

PN-AB6-620

ISN 69124

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

J. E. AUSTIN ASSOCIATES
50 CHURCH STREET
HARVARD SQUARE
CAMBRIDGE, MA 02138
(617) 547-9300

Prepared for the U.S. Agency for International Development

February 12, 1987

CONTENTS

INTRODUCTION	.....	1
STEP 1: DESCRIPTION	.....	8
STEP 2: DIAGNOSIS	.....	21
STEP 3: DIALOGUE	.....	41
STEP 4: STRATEGY FORMULATION	.....	45
STEP 5: PROMOTION	.....	51
STEP 6: PROGRAMMING	.....	58
STEP 7: EVALUATION	.....	60

FORWARD

The Private Sector Development Framework (PSDF) was developed by J.E. Austin Associates under a subcontract agreement with Coopers and Lybrand for the United States Agency for International Development. The Framework is the result of much dialogue with AID officials. Special recognition is given to the Office of the Assistant Administrator. Special thanks is also given to staff at the Bureau for Private Enterprise (BPE) and to the Bureau for Program and Policy Coordination (PPC).

INTRODUCTION

The Private Sector Development Framework (PSDF) has been developed by J. E. Austin Associates for the United States Agency for International Development (AID) to assist in its efforts to promote economic development through private enterprise. It is a seven step process, each containing a set of analytical tools, designed to help Mission Directors and those involved with private sector programs in AID Missions around the world to design and implement strategies that promote the vitality of private enterprise as an engine of economic development.

OBJECTIVE OF THE PSDF

The objectives of the Private Sector Development Framework are:

- 1.) to enhance AID's understanding of the private sector in a given country;
- 2.) to improve AID's diagnosis of host country impediments to private sector growth;
- 3.) to engage in more effective dialogue with host country actors;
- 4.) to develop better and more comprehensive strategies for private enterprise promotion;
- 5.) to mobilize broader local support for private sector initiatives;
- 6.) to ensure the consideration of a wider set of programmatic and project options; and,
- 7.) to improve subsequent evaluation of private sector projects.

The PSDF provides a conceptual view of of the private sector development process, a procedural approach to organizing the process, and analytical tools for implementing the process.

USAID'S PRIVATE SECTOR INITIATIVE

USAID has articulated its goal of promoting private enterprise and free competitive markets as the most efficient means of achieving self-sustaining, broad-based economic growth

and social progress and of alleviating the worst manifestations of poverty among the world's poor majority. "The two pronged objective, to reach the ultimate goal of growth, is the establishment of viable, competitive markets and the expansion of private enterprise in LDCs."¹

As a result of these objectives, AID-Washington has encouraged mission personnel to "learn as much about the indigenous private sector in their host country as they do about the operation of the ministries and parastatals. . . ." Such learning is viewed by AID as a prerequisite for strategy formulation and effective program implementation.

AID's Private Sector Development activities are not seen as an isolated portfolio of activities but rather as a set of initiatives which underpin and are incorporated in all aspects of AID country programs. These initiatives include: policy dialogue; direct program actions to eliminate legal; regulatory and other impediments to private sector development; direct assistance to LDC private sectors; encouraging private sector delivery of traditional government services; assistance in divestiture and privatization; and other activities. The PSDF is designed to assist AID in conceptualizing, planning, implementing and evaluating these activities as part of a comprehensive private enterprise program.

PSDF: A SEVEN STEP PROCESS

AID's Private Sector Initiative has presented the Agency with new conceptual challenges. Although AID has always worked with the private sector, recent programmatic emphasis has raised the important question of how best to promote private enterprise in LDCs.

The PSDF conceptualizes and organizes the private sector development process into seven steps: description, diagnosis, dialogue, strategy formulation, promotion, programming and evaluation.

1. Description--The first step involves gathering a reliable and objective description of the private sector. This includes not only the absolute size and structure of the private sector but also its position relative to the government sector. A clear picture of the local private sector is a necessary prerequisite to diagnosis.

1) A.I.D. Policy Paper, "Private Enterprise Development, U.S. Agency for International Development", Washington D.C., March, 1985, p.10.

2) Ibid., p. 10.

2. Diagnosis--An effective diagnosis includes an analysis of both the opportunities and constraints faced by the private sector. Constraints may be faced on the demand side (e.g. small domestic markets, trade barriers) and on the supply side (e.g. lack of capital, infrastructure, skilled labor, natural resources and managerial talent). It may also include government policies which impede the thriving of free markets. This diagnosis can form the basis of a private sector diagnostic paper, which in turn can form part of the Mission's CDSS.

3. Dialogue--Circulation of this diagnostic paper within AID and with private and public sector leaders in the host country can elicit critical feedback leading to an improved private sector diagnosis and beginning the consensus-building process. At this stage it is also important to identify the key potential implementing agencies.

4. Strategy Formulation--The formulation of strategy for private sector development is an iterative process based on sound diagnosis leading to goals, objectives and sets of activities designed to meet those objectives. At this stage overall objectives are clarified, a coherent set of program and project ideas are generated, and priorities are established.

5. Promotion--Once the basic strategy has been formulated, a process of mobilizing support and commitment begins. The key result at this stage is the eliciting of support for AID initiatives in the process of which such initiatives may be refined and improved. The hope is that local people will take on a major leadership role in the process of consensus building and gaining of broad-based support for the objectives and activities which form part of the private sector promotion strategy. This may include both direct private sector action as well as dialogue on policy reform. Another crucial activity at this stage is to focus on and deepen the dialogue with the most credible and desirable "channels" or implementing agents through whom AID can later implement its programs and projects.

6. Program and Project Development--Given effective support, implementation of specific programs and projects follows. This stage includes the development of Project Identification Documents (PIDs), Project Papers, and, on the program side, the development of Program Assistance Initial Proposals (PAIPs) and Program Assistance Approval Documents (PAADs). The diagnosis and strategy steps outlined below can help ensure consistency between the project side and the program side of AID's host country activities. At this stage, careful attention is given to assessing every aspect of program and project feasibility.

7. Evaluation--The final step is that of evaluation which seeks to determine to what extent the strategy has been successful and to learn from AID's successes and problems the lessons which can improve future strategy formulation and implementation.

FIELD USE OF PSDF

In preparing this framework, the project team interviewed current and former Mission Directors, Deputy Mission Directors and Private Sector Officers as well as AID-Washington personnel. Reports from countries in all regions were reviewed along with AID policy documents on private sector initiatives. Special attention was paid to AID's private enterprise programs in Kenya and the Dominican Republic. The theoretical literature on private sector development was also surveyed.

The current framework will undoubtedly undergo a number of transitions and improvements. To be useful, the framework should be tested in the field and comments and suggestions should be incorporated. The current version is sufficiently developed to warrant field testing on a pilot basis.

A guiding comment to users is in order. Although the PSDF's scope is comprehensive and its analytical procedures are specific, it is designed to be a flexible management tool rather than a rigid bureaucratic procedure. It readily accommodates local approaches dictated by situation specific circumstances.

Our preliminary survey indicates that AID missions have used quite varied approaches to undertaking private sector initiatives. In some cases the efforts have been rather ad-hoc due to lack of experience in this area, personnel turnover, or the absence of guidelines. The PSDF can help provide a more systematic approach to these initiatives.

Other missions have proceeded quite far in implementing private sector actions. The PSDF can assist them in refining and extending their efforts; it does not dictate starting over but rather it facilitates building upon current progress. For missions where private enterprise activities are less fully developed, the PSDF can provide a structure and work plan for moving forward.

OVERVIEW OF THE FRAMEWORK

The framework is organized according to the seven steps of private sector promotion process outlined above. These are: description, diagnosis, dialogue, strategy formulation, promotion, programming and evaluation. For each step the key questions are specified, the corresponding analytical techniques are indicated and the outputs are described. The remainder of the paper will elaborate each of the seven steps. An overview of the framework is presented in Exhibit 1.

EXHIBIT 1
PRIVATE SECTOR DEVELOPMENT FRAMEWORK (PSDF)
(OVERVIEW)

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
1. DESCRIPTION	WHO IS THE PRIVATE SECTOR?	PRIVATE SECTOR SEGMENTATION	PRIVATE SECTOR MAP
	WHERE IS IT LOCATED?	INSTITUTIONAL MAPPING	
	HOW SIGNIFICANT IS IT?	PRIVATE SECTOR INDEX (PSI)	
	WHAT ARE THE TRENDS?	PRIVATE SECTOR GROWTH INDEX (PSGI)	
2. DIAGNOSIS	WHAT IS PRIVATE SECTOR'S PERCEPTION OF ITS PROBLEMS AND OPPORTUNITIES?	PRIVATE SECTOR INVENTORY OF PRIORITIES (PSIP)	PRIVATE SECTOR DIAGNOSTIC PAPER
	WHAT IS IMPACT OF RESOURCE AVAILABILITY ON PVT. SECTOR?	RESOURCE CONSTRAINT ANALYSIS (RCA)	
	WHAT ARE IMPACTS OF PUBLIC POLICY ON PRIVATE SECTOR?	POLICY IMPACT ANALYSIS (PIA)	
	WHAT IS IMPACT OF THE COMPETITIVE ENVIRONMENT?	COMPETITIVE ANALYSIS	
3. DIALOGUE	HOW DO KEY PRIVATE/PUBLIC SECTOR DECISION MAKERS VIEW THE DIAGNOSIS?	SEGMENTED FEEDBACK ANALYSIS FORMAT	REVISED PRIVATE SECTOR DIAGNOSTIC PAPER
	WHO ARE THE IMPORTANT POTENTIAL IMPLEMENTING AGENTS?		
4. STRATEGY FORMULATION	WHAT ARE COUNTRY PRIVATE SECTOR DEVELOPMENT STRATEGY OBJECTIVES?	STRATEGY OPTIONS ANALYSIS	PRIVATE SECTOR DEVELOPMENT STRATEGY PAPER
	HOW ARE OBJECTIVES RELATED TO AID'S OVERALL COUNTRY STRATEGY?		PRIVATE SECTOR COMPONENT OF CDSS
	WHAT ARE THE PRIORITIES AMONG ACTION AREAS GIVEN CURRENT LEVEL OF RESOURCES?		

