribbean Basin Information Network, FIDE could provide Honduran producers with key information on world prices and demand, and provide potential foreign customers or investors with information on Honduran suppliers and tax laws. FIDE created a network of foreign contacts in different sectors, which were to serve as information brokers between interested buyers in the United States and Honduran exporters. Interested Honduran producers could receive management technical assistance free of charge from the International Executive Service Corps (IESC), which was contracted by FIDE. FIDE developed a number of attractive, informative brochures describing its services.

Both institutions were well staffed with competent, English speaking individuals. FIDE in particular had a business-like, private sector atmosphere within its offices.

Impact: The Honduran Export Promotion Project has not yet been formally evaluated. However, internal records indicate that each institution has been instrumental in promoting exports and attracting investment. FEPROEXAAH claims that as a result of its efforts, 12 agribusiness ventures have been undertaken or expanded resulting in US$8 million in investment, US$3 million in export earnings and 1,400 jobs. One example of an investment project that FEPROEXAAH attracted to Honduras was an orange juice concentrate processing facility. While FIDE has not conducted as detailed an evaluation, nonetheless USAID and FIDE staff were pleased with the program's performance.

Lessons Learned: While problems confronting would-be exporters are many and interrelated, nonetheless the FIDE and FEPROEXAAH experience has showed that a single institution should probably not be charged with attempting to resolve the many, varied constraints on exporting. An organization functions best if it is charged with a single, clear mandate, such as research or technical assistance to management or export promotion. In those instances in which links between activities are extremely important, such as research and extension, it is advisable to mandate a single institution to undertake both tasks. In general however, organizations should have a central focus and function. While the FIDE and FEPROEXAAH results have been good, a narrower focus, and/or the creation of several smaller organizations, might have resulted in even more impressive project benefits.

Further Information: For more information, contact the Private Sector Officer at USAID/Honduras, (504) 32-6915, or FIDE at:

Tegucigalpa: Centro Comercial Maya
2do. Nivel, Bulevar Morazan
P.O. Box 2029
Tel. (504) 32-0937, 32-7617 or 32-9345

San Pedro Sula: Edificio Heyer
2do. Nivel, 2a. Ave. y 4a Calle N.O.
Tel. (504) 52-7616 or 52-7617

I.3. INDIA: Industrial Liberalization

Problem Addressed: Poor industrial performance due to three decades of excessive government control through state enterprises, investment and pricing regulations, and high import barriers. As a result of government investment programs and regulations, industrial competition is limited and investment has been directed towards overly capital intensive "strategic" areas leading to low rates of employment generation and limited industrial export growth.

Initiative: As part of Prime Minister Gandhi's announced policy to move away from India's generation-long dirigiste economic policies, the Government of India (GOI) initiated a reform program to open the industrial sector and give greater flexibility to private and public industrial enterprises through deregulation and reducing distortions in the incentive system. After much public fanfare, however, actual implemented policy changes have been quite limited.

Non-tariff import controls have been loosened, which has allowed greater and more sophisticated capital good imports. However, virtually all consumer goods remain banned. In addition, many important intermediate goods can still only be imported by state bulk purchasing agents.

Tax reforms have been more significant. They include reductions in direct and export taxes, the tapering off of special deductions and improved tax administration.

Deregulation measures include: (1) the opening of many industry groups formerly reserved for the public sector to private investors; (2) greater flexibility for increasing capacity; and (3) the broadbanding of investment licenses. Investments are still, however, tightly regulated, and foreign investments licenses are still especially difficult to obtain.

Implementation: Industrial deregulation measures were implemented quite quickly in the beginning of Rajiv Ghandi's government in 1985 and 1986. Since then his political base has weakened and the rate of implementation has slowed considerably. Ghandi increasingly has to rely on old-line Congress Party leaders, who generally oppose his liberalization efforts.

Impact: Considering the recent implementation of these measures, it is difficult to assess the impact. It is clear that firms have greater freedom, especially in terms of obtaining foreign technologies. However, because the reform program has decelerated, if not ended with the Prime Minister's political difficulties, firms may be more hesitant to exercise fully their new flexibility. Moreover, officials may also judge it is now better to err on the side of government restraint rather than liberalization. Given that most of the government restrictive apparatus is still in place, it would not be difficult to return to the pre-reform policy climate.

Lessons Learned: Political difficulties in areas unrelated to economic policies can severely restrict the implementation of liberalization programs.

Further Information: "India:An Industrializing Economy in Transition" (in three volumes), World Bank Report #6633-IN, May, 1987.

J.4. INDIA: Funding of Commercial Technology Ventures

Problem Addressed: Provide financing for joint ventures created to commercialize technology.

Initiative: USAID/India has developed a $10 million fund to be accessed by joint ventures between U.S. and Indian firms seeking to commercialize technology, under the auspices of the Program for Advancement of Commercial Technology (PACT, 386-0496, lasting from 1985 to 1990).

Implementation: The fund is managed by the Industrial Credit and Investment Company of India (ICICI) to finance joint ventures between U.S. and Indian firms. Additional funds pay for a contract with Battelle to provide technical services and act as a conduit to U.S. industry to facilitate "deal making." A rigorous set of application criteria and requirements are employed, including the presentation of comprehensive business plans. The funds are lent to meet up to 50 percent of the cost of developing commercial technology. In the event the R & D fails, the loan is written off.

Impact: As of Fall 1987, the project was completing its first year of operation. When the program was announced, there was a strong expression of interest by the U.S. and Indian business communities, including 130 U.S. and 300 Indian inquiries. These inquiries have led to 75 project profiles and 8 proposals which have been approved for funding by ICICI. The ICICI has demonstrated a sense of "ownership" of the project and an appreciation of Battelle's contribution, particularly the latter's assessments as to what will work in achieving U.S. collaboration.

Lessons Learned: There is evidence that PACT is becoming a prototype for similar loan programs being established by other Indian financial institutions. Most proposals submitted to ICICI had already identified a joint venture linkage, but whether actual U.S. partners can be located remains yet to be determined. This program appears to be proving successful, in part because it meets a current need, and in part because it actively engages a competent local institution.

A.2. INDONESIA: Financial Market Reform

Problem Addressed: Collapse of oil prices in the early 1980's made it impossible to maintain the tightly controlled financial system, where the Government channelled oil earnings into the banking system through low interest deposits. Interest rates were set by the Central Bank and tended to be negative in real terms, contributing to capital flight and an untenable balance of payments position.

Initiative: Starting in June 1983, the GOI began a financial sector reform process designed to reduce dependance on government savings and assets and to create a more market-based financial system. The first set of reforms included: (1) allowing banks to set their own interest rates, (2) the removal of credit ceilings, and (3) a significant reduction in banks' dependence on Central Bank deposits. In 1984 and 1985, new money market instruments were introduced to widen local capital markets. In late 1987 another package of reforms was adopted. It included steps to simplify the operation of the stock exchange, introduce an over-the-counter market to assist small companies, and strengthen the demand for securities by allowing investment by foreign entities.

Implementation: Like other Indonesian reform efforts, financial sector reform is being implemented incrementally and in the midst of strong opposition within and outside of the government. Established firms, especially state-owned firms, are opposed to the full implementation of these reforms because they will lose access to preferential low-cost borrowings, which allows them to mask inefficient operations. The business community in general has not strongly supported these changes as they have lead to higher, but more realistic, interest rates.

Impact: Reforms have lead to a more productive financial sector. Responding to positive real interest rates, financial savings have grown dramatically, by 40% per year, allowing banks to lend more from their own resources. In addition, assets of financial institutions have tripled since 1982. However, the banking sector is still dominated by five relatively inefficient state-owned banks, which continue to be burdened by weak portfolios and excessive administrative costs. In addition, the reforms have not eliminated subsidized credits from the Central Bank, which allows for the continued fragmentation of financial markets. Firms without access to subsidized credits face real lending rates of 12 percent on working capital and 9 percent on investment credit.

Lesson Learned: To establish an efficient market-based financial system, state-controlled banks must be privatized or placed on a self-financing basis. Without these changes, these insitutions will not face sufficient incentives to reduce costs and eliminate preferential lending practices.

Further Information: World Bank Economic Memorandum: Indonesia, upcoming late 1988.

C.3. INDONESIA: Trade Liberalization

Problem Addressed: Indonesia overly protected its local industry which discouraged non-oil exports and led to the development of a "high cost economy." Protection was accomplished largely through inefficient non-tariff barriers (NTB's), which mask the cost of protection.

Initiative: Starting in 1985, the Government of Indonesia (GOI) began a process of replacing its highly protective and non-transparent system of import licensing with a reformed tariff based system of protection. The tariff ceiling was reduced from 225% to 60%, and the number of tariff positions was reduced from 25 to 11. Import quota and sole distributorships on 165 key products were eliminated, tariffs on numerous products were abolished. Between mid-1986 and December, 1987, the proportion of domestic production of the manufacturing sector covered by import licenses was reduced from 1/2 to a 1/3. Moreover, many products were shifted to much less restrictive types of licenses.

To facilitate trade the GOI also reorganized customs, ports and shipping operations. A "pre-clearance" system was established with administration by a private Swiss firm, SGS, which has reduced required signatures from 23 to 2. To directly encourage exports, non-oil export taxes were eliminated and a duty drawback system for exporters was implemented to provide exporters with internationally competitive inputs.

Implementation: Trade liberalization has been implemented incrementally, but steadily. The primary motivation has been the decline in oil earnings and production which has forced the government to promote non-oil exports to obtain sufficient foreign exchange earnings and to create a more open and less statist economic structure. As part of the GOI program to restructure its economy, trade liberalization has been coordinated with other far reaching liberalization efforts, including: financial sector reforms, tax reforms, and industrial deregulation.

Impact: Trade liberalization has been successful. Effective rates of protection and procedural delays have been reduced significantly. Combined with other reforms and a large real devaluation, trade liberalization has lead to a boom in non-oil exports, up an average of 33% over the past three years, and rising investment, in the face of relatively stagnant domestic demand.

Lessons Learned: Fundamental economic reform is aided by the onset of economic crises which make the luxury of inefficient policies no longer affordable.

Further Information: upcoming World Bank Economic Memorandum: Indonesia, late 1988.

I.4. INDONESIA: Industrial Deregulation

Problem Addressed: Excessive regulation of normal business practices that inhibits investment, competition and efficient business operations.

Initiative: Deregulation efforts have focussed on three areas: (1) investment and capacity licensing; (2) foreign investment regulations; and (3) local content programs.

Investment licensing has been streamlined and relaxed. The number of requirements for an investment application have been reduced, with one agency, BKPM, responsible. Areas open to investment have been widened. Increases in capacity below 30 percent no longer need approval, and product categories within the classification system have been broadened to allow firms to diversify without state interference.

Investment areas open to foreign firms have been widened. Initial minimum domestic ownership requirements have been reduced to only 5 percent from 20 percent for priority sectors and export-oriented investments. In addition, the transition period to majority ownership by domestic investors was lengthened from 10 to 20 years, while export firms located in bonded zones can maintain 95 percent ownership.

Regarding local content programs several changes have been introduced. First, fewer new programs are being established. Second, the timetables for local content targets were lengthened. Third, programs were made more flexible to allow for "multi-sourcing" of parts. Finally, local content programs have been relaxed by the easing of complementary import restrictions.

Implementation: Deregulatory reforms have been coordinated with macro-economic stabilization and other structural reforms designed to create a more outward and market oriented economy. This comprehensive reform effort began in 1983 and was motivated by the sharp decline in oil revenues, which made the luxury of inefficient policies no longer affordable. Included in this effort have been major reforms of the tax system, financial markets and the trade sector.

Impact: Industrial deregulation has been successful, but continued and strengthened efforts are still needed. Investment, especially foreign, is up sharply even though domestic demand is relatively stagnant, and is increasingly export-oriented, which indicates improved Indonesian competitiveness.

Lesson Learned: Incremental reforms are politically easier to implement, but must be continued for several years to be effective. This momentum requires firm political commitment.

Further Information: World Bank Economic Memorandum: Indonesia, upcoming, late 1988.

L.1. INDONESIA: The Kampung Improvement Project

Problem Addressed: Run-down and poorly serviced residential areas in low-income population centers.

Initiative: Formally planned urban development efforts generally bypassed the traditional population centers in Indonesia, the "kampungs," which gradually turned into low-income ghettos. In 1974, the Kampung Improvement Program (KIP) was incorporated in the Indonesian National Housing Program and launched with the assistance of international development agencies.

Implementation: The program was administered by various private and public groups in the kampungs. In those projects where local residents were given the opportunity to participate in the planning and decision-making processes their willingness to offer contributions of their time and labor increased dramatically and scheduling and budget targets were generally met. In fact, the most successful KIP project is an entirely local initiative. In 1974, the Supratman KIP was initiated in Surabuya by local citizens -- public funds were not available to assist the project at that time. This "home-grown" KIP has successfully implemented improvements in a number of kampungs all of which were initiated, organized and largely financed by area citizens.

The project components for the Supratman KIP were kept simple, initially confined to the construction of a road and footpath in each of the participating kampungs. At first, an emphasis was placed on improving those kampungs which could contribute the most to project financing. However, cross subsidies have since been phased in to broaden the scope of the efforts. These projects have been carried out with the support of the local public works department in the implementation process with local citizens involved in the decisionmaking.

Impact: The results of the Kampung Improvement Program have been promising. In one kampung, after the footpath had been constructed the households began planting trees and flowers, supplied garbage cans for community use, and street lighting was installed using electricity from the individual homes. In other areas, security guard houses and community meeting halls have been constructed by the citizens and periodic communal cleaning activities have been organized.

Lessons Learned: With the cooperation of key public service providers, low-income citizens can take the leading role in establishing and maintaining a desirable community environment. Such initiatives are, in fact, more successful when residents are involved in all phases of project development and execution.

Further Information: Low-Income Housing in the Developing World, London: John Wiley & Sons (1984)

G.2. JAMAICA: Divestiture of Nationalized Bank and Cement Company

Problem Addressed: To restore to the private sector two large firms nationalized by the previous administration.

Initiative: Over the course of one year, June 1986 to June 1987, the Jamaican Government divested two large nationalized firms through public offerings of equity shares on the relatively small Jamaican Stock Exchange.

The first firm to be privatized through a public offering was the National Commercial Bank, which was the largest bank in Jamaica at the time of the offering. Fifty-one percent of outstanding shares were sold, with the government maintaining 49 percent. Bank employees were offered shares at a preferential rate and purchased about 13 percent. The offering was oversubscribed, and the shares were traded at a significant premium (69% above the offering price) on the Jamaican Stock Exchange three weeks after the offer ended in early December. The government netted about 90 million Jamaican dollars. To encourage broad participation, the post office and branch office of banks were used as physical collection and distribution points and the percentage any firm or individual could purchase was limited to 10 percent. 30,000 individuals or about 1 1/2 of the island's population purchased shares.

The Caribbean Cement Company, Jamaica's sole cement producer was the second firm to be divested through a public offering. In this case 100% of the firm was sold and foreign participation was encouraged in order to maintain a link with a Norwegian cement company that had been providing technical assistance. The offering was not fully subscribed, only 72% of the offered stock was sold, and the trading price fell by 20% over the next few months. However, 23,000 individuals purchased shares, and the government netted almost Jamaican $ 160 million from the sale.

Implementation: Mr. John Redwood, a former advisor to the Thatcher government on privatization and his firm, the British merchant bank, N.M. Rothschilds, played a key role in these privatizations by helping the Jamaican government with financial analyses and strategy. Mr. Redwood became involved with this effort through a meeting with Richard Downer, a former accountant who was running the Jamaican government's privatization efforts, at an A.I.D. seminar on privatization in Washington. This outside expertise was a crucial element in the success of this divestiture through a public offering.

Impact: Although both of these firms were earning profits in public hands, the government gained J $250 million through the sale, and began the process of reversing the nationalization policies of the previous administration.

Lesson Learned: Most governments will need objective outside technical financial advice to ensure the success of privatization efforts, as they do not have the expertise in financial markets or sufficient contacts with foreign businesses.

Further Information: Leeds, Roger, "Privatization in Jamaica: Two Case Studies," mimeo. Center for Business and Government, Harvard University, December 1987.

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H.4. JAMAICA: The Jamaican Agricultural Development Foundation

Problem Addressed: The lack of flexible and innovative financial options for the agricultural sector.

Intiative: A.I.D. helped to establish the Jamaican Agricultural Devlopment Foundation (JADF) by providing its initial capital with the proceeds of PL480 sales. JADF is a private, non-profit venture capital institution which provieds finance to the agricultural sector. JADF, unlike commerical banks which dominate the financial sector, is willing and able to provide innovative and flexible financial instruments.

O.9. JAMAICA: Small Enterprise Development

Problem Addressed: Lack of business services and credit at reasonable rates for small and micro-businesses.

Initiative: A.I.D. is assisting in the development of the National Development Foundation, an organization that provides technical assistance and credit to small businesses. A.I.D. 's assistance includes: the financing of the Foundation's initial operating costs and a revolving fund to provide start-up capital for small businesses, external technical assistance and staff training.

H.5. KENYA: Assistance to Leather Industries of Kenya

Problem Addressed: Provide assistance to a tannery to stimulate agribusiness production and exports.

Initiative: Leather Industries of Kenya, Ltd. (LIK) is a tannery firm capitalized jointly by the International Finance Corporation and a consortium of development agencies. Total capitalization is about $10 million. After construction, LIK was designed to have the capacity to process 1,000 hides per day into finished leather, representing 25 percent of Kenya's raw leather production. USAID/PRE provided a loan of $2.0 million to increase LIK's capacity.

Implementation: The loan is repayable at 12 percent over 12 years and is fully secured by plant, equipment, improvements and land. The loan was used to build and outfit offices and some plant. Much of the plant and equipment has been financed and supplied by the Belgians, who are also technical advisors. Over the term of the loan, it is estimated that $45 million in net foreign exchange will be earned from the export of finished leather. This amount represents the additional contribution to local value added which the project is expected to realize for the Kenya economy.

Impact: As of the end of 1985, the factory was completed and the machinery and equipment was being installed. Very strict environmental criteria, specified before operation of the plant, were met. Operations at one-third capacity were expected by Spring of 1986, two-thirds by 1986 and full capacity by January 1987. (Further information is needed to provide current results information)

H.6. KENYA: Rural Private Enterprise Program

Problem Addressed: Increase non-farm job opportunities and incomes in rural areas by providing credit and business advisory services to agribusiness and small manufacturing enterprises.

Initiative: This major project is funded by USAID at $36 million over the period 1983-1989, and aims to stimulate private sector activities in Kenya's rural areas.