Exhibit 1

PRIVATE SECTOR DEVELOPMENT FRAMEWORK
(Continued)

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
5. PROMOTION	<p>WHOSE SUPPORT IN PUBLIC SECTOR IS CRUCIAL?</p> <p>WHOSE SUPPORT IN PRIVATE SECTOR IS CRUCIAL?</p> <p>HOW SHOULD THEY BE CONTACTED?</p> <p>WHO SHOULD CONTACT THEM?</p> <p>WHAT FORMAL AGREEMENTS WILL BE REQUIRED AND HOW LIKELY WILL IT BE TO GET THEM?</p> <p>WHAT INDIVIDUALS/GROUPS WILL BE LIKELY TO OPPOSE PRIVATE SECTOR INITIATIVES?</p> <p>WHAT CAN BE DONE TO ALLEVIATE CONCERNS OF OPPOSITION OR LIMIT DAMAGE?</p>	PROMOTION ANALYSIS FORMAT	PRIVATE AND PUBLIC SECTOR SUPPORT FOR STRATEGY ACHIEVED
6. PROGRAM AND PROJECT DEVELOPMENT	<p>WHAT SPECIFIC PROGRAMS AND PROJECTS WILL MOST EFFECTIVELY ACHIEVE GOALS?</p> <p>HAS THE LOCAL PRIVATE SECTOR BEEN GIVEN A MAXIMUM ROLE IN PROGRAM AND PROJECT IMPLEMENTATION?</p>	<p>PIDs</p> <p>PROJECT DVLP. DOCUMENTS</p> <p>PROJECT PAPERS & LOGFRAMES</p> <p>PAIPs</p> <p>PAADs</p>	PROGRAMS PROJECTS

Exhibit 1

PRIVATE SECTOR DEVELOPMENT FRAMEWORK

(Continued)

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
7. EVALUATION	IS THE PRIVATE SECTOR STRONGER TODAY THAN BEFORE?	PRIVATE SECTOR INDEX (PSI)	EVALUATION REPORTS
	DO MARKET FORCES NOW PLAY A GREATER ROLE IN HOST COUNTRY ECONOMY?	PRIVATE SECTOR GROWTH INDEX (PSGI)	
	TO WHAT EXTENT DID AGENCY PROGRAMS CON- TRIBUTE TO THESE OUTCOMES?	INDEX OF PRICE DISTORTION	
	HAVE AID PROJECTS BEEN SUCCESSFUL IN ACHIEVING THEIR STATED OBJECTIVES		
	WHAT WERE THE MAJOR IMPEDIMENTS AND WHAT CAN WE LEARN FROM THEM?		

STEP 1 - DESCRIPTION

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
1. DESCRIPTION	WHO IS THE PRIVATE SECTOR?	PRIVATE SECTOR SEGMENTATION	PRIVATE SECTOR MAP
	WHERE IS IT LOCATED?	INSTITUTIONAL MAPPING	
	HOW SIGNIFICANT IS IT?	PRIVATE SECTOR INDEX (PSI)	
	WHAT ARE THE TRENDS?	PRIVATE SECTOR GROWTH INDEX	

The first step in the PSDF is to develop an accurate and comprehensive description of the private sector. Such an accurate picture, or map, of the private sector is a prerequisite for further diagnostic analysis.

DEFINITION AND OBJECTIVES

"Description" will refer to the process of gathering and presenting relevant data about the private sector in a given country such that AID personnel will be able to understand clearly who and what the private sector is, how significant it is in a given economy and where it is located in the economy. Knowing what is there is a prerequisite for knowing what to do. The descriptive phase will not concern itself with why a private sector is the way it is in a given country, as this question will be dealt with in the diagnosis phase.

PRIVATE SECTOR MAPPING

Private sector mapping refers to the set of analytical techniques which create a systematic description of the private sector. "Mapping" implies that the result should be as comprehensive as a globe and yet as practical and usable as a highway map. It should be versatile enough to allow the user to do a number of different things. The various functions of private sector mapping can best be explained by using analogies from cartography.

Conceptual Clarity--For instance, a good map of a country should allow the user to get a quick overview of the country in question. It should give a clear indication of the size of the country and its importance relative to the region in which it is located. Private sector mapping should similarly provide a quick indication of the relative size of the private sector and its importance in the overall economy.

Increasing Layers of Detail--A useful map should not only provide a clear overview of the country in question, but also be capable of focusing in on the state or province in which one may travel, and then on the county or city level so that the map functions well no matter how detailed a picture is required. Likewise, a private sector map should be useful not only in providing a macro picture of the private sector but also in presenting a clear picture of the private sector at increasing levels of detail--at the sectoral level, and then at the level of each major industry in a given sector.

Standardized Units of Measures--Maps, if they are to be useful, must be careful to employ standardized measures such as miles, kilometers and other easily comparable units. This allows the user to understand quickly the map no matter how different the country in question may be. Similarly, the framework presented here must find some descriptive measures which can be universally applicable to all less developed countries no matter how different these may be. The use of a standardized unit of measure also allows for comparison among countries and over time.

Comprehensiveness--It is necessary to make a private sector map as all-inclusive as possible so as to bring attention to a wider variety of relevant actors which might not otherwise be considered. Also, such an approach highlights the linkages among groups which are interrelated.

Segmentation--Just as business executives segment the markets which they serve in order to shape their strategies, so too AID must segment the private sector if it is to develop a coherent and balanced strategy. Different actors or groups of actors behave differently in the marketplace and play different roles in the economy. They face different constraints and bottlenecks in their attempts to thrive. They enjoy different opportunities. As a result, AID will need to employ different kinds of projects depending on the private sector segment it intends to promote. Even macro-policy reform will affect different segments in very different ways and it is important to be aware of both positive and negative impacts and primary and secondary effects.

Another important reason for segmenting the private sector is that these sectors need to be reached through different access channels and in different ways. For instance, the leading business groups in a given country may be able to take advantage of a large scale credit project through commercial banks; to

reach small scale entrepreneurs (micro-enterprises), another access route and kind of project may be necessary. Stimulus may work for one segment but entirely miss another.

LIMITATIONS

The descriptive phase is not intended to present the authoritative definition of the term "private sector" or to delineate arbitrarily the borders between "private" and other sectors. On the other hand, the private sector map may be utilized with equal effectiveness by those whose opinions differ on terms, definitions and boundaries. The map is drawn so as to include all of the main actors in a given economy including private and public sector actors. Where one draws the line is less important than ensuring that all relevant actors have been taken into consideration. This allows the map to preserve its flexibility and comprehensiveness.

Another limitation of the descriptive phase is that it does not seek to explain cause and effect. However, the techniques presented in the descriptive phase can be used later in the analytical phases.

The descriptive techniques presented are not intended to provide normative guidance. They do not, in and of themselves, suggest or present priorities. However, the information presented can be useful to those who do set such priorities.

KEY QUESTIONS AND ANALYTICAL TOOLS

To map the private sector one must address at least three important questions:

- Who or what is the private sector?
- Where in the economy is it located?
- How significant is it?
- What are the trends?

Each of these questions will be addressed in turn with an appropriate analytical tool.

1. Who Is The Private Sector?

Before one can begin the mapping process, one needs to decide on what will go on the map. One of the ambiguities which arises when AID discusses the private sector is that of clearly identifying who or what the private sector includes. Boundaries are not always clear and different people focus on different things when discussing the private sector. The issue at hand is not that of resolving definitional disputes but rather of

presenting a map which is sufficiently all-inclusive and which captures the heterogeneity of the private sector through proper segmentation.

Private Sector Segmentation

The first analytical tool is that of private sector segmentation, which begins by categorizing all actors in a country's economy according to eight specific types, six private and two public. The private sector actor types include sole proprietorships, companies, business groups, multinational enterprises, cooperatives, and non-profit organizations. Public sector actors include state-owned enterprises and government agencies.

Sole proprietorships include small family farms, micro-enterprises and small owner-owned businesses. Companies include organized businesses, corporations and financial institutions, usually small to medium sized, which are neither sole proprietorships nor part of larger business groups. Business groups, on the other hand, are usually characterized by size, diversity of holdings, and established family or inter-family connections which often result in close connections among a number of enterprises or between leading banks and leading corporations in a given country. Multi-national enterprises refer to subsidiaries of foreign companies or to joint ventures primarily directed by the foreign partner and which are not considered primarily as the venture of a local company or business group. Cooperatives include those associations which are formed for a business or financial purpose and include agricultural, marketing, and consumer co-ops and credit unions. Non-profit organizations include private voluntary organizations (both national and international), private academic institutions and other religious, civic, and charitable organizations. They also include business associations, labor federations or other organized interest groups.