Implementation: The project is being implemented by USAID/Kenya, the World Education Fund, and Deloitte Haskins and Sells. Funds and business management technical services are channeled to larger, more formal businesses through the commercial banking sector. Banks are expected to match 50 percent of the AID loan funds they receive. They also receive grant support to staff and train local consultants to provide business advisory services. Smaller formal sector enterprises and nonformal, village enterprises receive the credit and technical assistance through PVOs, who are expected to raise additional loan funding. Deloitte manages the bank program and World Education Fund manages the PVO program. Loans are made at market rates with three to eight year terms. Enterprises are expected to generate 6,000 jobs from bank loans and 1,000 jobs from PVO loans.

Impact: Further information required.

J.5. KENYA: Commercial Bank Onlending Program

Problem Addressed: Encourage the expansion of small to medium scale enterprises (SMSEs) outside the main urban areas in Kenya.

Initiative: This project was designed to provide lending to a target group of enterprises -- majority Kenyan owned, for profit firms in agribusiness and light manufacturing which use local materials and have fixed assets less than $1.5 million.

Implementation: The loan program was funded by $2.75 million from USAID and was administered by the Kenya Commercial Company Inc. (KCFC, an affiliate of the Kenya Commercial Bank). KCFC offered borrowers an integrated package of commercial rate term credit, a maximum of $250,000, repaid over at least four years, plus business advisory services such as cash management, accounting, and production and inventory control. The total project funding included a $250,000 grant for hiring and training KCFC staff to evaluate small loans and to provide business advisory services. The balance of the funds ($2.5 million) was for on-lending and was matched by KCFC, resulting in a $5.0 million pool to be on-lent to qualified enterprises.

Impact: As of December 1985, 82 loans were extended, of which 52 were to food processors (bakeries, slaughter houses, and coffee, corn and sunflower processing firms), 23 to agribusiness and related services (hauling, saw milling, and ploughing) and 7 to light manufacturing. Loan sizes ranged from $4,400 to $321,400. Of the total, 64 loans went to new businesses and 18 to expansions of existing businesses. Small businesses (assets less than $750,000) received 88 percent of all loans disbursed. The average cost per new job created was approximately $3,700, with 50 percent of funding (to be repaid) from USAID. Some 61 firms were provided with business advisory services.

Lessons Learned: Small and medium scale enterprises do exhibit demand for capital funds for new projects and expansions if the credit is available under appropriate terms. The provision of advisory services is important to help assure project success.

C.4. KOREA: Trade and Exchange Rate Reforms -- Development of an Efficient Export Promotion Strategy

Problem Addressed: A potential balance-of-payment crisis due to scheduled sharp declines in foreign assistance, primarily from the United States, and rising foreign exchange demand.

Initiative: Starting with a series of measures to directly promote exports in the early 1960's, the Republic of Korea (ROK) instituted in several steps liberalization measures which created an increasingly market-based and outward-oriented economy.

At first, in 1960 the ROK resisted devaluations and instituted increased direct export incentives to promote exports. These measures were expensive and relatively inefficient. By 1962, faced with growing foreign exchange demand and a fiscal deficit, the government unified its multiple exchange rate system, and two years later, instituted a major devaluation, which both boosted exports and reduced the cost of direct export incentives.

Soon after the aforementioned devaluation, measures were taken to liberalize import controls. A major step adopted in 1967 was the move from a long positive list of goods which could be imported to a shortened negative list. Import licenses for goods not on the list were automatically approved. This list was reduced considerably in a second wave of trade liberalization in the late 1970's.

In addition to these liberalization measures which boosted the competitiveness of Korean exports, the ROK also provided special credit facilities for exporters, which encouraged investment and facilitated export financing.

Implementation: Economic liberalization in Korea was conducted in incremental steps over a twenty-year period starting in the early 1960's. The success of a export-led growth strategy was not foreseen, but adopted because of the need for foreign exchange. However, once its success in promoting overall growth became apparent, the government accelerated its outward-oriented market-based strategy. A key element of the export success was the government's strong commitment to export growth. Rather than choosing sectors or investments, the government would reward successful exporters through more lenient tax enforcement or easier access to restricted imports. Although the government would encourage investment in broad sectors, entrepreneurs played the major role in determining resource allocation. Successful exporters were highly honored, which encouraged the best of the Korean entrepreneurial class into export activities.

Impact: The reforms were extremely successful. Korea has enjoyed unprecedented export and overall economic growth. From 1960 through 1980, real exports expanded over a hundred-fold, while per capital income grew six-fold.

Lesson Learned: Government intervention in economic matters can be sucessful if it is supportive of private activities and does not strongly interfere in the resource allocation process.

Further Information: Hong, Wontack, Trade, Distortions and Employment Growth in Korea, Korea Development Institute, Seoul, 1979.

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H.7. LIBERIA: Nimba County Rural Development

Problem Addressed: Provide entrepreneurs in Nimba County with credit and technical assistance.

Initiative: Under Project 669-0163, USAID provided $4.3 million over the period 1980 to 1987 to establish a credit facility and finance 14 extension workers to offer entrepreneurs technical assistance for improving accounting, cash flow management, product pricing and marketing. Extension workers actively marketed the program and went into rural and urban Nimba County to identify business development opportunities and encourage new enterprises.

Implementation: The project was carried out by Partnership for Productivity International (PfP/I) and PfP/Liberia. The revolving credit program offered market rate loans up to $5,000 to new and expanding small industries. A savings program encouraged businesses and households to accumulate capital. The program sought to increase productive off-farm and small-scale agricultural employment within the project area by strengthening and expanding management assistance and credit to all non-LAMCO mining enterprises in Nimba County so that the eventual closing of the LAMCO Iron Mine would not cause significant economic shocks. Typical enterprises assisted include food processing, construction materials and metals manufacturing, furniture, tailoring, retail sales and services, and poultry and husbandry operations. The $4.3 million in USAID funding included $1.5 million for expatriate and Liberian staff, $0.9 million for direct project costs (including vehicles and equipment), $0.4 million for the revolving credit fund, and the balance for overhead and indirect costs. The Government of Liberia and other donors, including the LAMCO Mining Company, contributed an additional $0.4 million to the project.

Impact: As of December 1985, in addition to establishing and expanding the savings, credit and enterprise development programs, 254 loans were made to enterprises, with a 90 percent repayment rate. The average loan size was $1,361 in urban areas and $403 in rural areas. New businesses averaged ten employees and generated annual sales of $160,000.

K.3. LIBERIA: Private Sector Road Maintenance

Problem Addressed: Need to rehabilitate and maintain a road infrastructure system efficiently.

Initiative: This USAID-funded project (669-0200) covers the years 1985-1988 and includes $4.3 million in funding. The project uses private Liberian contractors to regravel and rehabilitate some 155 miles of primary roads between Zwedru and the eastern port town of Harper. The project has the duel purpose of providing a target population of over 100,000 people with more reliable transportation for marketing agricultural produce and obtaining consumer goods and services, and strengthening the capacity of Liberian construction firms to perform major maintenance activities. In addition to the heavy use which the road receives from local lumber companies, a large oil palm plantation and several rubber plantations, it forms a key link in the economic lifeline of most of Grand Geden and Maryland counties. Some fuel and bulk commodities are shipped to the area through the port of Harper by coastal freighter, but most retail goods are trucked in from Monrovia -- a two-day trip to Maryland even in the dry season. Small farmers currently market cocoa, coffee and rubber along the road, and it is expected that cash crop marketing will increase substantially when a major EEC small farmer extension and marketing project gets underway in the target area.

Implementation: The life of project funding includes $2.1 million for private contractors, $0.9 million for technical assistance, $0.3 million for training, and the remainder for commodities, project evaluation and miscellaneous costs.

Impact: Further information required.

Lessons Learned: The World Bank and other donor agencies have determined conclusively that using private contractors for maintenance work expands a nation's maintenance capability in an efficient, cost-effective manner without additional government capital investment.

O.10. LIBERIA: Medium and Small Enterprise Development

Problem Addressed: Provide financial and technical assistance to medium and small scale businesses.

Initiative: USAID funds in the amount of $2.515 million are being devoted to a project (669-0201) over the period 1984-1989 to upgrade the Small Enterprise Financing Organization (SEFO) and establish a supporting Business Advisory Service (BAS), to be incorporated into SEFO at the end of the project.

Implementation: The project is being implemented by Partnership for Productivity International (PfP/I) and PfP/Liberia. PfP is assisting SEFO to become self-sustaining by providing advice on financial analysis and procedures for improving the quality and quantity of loans, including tightening SEFO loan and application and collection practices. The Business Advisory Service assists potential loan clients with the identification of commercial opportunities and the development of business plans, and subsequently tracks and manages progress after the loans are granted. Field surveys have produced a catalog of potential clients and business opportunities. Targets for the end of 1985 included a tripling of loan applications to 150, increasing loans granted from 74 to 110, and increasing collections on outstanding loans from 30 percent to a 70 percent recovery rate.

Impact: As of December 1985, the expatriate advisors were in place and the BAS was established. Training of seven Liberian extension agents was completed. Businesses receiving loans included furniture makers, food processors, and firms involved with metal working, upholstery, construction materials manufacturing, and services. Due to Liberia's deteriorating economy coupled with political uncertainty, both loan applications and collections were down considerably. SEFO's loan collection rate was less than 50 percent. New loans for 1985 totalled 38, less than one third the projected level.

H.8. MALAWI: Rural Enterprise and Agribusiness Development

Problem Addressed: Need to provide credit for rural enterprises and agribusinesses in Malawi.

Initiative: This project (612-0214) is funded by USAID at $5.1 million and covers the period 1984-1988. The project sets up two revolving lines of credit, one through the Malawi Union of Savings and Credit Cooperatives (MUSCCO) which is aimed at small rural agribusiness. The other credit line, created through the Investment and Development Bank (INDEBANK), reaches new and expanding small and medium business with needs up to $100,000.

Implementation: The project is being implemented by Africare. MUSCCO and INDEBANK receive technical assistance and training to improve their ability to handle lines of credit profitably. Credit applicants and recipients receive technical assistance, including preparation of applications, feasibility and market studies, financial analysis and business advisory services. Project funds are also used for the preparation of investment packages for presentation to potential U.S. investors and missions to the United States.

Impact: Further information is required.

H.9. MALAWI: Reduction of State Fertilizer Subsidy

Problem Addressed: Large fertilizer susidies were a major drain on government revenues and encouraged excessive use of imported fertilizer.

Inititiative: To help address this program USAID entered into a policy dialogue program (612-0255) with the Government of Malawi (GOM), in which the GOM was scheduled to receive $15 million in three annual tranches conditioned on reducing fertilizer subsidies by a specific percentage each year and shifting purchases to more cost-effective high-intensity fertilizer. In addition, technical assistance would be provided to support studies to evaluate: (1) the development of a domestic fertilizer industry; (2) strategies to improve the efficiency of smallholder marketing boards; and (3) the management of the Smallholder Fertilizer Revolving Fund (the main support fund of fertilizer purchases).

Implementation: Subsidies were scheduled to be reduced incrementally over a three year period. In fiscal year 1985/86 the subsidy was to be reduced to 22.6 percent of the marginal cost of fertilizer, to 17 percent by fiscal year 1986/87 and 12 percent by FY 1987/88. The use of high intensity fertilizer was scheduled to increase from 10 percent of total fertilizer tonnage in 1986/87 to 25 percent in 1987/88 and to 45 percent in 1988/89.

Impact: Further information needed.

J.6. MALAWI: Savings and Credit Cooperatives

Problem Addressed: Need to develop rural savings and credit institutions.

Initiative: Project 612-0205 was funded by USAID at $760,000 over the period 1980-1985. This project aimed at unifying the previously scattered individual rural credit unions into a modern system by creating and supporting the Malawi Union of Savings and Credit Cooperatives (MUSCCO). Project funds supported training of MUSCCO staff to deliver training to rural credit unions in basic credit union management skills -- bookkeeping, budgeting, credit policy, membership, and savings promotion.

Implementation: The project was administered by the Ministry of Technology and Industry and the World Council of Credit Unions. It was anticipated that by the end of the project MUSCCO would be at least 35 percent self-sufficient from income derived from services rendered, and that the network would have expanded from 24 to 39 unions. The project would finance a Central Finance Facility, which MUSCCO would use to make loans to credit unions for on-lending to their members.

Impact: As of mid-1984, the network of unions had grown faster than anticipated, but individual membership and savings had not. Membership stood at 11,000 and savings at MK 544,000. The goal of 35 percent self-sufficiency for MUSCCO had been revised downward to 25 percent.

K.4. MALAWI: Commercial Transport

Problem Addressed: At the outset of the project, the traditional rail lines from landlocked Malawi through Mozambique to the seaport were no longer reliable. Malawi paid scarce foreign exchange to outside trucking firms because local firms did not have the expertise, equipment or capacity to compete with transporters based at the alternative ports at Dar es Salaam and Durban.

Initiative: Under project 612-0218, funded at $5.2 million by USAID over the period 1984-1988, project funds were used to increase the number of Malawians who are trained and equipped to participate in the international overland transport industry. The Malawi Industrial Development Bank (INDEBANK) acquired 10-15 heavy tractors, together with trailers, tires and spare parts, and sell or lease at least one half of them to small owner-operators who would not otherwise have access to credit. The rest were bought by larger, existing local firms.

Implementation: The project was administered by the Ministry of Transport and Communications. Under the project, the Development of Malawi Traders Trust (DEMATT) prepared credit evaluations for INDEBANK. DEMATT also offered job and classroom training to an estimated 200 fleet managers, owner-operators, mechanics and drivers.

Impact: Further information is required.

0.11. MALAWI: Assistance to Rural Traders

Problem Addressed: Need to assist indigenous, small and medium scale enterprises (SMSEs) in Malawi.

Initiative: This $2.8 million project (612-0219) was funded by USAID and covered the period 1983-1988. It continued the growth of the Development of Malawi Traders Trust (DEMATT) by expanding and diversifying the types of training and business advisory services DEMATT provides, and extending the geographical area covered by DEMATT consultants beyond the previous eight centers.

Implementation: The project was carried out by DEMATT and Partnership for Productivity International. DEMATT is a parastatal body, autonomously managed by a board of directors, that promotes and assists the development of indigenous SMSEs in Malawi by offering business advisory services, credit programs, and training courses for entrepreneurs. The project aimed to assist DEMATT to expand its network to 51 trading centers and to establish a Commercial Accounting and Advisory Service (CAAS), which would become an independent, self-supporting commercial organization by the end of the project and will assume responsibility for the auditing, accounting, business consulting and funding identification previously offered by DEMATT. Targets included increasing clients served from 262 to 5,000, improved profitability of firms receiving credit, increased access to more diversified sources of credit, and improved quality of services provided. A mobile advisory service would be tested to reach the estimated 50 percent of SMSEs located outside the main centers.

Impact: Further information is required.

K.5. MALAYSIA: Formation of Route Associations in Kuala Lumpur

Problem Addressed: Rapidly expanding demand for urban transportation in the capital of Malaysia coincided with the increasing inability of existing private, full-sized bus companies (with established monopoly service in a given area of the city) to adequately provide public transportation on longer, lower-volume routes.

Initiative: Borrowing from other Far Eastern models for the provision of "informal" public service transportation systems, the Malaysian Government introduced a minibus program to provide service along specified, previously neglected routes throughout the city of Kuala Lumpur. The program was designed to attract the participation of smaller, more adaptable operators utilizing a liberal system of fare charge, thereby encouraging the route operators to provide service on longer routes.

Implementation: The Government invited prospective operators to obtain licenses for minibus service on recommended routes. Fares were arranged on a flat charge scheme, rather than a charge per mile utilized by the larger bus companies, thus providing the operators with an incentive for the provision of luxury, long-distance service. Over 2,000 applications were received, and adequate financing was obtained from private institutions at competitive rates.

Impact: By 1975, over 100 minibuses were in operation, and by 1978 the number had risen to 400. At this point the number of licenses issued was frozen, and the minibuses in operation subsequently experienced varying degrees of overcrowding during peak travel periods. Although the quality of service diminished, estimated annual returns on minibus operator investment reached a level of 37 percent. Further, occupancy rates and passenger miles for the minibuses surpassed those of the established, full-sized bus companies. More licenses were not issued because authorities were reluctant to let minibuses further erode traffic volumes of the increasingly under-utilized, full-sized buses. However, this did not detract from the overall success and profitability of the licensed minibus route association program.

Lessons Learned: The existence of large, established companies providing public transportation in urban areas does not preclude the viability of coexisting smaller service providers. In fact, experience has shown that minibus providers are more adaptable to traffic growth, and returns on investment are substantial while reasonable fare charges are maintained. Most importantly, the government of Malaysia was able to expand transit services through private operators who were totally self-sufficient and requiring no assistance from the Government of Malaysia.

B.3. MALI: Fiscal and Public Sector Reform

Problem Addressed: Excessive regulation and taxes inhibit the development of a dynamic private sector.

Initiative: To help the Government of Mali implement a series of public sector reforms, USAID entered into a policy dialogue program (688-240), in which the GOM would receive almost $19 million in five tranches conditioned on the achievement of tax and budgetary reforms. Reform measures included: (1) reduced and more equitably distributed tax rates, combined with improved tax administration; (2) restructuring of the fiscal budget, focussing on the reduction of government employment and the privatization and/or closure of public enterprises; and (3) regulatory reforms to improve the efficiency of the private sector, including revisions of the commercial code and pricing and foreign trade legislation.

AID financing was used primarily to offset initial tax revenue shortfalls and to provide budgetary flexibility to educate the bureaucracy about new practices and policies.

Implementation: The program was initiated in late 1985, and was expected to be implemented over three years as reform measures were completed.

Impact: By 1986, the scheduled tax and regulatory changes had been successfully implemented and the disbursements based on these measures were drawn. For other measures, further information is needed.

H.10. MALI: Agriculture Liberalization

Problem Addressed: High cost and inefficiency of government controlled agricultural marketing.

Initiative: With substantial food aid and technical assistance from a group of donors, including A.I.D. (Project # 688-0230), the Government of Mali (GRM) liberalized domestic cereal markets. The donors agreed to provide between 30 and 50 thousand metric tons of food aid each year which gave the GRM the assurance that liberalization would not affect its minimal cereal supply obligations to civil servants and the military. Local currency sales of the food adi were used to finance reform measures, and were jointly managed by the donors and a GRM representative.

The GRM has progressively reduced its direct intervention in cereals marketing. In addition, private producer incentives have been improved. Measures include: (1) the increase of official producer prices to close to import price levels; (2) the reform of the rice-producing parastatal, Office du Niger; and (3) the elimination of consumer subsidies. By 1986/87, the GRM was committed to no longer exercise monopoly powers in any cereal market, and OPAM, the official marketing agency, was required to sell grain acquired through price support activities or as food aid at close to open market prices.

Implementation: This reform program was implemented in stages between 1984 to 1986, and is continuing. By being able to assure cereal supplies to the potentially most destabilizing political groups, civil servants and the military, the GRM, through OPAM could implement the reforms with limited opposition.

Impact: The private commercial sector has responded favorably to the reforms. For example, in 1984, a year when grain production was low, the private sector effectively distributed local cereal supplies and imported the necessary amounts to meet local demand. In addition, private traders have effectively implemented OPAM floor price policies.

Lessons Learned: Food aid programs can be used effectively for policy dialogue programs especially for agriculture marketing. Moreover, if used to effect appropriate reforms, food aid need not distort local production incentives, which often in the past led to the development of long-term supply problems by attempting to solve short-term short-falls.

Further Information: See most recent World Bank Economic Memorandum: Mali.

I.5. MALI: Commercialization of Portable Metallic Cookstoves

Problem Addressed: Traditional cooking methods consume large quantities of firewood, which is costly and also leads to deforestation of large areas of this arid country.

Initiative: With A.I.D. financial assistance (#688-0237), Volunteers in Technical Assistance (VITA) developed and disseminated the technology for a portable low-cost metallic cookstove which would reduce fuel wood consumption. VITA was also contracted to develop a manufacturing system through private metalsmiths and a sales network. Finally, VITA planned also to implement a marketing campaign to encourage wide acceptance of this new technology.

Implementation: To ensure low-cost and wide availability, hand-operated tooling has been designed and built for the fabrication of stoves to acceptable standards of both quality and dimensional tolerances. The stove can be manufactured without welding, thus enabling fabrication in disadvantaged areas. Nine different models have been designed.

Impact: For full details more information is needed. However, it was expected that 2000 stoves would be produced per year in the initial stage of the program in 1986.

B.4. MAURITIUS: Tax and Tariff Reform Program

Problem Addressed: Assist the Government of Mauritius to implement income tax reform (streamlining and reducing taxes), industrial incentive program changes and tariff reforms which reduce some duties on overprotected import substitution industries.

Initiative: This program is funded by $5.0 million in USAID grant aid (642-0008) and $3.0 million in local currency funds over the 1985-1986 period. The first tranche of $2.0 million, in local currency deposits, assisted in financing government budget deficits.

Implementation: The "Government Encouragement to Manufacturing Scheme (GEMS)" is an attempt to unify and simplify five interconnected incentive programs previously in place. The following benchmarks for reform, anticipated by April 1986, were (1) reduction of tariffs, including fiscal duties and surcharges, to a maximum of 100 percent on imports (previously as high as 824 percent); and (2) demonstrated progress towards implementation of a unified incentive scheme for manufacturing development, evidenced at least by a moratorium on the granting of new development certificates for import substitution industries. Release of the second tranche of $3.0 million was dependent on the implementation of these reforms to increase the international competitiveness of local manufacturers.

Impact: USAID's ongoing dialogue with the Government of Mauritius encouraged the latter to move forward on reforms. Further information is needed to determine eventual results.

H.18. MOROCCO: Deregulation of Fruit and Vegetable Exports

Problem Addressed: Heavy government involvement in marketing of agricultural exports discouraged production and contributed to higher prices for exported goods.

Initiative: Since the early 1970s, agricultural exports (primarily citrus, vegetables canned fish and wine) decreased in importance in Morocco. Export of fruits, vegetables and processed foods were under the exclusive control of the Office of Marketing and Exports (OCE) until 1984, and producers were not allowed to negotiate directly with their customers. The OCE handled all contract negotiations and implementation, including transport, storage, and quality control, for which it received a commission of 1 to 3 percent of the contract value, amounting to approximately 6 to 14 percent of the value-added. As part of a industrial and trade policy adjustment program developed with the assistance of the WOrld Bank, the OCE was abolished in 1984.

Implementation: Until 1984, the OCE enjoyed a total monopoly on fruit and vegetable exports. Under the liberalization program, the market was turned over to the private sector and the accompanying regulatory requirements simplified to ease the entry of private producers into export activities. Export licensing requirements were removed for all but a few products as well.

Impact: The private sector now controls 100 percent of the fruit and vegetable export market in Morocco. The 1-3 percent "commission" once charged by the OCE has been abolished. Further liberalization is underway in the area of export incentives, export credits and export financing. The OCE continues to be responsible for quality control.

Lessons Learned: Changes in government policies can catalyze private sector export growth and facilitate other improvements in the market environment.

Further Information: The World Bank, Staff Appraisal Report: Kingdom of Morocco, Sixth Agricultural Credit Project, Report No. 6094-MOR, 1984.

0.12. PANAMA: Small Business Development

Problem Addressed: Lack of credit for small businesses.

Initiative: This A.I.D. project established an mechanism whereby local commercial banks provided guaranteed financing and complementary technical assistance to small businesses.

P.6. PANAMA: National Investment Council

Problem Addressed: Lack of a single body to efficiently implement an investment promotion strategy and campaign.

Initiative: A.I.D. helped finance the establishment and operation of Panama's National Investment Council. The Council was designed to be the primary implementing agency of a national investment promotion policy and to provide "one-stop" governmental service for investors.

F.2. PERU: Regulatory and Institutional Reform (A.I.D. Policy Dialogue)

Problem Addressed: Regulations and policies constrain private sector growth.

Initiative: A.I.D. financed research and policy analyses to determine how current policies and regulations could be changed to support private sector growth and to better understand informal sector activities. Research was conducted by both public and private sector organizations, including the government planning agency, Confederacion Nacional de Instituciones Empresariales Privadas (a new private sector umbrella organization), and the Institute of Liberty and Democracy (a center devoted to the study and promotion of the informal sector).

0.13. PERU: Management Training

Problem Addressed: Lack of quality management training institutions.

Initiative: A.I.D. provided financial assistance to four Peruvian private schools and one trade association to improve their training programs and to become more responsive to private industry both in terms of curriculum and applied research. In addition to improve the quality of education at these institutions, the project is also designed to strengthen their linkages with private industry.

O.8. PERU: Small Enterprise Development

Problem Addressed: Resistance of established credit institutions, even government-owned development banks, to lend to small businesses.

Initiative: A.I.D. provided financial assistance to the Banco Industrial del Peru (BIP) to strengthen its long-term financial viability. The assistance was structured so that BIP was given financial incentives to shift its lending focus away from traditional large and medium scale industry towards small scale enterprises, especially those in the poorest urban areas.

P.8. PORTUGAL: Investment Promotion

Problem Addressed: Identify commercial projects suitable for joint ventures between U.S. and Portuguese firms.

Initiative: USAID funded a contract with Price Waterhouse to promote trade and investment through the Foreign Investment Institute of Portugal by determining attractive candidate projects for joint ventures.

Implementation: No details available.

Impact: Fifteen Portuguese firms with projects were identified, investment profiles were prepared, and 150 firms in the United States and Canada were contacts to elicit their interest. Follow-up with firms contacted was inadequate, and no investments came to fruition.

Lessons Learned: Competent follow-up is a critically important ingredient to successful investment promotion efforts.

H.11. RWANDA: Private Enterprise Development

Problem Addressed: Need to stimulate private enterprises in Rwanda.

Initiative: This USAID project (696-0121, with funding of $4.0 million over four years) is designed to promote private enterprise, particularly agri-industries, through direct technical and management assistance to Rwandan enterprises. The project aims to respond specifically to the needs of small and medium enterprises.

Implementation: The project is managed by Technoserve Inc. through a cooperative agreement. The project has three main components:

1. Management assistance to small and medium enterprises. In this component, Technoserve provides business advisory services to Rwandan enterprises, focusing on general management and accounting, but also other areas through the use of outside consultants.

2. Training and institutional development. This component is designed to augment the training opportunities offered for the private sector through "collaborative training activities" with Rwandan institutions. An additional activity is the creation of a training program for professional accountants.

3. Studies and policy analyses. Through this component, Technoserve undertakes a series of studies as background for policy dialogue between the Government of Rwanda, USAID and Technoserve.

Impact: As of February 1986, the Technoserve office had been established, and work had progressed on implementation of the first two project components. Over 100 enterprises had been contacted, 20 firms requested services, and 9 companies had signed agreements for technical assistance. Further information is required for recent progress.

I.6. RWANDA: Policy Reform Initiatives

Problem Addressed: Need to stimulate private sector manufacturing.

Initiative: This $12.0 million USAID-funded project covers the period 1985-1987 and aims to assist the Government of Rwanda to design and implement a series of pro-private sector policy reforms, to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise sub-sector.

Implementation: The first tranche of $3.5 million was conditioned upon the government's preparation of an action plan specifying new administrative and review procedures for access to the Guarantee Fund, determination of whether the continuation of the 1983 local currency deposit requirement is justified, and initiation of an industrial incentives study and plan. Prior to the disbursement of the second tranche, the government was required to publish a revised Investment Code giving preferential treatment to small and medium enterprises, and adopt and apply improved administrative and review procedures to increase access to the Guarantee Fund. Before disbursement of the third tranche, the government was required to adopt the major tariff related recommendations arising from the industrial incentives study. Before the Equity Participation Fund was disbursed, the government was required to show that planning for the Fund had been completed, preparing to use the funds to finance the private purchase of equity in specific parastatals.

Impact: Further information required.

G.3. SOMALIA: Policy Initiatives and Privatization Project

Problem Addressed: Expand the private sector role in the Somali economy.

Initiative: This project (649-0132), funded by USAID at $2.5 million (private sector component of $1.24 million) over the 1983-1987 period, included the preparation of sectoral assessments to identify opportunities for small to medium enterprises, subsector market research leading to the development of specific business projects, and technical assistance to help the government to define and implement policy changes supporting privatization of selected industries and private sector business development.

Implementation: The Ministry of Planning was the implementing agency. The project funded a long-term technical advisor to the Ministry of Industry and Commerce to promote private sector involvement in the economy and in policymaking, and a number of sectoral studies were completed, identifying specific business opportunities in the edible oil industry, commercial feed lots, and export markets for fruits and vegetables. The Ministries of Planning and Industry and Commerce developed a list of 32 private business opportunities such as bricks, pipes, printing, glassware, fish meal, electrical fans, table salt and seed farms.

Impact: As of March 1986, while the commercial viability for most of the business opportunities had yet to be documented, the first step of political agreement for private sector involvement had been attained. Policy changes within the Ministry of Industry and Commerce related to USAID efforts include the following: Spinoff of the Chamber of Commerce from the Ministry of Industry and Commerce to a quasi-private sector institution; acceptance of the concept of privatization for non-strategic parastatals within the Ministry of Industry and Commerce; recommendations within the Ministry for export expansion, business training and business information; and agreement by the Ministry to review official minimum export prices at more frequent intervals.

H.12. SOMALIA: Livestock Marketing and Health Project

Problem Addressed: Build a quarantine system and livestock health program such that export markets which had closed due to the rinderpest outbreak will again accept Somali animals.

Initiative: Of the total $11.0 million in USAID funding for this project (649-0109) over the 1984-1988 period, about $3.0 million represents a private sector component. This involves efforts to encourage private sector support businesses which trade in and transport livestock and supply fodder to the fattening lots and three quarantine facilities. Each facility will hold 20,000 head, cover 198 acres, and cost about $1.0 million to build.

Implementation: A foreign exchange conversion fund, managed by a commercial bank, is made available to businesses serving the livestock industry. Through the fund, hard currency is provided for the purchase of specific commodities when the importer supplies the required number of shillings. Somalis eligible to buy equipment are livestock traders who deal with export cattle, farmers who provide fodder for cattle in quarantine stations, and truckers and others who transport animals in quarantine to the port areas. The project also funds studies exploring the potential for future private sector development, such as a livestock marketing study, a feasibility study for a domestic veterinary drug industry, and a user fees study for the quarantine facilities.

Impact: As of March 1985, preliminary quarantine design work was near completion, bidding packages were prepared, and technical advisors were being recruited. Further information is required to determine subsequent results.

H.17. SOMALIA: Deregulation of the Grain Market

Problem Addressed: Low levels of production and below market prices for domestic grain due to excessive government control measures.

Initiative: In 1969, the Government of Somalia created 45 parastatal agencies which eliminated private enterprise in wholesale trade, banking and manufacturing. Under this policy, the Agricultural Development Corporation (ADC) and the Ente Nazionale Comercio (ENC) held legal monopolies over most aspects of the grain trade, including purchasing, storage, distribution and retailing. By 1980, ADC and ENC controlled approximately 95 percent of the grain market which was increasingly dependent on foreign aid. Confronted with rising import bills and falling domestic production levels the Government of Somalia initiated the liberalization of its agricultural markets in 1981. Beginning with the abolition of the ADC and ENC's monopoly position on both imports and distribution of grain and production inputs, the process eventually resulted in the total decontrol of prices.

Implementation: Liberalization was effected gradually throughout the early 1980s. The monopoly position held by the ADC in the purchase and retail sale of grain was officially withdrawn with the passage of legislation limiting ADC's purchase to 5 percent of total production. In 1982, the role of the ENC was reduced from a total monopoly on both the importation and distribution of rice and wheat to the concessional distribution of foodstuffs to public sector institutions alone. Private traders are now allowed to import these commodities, as well as undertake the transport and storage of grain. Finally, in 1985 prices for grain and wheat were decontrolled.

Impact: Until 1983, ADC fixed producer prices for grain at far below market levels. Between 1971 and 1980, the increase in grain price paid to farmers was negligible. In 1981, with the onset of liberalization, the producer price rose 80 percent maize and sorghum, and again by 80 percent and 55 percent respectively in 1983. In 1985, with the total decontrol of prices, grain production reached an all-time high of 634 thousand metric tons, fully 43 percent higher than 1983 production.

Lessons Learned: The loosening of regulatory controls and opening up of agricultural marketing activities to the private sector increased domestic production and created the basis for further liberalization initiatives.

Further Information: Mr. Jama, Embassy of Somalia, Washington, D.C. (202) 342-1575.

J.8. SOUTH PACIFIC: Westpac Loan Guarantee Program, AID Guaranteed Commerical Bank Small-Business Lending

Problem Addressed: Like their counterparts throughout the world, small-scale entrepreneurs in the South Pacific face great difficulty in obtaining start-up and working capital at reasonable rates. Among the small island economies of the South Pacific, this problem is more acute than most other areas due to the limited scope of and lack of competition within local capital markets. In most countries in the region, there are only two or less commercial banks. Moreover, due to the area's colonial past and communal economic traditions, there are few indigenous established entrepreneurs, and therefore, the development of a strong indigenous private sector will have to come through the growth of new small-scale enterprises.

Initiative: The local USAID, RDO/SP, established a program with WESTPAC, an Australian bank which has offices in all South Pacific nations, to encourage commercial bank lending to small-businesses. Under this program USAID provides a fifty percent guarantee on loans to local businesses up to $25,000. The total amount of the loan guarantee is $1.8 million, which will allow for total program lending of up to $3.6 million. The loans will come from a revolving fund, and thereby the program will be self-sustaining.

Loans must meet several requirements including: (1) the firm be locally owned; (2) the firm's assets must be less than $200,000, (3) capital items purchased with the loan funds must come from the United States; and (4) the loan must be a new loan.

Implementation: The program was initiated in 1988 and therefore there is very little data on its implementation or impact. However, WESTPAC officials volunteered that it would be difficult for them to find customers for loans meeting these conditions. Part of this difficulty is their traditional hesitancy to lend to small-businesses, which is exactly the behavior this program is trying to change. The requirement to buy US-made goods, however, does pose a complicating factor, but should not make the program inoperable.

Impact: No data is yet available on the program's impact, but support of the program is strong and close to unanimous, except for competing commercial banks.

Lesson Learned: This program highly leverages AID's financial contribution providing a cost-effective vehicle to support private enterprise development. Moreover, since the lending is done through a private commercial bank, it is more probable that a rigorous and objective risk analysis will be conducted, minimizing defaults.

Further Information: Private Enterprise Development Report, March 1988, prepared for RDO/SP under the PEDS Project.

P.9. SRI LANKA: Investment Promotion

Problem Addressed: Increase domestic and foreign investment.

Initiative: The Private Enterprise Promotion project (383-0082, funded by USAID at $4 million over the period 1983-1988) included several components: (1) establishment of the Sri Lanka Business Development Center (SLBDC), which would then implement the remaining four components; (2) investor services and promotion; (3) economic and business policy development; (4) management development; and (5) entrepreneur development.

Implementation: Under the investor services/promotion component of the project, SLBDC and the contractor, Coopers and Lybrand, undertook to generate 10 new investments. Forty-two investment profiles, ranging from industry profiles to specific prefeasibility studies, were prepared. Coopers and Lybrand attended 8 U.S. trade shows, and three individual investment missions were undertaken.

Impact: The trade show participation resulted in one Sri Lankan firm receiving a supply contract with a U.S. buyer. SLBDC's investor services division counselled 247 individuals, resulting in 20 "project starts." The Information Unit responded to 62 inquiries about technology, markets and trade, using locally developed resource materials and on-line access to three commercial databases. Nine new investments, including at least one with U.S. participation, were generated or facilitated by these activities, eight of which involved traditional exports or production for local markets. The evaluation team was unable to quantify the economic effectiveness of the various investment profiles and feasibility studies that were undertaken, but indicated that despite the lack of targeting to priority sectors and the absence of meaningful performance measures, the overall impact was probably positive. Both the investment missions and the U.S. promotion efforts were deemed to be productive, but the evaluators concluded that the latter assistance would have been better directed through relevant government agencies rather than U.S.-based intermediaries who ceased their activities as soon as the project funds were depleted.

Lessons Learned: The promotional component of the project did not yield a high number of new ventures, in part because of a considerable deterioration in the Sri Lankan investment climate. At the outset of the project, Sri Lanka was relatively poised to undertake active investment promotion activities, but the attractiveness of the environment declined due to political turbulence. The practical implication is that projects of this type should be adapted and/or cancelled to accommodate changes in local circumstances.

H.13. <u>TAIWAN: Land Reform</u>

<u>Problem Addressed</u>: Inequitable land ownership patterns, an "absentee landlord" system, and resulting lack of agriculture productivity gains.

<u>Initiative</u>: In the late 1940s, the Republic of China faced a stagnation of output in agriculture and growing political and social unrest in rural areas. The core cause of these problems was the land tenure system, in which tenant farmers paid high rents (50-70 percent of crop yields) and lacked assured access to land resources. Therefore, for both economic and political reasons, the government undertook a sweeping land reform whose ultimate objective was to transfer land ownership to those who tilled it.