On the public sector side, state-owned enterprises include all companies or corporations in which the government is a major shareholder. They also include government-owned or run financial service institutions including agricultural banks and development banks. Government agencies include all government organizations which are not set up as corporations and do not, as their primary activity, compete with potential private sector enterprises.

This general segmentation is the conceptual pre-requisite for addressing the subsequent key questions.

2. Where In The Economy Is The Private Sector Located?

After conceptualizing the private sector according to various actor types, it is necessary to begin the mapping process. One asks, "where is the private sector important?" The

mapping exercise does this by systematically analyzing private sector prevalence in all sectors of the economy and then in specific industries within those sectors.

The map will then reveal, for example, that the private sector may be crowded out of the state-owned mining sector while flourishing in small-scale manufacturing. Or it may reveal, for example, that in agriculture, cooperatives are thriving in the coffee industry, small companies in fruit and vegetable exports, and the public sector in the sugar industry. It could also reveal that business groups are the major force in a variety of industries in all four sectors.

Private Sector Mapping

To answer the question of private sector location in a given economy, the mapping technique begins with the four standard economic sectors: agriculture, mining, manufacturing and services. It then divides each of these into major industry groupings as illustrated in the Table 1 below. Each of these can be further sub-divided to examine specific industry sub-groupings such as cut flower exporters or the hotel industry.

 TABLE 1
 SECTOR AND INDUSTRY "LOCATIONS" FOR PRIVATE SECTOR MAP

AGRICULTURE	MINING	MANUFACTURING	SERVICES
FORESTRY	OIL & GAS	FOOD, BEV, TOBACCO	FINANCE
GRAINS	COAL	TEXTILES/CLOTHING	TOURISM
OILS/MEALS	ORES	WOOD & FURNITURE	TRADE/COMMERCE
MEATS	MINERALS	PAPER, PRINTING, & PUBLISHING	TRANSPORT
TROPICALS (COFFEE, COCOA, TEA, SUGAR, RUBBER)	OTHER	OTHER NON-FOOD AGRI- BUSINESS	COMMUNICATION
DAIRY		CHEMICALS, PETROLEUM & PLASTICS	EDUCATION
FRUITS AND VEGETABLES		MINERAL PRODUCTS	HEALTH
FISHERY		METALS (STEEL, IRON, ETC)	
FIBERS & TOBACCO		MACHINERY & EQUIPMENT	
OTHERS		OTHER MANUFACTURES	

The mapping process then continues with an analysis of the actors found in each industry location. The result of this analysis is a detailed map, the format for which appears in Exhibit 1-A.

EXHIBIT 1-A
PRIVATE SECTOR MAPPING: LOCATION IN THE ECONOMY

LOCATION IN THE ECONOMY	ESTIMATED NUMBER OF ACTORS					
	SOLE PROPR.	CO'S	BUS. GROUPS	MNCs	NON- PROFITS	SOEs KEY GOV'T AGENCIES
A. AGRICULTURE						
1. FORESTRY						
2. GRAINS						
3. OILS/MEALS						
4. MEATS						
5. "TROPICALS" (COFFEE, COCOA, SUGAR & RUBBER)						
6. FRUITS AND VEGETABLES						
7. DAIRY						
8. FISHERY						
9. COTTON, TOBACCO & FIBERS						
10. OTHER						
B. MINING/EXPLORATION						
11. OIL & GAS						
12. COAL						
13. ORES						
14. MINERALS						
15. OTHER						
C. MANUFACTURING						
16. FOOD, BEV., TOBACCO						
17. TEXTILES & CLOTHING						
18. WOOD & FURNITURE						
19. PAPER, PRINTING & PUBLISHING						
20. OTHER NON-FOOD AGRIBUSINESS						
21. CHEMICALS, PETROLEUM & PLASTICS						
22. MINERAL PRODUCTS						
23. METALS (STEEL, IRON, ETC.)						
24. MACHINERY & EQUIPMENT						
25. OTHER MANUFACTURES						
D. SERVICES						
26. TRADE & COMMERCE						
27. TOURISM						
28. FINANCE						
29. TRANSPORT						
30. COMMUNICATION						
31. EDUCATION						
32. HEALTH						
33. OTHER SERVICES						

3. How Important Is The Private Sector?

Private Sector Mapping provides a quick indication of the importance of the private sector relative to the economy as a whole and identifies particular economic sub-sectors in which the private sector is strong or weak. The economic significance of the private sector can be illustrated by looking at the private sector shares of three principal indicators: output, investment and employment. These three can be supplemented by two others: private sector foreign exchange generation and private sector contribution to the tax base.

The value of such information in the policy dialogue process must be stressed. Public sector officials are often unaware of, or have only a general sense of the critical importance of, the private sector as it directly affects a number of politically important goals. By having data on private sector importance, one can greatly contribute to the process of consensus building on issues which effect the policy environment for AID projects.

This exercise can be of critical importance by identifying where the private sector is languishing or flourishing. This can assist AID in developing its strategy either by taking advantage of the momentum in those areas which are strong or by targeting the weak areas for special efforts of privatization or policy reform.

Such data are also useful in the stages of promotion and programming. Preparation of project identification documents and project papers can be greatly facilitated by good descriptive data on the importance of the private sector in the economy in general and in the most relevant subsectors.

Benchmark data will also be crucial at later stages in measuring change in the private sector over time. By measuring the impact of the private sector both at the macro level and at the sectoral and industry levels, one can develop an in-depth knowledge of how the private sector is faring at any location on the economic map.

Private Sector Index (PSI)

The analytical tool which has been developed to measure the overall strength or weakness of the private sector is the Private Sector Index (PSI). The PSI can be developed from data normally available to AID personnel in most host countries. Three relatively simple numbers can quickly clarify private sector importance in a given country. These three numbers are: Private Output as a percentage of Gross Domestic Product; Private Investment as a percentage of Total Fixed Capital Formation; and Private Employment as a percentage of Total Employment.

Private output provides an indication of current economic importance. Since output is the result of past investment, this number must be complemented by current investment if the indicator is to provide as up-to-date as possible a picture of relative importance. These two numbers are supplemented by employment as this is also an important political and economic measure of private vs. public sector impact.

The three principal indicators (private sector % of output, investment, and employment) can be used separately or can be combined to form the composite PSI Index. The virtue of a composite index is that it provides one simple number which indicates the relative size of the private sector. Such a number can be an important benchmark for AID by which to measure future progress in such areas as privatization, improvement in private sector climate, or success of overall private sector initiative efforts at a macro level.

It would be useful for the local mission to be able to cross-reference its results with those of countries of similar size. Five countries of different size, and from different regions would not be as useful as, for example, all Central American countries, or all of the Sahelian countries or countries of similar size and income. An example of the use of the PSI to measure the relative size of the private sector is presented in Exhibit 1-B.

Exhibit 1-B

PRIVATE SECTOR INDEX FOR SELECTED COUNTRIES

COUNTRY	PSI SCORE (COMPOSITE)	PRIVATE SECTOR SHARE OF % GDP	SHARE OF % EMPLOYMENT	OF % INVESTMENT
---------	--------------------------	----------------------------------	--------------------------	--------------------

(DATA TO BE INSERTED AT COUNTRY LEVEL)

Two other measures can provide further useful information on private sector importance. The first is private sector contribution to the tax base. This has not been included because the data will be unavailable for many countries and because these numbers often mislead and do not lend themselves readily to cross country comparison. Another indicator which can be useful is private sector contribution to foreign exchange revenues and exports. This does not form part of the PSI because its inclusion could give a false signal of private sector strength or weakness based upon a country's dependence on foreign trade. Nonetheless, the two indicators mentioned should be gathered and

can be used to strengthen AID's policy dialogue and its persuasiveness with host country governments. It is recommended that these two indicators be obtained for the purpose of diagnosis and for use in policy dialogue.

Private Sector Map

This analysis can focus with increasing levels of detail down to the level of specific sectors or industries in the economy. The result is a private sector map which yields important information for strategy formulation and for the preparation of project identification documents and project papers. Exhibit 1-C presents a format for such an analysis which would be based on data generally available or obtainable at the Mission level.