<u>Implementation</u>: Land reform was carried out in three phases, each of which reinforced previous steps and led consecutively to subsequent actions. In 1949, the government mandated a compulsory decrease in farm rental rates to a maximum of 37.5 percent of the volume of the main crop harvested (based on "standard" crop yields, and raised the tenure of leases to a minimum of six years. These provisions reduced the asset value of farmlands to landlords, who could no longer achieve gains from rises in land productivity or speculation, and land prices fell as a result. The sale of public lands to private small holders in 1952 represented the second phase of land reform, and aimed at demonstrating to private landowners the government's willingness to "privatize" its own land holdings. Prices were set at 2.5 times the amount of annual main crop yields, with the purchase price paid in 20 semi-annual installments. The final phase of land reform was initiated in 1953 in the "Land-to-the Tiller Program," in which landlords were required to sell all private tenanted holdings greater than three hectares of paddy land or six acres of dry land. The government purchased the land and then sold it to tenant cultivators. Former landowners were compensated by the government, which paid 70 percent of the land value with land "bonds" redeemable in kind (in rice and sweet potatoes), and the remaining 30 percent with shares of stock in four government enterprises, which were turned into private corporations.

<u>Impact</u>: Under the land reform program, the majority of publicly owned land and about 60 percent of total private tenanted land was purchased by 350,000 tenant families, who were transformed into independent owner-operators. Land reform reduced the marginal cost of land, which in turn raised profitability and incentives for greater investments in agriculture. Former tenant farmers invested in agriculturally-related capital, which lifted productivity. Former landlords were left with little alternative than to invest in other economic ventures, and through ownership of previous government enterprises many turned their interest toward manufacturing. Therefore, with one carefully designed and implemented program, the government reduced social unrest, raised farm output and income, and created a new entrepreneurial class.

Lessons Learned: Land reform can act as a powerful stimulant to agricultural productivity. Ingredients for successful land reform include reasonable compensation to former landlords, careful phasing to generate public support, and transfers that require purchases rather than "gifts" to new owner/operators.

Further Information: See Tung-hui Lee, Agriculture and Economic Development in Taiwan, 1983.

L.2. THAILAND: Self-Help Housing Program for Low-Income Families

Problem Addressed: Catalyzing private resources to meet the need for affordable, low-income housing.

Initiative: Resource constraints limited the capacity of the Government of Thailand to provide sufficient subsidized housing for low-income families and the private sector had demonstrated little interest in what was perceived as a risky venture. Through the National Housing Authority, the Government embarked on a move away from heavily subsidized low-income housing toward the planning and implementation of self-help and cost recovery projects. One such initiative, the Building Together Project, located in Bangkok, has been especially successful. The mixed-use development was entirely constructed by the residents who are required to join the project's community association in order to participate.

Implementation: The original participants in the Building Together project were divided into groups of 16-20 people for organizational purposes. Each group then took part in the three main facets of the program: compulsory attendance at 10 weekend educational seminars, mutual aid construction of their houses and community works and finally, housing improvement projects and community development programs.

Project financing was obtained from a number of lending institutions and all loans granted at market rates with both short- and long-term repayment schedules to be administered by the community association. Additional construction financing was provided through percentage capital contributions by the residents and in-kind contributions of labor toward community construction. Residents are responsible for all maintenance on internal roads and parks while basic services are provided by the public sector.

Commercial property was also incorporated in the complex, enabling project coordinators to utilize cross subsidies to cover the costs of community infrastructure. Lowest income participants are not required to contribute to this expense with their portion being covered by increased rental charges on the commercial property.

Impact: In 1984, 200 homes had been constructed and occupied in the Building Together complex with an additional 800 families on the waiting list. Project participants not only built their own residences, but also a community center, bus stop, and outdoor market.

Lessons Learned: The success of this project can be attributed to the innovative elements in its design and the cooperative effort of the spectrum of institutions involved in its implementation. The availability of professional and technical assistance from members of sponsoring academic organizations and voluntary agencies has also contributed to its achievements.

P.10. THAILAND: Investment Targeting and Missions

Problem Addressed: Desire to identify sectors which are attractive to foreign investors and to administer investment missions in the United States.

Initiative: The Board of Investment (BOI) of Thailand is charged with granting investment incentives and with carrying out a full range of promotional activities. Since the BOI is considered well established from an organizational standpoint, it was determined that assistance should appropriately focus on targeted promotion. This activity was carried out under the USAID-funded Private Sector in Development Project, 493-0324, which also included components to strengthen private sector analytical capabilities and to finance staff for the Thai Joint Agricultural Consultative Corporation (JACC).

Implementation: Under the auspices of the promotional component of the project, BOI engaged the U.S. firm A.D. Little to identify the industrial sectors that offered the greatest promise for foreign investment (within the electronics, agribusiness, metal fabrication and jewelry industries), screen the Thai firms that might be suitable for joint ventures, and undertake three investment promotion missions to the United States. The contractor placed a full-time employee in BOI's offices for over one year. Activities included ten investment surveys, three investment missions to the United States, a public relations campaign directed at U.S. trade journalists, a series of in-country investment seminars, and the creation of a database on Thai companies.

Impact: The results of the project were considered disappointing, particularly in view of the financial resources expended ($2.5 million for this component). The project resulted in one plant start (an investment of $732,000 creating 46 job opportunities) and about five government approved investment applications. These are poor outcomes given the relatively high level of U.S. investor activity that normally takes place in Thailand. One reason for this is unfortunate timing, inasmuch as the project schedule coincided with a period of considerable consolidation of the U.S. electronics industry, the principal sector targeted.

Lessons Learned: Evaluators of the project suggested that strengthening existing BOI offices in New York and elsewhere would be more cost effective than funding this type of contract activity. An independent assessment of the BOI concluded that the organization was not in a position to follow up investor leads efficiently, and required additional institutional assistance. Finally, the factor of timing of promotional efforts should be taken fully into consideration in marketing plans.

G.4. TOGO: Privatization of State-Owned Enterprises (SOE's)

Problem Addressed: Numerous poorly managed SOE's were a major drain on public revenues.

Initiative: Since 1979 the Togolese government has conducted the most extensive privatization program in sub-Saharan Africa. Seven SOE's were sold to private investors, the assets of six others have been leased to private managers, while 16 state-owned or controlled firms were liquidated. Most of these firms are industrial. Negotiations are proceeding to privatize seven more SOE's. This privatization effort was motivated by a recognition that public management of profit-making enterprises is inherently less efficient than private management, and is part of a general effort to "disengage" the state from economic matters.

Implementation: The process of privatization began slowly, but accelerated sharply once a legal and institutional framework was developed. While the policy began in 1979, no leases or sales were consummated until late 1983. Liquidations, however, began sooner. By 1983, with the establishment of a well defined legal and institutional framework, negotiations began to move quickly. Between October 1983 and January 1986, the assets of five firms were leased to private managers. These leases generated an income of about $5 million in 1986. Between November, 1986 and February, 1987, seven SOE's were sold to private investors. In two of these firms the state has maintained a minority share. In most cases the private managers and investors tend to be foreign. In several cases the International Finance Corporation (IFC) has participated, and the World Bank has supported the privatization program in general with technical and financial assistance.

Impact: Privatization has been quite successful in Togo. The state is saving over $20 million annually, while creating a more dynamic private sector. In addition, the privatization process has deepened Togo's ties with the international business community, which has given the country greater access to foreign markets. Several of the privatized firms are now exporting substantial amounts of their production due to their new ability to compete internationally, as well as the greater outward orientation of foreign private investors and managers. The export success of the privatized firms is leading the government to consider establishing an industrial free zone.

Lessons Learned: Privatization is a medium-term process which depends on (1) the development of professional managers to oversee implementation; (2) a supportive policy climate to encourage private investment; and (3) sufficient political will to overcome strong opposition from vested interests, including managers, some suppliers and employees.

Further Information: African Business, April, 1987 & February, 1988.

J.7. TOGO: Deepening of Financial Markets: Development of a National Credit Union Association

Problem Addressed: A lack of financial services serving low and middle income persons and entrepreneurs. The existing credit unions which served this market tended to lack financial expertise and sufficient capital resources.

Initiative: This A.I.D. project (#693 0224) supports the establishment of a more administratively stable and financially sound national credit union association. The goal of the project is to generate a self-sustaining revenue base, from which the association will be able to provide credit union operations and financial advisory services to members and resources for on-lending to individual unions.

Specifically, the project provided over $1.5 million in technical assistance with the balance going to administrative support and the financing of a small loan fund.

Implementation: This project was implemented over a five year period between 1983 and 1988 by the African Coop Savings and Credit Association and the World Council of Credit Unions.

Impact: The project has successfully expanded credit unions in Togo and has helped the institutions move toward self-sufficiency, but management problems still abound. Credit unions have increased in number from 93 to 109, with 10,000 new members. Deposits reached $1.25 million and loans $900,000, both double pre-project levels. However, the profitability on loans is still too low, which leaves the viability of credit unions still in question.

0.3. TOGO: Micro-Enterprise Development

Problem Addressed: Lack of non-agricultural private sector activities and services to support these activities in an area dependent on irrigated rice production.

Initiative: A.I.D. financed a project (693-0226) designed to develop non-farm economic activities in the Sio River area of Togo. The project was designed and implemented by Partnership for Productivity (PfP), a US-based NGO. PfP worked to encourage, to diversify the income producing activities of the region by providing business management services, technical assistance and a credit facility.

Implementation: The project was initiated in 1983 and terminated in 1988, by when it was planned that the programs would be organized into a private self-sustaining institution. 1993 has been set as a target date for when locally generated funds would be able to cover all operating expenses.

Impact: The project has been relatively successful. By end-1985, over $16,000 in loans with an average size of less than $200 were made. There has been very little problem with repayment. Clients who make monthly payments were reimbursing at a 100% rate. The high repayment rate is attributed to the fact that this program is a rare source of credit at reasonable rates for small-scale entrepreneurs, and therefore, clients make sure to pay debts on time to maintain access to this credit.

Although repayment rates are high, the program has been less successful in developing non-agricultural activities. By end-1985 only 15 non-agricultural entrepreneurs were able to maintain or increase their working capital. However, one might attribute the slow development of successful non-agricultural businesses to the entrepreneurs lack of experience in this area. Over time their performance should improve.

Lesson Learned: Micro-scale entrepreneurs will repay loans and use relatively advanced business methods, once the advantages are explained clearly and the penalties of abuse are enforced.

P.11. <u>TUNISIA: Investment Promotion Seminars</u>

<u>Problem Addressed</u>: Promote Tunisian-U.S. joint ventures.

<u>Initiative</u>: The USAID-funded Private Sector Development and Technology Transfer Project (664-0328, funded at $4.7 million over 1982-1988) has two purposes: (1) encourage the Tunisian private sector to play a more dynamic role in the economy; and (2) increase the returns to and/or the continued effectiveness of completed or nearly completed USAID projects which affect the local private sector. The project was designed to provide flexible funding in small amounts (averaging $125,000) to a wide range of activities whenever opportunities arose.

<u>Implementation</u>: Project funds were used to finance investment seminars in Tunisia and abroad, trips to promote joint ventures between Tunisian and U.S. businesses, and technical assistance provided through Catholic Relief Services, the Institut Superieur de Gestion (ISG), and the International Executive Service Corps (IESC).

<u>Impact</u>: According to observers, Tunisia's two U.S. investment conferences produced dismal results. The Tunisian participants were apparently poorly prepared and held unrealistic expectations regarding the level of interest among U.S. investors.

<u>Lessons Learned</u>: Tunisia as an investment climate is probably not prepared for targeted promotion, and additional emphasis should be placed on improving the environment. In addition, successful seminars do not simply bring executives together. Participants need to be carefully selected, well prepared, and motivated by a clear and specific purpose.

S.2. TURKEY: The Foreign Capital Coordinating Council

Problem Addressed: Lack of an association in Turkey to provide information to potential investors, and unify existing investors to discuss with the Turkish government the impact of present and proposed government regulations and policies on the foreign investment community.

Initiative: Foreign investors in Turkey formed a private, non-profit research and information group.

Implementation: With no government participation or funding, private investors in Turkey formed and funded the Foreign Capital Coordinating Council, known by its Turkish acronym YASED. YASED conducts research on the business laws and investment incentives, and publishes reports for its members and other interested readers. For example, in 1987, YASED conducted research to estimate the value in terms of lower investment and operating costs of the Turkish investment incentives. Armed with its research results, YASED enters into policy dialogue with the Turkish government regarding new and proposed legislation and regulations. YASED has a staff of only 1 professional, a highly competent Executive Director, and contracts out all research. The office services potential investors, providing them with information on investment incentives and joint venture partners.

Impact: Since YASED is not a government project, it has not undergone a formal evaluation. However, the continuing financial support of YASED's members indicates that the institution is fulfilling its goal of informing the business community of the effects of government policies, and presenting a united view to the government of the foreign business community's interests and concerns. YASED's publications are up-to-date, informative, and attractively published. The organization performs an essential information function at a very low cost.

Lessons Learned: YASED is an example of how effective a small organization can be. It is difficult for an outside agency, such as AID, to mobilize the same level of interest and commitment among individuals as is evident in a group such as YASED that formed of its own accord. Nonetheless the group could serve as a model for many countries facing a similar dearth of investor information and private sector unity regarding government policies. Correct staffing is key: The individual who fills the Executive Director position either makes or breaks the organization.

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Further Information: Contact:

The US Department of Commerce
Commercial Specialist
American Consulate General
Istanbul, Turkey
Phone (011) (901) 151-3602, or

YASED
OTIM-Ihlamur Sergi Sarayi
Besiktas-Istanbul
Turkey
Phone (011) (901) 172-5094 or 172-5095

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S.3. UNITED STATES INNER CITIES: New Constituencies for Free Market Policies

Problem Addressed: Distrust of low-income residents towards initiatives that improve investment climates.

Initiative: In Kentucky, Illinois and other states, new legislation has created a "win-win" partnership between the business community and neighborhood residents. Their enterprise zone statutes contain provisions for neighborhood organizations representing the disadvantaged residents to become holders of city-owned real estate in economically distressed areas. At present because of high crime rates and blighted neighborhood appearances, such properties are depressed in value. But strong tax and regulatory relief in enterprise zones, when coupled with community crime prevention and cleanup/fixup efforts, result in significant increases in property values that accrue to the residents.

Implementation: The state legislation authorizes creation of for-profit "neighborhood enterprise associations," which assume long-term leaseholds (99 years) for $1 on idle city-owned properties within the boundaries of enterprise zones. The properties may in turn be leased to private developers selected by the enterprise association for construction of commercial or residential buildings. Revenues earned by the association from such transactions must be distributed as dividends by the neighborhood enterprise association to all existing low-income residents in the designated area.

Impact: Traditionally, residents of many inner cities have greeted initiatives to improve business investment conditions with suspicion. The designation of enterprise zones that share benefits with community self-help groups has generated unusual community support, and is now spreading beyond the initial states (despite shortages of available municipal properties in several of the pioneering areas). Equity-sharing real estate development partnerships are being adopted by community organizations in Missouri, Indiana, Connecticut and California.

Lessons Learned: The neighborhoods enterprise association approach has the potential to increase the financial self-sufficiency of low-income residents who cooperate in cleanup/fixup and crime prevention efforts in their neighborhoods. The rise in property values can be as much as 100 percent in one year where strong community self-help measures are mobilized and maintained. Some observers believe that the property value appreciation will be consistently greater when the enterprise associations are established in conjunction with self-assessing homeowners' associations, which use deed-backed covenants to oblige all propertyowners in a neighborhood to support improvement efforts.

Further Information: Richard Cowden, American Association of Enterprise Zones, 1815 North Lynn Street, Suite 200, Arlington, Virginia. 703/528-7444

H.14. ZAMBIA: Liberalization and Diversification of Agricultural Marketing

Problem Addressed: Inefficient government agricultural marketing monopoly.

Initiative: AID initiated a policy dialogue program, the Zambia Multi-channel Agricultural Marketing Program, to support the Zambian government's efforts to liberalize and diversify the marketing of maize and fertilizer. The program was scheduled to provide $25 million of grant funds to be disbursed in four tranches, once the Republic of Zambia (RZ) accomplished specific steps towards the establishment of a multi-channel marketing system which permits prices to fluctuate, allows the independent participation of private producers, processors and traders and eliminates all subsidies except those to maintain floor or trigger selling prices.

Implementation: The project agreement was signed in the fall of 1985. The funds were to be administered as a Commodity Import Program. All the commodities were to be of US origin, and, except for locomotive spares, were to be allocated to the private sector. Local currency generated under the program was to be allocated to: private traders and cooperatives to procure equipment and materials to improve farm-to-market access; construction of storage facilities; budgetary support for the analysis of agricultural liberalization; consumer subsidies to low-income groups to offset increases in staple food prices; and the establishment of a grain reserve for food security.

Impact: Further information needed.

H.2. BOTSWANA: Rural Sector Development

Problem Addressed: Need to increase employment and incomes in rural areas of Botswana.

Initiative: The private sector component of this general USAID grant of $9.3 million (633-0077, covering 1980 to 1988) amounts to about $2.7 million. The Phase I project goals are to increase both small farmer agricultural production and off-farm employment opportunities through the promotion of small rural industries.

Implementation: The project is being administered by the Rural Development Unit of the Ministry of Finance. Activities in Phase I included the creation of a cadre of rural industrial officers, surveys of existing and potential industries in each district, and support to small industries through the Small Projects Fund administered by the industrial officers. In general, the private enterprises envisaged have been low volume, rurally located businesses with one or two employees. Using a simple technology they supply goods and services demanded in rural areas, such as concrete block making, sewing and carpentry. Project funds have been used for materials, operations and training of the new entrepreneurs. Phase II began in 1983 and built on the lessons learned in Phase I, focusing directly on increasing rural employment opportunities in agribusiness and services.

Impact: As of July 1984, the Rural Industry Officer extension service and assistance to small rural producers had achieved all targets specified in the project paper. Further information is required to indicate subsequent progress.

N.1. BOTSWANA: Small Enterprise Management Training

Problem Addressed: Need to improve business skills.

Initiative: This USAID-sponsored initiative (633-0228) was funded at $452,000 and covered the period 1982-1986. The project sought to establish business advisory services extending management assistance and business skills training to 200 to 300 existing small businesses and assisting in forming 150 to 250 new businesses, thereby increasing the number of viable small enterprises in the target area.

Implementation: The project was carried out by Partnership for Productivity/Botswana. Project activities included the preparation of local market studies to identify the potential for new small repair, service and production businesses; technical assistance to new and expanding businesses in identifying local markets and products and managing a small business; business skills training in accounting, cash flow management and marketing; and training for eight Botswana business advisors.

Impact: At the end of the project period, the business advisory service had been established, and 84 clients were assisted. Eight local business advisors were trained. Types of businesses served included food canning factories, printshops, trucking companies, vehicle repair shops, charcoal production firms, and blacksmiths. Botswana Development Corporation assumed responsibility for the business advisory services.

J.1. CAMEROON: Credit Union Development Project

Problem Addressed: Provide financial and technical assistance to the Cameroon Cooperative Credit Union League.

Initiative: This project (631-0044) was funded by USAID at $1.6 million and covered the 1980-1985 period. The private sector component of the project amounted to about $900,000. The project was designed to provide the Cameroon Cooperative Credit Union League with management technical assistance so that it could develop the financial resources, stability and technical ability to offer member credit unions training in financial management, savings and membership building and credit administration. The network of individual credit unions were encouraged to expand because each union was better able to offer reliable savings and credit facilities than existing institutions in rural centers. Credit programs would be expanded beyond the existing Small Farmer Production Credit (SFPC) program to include non-farm credit.

Implementation: Technical assistance to unions included training in loan application appraisal, loan follow-up and servicing, and business advisory services to individuals granted small (less than $150) loans. A sub-project evaluated the feasibility of the small, non-farm producers credit program. Targets included increasing the SFPC program from 15 to 28 unions, increasing loans from 79 to 340, raising savings to about $400,000, and introducing 420 union officers to the SFPC program. The USAID grant of $1.6 million was allocated to technical assistance personnel, credit training, and staff support. Other donors provided staff and funds valued at $3.3 million.

Impact: As of December 1984, 28 unions had become members of SFPC and all had been trained to grant and collect loans. Some 1,700 additional individual members above those projected were recruited, but only 320 new loans were made and savings fell short of the target by $40,000. The SFPC had become 97.4 percent self-supporting from membership dues and interest on invested member savings, not including assumed costs (e.g., the cost of replacing expatriate volunteers). The study on non-farm credit was completed but the results were not reported.

D.1. GHANA: Price Liberalization

Problem Addressed: An extensive system of price controls kept official prices far below black-market prices which better reflected the scarcity value of goods. This situation caused extreme economic inefficiency and misallocation of resources. With price controls, profits went to black-marketeers rather than to producers, discouraging production and encouraging smuggling. Access to goods at official prices became a primary economic activity, such that political decentralization almost failed because persons became politically active only to obtain goods at controlled prices.

Initiative: Price liberalization was adopted in stages in conjunction with macro-economic stabilization and reform measures, including a large devaluation and restrained fiscal and monetary management. The first step was to shift most commodities to system where producers simply notified the Price and Incomes Board of price changes, while the board retained its right to intervene. The list of goods requiring prior approval was reduced first to 23 and then gradually to 8 over 16 months. Firms were permitted to charge a provisional price approved quickly by the board, and the review of its recommendations was shifted from the Ministry of Finance to a tripartite commission with representatives from government, labor and business. This public review would intervene when price rises were considered excessive, but eliminated the practice of publishing official prices.

Implementation: Price decontrol was conducted gradually because the government felt that it could not abandon controls while monopolies and excess profits were seen to exist, especially during a period when it was trying to restrain wage increases. The reform program began in 1983 and continued through 1985. Ironically, it was conducted by a military government, which was considered by outsiders to be leftist.

Impact: Price decontrol was very successful in both improving the market situation for most commodities, without leading to large price increases. More products were brought to market as hoarded consumer goods were released, scarcity rents were shifted to producers, and agricultural producers, helped by good rains, responded favorably increasing food availability. Prices rises were also limited by restrained demand due to tight monetary and fiscal policies. For some commodities increased local supplies brought the market price to below the previous official prices, while increased imports constrained scarcity rents on other goods.

Lessons Learned: The success of Ghana's price liberalization was due principally to three factors. (1) Market prices already reflected scarcities, so that liberalization shifted scarcity rents from distributors to producers. (2) Complementary policies raised marketed supplies and restrained inflationary pressure. (3) Price decontrol was depoliticized by permitting provisional price changes, while retaining the right of review, and including a spectrum of society in the review process.

F.1. GUINEA: Reform of Legal and Regulatory Framework

Problem Addressed: Private sector activity was hampered by the lack of a firm legal framework governing economic activity. The lack of weak property rights inhibited the revitalization of the private sector that had effectively been prohibited, except in the agricultural sector, during 25-years of socialist policies under President Toure. With his death in the early 1980's, new leaders have begun an ambitious reform program to transform the economy into an outward-oriented market based system.

Initiative: Over a two year period beginning in 1986, the Guinean government enacted a series of new or revised legislative and regulatory measures designed to place private economic activities within a firm legal framework. A petroleum and mining code was enacted in 1986, and an Investment Code was promulgated in early 1987. The latter established clear property rights for private activities. Codes governing other activities are in the final stages of completion, including the Fisheries Code, the Code of Government Contracting and an Accounting Plan. The Accounting Plan sets forth management and accounting standards for established firms.

Implementation: Although these codes clearly express the government's effort to provide a legal basis for private sector activities, implementation requires that the courts and the civil service fully accept and enforce the new codes. Government reports acknowledge that "major persuasion, training and organization will be needed, especially for those civil servants who will be responsible for interpretation and implementation of the new texts."

Impact: Too early to assess impact.

Lessons Learned: Even the most statist oriented societies can shift directions.

Further Information: "National Recovery Program, Medium-Term Prospects", Republic of Guinea, prepared for the Consultative Group Meeting, January, 1987.

J.3. GUINEA: Establishment of a Private Banking System

Problem Addressed: After 25 years of socialist economic policies, Guinea was left with a bankrupt state banking system and no private banks or financial institutions. In order to reactivate the economy and especially domestic financial markets, the government felt a more market-oriented banking system was needed.

Initiative: State banks were liquidated, and three new joint-venture banks were established with three large French banks. The government accepted the liabilities of the state banks, even though many of these liabilities were of questionable legitimacy. These liabilities have been a drain on public revenues.

In addition to normal sources of funds such as deposits and rediscounts from the Central Bank, the private banks also manage lines of credit for development purposes from international financial institutions, such as the World Bank, and from donor governments. These managed lines of credit serve as a source of longer term financing for private sector projects. There is no public development bank.

Implementation: This reform process was implemented over two years. The government first thought that the state banks could be transformed into sound efficient operations. However, when it became apparent to the government that there was very little likelihood these institutions could be reformed, it was decided that they should be liquidated and new private banks should be established.

Impact: The new banking system is operating well. Services are being expanded to provincial cities and credit is being allocated in a much more efficient manner. Government interest rate controls and sectoral credit allocations, however, hamper the development of a competitive capital allocation system.

Lessons Learned: A new private banking system can be established quickly.

Further Information: "World Bank Financial Sector Loan", Fall, 1988.

H.5. KENYA: Assistance to Leather Industries of Kenya

Problem Addressed: Provide assistance to a tannery to stimulate agribusiness production and exports.

Initiative: Leather Industries of Kenya, Ltd. (LIK) is a tannery firm capitalized jointly by the International Finance Corporation and a consortium of development agencies. Total capitalization is about $10 million. After construction, LIK was designed to have the capacity to process 1,000 hides per day into finished leather, representing 25 percent of Kenya's raw leather production. USAID/PRE provided a loan of $2.0 million to increase LIK's capacity.

Implementation: The loan is repayable at 12 percent over 12 years and is fully secured by plant, equipment, improvements and land. The loan was used to build and outfit offices and some plant. Much of the plant and equipment has been financed and supplied by the Belgians, who are also technical advisors. Over the term of the loan, it is estimated that $45 million in net foreign exchange will be earned from the export of finished leather. This amount represents the additional contribution to local value added which the project is expected to realize for the Kenya economy.

Impact: As of the end of 1985, the factory was completed and the machinery and equipment was being installed. Very strict environmental criteria, specified before operation of the plant, were met. Operations at one-third capacity were expected by Spring of 1986, two-thirds by 1986 and full capacity by January 1987. (Further information is needed to provide current results information)

H.6. KENYA: Rural Private Enterprise Program

Problem Addressed: Increase non-farm job opportunities and incomes in rural areas by providing credit and business advisory services to agribusiness and small manufacturing enterprises.

Initiative: This major project is funded by USAID at $36 million over the period 1983-1989, and aims to stimulate private sector activities in Kenya's rural areas.

Implementation: The project is being implemented by USAID/Kenya, the World Education Fund, and Deloitte Haskins and Sells. Funds and business management technical services are channeled to larger, more formal businesses through the commercial banking sector. Banks are expected to match 50 percent of the AID loan funds they receive. They also receive grant support to staff and train local consultants to provide business advisory services. Smaller formal sector enterprises and nonformal, village enterprises receive the credit and technical assistance through PVOs, who are expected to raise additional loan funding. Deloitte manages the bank program and World Education Fund manages the PVO program. Loans are made at market rates with three to eight year terms. Enterprises are expected to generate 6,000 jobs from bank loans and 1,000 jobs from PVO loans.

Impact: Further information required.

J.5. KENYA: Commercial Bank Onlending Program

Problem Addressed: Encourage the expansion of small to medium scale enterprises (SMSEs) outside the main urban areas in Kenya.

Initiative: This project was designed to provide lending to a target group of enterprises -- majority Kenyan owned, for profit firms in agribusiness and light manufacturing which use local materials and have fixed assets less than $1.5 million.

Implementation: The loan program was funded by $2.75 million from USAID and was administered by the Kenya Commercial Company Inc. (KCFC, an affiliate of the Kenya Commercial Bank). KCFC offered borrowers an integrated package of commercial rate term credit, a maximum of $250,000, repaid over at least four years, plus business advisory services such as cash management, accounting, and production and inventory control. The total project funding included a $250,000 grant for hiring and training KCFC staff to evaluate small loans and to provide business advisory services. The balance of the funds ($2.5 million) was for on-lending and was matched by KCFC, resulting in a $5.0 million pool to be on-lent to qualified enterprises.

Impact: As of December 1985, 82 loans were extended, of which 52 were to food processors (bakeries, slaughter houses, and coffee, corn and sunflower processing firms), 23 to agribusiness and related services (hauling, saw milling, and ploughing) and 7 to light manufacturing. Loan sizes ranged from $4,400 to $321,400. Of the total, 64 loans went to new businesses and 18 to expansions of existing businesses. Small businesses (assets less than $750,000) received 88 percent of all loans disbursed. The average cost per new job created was approximately $3,700, with 50 percent of funding (to be repaid) from USAID. Some 61 firms were provided with business advisory services.

Lessons Learned: Small and medium scale enterprises do exhibit demand for capital funds for new projects and expansions if the credit is available under appropriate terms. The provision of advisory services is important to help assure project success.

H.7. LIBERIA: Nimba County Rural Development

Problem Addressed: Provide entrepreneurs in Nimba County with credit and technical assistance.

Initiative: Under Project 669-0163, USAID provided $4.3 million over the period 1980 to 1987 to establish a credit facility and finance 14 extension workers to offer entrepreneurs technical assistance for improving accounting, cash flow management, product pricing and marketing. Extension workers actively marketed the program and went into rural and urban Nimba County to identify business development opportunities and encourage new enterprises.

Implementation: The project was carried out by Partnership for Productivity International (PfP/I) and PfP/Liberia. The revolving credit program offered market rate loans up to $5,000 to new and expanding small industries. A savings program encouraged businesses and households to accumulate capital. The program sought to increase productive off-farm and small-scale agricultural employment within the project area by strengthening and expanding management assistance and credit to all non-LAMCO mining enterprises in Nimba County so that the eventual closing of the LAMCO Iron Mine would not cause significant economic shocks. Typical enterprises assisted include food processing, construction materials and metals manufacturing, furniture, tailoring, retail sales and services, and poultry and husbandry operations. The $4.3 million in USAID funding included $1.5 million for expatriate and Liberian staff, $0.9 million for direct project costs (including vehicles and equipment), $0.4 million for the revolving credit fund, and the balance for overhead and indirect costs. The Government of Liberia and other donors, including the LAMCO Mining Company, contributed an additional $0.4 million to the project.

Impact: As of December 1985, in addition to establishing and expanding the savings, credit and enterprise development programs, 254 loans were made to enterprises, with a 90 percent repayment rate. The average loan size was $1,361 in urban areas and $403 in rural areas. New businesses averaged ten employees and generated annual sales of $160,000.

K.3. LIBERIA: Private Sector Road Maintenance

Problem Addressed: Need to rehabilitate and maintain a road infrastructure system efficiently.

Initiative: This USAID-funded project (669-0200) covers the years 1985-1988 and includes $4.3 million in funding. The project uses private Liberian contractors to regravel and rehabilitate some 155 miles of primary roads between Zwedru and the eastern port town of Harper. The project has the duel purpose of providing a target population of over 100,000 people with more reliable transportation for marketing agricultural produce and obtaining consumer goods and services, and strengthening the capacity of Liberian construction firms to perform major maintenance activities. In addition to the heavy use which the road receives from local lumber companies, a large oil palm plantation and several rubber plantations, it forms a key link in the economic lifeline of most of Grand Geden and Maryland counties. Some fuel and bulk commodities are shipped to the area through the port of Harper by coastal freighter, but most retail goods are trucked in from Monrovia -- a two-day trip to Maryland even in the dry season. Small farmers currently market cocoa, coffee and rubber along the road, and it is expected that cash crop marketing will increase substantially when a major EEC small farmer extension and marketing project gets underway in the target area.

Implementation: The life of project funding includes $2.1 million for private contractors, $0.9 million for technical assistance, $0.3 million for training, and the remainder for commodities, project evaluation and miscellaneous costs.

Impact: Further information required.

Lessons Learned: The World Bank and other donor agencies have determined conclusively that using private contractors for maintenance work expands a nation's maintenance capability in an efficient, cost-effective manner without additional government capital investment.

O.10. LIBERIA: Medium and Small Enterprise Development

Problem Addressed: Provide financial and technical assistance to medium and small scale businesses.

Initiative: USAID funds in the amount of $2.515 million are being devoted to a project (669-0201) over the period 1984-1989 to upgrade the Small Enterprise Financing Organization (SEFO) and establish a supporting Business Advisory Service (BAS), to be incorporated into SEFO at the end of the project.

Implementation: The project is being implemented by Partnership for Productivity International (PfP/I) and PfP/Liberia. PfP is assisting SEFO to become self-sustaining by providing advice on financial analysis and procedures for improving the quality and quantity of loans, including tightening SEFO loan and application and collection practices. The Business Advisory Service assists potential loan clients with the identification of commercial opportunities and the development of business plans, and subsequently tracks and manages progress after the loans are granted. Field surveys have produced a catalog of potential clients and business opportunities. Targets for the end of 1985 included a tripling of loan applications to 150, increasing loans granted from 74 to 110, and increasing collections on outstanding loans from 30 percent to a 70 percent recovery rate.

Impact: As of December 1985, the expatriate advisors were in place and the BAS was established. Training of seven Liberian extension agents was completed. Businesses receiving loans included furniture makers, food processors, and firms involved with metal working, upholstery, construction materials manufacturing, and services. Due to Liberia's deteriorating economy coupled with political uncertainty, both loan applications and collections were down considerably. SEFO's loan collection rate was less than 50 percent. New loans for 1985 totalled 38, less than one third the projected level.

H.8. MALAWI: Rural Enterprise and Agribusiness Development

Problem Addressed: Need to provide credit for rural enterprises and agribusinesses in Malawi.

Initiative: This project (612-0214) is funded by USAID at $5.1 million and covers the period 1984-1988. The project sets up two revolving lines of credit, one through the Malawi Union of Savings and Credit Cooperatives (MUSCCO) which is aimed at small rural agribusiness. The other credit line, created through the Investment and Development Bank (INDEBANK), reaches new and expanding small and medium business with needs up to $100,000.

Implementation: The project is being implemented by Africare. MUSCCO and INDEBANK receive technical assistance and training to improve their ability to handle lines of credit profitably. Credit applicants and recipients receive technical assistance, including preparation of applications, feasibility and market studies, financial analysis and business advisory services. Project funds are also used for the preparation of investment packages for presentation to potential U.S. investors and missions to the United States.

Impact: Further information is required.

H.9. MALAWI: Reduction of State Fertilizer Subsidy

Problem Addressed: Large fertilizer susidies were a major drain on government revenues and encouraged excessive use of imported fertilizer.

Inititiative: To help address this program USAID entered into a policy dialogue program (612-0255) with the Government of Malawi (GOM), in which the GOM was scheduled to receive $15 million in three annual tranches conditioned on reducing fertilizer subsidies by a specific percentage each year and shifting purchases to more cost-effective high-intensity fertilizer. In addition, technical assistance would be provided to support studies to evaluate: (1) the development of a domestic fertilizer industry; (2) strategies to improve the efficiency of smallholder marketing boards; and (3) the management of the Smallholder Fertilizer Revolving Fund (the main support fund of fertilizer purchases).

Implementation: Subsidies were scheduled to be reduced incrementally over a three year period. In fiscal year 1985/86 the subsidy was to be reduced to 22.6 percent of the marginal cost of fertilizer, to 17 percent by fiscal year 1986/87 and 12 percent by FY 1987/88. The use of high intensity fertilizer was scheduled to increase from 10 percent of total fertilizer tonnage in 1986/87 to 25 percent in 1987/88 and to 45 percent in 1988/89.

Impact: Further information needed.

J.6. MALAWI: Savings and Credit Cooperatives

Problem Addressed: Need to develop rural savings and credit institutions.

Initiative: Project 612-0205 was funded by USAID at $760,000 over the period 1980-1985. This project aimed at unifying the previously scattered individual rural credit unions into a modern system by creating and supporting the Malawi Union of Savings and Credit Cooperatives (MUSCCO). Project funds supported training of MUSCCO staff to deliver training to rural credit unions in basic credit union management skills -- bookkeeping, budgeting, credit policy, membership, and savings promotion.

Implementation: The project was administered by the Ministry of Technology and Industry and the World Council of Credit Unions. It was anticipated that by the end of the project MUSCCO would be at least 35 percent self-sufficient from income derived from services rendered, and that the network would have expanded from 24 to 39 unions. The project would finance a Central Finance Facility, which MUSCCO would use to make loans to credit unions for on-lending to their members.

Impact: As of mid-1984, the network of unions had grown faster than anticipated, but individual membership and savings had not. Membership stood at 11,000 and savings at MK 544,000. The goal of 35 percent self-sufficiency for MUSCCO had been revised downward to 25 percent.