EXHIBIT 1-C
PRIVATE SECTOR MAP

LOCATION IN ECONOMY	ACTOR TYPES (*)	No. ACTORS	VALUE ADDED (\$/%)	EMPLOY- MENT (#s/%)	INVEST- MENT (\$/%)
A. AGRICULTURE					
1. FORESTRY					
2. GRAINS					
3. OILS/MEALS					
4. MEATS					
5. TROPICALS: (COFFEE, COCOA, TEA SUGAR, RUBBER)					
6. FRUITS AND VEGETABLES					
7. DAIRY					
8. FISHERY					
9. FIBERS AND TOBACCO					
10. OTHERS					
B. MINING/EXPLORATION					
11. OIL & GAS					
12. COAL					
13. ORES					
14. MINERALS					
15. OTHER					
C. MANUFACTURING					
16. FOOD, BEV., TOBACCO					
17. TEXTILES & CLOTHING					
18. WOOD & FURNITURE					
19. PAPER, PRINTING & PUBLISHING					
20. OTHER NON-FOOD AGRIBUSINESS					
20. CHEMICALS, PETROLEUM & PLASTICS					
21. MINERAL PRODUCTS					
22. METALS (STEEL, IRON, ETC.)					
23. MACHINERY & EQUIPMENT					
24. OTHER MANUFACTURES					
D. SERVICES					
25. TRADE & COMMERCE					
26. TOURISM					
27. FINANCE					
28. TRANSPORT					
29. COMMUNICATION					
30. EDUCATION					
31. HEALTH					
32. OTHER SERVICES					
*Actor Types:					
P	= Sole Proprietorship		COOP	= Cooperative	
C	= Company		NPO	= Non-Profit	
BG	= Business Group		SOE	= State-Owned	
MNC	= Multi-National Corp.		G	= Government Agency	

4. What Are the Trends?

So far we have mapped out the private sector by using analytical tools to help describe who the private sector is (segmentation); where they are located (private sector mapping), and how important they are in the economy (private sector index). The final descriptive question deals with trends over time.

A good private sector map should be dynamic, illustrating changes in the private sector topography over time. This can provide AID with insights as to where the private sector is going or how it has changed in recent years. This can alert AID to potential problem areas or to help AID target areas which appear to be especially promising at a particular moment in time.

Private Sector Growth Index (PSGI)

Trends over time can be captured by using time series data for the Private Sector Index mentioned above. Growth rates in output, employment, and investment can give a reasonably reliable picture of the dynamism in the private sector. A composite growth rate, based on those three indicators, can serve as a simple measure of private sector dynamism. This number, called the Private Sector Growth Index (PSGI), can then be used comparatively to analyze a variety of important variables such as private vs. public sector growth or growth rates of private sectors in similar countries or regions. Such growth rates can be correlated with the absence or presence of certain types of government policies and the results used in the policy dialogue process.

This growth index can be used to analyze the economy as a whole at the macro level or to focus in on specific industries or sectors of the economy. Exhibit 1-D presents the Private Sector Growth Index.

Exhibit 1-D

PRIVATE SECTOR GROWTH INDEX (PGI)

COUNTRY	PRIVATE SECTOR GROWTH INDEX (COMPOSITE)	% CHANGE OUTPUT 1980-85	% CHANGE EMPLOYMENT 1980-85	% CHANGE INVESTMENT 1980-85

(DATA TO BE INSERTED AT COUNTRY LEVEL)

Data Collection--A thorough collection of data in this descriptive step can help ensure a more effective effort at later stages in diagnosis, dialogue, strategy formulation, promotion and programming and evaluation. It is important to note that a totally comprehensive and complete map will generally not be feasible due to information gaps. What one is trying to do is construct a data bank which can be built up over time. A partial map is better than none and will facilitate moving forward with the problem diagnosis. The information will likely be more available for some subsectors or for some types of organizations than for others. Analysis should proceed in these areas rather than waiting for complete mapping. Descriptive information can be added over time to fill in gaps or to update.

This private sector data bank should be viewed as an on-going depository and reference source from which private sector maps can be constructed or specific pieces of information drawn. The data bank will become an important basic asset in the creation and maintenance. Missing or erroneous information characterizes developing country environments and impedes meaningful analysis, dialogue, and action. The private sector data bank and mapping give new leverage to private sector initiatives by creating opportunities for sounder analysis, more informed dialogue, and more effective strategies.

OUTPUT

After completing the analysis associated with the first step, AID will have a Private Sector Map. This map will serve as a data base for later steps and will provide a clear picture of who the private sector is, where in the economy it is located, how significant it is, and the current trends.

Such an output can be useful to many groups such as industry associations, banks, potential investors and host country policy makers and should be made available to them. Accurate description will be absolutely vital to AID's private sector diagnosis and at later stages of policy dialogue.

STEP 2 - DIAGNOSIS

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
2. DIAGNOSIS	WHAT IS PRIVATE SECTOR'S PERCEPTION OF ITS PROBLEMS AND OPPORTUNITIES?	PRIVATE SECTOR INVENTORY OF PRIORITIES	PRIVATE SECTOR DIAGNOSTIC PAPER
	WHAT IS IMPACT OF RESOURCE AVAILABILITY ON PRIVATE SECTOR?	RESOURCE IMPACT ANALYSIS	
	WHAT ARE IMPACTS OF PUBLIC POLICY ON PRIVATE SECTOR?	POLICY IMPACT ANALYSIS	
	WHAT IS IMPACT OF THE COMPETITIVE ENVIRONMENT	COMPETITIVE ANALYSIS	

The private sector description provides the data base for private sector diagnosis, which in turn is a critical prerequisite for strategy development. AID can add much value to the private sector development process by carrying out a thorough diagnosis.

DEFINITION

Diagnosis is the process of identifying and assessing the constraints to private sector growth as well as the major opportunities for the expansion of private enterprise and market forces in a given economy. Such constraints and opportunities are identified by a systematic investigation of private sector priorities, resource constraints, public policy impacts, and the competitive environment.

OBJECTIVE

The objective of the diagnosis step is to identify and prioritize the principal factors constraining private sector growth so that AID officials might better understand the situation and then generate a coherent, consistent set of priorities for programmatic action.

THE CONCEPT OF DIAGNOSIS

In medicine, diagnosis requires a patient, symptoms, a field of knowledge, previous case histories, and a professional capable of making accurate observations and judgements. Private sector diagnosis operates in similar fashion. The "patient" is the private sector economy of the host country. The symptoms are

the signs of difficulty reported by people in the private sector or objectively observed and measured. The field of knowledge comes from previous case studies in less developed countries which form the basis for the analytical tools presented in this section. The persons applying that field of knowledge to the individual country will be AID or host country personnel or consultants hired to carry out a private sector diagnosis.

The purpose of diagnosis is to assess the causes of the "symptoms" reported in the descriptive step. It is also to probe in more detail a subjective reporting of symptoms by those individuals in the private sector. As in medicine, both the subjective reporting of symptoms by the "patient" and objective tests and observations should be utilized in forming an opinion. The former is addressed by the Private Sector Inventory of Priorities (PSIP) and the latter is addressed by three analytical tools: Resource Constraint Analysis (RCA), Policy Impact Analysis (PIA), and Competitive Analysis.

KEY QUESTIONS AND ANALYTICAL TOOLS

The key questions in this stage are as follows:

- What is the private sector's perception of its problems and opportunities?
- What are the principal resource constraints affecting the growth of the private sector?
- What are the impacts of public policy on the private sector?
- What is the impact of the competitive environment?

Each of these questions can be addressed by a specific analytical technique which will be considered in turn.

1. What Is The Private Sector's Perception Of Its Problems And Opportunities?

The first step in performing a medical diagnosis is to ask the patient, if he or she is conscious, what's wrong. Similarly, in diagnosing the private sector, AID must go out and ask entrepreneurs, small businessmen, and business leaders what their problems are. These people are quite conscious of the symptoms that affect their ability to thrive. They make a living by getting around the constraints they face and in taking advantage of the opportunities. Therefore, it is wise to consult with them at the outset.

It is important that this be done systematically. Too often this process is done impressionistically and AID personnel may find themselves influenced disproportionately by host country "insiders" who know the agency and its programs and are best able

to make their views known. A broad survey which guarantees that a representative sample of the entire private sector, or a consciously targeted subsegment, is recommended. In so doing, one avoids an impressionistic and erroneous approach, or a kind of tunnel vision, which stresses some areas but completely misses other initiatives which could be of greater importance.

Language and level of education can be a constraint on communication, or can limit interaction to those private sector spokespersons most fluent with AID's language. Missions should be encouraged to note this and to seek ways to overcome this limitation by paying close attention to the survey instruments (clear, unbiased, unambiguous), to the people who implement it, and to the process by which the survey and analysis are conducted.

Private Sector Priority Inventory (PSPI)

The first analytical tool is a proportional sampling of private sector firms with weightings reflecting their rough overall importance in the economy in terms of output and employment. Responses will be analyzed at a macro level and then cross tabulated by sector and by type of business. This will allow AID to determine what kinds of problems are faced not only in a given industry but by a given type of firm. For instance, the constraints to growth faced by a small agribusiness entrepreneur will be quite different from those of a multinational manufacturing enterprise. It will also allow AID to develop a more flexible strategy targeted to specific sectors in the economy or segments in the private sector.

A strategy which does not differentiate among the needs of different industries and among different types and sizes of businesses may be less likely to succeed. A segmented approach will at least flag areas of action which might otherwise be overlooked.

It should be noted that such inventories or surveys have been tried in a few countries with variable success. One problem often encountered is that general managers in LDC environments, while very aware of the problems affecting their own day-to-day management, may lack a long-term, strategic, and macro view of the whole private sector and its needs. In some cases, they may even benefit from an over-regulated environment and might be opposed to the reforms that AID would most like to see implemented such as an end to protective tariffs, a more competitive environment, less restrictive licensing arrangements and others. As a result, it is suggested that the scope of work for such an inventory be widened to include not only general managers but also directors of business associations, business economists, university professors, bankers (for their views on finance, money, trade and investment policies) and those involved in legal, shipping, insurance and other critical services.

Exhibit 2-A presents some of the more relevant questions that would be included in a survey questionnaire for a private sector priority inventory. It should be regarded as a way of organizing thought and ensuring comprehensiveness. One should start with open-ended questions and then follow up with specific structured questions.

EXHIBIT 2-A
PRIVATE SECTOR PRIORITY INVENTORY
SURVEY QUESTIONNAIRE

I. OPEN-ENDED QUESTIONS

CONSTRAINT AREAS:

IN YOUR OPINION, WHAT ARE THE GREATEST RESOURCE RESOURCE CONSTRAINTS FOR PRIVATE SECTOR FIRMS? WHAT ARE THE MOST SIGNIFICANT OBSTACLES TO GROWTH? WHAT GOVERNMENT POLICIES CONSTRAIN GROWTH?

OPPORTUNITY AREAS:

IN YOUR OPINION, WHICH INDUSTRY AREAS HAVE THE GREATEST POTENTIAL FOR PRIVATE SECTOR GROWTH AND WHY? WHAT KINDS OF POLICY CHANGES, PROGRAMS AND PROJECTS COULD DO MOST TO PROMOTE THE EXPANSION OF PRIVATE SECTOR ECONOMIC ACTIVITY?

 II. SPECIFIC QUESTIONS

PRIORITY PROBLEM INVENTORY (RATE IMPORTANCE ON SCALE OF 1-10)

FACTORS CONSTRAINING YOUR FIRM'S GROWTH?	HOW SIGNIFICANT A CONSTRAINT? 1-10 (1 = LOWEST)	WHY? HOW DOES IT AFFECT THE BUSINESS?

LAND:

ACCESS TO LAND

PERCEPTION OF STABILITY OF TITLE

IRRIGATION/FERTILITY PROBLEMS

COST OF LAND

EXHIBIT 2-A
PRIVATE SECTOR PRIORITY INVENTORY
SURVEY QUESTIONNAIRE
(continued)

FACTORS CONSTRAINING YOUR FIRM'S GROWTH?	HOW SIGNIFICANT A CONSTRAINT? 1-10 (1 = LOWEST)	WHY? HOW DOES IT AFFECT THE BUSINESS?
---	---	---

LABOR:

UNSKILLED LABOR SHORTAGE

SKILLED LABOR SHORTAGE

LACK OF TRAINED MANAGERS

COST OF LABOR

LABOR LAWS/REGS

LABOR PROBLEMS (SPECIFY)

CAPITAL:

ACCESS TO CAPITAL (LOCAL)

ACCESS TO FOREIGN EXCHANGE CAPITAL

CAPITOL COST

OTHER CAPITAL PROBLEMS (SPECIFY)

TECHNOLOGY:

ACCESS TO TECHNOLOGY

COST OF TECHNOLOGY

TECHNOLOGY MAINTENANCE PROBLEMS

INFORMATION:

LACK OF TECHNICAL AND MARKET INFORMATION

TIMELINESS OF INFORMATION

MANAGEMENT INFORMATION SYSTEMS

EXHIBIT 2-A
PRIVATE SECTOR PRIORITY INVENTORY
SURVEY QUESTIONNAIRE
(continued)

POLICY PROBLEMS AS CONSTRAINTS

POLICIES CONSTRAINING YOUR FIRM'S GROWTH?	HOW SIGNIFICANT A CONSTRAINT? 1-10 (1 = LOWEST)	WHY? HOW DOES IT AFFECT THE BUSINESS
--	---	--

FISCAL:

GOV'T SPENDING (LEVELS, INVESTMENT
VS. CONSUMPTION)

TAX POLICY (LEVELS, HOW RAISED)

SUBSIDY POLICIES

MONETARY:

MONEY SUPPLY POLICY

INTEREST RATE POLICY

DEVELOPMENT BANKING POLICY

COMMERCIAL BANKING POLICY

POLICY TOWARDS INFORMAL FINANCIAL SECTOR

EXCHANGE RATES

FOREIGN EXCHANGE ACCESS

PRICE:

INPUT PRICES (LOCAL AND IMPORTED RAW MATERIALS SUCH
AS PETROLEUM, ENERGY, FERTILIZER, MACHINERY, ETC.)

AGRICULTURE PRICE POLICIES

--DOMESTIC (LOCAL AND IMPORT PRICE POLICY)

--EXPORT (TAXES, MARKETING BOARDS, ETC.)

INDUSTRY PRICE CONTROLS (PRODUCER, CONSUMER)

MINIMUM WAGE LEVELS/CONTROLS

TRADE:

TARIFF SCHEDULES

IMPORT CONTROLS

EXPORT CONTROLS

EXPORT PROMOTION ACTIVITIES

EXHIBIT 2-A

PRIVATE SECTOR PRIORITY INVENTORY
 SURVEY QUESTIONNAIRE
 (continued)

 PRIORITY PROBLEM INVENTORY (RATE IMPORTANCE ON SCALE 1-10)

POLICIES CONSTRAINING YOUR FIRM'S GROWTH?	HOW SIGNIFICANT A CONSTRAINT? 1-10 (1=LOWEST)	WHY? HOW DOES IT AFFECT THE BUSINESS?
--	---	---

INVESTMENT:

LOCAL OWNERSHIP RESTRICTIONS

REPATRIATION OF PROFITS

JOINT VENTURES

LABOR FORCE/TECHNOLOGY POLICY

DOMESTIC CONTENT

 SECTORAL POLICY -- SECTORS PERCEIVED AS FAVORED/PENALIZED
 OR CONSTRAINED FOR PRIVATE SECTOR

AGRICULTURE (SPECIFY WHICH INDUSTRY AREA)

MINING

INDUSTRY

SERVICES

 SECTORAL POLICY -- CONSTRAINTS TO PRIVATE SECTOR VIA

TAX INCENTIVES/PENALTIES

INFRASTRUCTURE PRIORITIES

PRICE POLICIES

IMPORT/EXPORT AND TRADE RESTRICTIONS

CREDIT AND CAPITAL ALLOCATION REGULATIONS

LAND TENURE

GOVERNMENT RESEARCH/EXTENSION

EXHIBIT 2-A

PRIVATE SECTOR PRIORITY INVENTORY
SURVEY QUESTIONNAIRE
(continued)

 PRIORITY PROBLEM INVENTORY (RATE IMPORTANCE ON SCALE OF 1-10)

POLICIES CONSTRAINING YOUR FIRM'S GROWTH?	HOW SIGNIFICANT A CONSTRAINT? 1-10 (1 = LOWEST)	WHY? HOW DOES IT AFFECT THE BUSINESS?

GENERAL:

LACK OF INFORMATION ON NATIONAL
POLICIES AND PROGRAMS (ESPECIALLY
AMONG SMALLER FIRMS AND OUTSIDE
CAPITAL CITY.)

STABILITY OF GOVERNMENT POLICIES
(INCENTIVES, TAXES, ETC.)

ARBITRARY VS. NON-ARBITRARY
APPLICATION

POLITICAL RISK (REGIME CHANGE,
REVOLUTION, ETC.)

GENERAL ATTITUDE TOWARDS PRIVATE
SECTOR

GOVERNMENT COMPETITION VIA SOEs

INFRASTRUCTURE PRIORITIES

2. What Is The Impact Of Resource Availability On The Private Sector?

Public policy may be a major determinant of private sector growth and development. Important constraints on private sector activity in less developed countries exist, however, even when public policies are generally favorable. Some of these are quite familiar to anyone who has worked in LDCs: lack of adequate human resources for certain technical and managerial functions and access to certain technology. A systematic analysis of resource constraints can add precision to the assessment and even identify unknown dimensions. For instance, capital constraints may be severe in one sector and not in another or among some types of smaller businesses but not others.

The first step is that of categorizing the constraints. One can begin analyzing such constraints by thinking in terms of the factors of production traditionally used in economic analysis: land, labor, and capital, or as they are termed today: natural, human and financial resources. To these should be added technology, infrastructure and information as categories which are helpful in analyzing constraints.

The second step is to identify which constraints are causing the greatest problems and how these problems are affecting private firms. This has been accomplished to a great extent through the private sector priority inventory but other studies and reports should be utilized to complement such an inventory. Host government studies, World Bank studies, and AID consulting reports are all possible sources of further information and analysis.

When this has been done, one can develop an overview, which is termed the Resource Constraint Analysis (RCA). The purpose of this is to look at resource constraints in a systematic and comprehensive way and to begin targeting priority action areas. This process may reveal not only constraints to be addressed but also the particular strengths which the country in question may have. Natural, human, financial or other resources may give the country a particular advantage in developing its private sector economic activity and such strengths should be flagged at this stage.

One can go a step further by giving a priority ranking to the most important resource constraints which could later be targeted for specific programmatic action. The Resource Constraint Analysis allows the user to do this by making a priority ranking column available. The format for the Resource Constraint Analysis appears in Exhibit 2-B. It is not meant to provide an exhaustive list of all possible constraints, but merely to illustrate the format for applying such an analysis to a given country.