K.4. MALAWI: Commercial Transport

Problem Addressed: At the outset of the project, the traditional rail lines from landlocked Malawi through Mozambique to the seaport were no longer reliable. Malawi paid scarce foreign exchange to outside trucking firms because local firms did not have the expertise, equipment or capacity to compete with transporters based at the alternative ports at Dar es Salaam and Durban.

Initiative: Under project 612-0218, funded at $5.2 million by USAID over the period 1984-1988, project funds were used to increase the number of Malawians who are trained and equipped to participate in the international overland transport industry. The Malawi Industrial Development Bank (INDEBANK) acquired 10-15 heavy tractors, together with trailers, tires and spare parts, and sell or lease at least one half of them to small owner-operators who would not otherwise have access to credit. The rest were bought by larger, existing local firms.

Implementation: The project was administered by the Ministry of Transport and Communications. Under the project, the Development of Malawi Traders Trust (DEMATT) prepared credit evaluations for INDEBANK. DEMATT also offered job and classroom training to an estimated 200 fleet managers, owner-operators, mechanics and drivers.

Impact: Further information is required.

0.11. MALAWI: Assistance to Rural Traders

Problem Addressed: Need to assist indigenous, small and medium scale enterprises (SMSEs) in Malawi.

Initiative: This $2.8 million project (612-0219) was funded by USAID and covered the period 1983-1988. It continued the growth of the Development of Malawi Traders Trust (DEMATT) by expanding and diversifying the types of training and business advisory services DEMATT provides, and extending the geographical area covered by DEMATT consultants beyond the previous eight centers.

Implementation: The project was carried out by DEMATT and Partnership for Productivity International. DEMATT is a parastatal body, autonomously managed by a board of directors, that promotes and assists the development of indigenous SMSEs in Malawi by offering business advisory services, credit programs, and training courses for entrepreneurs. The project aimed to assist DEMATT to expand its network to 51 trading centers and to establish a Commercial Accounting and Advisory Service (CAAS), which would become an independent, self-supporting commercial organization by the end of the project and will assume responsibility for the auditing, accounting, business consulting and funding identification previously offered by DEMATT. Targets included increasing clients served from 262 to 5,000, improved profitability of firms receiving credit, increased access to more diversified sources of credit, and improved quality of services provided. A mobile advisory service would be tested to reach the estimated 50 percent of SMSEs located outside the main centers.

Impact: Further information is required.

B.3. MALI: Fiscal and Public Sector Reform

Problem Addressed: Excessive regulation and taxes inhibit the development of a dynamic private sector.

Initiative: To help the Government of Mali implement a series of public sector reforms, USAID entered into a policy dialogue program (688-240), in which the GOM would receive almost $19 million in five tranches conditioned on the achievement of tax and budgetary reforms. Reform measures included: (1) reduced and more equitably distributed tax rates, combined with improved tax administration; (2) restructuring of the fiscal budget, focussing on the reduction of government employment and the privatization and/or closure of public enterprises; and (3) regulatory reforms to improve the efficiency of the private sector, including revisions of the commercial code and pricing and foreign trade legislation.

AID financing was used primarily to offset initial tax revenue shortfalls and to provide budgetary flexibility to educate the bureaucracy about new practices and policies.

Implementation: The program was initiated in late 1985, and was expected to be implemented over three years as reform measures were completed.

Impact: By 1986, the scheduled tax and regulatory changes had been successfully implemented and the disbursements based on these measures were drawn. For other measures, further information is needed.

H.10. MALI: Agriculture Liberalization

Problem Addressed: High cost and inefficiency of government controlled agricultural marketing.

Initiative: With substantial food aid and technical assistance from a group of donors, including A.I.D. (Project # 688-0230), the Government of Mali (GRM) liberalized domestic cereal markets. The donors agreed to provide between 30 and 50 thousand metric tons of food aid each year which gave the GRM the assurance that liberalization would not affect its minimal cereal supply obligations to civil servants and the military. Local currency sales of the food adi were used to finance reform measures, and were jointly managed by the donors and a GRM representative.

The GRM has progressively reduced its direct intervention in cereals marketing. In addition, private producer incentives have been improved. Measures include: (1) the increase of official producer prices to close to import price levels; (2) the reform of the rice-producing parastatal, Office du Niger; and (3) the elimination of consumer subsidies. By 1986/87, the GRM was committed to no longer exercise monopoly powers in any cereal market, and OPAM, the official marketing agency, was required to sell grain acquired through price support activities or as food aid at close to open market prices.

Implementation: This reform program was implemented in stages between 1984 to 1986, and is continuing. By being able to assure cereal supplies to the potentially most destabilizing political groups, civil servants and the military, the GRM, through OPAM could implement the reforms with limited opposition.

Impact: The private commercial sector has responded favorably to the reforms. For example, in 1984, a year when grain production was low, the private sector effectively distributed local cereal supplies and imported the necessary amounts to meet local demand. In addition, private traders have effectively implemented OPAM floor price policies.

Lessons Learned: Food aid programs can be used effectively for policy dialogue programs especially for agriculture marketing. Moreover, if used to effect appropriate reforms, food aid need not distort local production incentives, which often in the past led to the development of long-term supply problems by attempting to solve short-term short-falls.

Further Information: See most recent World Bank Economic Memorandum: Mali.

I.5. MALI: Commercialization of Portable Metallic Cookstoves

Problem Addressed: Traditional cooking methods consume large quantities of firewood, which is costly and also leads to deforestation of large areas of this arid country.

Initiative: With A.I.D. financial assistance (#688-0237), Volunteers in Technical Assistance (VITA) developed and disseminated the technology for a portable low-cost metallic cookstove which would reduce fuel wood consumption. VITA was also contracted to develop a manufacturing system through private metalsmiths and a sales network. Finally, VITA planned also to implement a marketing campaign to encourage wide acceptance of this new technology.

Implementation: To ensure low-cost and wide availability, hand-operated tooling has been designed and built for the fabrication of stoves to acceptable standards of both quality and dimensional tolerances. The stove can be manufactured without welding, thus enabling fabrication in disadvantaged areas. Nine different models have been designed.

Impact: For full details more information is needed. However, it was expected that 2000 stoves would be produced per year in the initial stage of the program in 1986.

B.4. MAURITIUS: Tax and Tariff Reform Program

Problem Addressed: Assist the Government of Mauritius to implement income tax reform (streamlining and reducing taxes), industrial incentive program changes and tariff reforms which reduce some duties on overprotected import substitution industries.

Initiative: This program is funded by $5.0 million in USAID grant aid (642-0008) and $3.0 million in local currency funds over the 1985-1986 period. The first tranche of $2.0 million, in local currency deposits, assisted in financing government budget deficits.

Implementation: The "Government Encouragement to Manufacturing Scheme (GEMS)" is an attempt to unify and simplify five interconnected incentive programs previously in place. The following benchmarks for reform, anticipated by April 1986, were (1) reduction of tariffs, including fiscal duties and surcharges, to a maximum of 100 percent on imports (previously as high as 824 percent); and (2) demonstrated progress towards implementation of a unified incentive scheme for manufacturing development, evidenced at least by a moratorium on the granting of new development certificates for import substitution industries. Release of the second tranche of $3.0 million was dependent on the implementation of these reforms to increase the international competitiveness of local manufacturers.

Impact: USAID's ongoing dialogue with the Government of Mauritius encouraged the latter to move forward on reforms. Further information is needed to determine eventual results.

H.11. RWANDA: Private Enterprise Development

Problem Addressed: Need to stimulate private enterprises in Rwanda.

Initiative: This USAID project (696-0121, with funding of $4.0 million over four years) is designed to promote private enterprise, particularly agri-industries, through direct technical and management assistance to Rwandan enterprises. The project aims to respond specifically to the needs of small and medium enterprises.

Implementation: The project is managed by Technoserve Inc. through a cooperative agreement. The project has three main components:

1. Management assistance to small and medium enterprises. In this component, Technoserve provides business advisory services to Rwandan enterprises, focusing on general management and accounting, but also other areas through the use of outside consultants.

2. Training and institutional development. This component is designed to augment the training opportunities offered for the private sector through "collaborative training activities" with Rwandan institutions. An additional activity is the creation of a training program for professional accountants.

3. Studies and policy analyses. Through this component, Technoserve undertakes a series of studies as background for policy dialogue between the Government of Rwanda, USAID and Technoserve.

Impact: As of February 1986, the Technoserve office had been established, and work had progressed on implementation of the first two project components. Over 100 enterprises had been contacted, 20 firms requested services, and 9 companies had signed agreements for technical assistance. Further information is required for recent progress.

I.6. RWANDA: Policy Reform Initiatives

Problem Addressed: Need to stimulate private sector manufacturing.

Initiative: This $12.0 million USAID-funded project covers the period 1985-1987 and aims to assist the Government of Rwanda to design and implement a series of pro-private sector policy reforms, to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise sub-sector.

Implementation: The first tranche of $3.5 million was conditioned upon the government's preparation of an action plan specifying new administrative and review procedures for access to the Guarantee Fund, determination of whether the continuation of the 1983 local currency deposit requirement is justified, and initiation of an industrial incentives study and plan. Prior to the disbursement of the second tranche, the government was required to publish a revised Investment Code giving preferential treatment to small and medium enterprises, and adopt and apply improved administrative and review procedures to increase access to the Guarantee Fund. Before disbursement of the third tranche, the government was required to adopt the major tariff related recommendations arising from the industrial incentives study. Before the Equity Participation Fund was disbursed, the government was required to show that planning for the Fund had been completed, preparing to use the funds to finance the private purchase of equity in specific parastatals.

Impact: Further information required.

G.3. <u>SOMALIA: Policy Initiatives and Privatization Project</u>

<u>Problem Addressed</u>: Expand the private sector role in the Somali economy.

<u>Initiative</u>: This project (649-0132), funded by USAID at $2.5 million (private sector component of $1.24 million) over the 1983-1987 period, included the preparation of sectoral assessments to identify opportunities for small to medium enterprises, subsector market research leading to the development of specific business projects, and technical assistance to help the government to define and implement policy changes supporting privatization of selected industries and private sector business development.

<u>Implementation</u>: The Ministry of Planning was the implementing agency. The project funded a long-term technical advisor to the Ministry of Industry and Commerce to promote private sector involvement in the economy and in policymaking, and a number of sectoral studies were completed, identifying specific business opportunities in the edible oil industry, commercial feed lots, and export markets for fruits and vegetables. The Ministries of Planning and Industry and Commerce developed a list of 32 private business opportunities such as bricks, pipes, printing, glassware, fish meal, electrical fans, table salt and seed farms.

<u>Impact</u>: As of March 1986, while the commercial viability for most of the business opportunities had yet to be documented, the first step of political agreement for private sector involvement had been attained. Policy changes within the Ministry of Industry and Commerce related to USAID efforts include the following: Spinoff of the Chamber of Commerce from the Ministry of Industry and Commerce to a quasi-private sector institution; acceptance of the concept of privatization for non-strategic parastatals within the Ministry of Industry and Commerce; recommendations within the Ministry for export expansion, business training and business information; and agreement by the Ministry to review official minimum export prices at more frequent intervals.

H.12. SOMALIA: Livestock Marketing and Health Project

Problem Addressed: Build a quarantine system and livestock health program such that export markets which had closed due to the rinderpest outbreak will again accept Somali animals.

Initiative: Of the total $11.0 million in USAID funding for this project (649-0109) over the 1984-1988 period, about $3.0 million represents a private sector component. This involves efforts to encourage private sector support businesses which trade in and transport livestock and supply fodder to the fattening lots and three quarantine facilities. Each facility will hold 20,000 head, cover 198 acres, and cost about $1.0 million to build.

Implementation: A foreign exchange conversion fund, managed by a commercial bank, is made available to businesses serving the livestock industry. Through the fund, hard currency is provided for the purchase of specific commodities when the importer supplies the required number of shillings. Somalis eligible to buy equipment are livestock traders who deal with export cattle, farmers who provide fodder for cattle in quarantine stations, and truckers and others who transport animals in quarantine to the port areas. The project also funds studies exploring the potential for future private sector development, such as a livestock marketing study, a feasibility study for a domestic veterinary drug industry, and a user fees study for the quarantine facilities.

Impact: As of March 1985, preliminary quarantine design work was near completion, bidding packages were prepared, and technical advisors were being recruited. Further information is required to determine subsequent results.

H.17. SOMALIA: Deregulation of the Grain Market

Problem Addressed: Low levels of production and below market prices for domestic grain due to excessive government control measures.

Initiative: In 1969, the Government of Somalia created 45 parastatal agencies which eliminated private enterprise in wholesale trade, banking and manufacturing. Under this policy, the Agricultural Development Corporation (ADC) and the Ente Nazionale Comercio (ENC) held legal monopolies over most aspects of the grain trade, including purchasing, storage, distribution and retailing. By 1980, ADC and ENC controlled approximately 95 percent of the grain market which was increasingly dependent on foreign aid. Confronted with rising import bills and falling domestic production levels the Government of Somalia initiated the liberalization of its agricultural markets in 1981. Beginning with the abolition of the ADC and ENC's monopoly position on both imports and distribution of grain and production inputs, the process eventually resulted in the total decontrol of prices.

Implementation: Liberalization was effected gradually throughout the early 1980s. The monopoly position held by the ADC in the purchase and retail sale of grain was officially withdrawn with the passage of legislation limiting ADC's purchase to 5 percent of total production. In 1982, the role of the ENC was reduced from a total monopoly on both the importation and distribution of rice and wheat to the concessional distribution of foodstuffs to public sector institutions alone. Private traders are now allowed to import these commodities, as well as undertake the transport and storage of grain. Finally, in 1985 prices for grain and wheat were decontrolled.

Impact: Until 1983, ADC fixed producer prices for grain at far below market levels. Between 1971 and 1980, the increase in grain price paid to farmers was negligible. In 1981, with the onset of liberalization, the producer price rose 80 percent maize and sorghum, and again by 80 percent and 55 percent respectively in 1983. In 1985, with the total decontrol of prices, grain production reached an all-time high of 634 thousand metric tons, fully 43 percent higher than 1983 production.

Lessons Learned: The loosening of regulatory controls and opening up of agricultural marketing activities to the private sector increased domestic production and created the basis for further liberalization initiatives.

Further Information: Mr. Jama, Embassy of Somalia, Washington, D.C. (202) 342-1575.

G.4. TOGO: Privatization of State-Owned Enterprises (SOE's)

Problem Addressed: Numerous poorly managed SOE's were a major drain on public revenues.

Initiative: Since 1979 the Togolese government has conducted the most extensive privatization program in sub-Saharan Africa. Seven SOE's were sold to private investors, the assets of six others have been leased to private managers, while 16 state-owned or controlled firms were liquidated. Most of these firms are industrial. Negotiations are proceeding to privatize seven more SOE's. This privatization effort was motivated by a recognition that public management of profit-making enterprises is inherently less efficient than private management, and is part of a general effort to "disengage" the state from economic matters.

Implementation: The process of privatization began slowly, but accelerated sharply once a legal and institutional framework was developed. While the policy began in 1979, no leases or sales were consummated until late 1983. Liquidations, however, began sooner. By 1983, with the establishment of a well defined legal and institutional framework, negotiations began to move quickly. Between October 1983 and January 1986, the assets of five firms were leased to private managers. These leases generated an income of about $5 million in 1986. Between November, 1986 and February, 1987, seven SOE's were sold to private investors. In two of these firms the state has maintained a minority share. In most cases the private managers and investors tend to be foreign. In several cases the International Finance Corporation (IFC) has participated, and the World Bank has supported the privatization program in general with technical and financial assistance.

Impact: Privatization has been quite successful in Togo. The state is saving over $20 million annually, while creating a more dynamic private sector. In addition, the privatization process has deepened Togo's ties with the international business community, which has given the country greater access to foreign markets. Several of the privatized firms are now exporting substantial amounts of their production due to their new ability to compete internationally, as well as the greater outward orientation of foreign private investors and managers. The export success of the privatized firms is leading the government to consider establishing an industrial free zone.

Lessons Learned: Privatization is a medium-term process which depends on (1) the development of professional managers to oversee implementation; (2) a supportive policy climate to encourage private investment; and (3) sufficient political will to overcome strong opposition from vested interests, including managers, some suppliers and employees.

Further Information: African Business, April, 1987 & February, 1988.

J.7. TOGO: Deepening of Financial Markets: Development of a National Credit Union Association

Problem Addressed: A lack of financial services serving low and middle income persons and entrepreneurs. The existing credit unions which served this market tended to lack financial expertise and sufficient capital resources.

Initiative: This A.I.D. project (#693 0224) supports the establishment of a more administratively stable and financially sound national credit union association. The goal of the project is to generate a self-sustaining revenue base, from which the association will be able to provide credit union operations and financial advisory services to members and resources for on-lending to individual unions.

Specifically, the project provided over $1.5 million in technical assistance with the balance going to administrative support and the financing of a small loan fund.

Implementation: This project was implemented over a five year period between 1983 and 1988 by the African Coop Savings and Credit Association and the World Council of Credit Unions.

Impact: The project has successfully expanded credit unions in Togo and has helped the institutions move toward self-sufficiency, but management problems still abound. Credit unions have increased in number from 93 to 109, with 10,000 new members. Deposits reached $1.25 million and loans $900,000, both double pre-project levels. However, the profitability on loans is still too low, which leaves the viability of credit unions still in question.

0.3. TOGO: Micro-Enterprise Development

Problem Addressed: Lack of non-agricultural private sector activities and services to support these activities in an area dependent on irrigated rice production.

Initiative: A.I.D. financed a project (693-0226) designed to develop non-farm economic activities in the Sio River area of Togo. The project was designed and implemented by Partnership for Productivity (PfP), a US-based NGO. PfP worked to encourage, to diversify the income producing activities of the region by providing business management services, technical assistance and a credit facility.

Implementation: The project was initiated in 1983 and terminated in 1988, by when it was planned that the programs would be organized into a private self-sustaining institution. 1993 has been set as a target date for when locally generated funds would be able to cover all operating expenses.

Impact: The project has been relatively successful. By end-1985, over $16,000 in loans with an average size of less than $200 were made. There has been very little problem with repayment. Clients who make monthly payments were reimbursing at a 100% rate. The high repayment rate is attributed to the fact that this program is a rare source of credit at reasonable rates for small-scale entrepreneurs, and therefore, clients make sure to pay debts on time to maintain access to this credit.

Although repayment rates are high, the program has been less successful in developing non-agricultural activities. By end-1985 only 15 non-agricultural entrepreneurs were able to maintain or increase their working capital. However, one might attribute the slow development of successful non-agricultural businesses to the entrepreneurs lack of experience in this area. Over time their performance should improve.

Lesson Learned: Micro-scale entrepreneurs will repay loans and use relatively advanced business methods, once the advantages are explained clearly and the penalties of abuse are enforced.

H.14. ZAMBIA: Liberalization and Diversification of Agricultural Marketing

Problem Addressed: Inefficient government agricultural marketing monopoly.

Initiative: AID initiated a policy dialogue program, the Zambia Multi-channel Agricultural Marketing Program, to support the Zambian government's efforts to liberalize and diversify the marketing of maize and fertilizer. The program was scheduled to provide $25 million of grant funds to be disbursed in four tranches, once the Republic of Zambia (RZ) accomplished specific steps towards the establishment of a multi-channel marketing system which permits prices to fluctuate, allows the independent participation of private producers, processors and traders and eliminates all subsidies except those to maintain floor or trigger selling prices.

Implementation: The project agreement was signed in the fall of 1985. The funds were to be administered as a Commodity Import Program. All the commodities were to be of US origin, and, except for locomotive spares, were to be allocated to the private sector. Local currency generated under the program was to be allocated to: private traders and cooperatives to procure equipment and materials to improve farm-to-market access; construction of storage facilities; budgetary support for the analysis of agricultural liberalization; consumer subsidies to low-income groups to offset increases in staple food prices; and the establishment of a grain reserve for food security.

Impact: Further information needed.

Nigeria: Reduction of Consumer Petroleum Subsidies, 1988

Problem Addressed: The government's fiscal commitment to supporting artificially low petroleum derivative product prices on the Nigerian market, and the distortions subsidies cause in the economy.

Initiative: The Nigerian government had been under intensive pressure from the World Bank and IMF to reduce (and preferably eliminate) government subsidies for domestically-marketed petroleum derivative products, primarily diesel fuel, gasoline, and household and airplane kerosene. Nigeria has pursued its own economic adjustment course after domestic opposition prevented the government from signing a formal IMF standby agreement. The adjustment program has met with wide praise from creditors nevertheless. The country is also still in the middle of a series of extensive rescheduling discussions with creditors. To facilitate the latter, Nigeria has needed the imprimatur of the IMF even if it will not borrow funds. As a new round of rescheduling talks approaches, creditors made the issue of petroleum price subsidies a major issue, since they viewed this as the most significant deficiency of the adjustment program.

Implementation: The government announced in April 1988 a series of increases in the domestic prices of the major petroleum products. The IMF estimates the weighted average of the resulting price increases at 35 percent; the World Bank 60 percent. Changes in percentage terms range from 8 percent for gasoline to 375 percent for airplane kerosene.

Impact: The price increases caused rioting in key urban areas and widespread concern among business leaders. Yet the cuts had been expected for many months, so they came as no surprise. The major impact will come in two forms, already becoming evident: higher general inflation at both the consumer and producer levels, and sharply higher costs for most commercial enterprises in terms of fuel and input expenses. On the other side, the government's fiscal commitment for fuel subsidies will be reduced significantly (the actual amount is unclear). This is an important factor in 1988 because of the reflationary budget in place. Also, the reductions will have the additional anticipated benefit of rationalizing the Nigerian commercial sector by basing production and services on more realistic input prices.

Lessons Learned: Domestic price subsidies are probably the most sensitive economic issue a government faces. The Nigerian government spent literally years preparing for the price increases through careful planning of how to deal with political disapproval and probable violence in reaction to the cuts. In the event, the cuts were larger than what domestic businesses wanted but smaller than what the IMF and World Bank desired. A significant disparity still exists, therefore, between "theoretical" expectations of creditors regarding economic policy and what the borrowing government can manage and still preserve political stability.

Nigeria: Divestiture of Public-Sector Entities

Problem Addressed: The government's fiscal commitment to supporting unprofitable business enterprises.

Initiative: The Nigerian government is seeking ways to convert external debt, appease creditors and attract investors. Privatization offers benefits in each case. The government has to date expressed great interest but moved ahead very slowly. No formal program yet exists, though government pronouncements on privatization are consistently positive.

Implementation: Only a small number of companies have been privatized to date and these have been smaller firms. The most significant is Aluminum Extrusion Industries in Imo State. The company was bought by Imo State, unnamed "private individuals," and Tower Aluminum Company. Similar exercises with smaller firms are likely, with public sector entities (such as state governments) making up the difference when investor interest lags. The federal government has been counting on domestic interests to be the primary purchasers of privatized company stocks, but at least some foreign capital must be attracted. To do this, the government must settle longstanding problems of indigenization, limits on foreign ownership, and repatriation. Beyond the initial steps with smaller firms, no concrete policy guidelines or invitations have been issued.

Impact: Impact has been minimal to date, though the program has generated a great deal of publicity, primarily because of the Nigerian economy's size in relation to the rest of sub-Saharan Africa. Planned future impact will be a significant reduction of government fiscal commitments to supporting the companies, and a rationalization of the economy as a whole. The Nigerian investment environment is generally favorable now, despite the extreme shortage of foreign exchange. The domestic economy is in a state of flux as it adapts to the various effects of structural adjustment, producing additional opportunities in one sector and risks in another. Thus, divestiture of public-sector firms is in practice dependent on the fortunes of a particular sector at a particular time. Also, most public-sector Nigerian enterprises are poorly managed and produce little, if any, profit, making them unattractive investments except at very low prices.

Lessons Learned: Nigeria's privatization scheme is still in its infancy. Given the government's disposition and abilities, privatization has a good chance of proceeding, but it will go slowly. Fighting entrenched government employees in the public-sector firms to be privatized is a long and painful battle. The government's slow progress is laudable in that it is anxious to avoid mistakes, but investor interest will wane if concrete regulations and opportunities do not materialize.

Nigeria: Abolition of State Commodity Marketing Boards, 1987

Problem Addressed: Poor agricultural productivity and production for both food and cash crops, and government interference and expenses related to controlling the marketplace. Nigeria has tremendous agricultural potential which has never been exploited. The country's dependence on oil revenues beginning in the early 1970s caused widespread neglect of agriculture, both for cash crops and food, making the agricultural situation even worse. The government is determined to reduce the expensive importing and smuggling of food.

Initiative: The 1987 budget included a variety of measures designed to stimulate agricultural production, promote exports, and encourage the private sector. The disbanding of the commodity boards took place in conjunction with raising producer prices to market levels for most commodities and the banning of imported wheat and rice.

Implementation: The disbanding process was implemented hastily, almost literally overnight, and without much thought to providing alternatives to the useful functions the commodity boards offered (farmers lost centralized facilities for providing pesticides and fertilizers, for example). The disbanding also diminished the power of the federal inspectorate, lowering cash crop quality and jeopardizing export earnings for cocoa in particular. The government played with the idea of privatizing the boards rather than disbanding them, but the boards owed the federal government some $900 million, so the idea was dropped. In their place, the government has instituted a licensing system for private buyers and, more recently, taken steps to strengthen the inspection service.

Impact: Despite sloppy implementation, the impact has been dramatically positive. Nigerian civil servants--a barometer of the best business activities--flocked back to investing in agriculture. Output figures showed a doubling of foreign exchange earnings in agriculture in 1987 over 1986 and the country achieving close to self-sufficiency in maize and rice. Storage and transportation remain problems, however. Infrastructure has never been adequate and what was lost when the boards were dismantled has not been replaced. The current drought has negated many of the benefits seen last year, but the basic incentives remain in place for continued strong growth as weather permits.

Lessons Learned: The clearest lesson from the Nigerian experience is that agricultural production is most sensitive to producer prices. Despite the many problems which have yet to solved (storage, inspection), farmgate prices have been raised sufficiently to spur a tremendous surge in agricultural production. Also, extant production which was being smuggled to neighboring countries paying higher prices is now staying in Nigeria.

Guinea: Economic Liberalization Program, 1986

Problem Addressed: Little private-sector business activity and expensive government fiscal commitments to public-sector entities. Guinea's economy has been anemic for several years, with low growth, high inflation, and a consistently draining current account deficit. The country is also emerging from the previous regime's antipathy toward foreign investment and ban on private commercial activity.

Initiative: Guinea introduced a new investment code at the beginning of 1987. The code is part of the goals of the National Recovery Program (NRP) that seek to generate greater economic growth through domestic enterprises and foreign investment. A major portion of the NRP involves privatization. The government has agreed in principle to sell off a number of state enterprises, including the major companies in the tobacco, paint and fruit sectors, as well as some shares of other firms. A more detailed list has not yet been issued.

Implementation: Implementation of reform has been slow and tenuous given the entrenched nature of the Guinean bureaucracy and serious problems of inefficiency through the economy and government. The president recently attacked the government bureaucracy for "impeding" both tax reforms and the sale of government companies. A more serious problem is that the government of President Conte is increasingly unstable. Any type of liberalization effort is thus threatened. Riots in January 1988 occurred in response to price hikes of basic goods, but ethnic and political tensions go well beyond issues of prices. The most successful efforts have involved attracting joint venture partners in key industries, primarily oil; Guinea has been actively soliciting bids from oil companies on five offshore blocks. Also, a major trade fair for French companies was held in mid-April 1987, an indication that French business was being courted. Finally, a Luxembourg firm is guiding a major fish processing facility rehabilitation. Several infrastructural projects, funded primarily by public-sector donors, are also planned or underway.

Impact: Liberalization has had minimal impact to date. Some joint ventures announced more than a year ago have yet to be finalized. The government has let it be known that it is not satisfied with the terms of other preliminary agreements reached and now wants to renegotiate with foreign partners. On the domestic side, it recently shut down over 300 small businesses which did not abide by new regulations. One of the few successes has been the creation of a new joint-venture banking and investment enterprise, breaking the domestic banking monopoly.

Lessons Learned: Guinea's government clearly does not have the political capabilities or strength to implement a thorough reform of the economic sector. Laudable as the governments efforts may be from a donor's perspective, they may result in disaster if the present government is replaced by one much less sympathetic to sound economic policies.

Cote d'Ivoire: Divestiture of Public-Sector Entities

Problem Addressed: Government fiscal commitments to public-sector enterprises. The government has placed high priority on spurring economic diversification--through privatization and business liberalization in general--because of weak commodity earnings and the growing payments imbalance they are causing.

Initiative: Privatization of government companies became official policy in 1980, one of the first such programs in Africa. The initiative was announced as a broad policy, with specific arrangements worked out on a case-by-case basis. The Ivorian industrial sector remains relatively weak, and privatization is one of the major strategies designed to strengthen industrial capacity and support efforts to diversify away from dependence on agricultural export earnings.

Implementation: The government has been slow to carry out privatization efforts, but at least it has carried out some successful sales. Of the approximately 130 firms in which the government has a major stake, some 28 have been sold. Of the remaining firms, many are considered "strategic" and will not be entirely divested. Others are in debt and would not be attractive on the market. The country's record on privatization is commensurate with its overall efforts toward economic liberalization--a solid success even if somewhat slow. Cote d'Ivoire remains the most attractive business environment in sub-Saharan Africa because of its lack of restrictions on repatriation and other similar liberal policies.

Impact: Cote d'Ivoire's privatization has had a significant, if not major, positive impact on the economy. As a component of the country's overall efforts to encourage foreign investment and economic diversification, privatization has played a helpful role in providing attractive options for additional foreign and domestic investment. Quantifiable benefits are difficult to even estimate, of course, and many of the benefits from increased investment have been overlooked because of the overarching problems with the agricultural sector and foreign exchange earnings therefrom.

Lessons Learned: Cote d'Ivoire's privatization efforts have been successful primarily because they have been part of an overall strategy designed to encourage foreign investment and economic liberalization. While the pace of reform has been slow and not without mistakes, the government's caution has usually been well-founded and produced positive results. The most important component of success, however, has been the recognition that privatization, per se, would not succeed without a business environment supportive of divestment efforts. Foreign business views Cote d'Ivoire as a generally attractive place to invest, including in privatized enterprises.

Kenya Commercial Finance Corporation

Problem: Local banks were unwilling to provide credit to rural small and medium scale enterprises. At the time of the AID loan, banking liquidity was low, which further restricted the traditionally conservative lending practices of the commercial banks in the country.

Initiative: The A.I.D. Bureau for Private Enterprise provided a US$ 2.5 million direct loan to KCFC for long term lending to small and medium scale rural agribusinesses. KCFC matched the funds with $2.5 million in local currency. Additionally, a $250,000 grant was provided to KCFC's parent corporation, the Kenya Commercial Bank, to strengthen its business advisory service. The loan was for 12 years at a 10.5 percent interest rate.

Implementation: Subloans under the project were made at an annual rate of 19 percent, the prevailing rate for all non-bank financial institutions in the country. Loans were made primarily to finance long-term capital investment, and had terms of 6 to 8 years.

The loan was fully lent to the targeted group. Seventy-five percent of the loans went to finance new enterprises. Several loans were provided to existing businesses that had never received commercial credit before the PRE project. Program funds were fully committed, with a total of 74 million Kenyan shillings pledged to 95 sub-borrowers.

Impact: Project loans positively impacted on the sub-borrowers' output of agricultural goods. Many businesses also reported significant sales increases over the period of the loan.

The PRE loan to KCFC was generally profitable for the bank, and resulted in some change in the institution's perception of the risks involved in term lending to SMSEs. There also was evidence of impact on the commercial banking system as a whole, in that other private commercial banks are now participating in a follow-on USAID/Kenya project.

Lessons Learned: The KCFC experience showed that if technical assistance is required to augment a commercial institution's ability to implement a lending program for SMSEs, it is necessary to fund this portion of the project on a grant basis, and monitor the grant with the same care given to other institutional strengthening efforts.

Leather Industries of Kenya

Problem: There was a lack of vertical linkages in the leather industry in Kenya, as well as extremely limited long term credit during a period of reduced credit flows from international banks to Kenyan businesses.

Initiative: A.I.D. provided the Leather Industries of Kenya (LIK) a US$ 1.4 million loan at 12% interest for ten years. The loan was part of a $9 million investment package financed by a group of Kenyan and international investors to build a processing plant to manufacture finished leather. The project objectives were to create a market for locally produced hides, provide raw materials for local leather manufacturing, and increase the amount of finished leather goods exported from Kenya.

Implementation: A.I.D./PRE's investment, and that of the other organizations, provided long term credit which was not available through the Kenyan commercial banking system or the development banks. The project is regarded as successful, and other efforts to stimulate development through the local private sector were subsequently designed by USAID/Kenya.

Impact: The LIK project was responsible for introducing modern tanning technologies to Kenya, and encouraged improved animal husbandry practices among LIK suppliers. Modern leather processing technology was used to exploit a resource with high export market potential. Another impact of PRE's involvement in this venture was the transfer of environmental protection technology. A.I.D.'s participation was conditional upon the fulfillment of strict environmental requirements.

Lessons Learned: PRE's direct loan to Leather Industries of Kenya illustrates that the roles of vertical and horizontal linkages to overall project impact should be explicitly considered during the selection, design, and management of private enterprise projects.

F. HEALTH: LESOTHO, COMMUNITY WATER SUPPLY

Problem Addressed: Reliable and safe water supplies were not available to communities near the Capital and other more rural communities in Lesotho. Construction of systems and maintenance to remote areas is difficult to manage by a central governmental agency.

Initiative: An agency to coordinate water development policy, drilling and maintenance was formed by the A.I.D. project. The water agency was to encourage national legislation enabling communities to take responsibility for the developed water systems. The agency was planned to go out of business at the end of the project.

Implementation: A total of 300 piped spring catchment systems and 1,000 wells were developed. The water agency found that it was not able to keep the development component on schedule and resorted to contracting to private firms for the drilling of wells. The water agency is presently supporting the development of operations and maintenance by the communities. enabling legislation was passed. The project originally scheduled to be completed in the Spring of 1988 has been extended into 1989.

Impact: The use of private firms to augment water system development was found to result in lower drilling and construction costs, faster completion on the targeted number of systems, and higher quality systems. Operations and maintenance issues are now being addressed. Private firms are being proposed for the operations and maintenance of the systems near the capital system. No firms currently exist in the rural areas and plans call for the water agency to continue operations to support rural system maintenance in the near term with the expectation that private firms will move out to serve rural communities.

F. HEALTH: BURKINA FASO, ARTISAN/PRIVATE SECTOR MAINTENANCE OF COMMUNITY WATER SUPPLY SYSTEMS

Problem Addressed: In providing safe water to developing countries, the critical component is often operations/maintenance. The problems associated with operations and maintenance are more difficult in rural areas where mechanical expertise and community funding and support are in short supply.

Initiative: The Burkina Faso project, funded by U.S.A.I.D., focussed on 20 rural villages and proposed to identify and train local private individuals to maintain and repair the water systems with the community bearing all costs for using the artisan. The government water agency was to operate regional stores of parts under a contract to a private sector manufacturer of pumps and related water supply equipment.

Implementation and Impact: The original project which began in 1981 included a well drilling component and an agency was formed to perform this function. In 1987, this objective accomplished, the drilling agency was disbanded. A three tier system for maintenance is now being tested. The community is responsible for light maintenance. Trained artisans now exist in the 20 villages and have been contracted for system repair as required. The government water supply agency provides system monitoring and support through a regional parts distribution network.

F. HEALTH: TOGO WATER SYSTEM DEVELOPMENT THROUGH THE PRIVATE SECTOR

Problem Addressed: The experience of surrounding West African countries indicates that the private sector could accomplish water well drilling at a lower cost than that generally experienced by governmental agencies. Since public resources are scarce, this approach was undertaken for a rural water system development project funded by U.S.A.I.D.

Initiative: The private sector was to be utilized for well drilling. Operations and maintenance were to be handled through community responsibility with support provided by the national government agency for major well repairs.

Implementation: A total of 1,050 wells have been developed. A two tier system of operations and maintenance has been imposed. The communities have their own trained pump repairmen for moderate system repairs. They can obtain parts from a private firm with the contract to supply pumping equipment and spare parts.

Impact: An evaluation showed that the private contractor drilled wells at a cost 40% below that estimated for a national government agency. The system for operations and maintenance, based on community responsibility is working well. The only problem is the slow national government response for major system repairs.

F. HEALTH; ZAMBIA, GHANA, PAKISTAN, NIGERIA; PRITECH I and II

Problem Addressed: Diarrheal disease is a major cause of mortality in the young. Treatment through oral rehydration, ingestion of water containing a combination of salts and sugar, has been demonstrated as effective in reducing infant and child mortality. Developing nations had been unaware of the potential for reducing the morbidity and mortality associated with diarrheal disease. Public and private resources were not mobilized.

Initiative: a consortium of organizations, under contract to USAID, initiated PRITECH I in 1983. The major focus was advocacy, promotion, and information on oral rehydration therapy (ORT). PRITECH II, which began in 1988 included an emphasis on utilizing private, for profit organizations.