EXHIBIT 2-B

RESOURCE CONSTRAINT ANALYSIS

RESOURCE CATEGORY	RESOURCE CONSTRAINT	EFFECTS ON PRIV. SECT.	IMPORTANCE (+/-) 1-5	PRIORITY RANKING
NATURAL RESOURCES	LAND AVAILABILITY FERTILITY IRRIGATION POTENTIAL PROXIMITY TO MARKETS MINERAL RESOURCES ENERGY RESOURCES ETC.			
HUMAN RESOURCES	UNSKILLED LABOR SKILLED LABOR TECHNICAL PROFESSIONAL MANAGERIAL			
FINANCIAL RESOURCES	DOMESTIC EQUITY DOMESTIC CREDIT FOREIGN INVESTMENT FOREIGN CREDIT ACCESS PROBLEMS (POLICY)			
TECHNOLOGY	ACCESS COST WHICH TECHNOLOGIES ARE MOST NEEDED?			
INFRAST.	INTERNAL TRANSPORT STORAGE PORTS/HARBORS SHIPPING COMMUNICATIONS			
INFORMATION	KNOWLEDGE CRITICAL FOR ACCESS TO MARKETS, CAPITAL, TECHNOLOGY, ETC.			

3. What Are The Impacts Of Public Policy On The Private Sector?

The third analytical question is a crucial one for AID's dialogue with the host government on policy reform. Public policy is a two edged sword which can stimulate the private sector by providing efficient services and strategic infrastructure, or stifle private initiative and economic growth by distorting market forces, supporting insolvent parastatals, protecting inefficient industries, and in other ways inhibiting enterprise. Sometimes policies help one sector while hindering another, and it is important to get at the net economic effect. It is also important to identify those impacts which are most significant and which would be most likely to be the subject of reform initiatives by the host government.

Policy Impact Analysis (PIA)

The first step in the Policy Impact Analysis is to categorize the policies. The following categories may be useful:

- direct government ownership of the means of production
- fiscal policy
- monetary policy
- price policies
- trade policies
- foreign exchange policies
- foreign investment
- sectoral or industrial policies (including agriculture, industry, health, education, etc.)

The second step is to ascertain the instruments by which policies are carried out. Sometimes the policies are conducive to private sector growth but the instrument may be failing to properly implement it. For instance, it may be government policy to speedily expedite imports of needed raw materials. However, the delays or corruption at the port customs office may be the problem. AID strategy will have to be tailored according to the level at which the problem is found to exist.

Policy instruments may be legal, administrative, or direct market level interventions. Examples of policy instruments are presented below in Table 2. These are meant to be illustrative only to demonstrate how one can go beyond broad policy categories to understand the instruments by which policy is expressed and the impact that results.

TABLE 2
EXAMPLES OF POLICY INSTRUMENTS

POLICY AREAS	P O L I C Y I N S T R U M E N T S		
	L E G A L	ADMINISTRATIVE	DIRECT MARKET INTERVENTIONS
MONETARY	BANKING RESERVE LEVELS	PRICE CONTROLS LOAN GUARANTEES	LOANS MONEY CREATION
FISCAL	TAX RATES	EXPORT SUBSIDIES	GOV'T PURCHASES
TRADE	GOV'T IMPORT CONTROL	IMPORT QUOTAS EXCHANGE RATES TARIFFS	GOV'T IMPORTS GOV'T EXPORTS
FOREIGN INVEST- MENT	LOCAL OWNERSHIP REQUIREMENTS	REPATRIATION OF PROFITS	JOINT VENTURES
SECTORAL	LAND TENURE	INDUSTRIAL LICENSING	GOVERNMENT RESEARCH

The third step is to ascertain how public policy affects the private sector. Those attempting to analyze public policy impact on the private sector tend to be overwhelmed by the diversity of policies and potential impacts. The analysis can be greatly simplified by considering how such policies affect the individual firm. Usually, policy affects a company's access to inputs, markets and profits or the input costs, output prices and profit levels. (Public policy can also influence industry structure and competitive dynamics and this will be dealt with later.) By viewing private sector impacts in these helpful categories, the person analyzing the situation can grasp more quickly and more comprehensively the kind of impact which the policies and policy instruments are having on the private sector.

Access to inputs, markets, and profits are regulated through such instruments as government concessions, licences, permits, allocations, quotas, non-tariff barriers, and repatriation restrictions. Input costs, output prices and profit levels are directly affected by interest rates, foreign exchange rates, wage rates, employee benefits, tariffs, price controls, subsidies, tax credits, taxes and surcharges.

The fourth step is to make a judgement with regard to the magnitude of impact of a given policy. This can be done with the help of the Private Sector Priority Inventory supplemented by government data, economic studies and AID consulting reports and other materials.

The PIA allows those who use it to indicate whether the impact is positive or negative and to indicate the rough magnitude of impact. This estimation can serve as an initial priority setting exercise. It is important to consider, when doing this exercise, not only the impact on the private sector as a whole but the impact on particular sectors. The PIA is presented in Exhibit 2-C.

EXHIBIT 2-C
POLICY IMPACT ANALYSIS

POLICY AREAS/ INSTRUMENTS	NATURE AND MAGNITUDE OF IMPACT (+/-) 1-5					
	ACCESS TO:			LEVELS OF:		
	INPUTS	MARKETS	PROFITS	COSTS	PRICES	PROFITS
OVERALL STRATEGIC POLICY ORIENTATION OF HOST GOVERNMENT						
PRIVATE ENTERPRISE POLICIES AND ACTIONS (% GOV'T OWNERSHIP)						
FISCAL POLICIES GOV'T SPENDING TAX POLICY DEFICIT/SURPLUS SUBSIDIES PUBLIC INVESTMENTS						
MONETARY/FINANCIAL POLICY MONEY SUPPLY INTEREST RATES RESERVE LEVELS DEVELOPMENT BANK POLICY COMMERCIAL BANK POLICY INFORMAL SECTOR POLICY FOREIGN EQUITY POLICY FOREIGN LOAN POLICY						
PRICE POLICY PRICE CONTROLS WAGE LEVEL POLICIES						
TRADE POLICY GOV'T IMPORT CONTROLS (TARIFFS, QUOTAS, LICENSING, ETC.) GOV'T EXPORT CONTROLS (MARKETING BOARDS, EXCISE TAXES, SUBSIDIES, TAX CREDITS, ETC.) EXPORT PROMOTION CENTERS						

EXHIBIT 2-C (Continued)
POLICY IMPACT ANALYSIS

POLICY AREAS	POLICY INSTRUMENTS	NATURE AND MAGNITUDE OF IMPACT (+/-) 1-5					
		ACCESS TO:			LEVELS OF:		
		INPUTS	MARKETS	PROFITS	COSTS	PRICES	PROFITS

	FOREIGN EXCHANGE POLICY						
	EXCHANGE RATE(S)						
	(OVER/UNDERVALUED, FLOAT)						
	ACCESS RESTRICTIONS						

	FOREIGN INVESTMENT POLICY						
	LOCAL OWNERSHIP RESTRICTIONS						
	REPATRIATION OF PROFIT						
	JOINT VENTURES						
	LABOR FORCE/TECHNOLOGY GUIDELINES						
	DOMESTIC CONTENT (MACRO)						
	FOR. INV. PROMOTION ACTIVITIES						

	SECTORAL/INDUSTRIAL POLICY						
	SECTORS FAVORED/PENALIZED						
	INCENTIVES/SUBSIDIES						
	DISINCENTIVES/TAXES						
	INVESTMENT/CREDIT ALLOCATIONS						
	INDUSTRIAL LICENSING						
	LAND TENURE						
	GOV'T RESEARCH/EXTENSION						

	EDUCATION/TRAINING POLICY						

	HEALTH POLICY						

4. Competitive Analysis

A fourth area of diagnosis concerns the degree of competitiveness in the marketplace. For the market system to operate efficiently as an allocator of resources and as a stimulator of growth, it generally requires the dynamic provided by strong and relatively open competition. In developing countries many factors tend to impede free competition. It is important to identify these impediments.

The key questions being addressed are:

- a. How competitive is the market?
- b. What are the impediments to freer competition?
- c. What are the consequences of the impediments?

Analytical Techniques

The first technique to be used to assess competitiveness is industry structure. This can be measured in terms of number of firms in each industry. The presence of monopoly or oligopoly structure would generally be considered to hamper competition unless imports were allowed under relatively free conditions.

The second measure is a concentration ratio which is the share of an industry's total sales accounted for by an individual firm or small numbers of firms in the industry. For example, the top two firms in an industry with thirty firms might account for 90% of total sales, thus indicating a very high concentration.

The third technique is a price distortion index which measures the extent to which free market prices have been distorted by government policies and industry structure. Price distortions result in efficiency losses. The World Bank has constructed such an index and has applied it to a number of less developed countries. Exhibit 2-D reveals how countries with a lower distortion index have experienced higher growth rates in GDP. Price distortions are caused by both monopolistic tendencies in the private sector as well as by public policy. Of great significance to AID in its public policy dialogue is that countries with relatively high distortion had growth rates about two percentage points lower than the average of about 5 percent a year while the low distortion countries had growth rate 2 percentage points higher.

Exhibit 2-E illustrates how the World Bank has put together its Price Distortion Index by including foreign exchange pricing, factor pricing and product pricing. These can serve as useful categories for AID Missions as well.

OUTPUTS

The output of the diagnosis step is a private sector diagnostic paper. This paper would include an analysis of the private sector priorities, resource constraints, public policy impacts, and competitive analysis as these affect the local private sector. Such a paper would include a statement of problem and opportunity priorities which would serve as AID's preliminary diagnosis. It is not expected that such a diagnosis be definitive. Rather it would serve as the jumping off point for dialogue, the next step in the process of private sector promotion.

The diagnostic paper would not contain proposed solutions or AID action plans. It is a problem assessment. By not including AID action recommendations, the document will not stifle or pre-influence possible recommendations being sought from private and public reviewers of the diagnostic paper in the step three dialogue phase.

It is unlikely that AID personnel in the country missions would have the necessary analytical skills or time to carry out the various diagnostic studies indicated above. The descriptions of these analyses, however, should facilitate the development of the scope of work and terms of reference for consultants in a way that expedites the process and increases the utility of the resultant effort.

EXHIBIT 2-D

PRICE DISTORTION INDEX (PDI)
GDP GROWTH AND DOMESTIC SAVINGS FOR SELECTED CDCs

Indices of price distortions and various components of growth in the 1970s

Country	Distortion index	Simple group average	Annual GDP growth rate (percent)	Simple group average	Domestic savings income ratio (percent)	Simple group average
Malawi	1.14	1.56	6.3	6.8	14	21.4
Thailand	1.43		7.2		21	
Cameroon	1.57		5.6		18	
Korea, Rep. of	1.57		9.5		22	
Malaysia	1.5		7.8		20	
Philippines	1.57		6.3		24	
Tunisia	1.57		7.5		27	
Kenya	1.71		6.5		19	
Yugoslavia	1.71		5.8		27	
Colombia	1.71		5.9		22	
Ethiopia	1.86	1.95	2.0	5.7	8	17.8
Indonesia	1.86		7.6		22	
India	1.86		3.6		20	
Sri Lanka	1.86		4.1		13	
Brazil	1.86		8.4		22	
Mexico	1.86		5.2		22	
Ivory Coast	2.14		6.7		24	
Egypt	2.14		7.4		12	
Turkey	2.14		5.9		17	
Senegal	2.29		2.44		2.5		3.1	8	13.8
Pakistan	2.29	4.7		7		
Jamaica	2.29	-1.1		16		
Uruguay	2.29	3.5		14		
Bolivia	2.29	4.8		20		
Peru	2.29	3.0		21		
Argentina	2.43	2.2		22		
Chile	2.43	2.4		14		
Tanzania	2.57	4.9		12		
Bangladesh	2.57	3.9		2		
Nigeria	2.71	6.5	21			
Ghana	2.86	-0.1	9			
Overall average	2.01		5.0		17.4	

Not available

a. Increase in real GDP valued at current prices divided by investment at current prices. This is the reciprocal of the incremental-capital-output ratio, adjusted for differential rates of inflation in investment goods and GDP. It is thus equivalent to income rate of return on revalued capital.

*b. GDP growth rates were negative

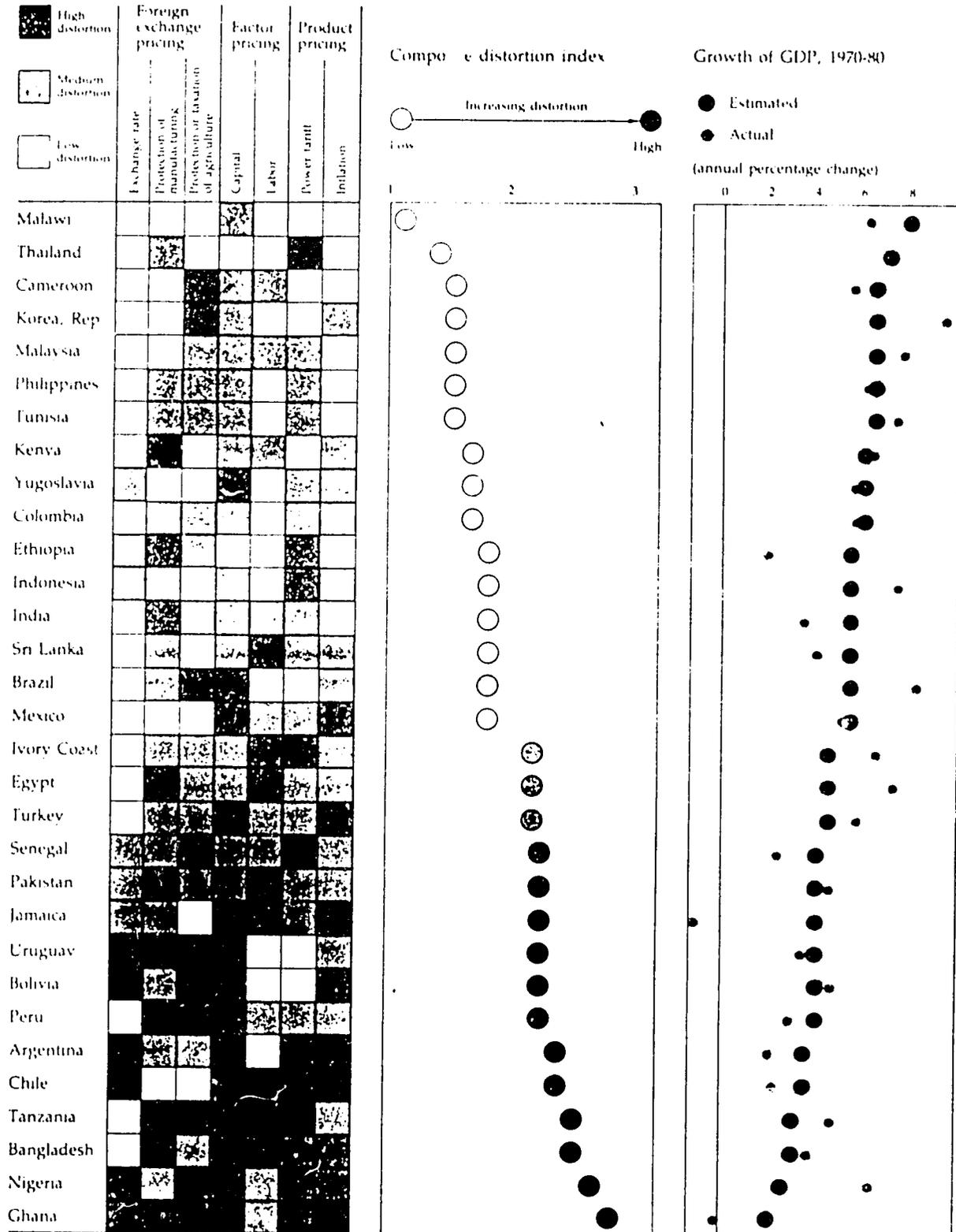
Source: World Development Report 1982

Source: World Bank, World Development Report, 1983, p. 60.

EXHIBIT 2-E

COMPONENTS OF PRICE DISTORTION INDEX AND GROWTH OF GDP

Price distortions and growth in the 1970s



In this figure countries are listed in order of increasing degree of distortion in prices. In the first section, the color of the squares indicates the degree of distortion in the principal categories of prices. The middle section is a composite index of price distortion for each country: as a country's distortion index

increases, the color of the circle changes from yellow to red. In the right hand section, the blue circles show the actual annual rate of growth of GDP, the green circles are estimates of GDP growth obtained by a regression relating growth to the distortion index.

STEP 3 - DIALOGUE

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
3. DIALOGUE	HOW DO KEY PRIVATE/ PUBLIC SECTOR DECISION MAKERS VIEW THE DIAGNOSIS? WHO ARE THE IMPORTANT POTENTIAL IMPLEMENTING ACTORS?	SEGMENTED FEEDBACK ANALYSIS FORMAT	REVISED PRIVATE SECTOR DIAGNOSTIC PAPER

The dialogue stage is one familiar to most AID officials as informal dialogue with local advisors is an ongoing process. It is even more crucial in an area which depends on policy reform from the public sector and risk taking behavior from private sector entrepreneurs. Without proper dialogue, AID would risk developing strategy in a vacuum which would look fine on paper but fail in eliciting the support necessary for successful implementation.

DEFINITION

Dialogue may be defined as the process of actively eliciting feedback from a comprehensive and representative group of private and public sector actors regarding AID's diagnosis of the local private sector and the implications of such a diagnosis for its strategy, programs, and projects.

OBJECTIVES

The objective of the dialogue phase is to ascertain the accuracy of AID's private sector diagnosis, to identify any gaps or blind spots in that diagnosis, and to elicit action recommendations. It is also a means of beginning the process of building consensus and eliciting support and cooperation for AID's private sector initiative. At this stage, potential implementing agencies will be identified.

KEY QUESTIONS

The key questions of the dialogue phase are as follows:

--How do key private/public sector decision makers view the diagnosis?

--Who are the important potential implementing actors?

ANALYTICAL TOOL: SEGMENTED FEEDBACK ANALYSIS FORMAT

Analytical tools at this stage are limited. Much of the feedback will be informal. Whether feedback at this stage is qualitative and informal or quantitative and formal will depend partly on the size of the local economy and the relationship between AID and the private and public sectors. However such feedback is obtained, AID should seek to go beyond the stage of informal and impressionistic evaluation of such feedback. Instead of getting a "general sense" of the feedback, such feedback should be segmented and analyzed according to the industry segment and type of actor from which the feedback came.