Implementation: Under PRITECH I, technical assistance was provided primarily to Ministries of Health and private voluntary organizations. In addition to organization and planning matters, local facilities for the production of oral rehydration packets were encouraged. PRITECH II has an explicit objective of long term program implementation and utilization of the private, for profit, sector including pharmaceutical companies for the production, advertising and distribution of ORT packets.

Impact: Projects are presently underway in Zambia, Ghana, Pakistan and Nigeria where a private sector emphasis has been incorporated into technical assistance efforts. These projects are exploratory and, while results are expected to be substantial, little information in the way of definitive achievements is presently available.

Lessons learned: Advocacy efforts to inform developing countries of the potential of ORT have been successful. Issues have emerged for financing of production facilities. Each country requires a specialized approach for encouraging and supporting private sector involvement in the production and distribution of ORT packets.

SECTORAL POLICIES AND PROGRAMS

F. HEALTH: GUATEMALA, GHANA: PROJECT SUPPORT

Problems Addressed: The budgets for Ministries of Health in developing countries are not adequate to meet the increasing needs and costs for health care. Oral rehydration therapy offers a health intervention that has the potential for reducing child and infant mortality. Public sector funding and available resources are limited. Medical care and supplies may be more effectively distributed and funded through purchases by consumers rather than by publicly supported distribution of packets. The quality of ORT packets is an important issue.

Initiative: Project SUPPORT (Support Production and Promotion of Oral Rehydration Therapy) was funded by AID and started up in August of 1985. The objective is to involve the private sector in the high volume production and distribution of ORT packets to the public sector and directly to users. Technical assistance and loans are provided.

Implementation: ORT Coordinating Committees have been established in Guatemala, Ghana, Peru, and Paraguay. Committees include representatives of firms, MOH, UNICEF, and USAID. In Ghana and Guatemala, loans have been provided to private firms and production of ORT packets began in March, 1988. Production will begin in the Summer of 1988 for Paraguay and Peru. New projects are planned for Uganda, Zaire and Cameroon.

Impact: In the case of Guatemala, the project was successfully launched with the active participation of ADAMED. S.A., the Ministry of Health, UNICEF and the USAID Mission. ADAMED, a small and respectable pharmaceutical firm, is producing a high volume of ORT packets under a strict quality control program. Packets are being distributed by sale to users and approximately 90% of the area of the country is being covered (estimated 60% of users with 40% being served through the MOH). ORT packets are being distributed with a minimum of cost outlay on the part of the MOH. The MOH is considering purchase of ORT supplies from ADAMED.

Lessons learned: Pharmaceutical firms may need to become aware of the potential for high volume, low profit products rather than low volume, high profit products. Successful implementation is highly dependent upon coordination between the firms, MOH and donors such as UNICEF or USAID. MOH personnel may need to take some political risks in supporting private sector involvement in production and distribution of medical supplies.

Further Information: Ongoing quarterly review will indicate the ability of firms to expand sales and coverage and sustain the distribution of ORT packets through time.

B. FISCAL POLICIES: MALI, TAX REFORM COMPONENT OF THE ECONOMIC POLICY REFORM PROGRAM (EPRP)

Problem Addressed: At the time of independence, the Government of the Republic of Mali introduced a policy of taxation which deliberately discouraged private enterprise. Currently the Government recognizes the potential for economic development through changing the confiscatory nature of the tax system.

Initiative: Changing the tax system includes the risk of reducing tax revenues. USAID/Mali, in cooperation with the Mali Ministry of Finance and Trade has developed a comprehensive Economic Policy Reform Program. A major component deals with tax reform. The EPRP project provides technical assistance for identifying tax reforms and minimizing the impact of reduced revenues through a series of tranches which are awarded as reforms are implemented. Previous IMF and AID studies have recommended the following and other reforms: reduction of business income taxes, reduction of turnover and payroll taxes, lowering of customs duties on primary materials and semi-finished imports, a trial elimination of export taxes, and creation of duty-free zones.

Implementation: The Government of Mali has revised the commercial code and facilitated the entry of new businesses into the economy. Flat tax rates and corporate profit tax rates have been lowered. Customs tariffs have been revised. Project disbursements have been in made to partially offset reductions in revenues. The Ministry of Finance and Trade has taken several steps on administrative improvements to recover taxes from other sources.

Impact: The Government of Mali is satisfied that reforms are encouraging private sector growth. A major study on EPRP impact of tax reforms will be conducted in late 1988

MACROECONOMIC POLICY AND PROGRAM

G. PRIVATIZATION: Mali, Voluntary Early Departure Component of the Economic Policy Reform Program (EPRP)

Problem Addressed: Mali has had a policy of hiring all high school and college graduates as civil servants. As a consequence, the civil service roles expanded greatly which required higher revenues to meet payrolls. Talented and educated Malians were not encouraged to enter the private sector. National budgets were heavily weighted towards personnel costs leaving little leeway for equipment, supplies and capital expenditures.

Initiative: A Voluntary Early Departure Program (VED) was planned for 200 departures from the civil service in 1987 and 400 in 1988. Each participant received an award of $7,000 to 16,000 depending upon their employment category and length of service. A fund was established for sharing 50% of costs for feasibility studies for business ventures. A guaranteed loan program was established to finance worthy business ventures of the VED participants.

Implementation: Applications from 400 civil servants were reviewed by a committee of Malian officials and 206 were accepted in June of 1987. The World Bank has been encouraging a reduction in civil service rolls in other countries. These reduction programs were not voluntary in nature. The Mali project, funded by the USAID Mission in Bamako, was planned with the Malian Ministry of Finance and Trade with the participation and agreement of other Ministries. Support of the program came from the highest levels of the Malian government.

Impact: Benefits-costs estimates indicated that the program would reduce the payroll through time. An evaluation study was conducted on the 1987 participants. Over 80% of a sample of participants stated that they were better off under the program. The Government of Mali is looking forward to the 1988 set of participants. Over 80 feasibility studies were conducted. However, none of the studies was accepted for guaranteed loans by the banks which contended that their long-time customers required all available capital.

Lessons Learned: Careful planning in cooperation with Government of Mali officials resulted in a politically acceptable program for reducing the civil service. Combined with an elimination of the policy to hire all graduates in the civil service, a comparative reduction in the personnel portion of the National budget is expected to result as a consequence. A new resource of trained and educated Malians has become available for employment in the private sector of the Malian economy.

F. HEALTH: ZAIRE AND OTHER COUNTRIES: OPTIONS FOR POPULATION POLICY

Problem Addressed: Developing countries rely heavily on governmental programs to distribute information on population, family planning, and contraception methods. Family planning can be a major concern to individual citizens who may be willing to obtain information and materials from private sector sources.

Initiative: The "Options" Project makes governments aware of the huge issue of population growth and scarce economic resources in order to facilitate private sector involvement and to augment public sector efforts. Options for Population Policy presents alternatives to participating developing country agencies for involving the private sector in population issues. Briefings and planning sessions for family planning are provided. Three large private corporations in Guinea were provided benefits-costs analyses on the effect of family planning services to employees. Company Social allowances expenditures were analyzed for a ten year period.

Implementation: In Zaire, technical assistance in population policy development has been provided. Avenues for private sector involvement were explored from a policy viewpoint. The effects of taxation and fiscal reform on population initiatives were addressed.

Impact: In Zaire, one result was the development of a detailed scope of work for project TIPPS (Technical Information on Population for the Private Sector).In Guinea, the feasibility of private sector family planning services was indicated with company costs decreasing with regard to reduction of company employee benefits after the fifth year. The breakeven point was reached by year ten.

Lessons learned: Developing countries are receptive to learning about and adopting programs that involve the private sector in family planning and population issues.

FOOD PRODUCTION SUPPORT PROJECT AND
SUCCESSOR COOPERATIVE AGRICULTURE AND
AGRIBUSINESS SUPPORT PROJECT

UGANDA

Problem

Ugandan agriculture declined precipitiously during the Idi Amin years and following Obote administration. Businesses marketing and processing agricultural products and supplying essential inputs were even more severely affected. Many of these agribusinesses were nationalized, ineptly operated and ultimately closed. Cotton lint and vegetable oil and sugar which had been major exports declined to almost zero. Local production of fertilizer, agricultural limestone and most other production inputs ceased.

Initiative

The Food Production Support Project was initiated soon after the departure of Idi Amin to finance import of production inputs, and goods for manufacture of inputs and to develop the cooperative system. Though adversely affected, cooperatives had come through the Amin era more intact than other private sector businesses. The Ministry of Cooperatives was assigned principal responsibility for implementation of the project.

Implementation

An evaluation carried out in early 1987 found that the project had achieved most of its objectives, particularly in development of private sector production of farm tillage tools, principally hoes, and in supply of vegetable and improved field crop seeds. The project helped create an appreciation of the crucial importance of developing cooperatives and other private sector agribusinesses as mechanisms for agriculture to recover and provide adequate food supplies and increased employment for Uganda's people.

This successful experience was a factor in the decision by the new (Musiveni) administration to place primary emphasis on cooperatives and other private sector businesses and their support by A.I.D. and other donors. A.I.D. has approved a major program to assist economic recovery and development of the private sector. One of the recently approved activities is a $20 million Cooperative Agriculture and Agribusiness Development project specifically following on the predecessor Food Production Support Project. This new project will be implemented by the Cooperatives directly rather than by the Ministry. It will also support other private sector agribusiness, especially in the production of needed inputs. It will include a matching grant component designed to develop and support grass roots primary cooperatives directly owned and managed by farmers. Local currency generated by A.I.D.-financed imports will support private investment at both farmer and agribusiness levels.

Impacts

Major impacts to date are the changes in attitude toward the private sector and in policies favoring the private sector and expansion in private agribusiness activities. Major progress is expected in the next two to three years in acceleration of Uganda's recovery and economic growth led by private

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sector operations both at the farm and supporting agribusiness levels. Small farmers are benefiting from increased access to inputs and markets and consumers are benfiting from increased food production.

Lessons Learned

The critical importance of the private sector agribusiness in agricultural and broader economic development is clearly demonstrated by the Uganda case. While the verdict is not yet in on the accomplishments of these A.I.D. activities, it appears safe to predict that they will contribute in a major way to Uganda's recovery and sustained development if the political situation continues favorable. The experience supports the thesis that direct support of agribusiness is the best approach — in contrast with the initial operation of the project by a Government Ministry. It suggests too, that even under the most difficult circumstances, a substantial though dormant potential for private sector development exists in most if not all developing countries.

Information

Periodic U.S.A.I.D. Project Reports; Many consultant and periodic reports of ACDI the FPSP contractor. April 1987 evaluation of the FPSProject conducted by RONCO; the PP for the new CASS project; May 1988 Front Lines contains information on the Program including these initiatives.

0542R

ZIMBABWE AGRICULTURAL SECTOR ASSISTANCE PROJECT (ZASA)
Grant of September 29, 1982

Problem

The economy of Zimbabwe suffered both physical destruction and institutional decline during and following the struggle for independence and fully democratic form of government. The departure of a large number of people of European origin, who operated the 5,000 large commercial farms and provided the professional core of most institutions posed a particular problem for future progress.

Initiatives

The ZASA program provides assistance on economic recovery. It is devoted primarily to restoration of essential agricultural institutions and improvement in small-holder agricultural productivity and rural employment. It's principal purpose is to provide greater access to technology and production inputs, better markets and create conditions essential for increased productivity and employment in the smallholder sector. U.S. assistance provided under ZASA was designed as an assistance program rather than a project based on two assumptions:

- major policy changes were not required. Only refinements in policy and providing the resources for implementation of essential activities were needed; and
- that basic institutions and administrative structures essential for designing and implementing the various activities to be supported existed.

ZASA had as its goal, an increase in smallholder production and related employment. This was to be accomplished by addressing major constraints in the areas of research, extension, training, credit, marketing, input supply, resource use and policy planning. The implicit assumption was that if these constraints, including lack of financial resources, could be overcome, the private farm and agribusiness sectors would take the necessary initiative in supplying inputs, utilizing improved technology to expand production and providing improved market outlets for farm produce at incentive prices. Farmer owned and managed cooperatives (a part of the private sector), were looked to to provide a substantial part of the input supply, technology transfer and improved marketing functions required for smallholders to increase productivity. The A.I.D. resources provided were in the first instance to be made available largely to the private sector to finance imports of capital and intermediate production goods. The local currency generated by payments for the foreign exchange was to be used for credit for cooperatives and other business ventures and to help finance improved government services.

Implementation

The dollar resources for imports were made available to finance private sector imports of goods and services using normal GOZ import procedures. Use of normal procedures permitted importers to act quickly in drawing down funds.
As usual, importers were required to put up the equivalent value of the FX in local currency. A ZASA Working Group committee was established, chaired by a representative of the Ministry of Finance, Economic Planning and Development (MFEPD), and including representatives of other Ministries, the University and U.S.A.I.D. to allocate and monitor use of the LC thus generated.

Part of the local currency was allocated to farmer owned cooperative unions to help finance their supply of inputs to small farmers. Production packages (inputs, and etc.) were made available to smallholders through cooperatives and private dealers. Financing also was provided to help establish input supply and produce buying centers. As of December 1984, 40 district warehouses and 199 local facilities to serve small farmers were completed; total cooperative business with smallholders reached Z$23.9 million in 1983 compared with $3.3 million in 1978.

Impacts

Evaluation of the program concluded that it fulfilled its objectives of assisting development of the small scale farm sector. (At the start of the program there were about 5,000 large commercial farmers and about 900,000 families in the small scale farm sector.) The small holder sector has increased its share of major crops (e.g. maize, cotton, tobacco) and become more market oriented. Some measures of progress between 1982 and 1984 (when the mid-point evaluation was completed) include: loans to smallholders increased for 46,000 to 96,000 with value up from Z$19 to Z$56 million. Cotton deliveries by smallholders increased from 49,000 MT to 96,000 MT.

The other principal impact was on private sector firms which obtained foreign exchange under the CIP component. In 1984, the CIP component was estimated to have contributed 3.8% to GDP and 5% to total national employment. It enabled participating private sector firms to approximately double their level of operation. For those interested in U.S. trade, it should be noted that ZASA financed an estimated 3/4th of U.S. exports to Zimbabwe. The 1987 evaluation of the CIP component concluded that the FX made available saved several private firms from bankruptcy.

Lessons

A.I.D. was able to implement the ZASA program quickly and very effectively by heavily utilizing the private sector and employing existing organizational procedures for import licensing and management. Private business already familiar with these procedures were able to act quickly on use of resources for urgent needs. While not all countries have the private and public capacity, most have a substantial, often latent capacity, that could be utilized effectively to bring timely results benefiting target, low income, groups. These latent private sector and supporting public sector capabilities need to be sought out and utilized more fully to make A.I.D. programs more effective, more timely, less bureaucratic and more efficient in achieving social and equity as well as economic objectives.

Information Source

1984 Evaluation of the ZASA Program published by RONCO; 1987 Evaluation of the CIP Component, U.S.A.I.D.; January 14, 1986 ZASA audit report (3-613-86-3).

MEMORANDUM

TO: See Distribution

FROM: AAA/AFR/DP, John R. Westley

SUBJECT: Seminar on Analytical Models for Tax and Trade Policy in Developing Countries

You are cordially invited to a seminar on Analytical Models for Tax and Trade Policy in Developing Countries that will be presented by Peat Marwick's Policy Economics Group (PEG). Only recently established, PEG already has attracted an outstanding staff of internationally renowned specialists with expertise in Tax and Trade Policy. The seminar will be held in Room 5951 New State from 10:00 AM to 12:15 PM on October 14. Please find attached the proposed agenda. We are confident that you will find the seminar both informative and highly useful.

We look forward to your attendance and active participation.

Distribution:
AFR/DP/PAR, Vimal Atukorala
PPC/EA, Alan Batchelder
LAC/DR, Juan Belt
PPC/CDIE/PPE, Annette Binnendijk
PPC/PDPR, Stuart Callison
ANE/DP/PA, David Carr
PPC/PDPR/SP, C.A. Carrino
PPC/EA, John Chang
AFR/DP/PAR, Edward Clarke
AFR/DP/PAR, Colette Cowey
S&T/POP/PPD, Harry Cross
ANE/DP, Michael Crosswell
AFR/EA, Rene Daugherty
FVA/PPM/PAD, Forest Duncan
AFR/DP/PAR, Raghawendra Dwivedy
S&T/RD/SEE, Michael Farbman
LAC/DP, Vernita Fort
LAC/DP, James Fox
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PPC/EA, Parrie Henderson

PPC/DC/DAC, Mary Hughes Knox
PPC/AEA, Jerome Lapittus
AFR/DP/PAR, Yoon Joo Lee
PPC/CDIE/PPE, Joseph Lieberson
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FVA/PPM/?AD, Jerre Manarolla
S&T/RD/RD, Thomas Mehen
S&T/RD/RI, Merle Menegay
PPC/CDIE/PPE, George Miller
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S&T/POP/PPD, Scott Radloff
PPC/EA, Warrior Richardson
PPC/EA, Neal Riden
AFR/DP/PAR, Leonard Rosenberg
ANE/DP/PA, Donald Sillers
AFR/DP/PPE, Emmy Simmons
PPC/PDPR/RP, Richard Sines
PPC/CDIE/PPE, Richard Solem
S&T/RUR, Earl Swanson
PPC/PDPR/RP, Jan Herre van der Veen
LAC/DP, James Walker
AFR/DP/PAR, Jerome Wolgin
LAC/DP, Clarence Zuvekas

AFR/DP/PAR:DHarrison:cmc:9/12/88:2526g

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PROPOSED AGENDA FOR SEMINAR ON ANALYTICAL MODELS FOR TAX AND TRADE POLICY IN DEVELOPING COUNTRIES

By The
Policy Economics Group,
Peat Marwick Main & Co.

I. Overview and Context: 10:00 - 10:30 a.m.

  A. General purpose of analytical models

  B. The economic context for fiscal reform

  C. The economic context for trade reform

  D. Available policy instruments

II. Types of Models and Output: 10:30 - 11:00 a.m.

  A. Indirect tax model

  B. Income tax models

  C. Trade (Computable general equilibrium models)

COFFEE BREAK: 11:00 - 11:15 a.m.

III. Methodological Issues in Model Construction for Developing Countries: 11:15 - 11:45

IV. Examples of the Use of Analytical Models in Developing Countries: 11:45 - 12:15

  A. Indirect taxation: Pakistan

  B. Individual taxation: Trinidad, Jamaica

  C. Company taxation: Trinidad

  D. General equilibrium/trade models: Cameroon, Turkey

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