AID should seek out and consult a representative sampling of economic sectors and types of actors. To help in this process, an outline for segmented feedback analysis has been developed.

Such an analysis can help reduce the uncertainties that are often raised when AID receives input from the private sector in an undifferentiated manner. Signals coming from the private sector concerning constraints, opportunities, and priorities may be mixed, causing considerable confusion. AID can reduce this confusion and ensure that it has received feedback which reflects the views of the entire private sector by utilizing the Segmented Feedback Analysis Format.

The Segmented Feedback Analysis Format is a system which allows AID personnel to classify the information, analysis, and views which it has received according to the type of organization which has provided the feedback and from the location on the private sector map developed in step 1. The format presents response codes for the relevant types of actors and for the industry segments. By classifying feedback according to these parameters, AID will be alerted as to which sectors agree with the diagnosis, which sectors do not and why they agree or disagree.

If the diagnosis is accurate concerning one sector but not another, this will become evident. If pressure for certain types of actions are coming from small businesses but not from larger business groups, this too will become apparent.

Such an analysis will also ensure that AID's judgement is not colored by traditional reliance on smaller and less representative sub-segments of the private sector which for historical, social and political reasons may be more adept at articulating their needs to AID than other equally dynamic segments.

It should be pointed out that such categorization is not intended to be a complicated or complex process. It does not have to be put on a computer although response codes facilitate

this if so desired. If a couple of hours are taken to compare feedback received with the response codes (which reflect the private sector map described in part I), then it will quickly become evident if the feedback is truly representative of the entire private sector or if it has been skewed towards one industry or set of actors. It also will explain discrepancies and inconsistencies in the feedback. Much of this will be explained by looking at where on the "map" the information is coming from. The response codes allow one to continue looking at the map while analyzing feedback and to design tailored strategies for different "map" locations.

The response codes for the segmented feedback analysis format appear in Exhibits 3A and 3B.

EXHIBIT 3A
RESPONSE CODES FOR ACTOR TYPE

01	SOLE PROPRIETORSHIP
02	COMPANY
03	BUSINESS GROUP
04	MULTINATIONAL ENTERPRISE
05	COOPERATIVES
06	NON-PROFIT ORGANIZATIONS
07	STATE-OWNED ENTERPRISE
08	GOVERNMENT AGENCY

EXHIBIT 3B
RESPONSE CODES BY INDUSTRY CATEGORY

1 = AGRICULTURE	2 = MINING	3 = MANUFACTURING	4 = SERVICES
101 FORESTRY	201 OIL & GAS	301 FOOD, BEV, TOBACCO	401 FINANCE
102 GRAINS	202 COAL	302 TEXTILES/CLOTHING	402 TOURISM
103 OILS/MEALS	203 ORES	303 WOOD & FURNITURE	403 TRADE/COMMERCE
104 MEATS	204 MINERALS	304 PAPER, PRINTING, & PUBLISHING	404 TRANSPORT
105 "TROPICALS" (COFFEE, TEA, COCOA, SUGAR & RUBBER)	205 OTHER	305 OTHER NON-FOOD AGRI-BUSINESS	405 COMMUNICATION
106 FRUITS & VEGETABLES		306 CHEMICALS, PETRO- LEUM & PLASTICS	406 EDUCATION
107 DAIRY		307 MINERAL PRODUCTS	407 HEALTH
108 FISHERY		308 METALS (STEEL, IRON, ETC.	408 OTHER
109 COTTON & FIBER		309 MACHINERY & EQUIPMENT	
110 OTHERS		310 OTHER MANUFACTURERS	

CONTACT WITH OTHER DONORS

It is important at this stage to include other international donors in the dialogue. The World Bank, the International Finance Corporation, the regional banks and other bilateral and multilateral agencies can contribute to AID's diagnosis. More importantly, such contacts can help AID to identify what other donors are doing and what AID's own distinctive contribution will be. Involving other donors in a dialogue on private sector promotion can serve to influence both the quality of AID's diagnosis and the thinking of other agencies with regard to private enterprise development.

IDENTIFYING "CHAMPIONS"

The dialogue process will help AID personnel understand the local private sector and to identify key people who can help in the diagnosis, assist in mobilizing support and aid in implementation. AID can identify key "champions" both in the public sector and in the private sector. The latter can be categorized by industry. A contact file should be kept to assist AID in future project development and to assist newly arriving AID personnel in familiarizing themselves with the private sector.

The importance of identifying "champions" is that it encourages AID to take advantage of existing initiatives, movements and organizations that have goals similar to those of AID. It is always easier to add momentum than to try to forge an entirely new movement or create new institutions. By coordinating with existing "champions" such as chambers of commerce, industry associations, or key industry spokespersons, AID can capitalize on and reinforce healthy private sector trends.

IDENTIFYING POTENTIAL IMPLEMENTING AGENTS

One extremely important element to be added to the revised private sector diagnostic paper at this stage is an overview of important potential implementing agents. As in all AID projects, one will have to answer that very practical and unavoidable question, "to whom will AID lend (or grant) the money?" Institutions capable of channeling AID funds and/or implementing project activities must be identified. It is important to maximize the extent to which AID activities involve private sector organizations as vehicles of change and as implementing agents. AID has sought to expand the role of private enterprise in handling PL-480 commodities, in delivering health services and in many other activities formerly handled by public agencies.

It is important, at this early stage, to begin identifying potential implementing agencies which have institutional capabilities. These may include the chamber of commerce, industry

associations, strong private sector cooperatives, financial institutions, universities, companies and corporations. While it is premature to specify roles for these potential actors, the revised diagnostic paper should devote a section to identifying these potential local private sector implementing groups.

OUTPUT

Successful dialogue, including the systematic obtaining and analyzing of data from a representative sampling of the local private sector and from key public sector officials, will result in a revised private sector diagnostic paper and suggested action options for consideration in the Step 4 Strategy Formulation.

STEP 4 -- STRATEGY FORMULATION

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
4. STRATEGY FORMULATION	WHAT ARE COUNTRY PRIVATE SECTOR DEVELOPMENT STRATEGY OBJECTIVES? WHAT ACTIONS BEST ADDRESS PROBLEMS AND OPPORTUNITIES IDENTIFIED IN DIAGNOSIS? HOW WELL DO STRATEGY ACTIONS FIT THE OBJECTIVES? HOW FEASIBLE ARE STRATEGY ACTIONS?	STRATEGY OPTION ANALYSIS	PRIVATE SECTOR DEVELOPMENT STRATEGY PAPER PRIVATE SECTOR COMPONENT OF THE CDSS

Successful strategy development will be facilitated by clear understanding of the private sector and its activities (description), its problems and opportunities (diagnosis), and the priorities of the decision makers who are critical to the success of AID's programs (dialogue).

DEFINITION

Strategy formulation can be defined as the process of identifying a set of specific goals and elaborating a set of feasible internally consistent strategic actions which most efficiently contribute to attaining these goals.

OBJECTIVES

The objectives of the strategy formulation stage are 1) to ensure that a full set of programmatic options have been identified; 2) to set priorities among programmatic options based on established AID criteria; and 3) to ensure that AID's strategy is consistent and mutually reinforcing.

KEY QUESTIONS AND ANALYTICAL TOOLS

The key questions at this stage are:

- What are AID's private sector development objectives for the country?

--What strategy actions will best address the problems and opportunities identified in the diagnostic step?

--How feasible are the strategy actions?

The strategy formulation process involves four tasks: setting objectives, delineating action areas and options, fitting options to objectives, and assessing feasibility.

Setting Objectives

The objectives for the private sector development strategy first need to be explicitly related to AID's country development strategy. They should also be specific, measurable and carry a time dimension. An excellent example of a specific statement of objectives is that formulated by USAID Kenya in September, 1985:

The primary objective of AID's private enterprise strategy in Kenya is to promote the growth of the economy through private enterprise. This growth should not be based on short-term policies but should be sustainable in the long run....

This overall goal implies several specific objectives....

- o First, AID will seek to promote a policy environment conducive to long-term, self-sustaining growth. It will continue to press for government policies that do not distort prices or stifle incentives. In short, AID will seek to promote policies that allow private markets to operate more freely.
- o Second, AID will seek to help overcome the constraints to growth that are the natural result of Kenya's current economic status, including small domestic market, inadequacies of local inputs, lack of managerial and entrepreneurial skills, incomplete adaptation of technology and shortages of investment finance. The aim is to help create the endowment base within Kenya that can support continued and accelerated growth.

In pursuing these objectives we will promote investments with the characteristics of labor-intensity, use of local resources and foreign exchange earning or saving potential.¹

1

USAID/Kenya, Private Enterprise Strategy Statement, Nairobi, August, 1985.

Delineating Strategic Action Areas and Options

There are three major action areas which private sector development strategies can be formulated. These correspond to the areas included at step 2, diagnoses: resource constraints, policy reform, and competitiveness. These three areas are mentioned in AID's Private Sector Policy Paper.

One technique which AID has used in the past is means-ends analysis, a technique included as part of the teaching process for AID officers. This is a technique for brainstorming which begins by asking what AID wants to do and elaborating various means for achieving these ends. As this will already be familiar to AID officers, the technique will not be elaborated on further here. The framework seeks to integrate and utilize existing AID procedures rather than replace them and the means-ends analysis fits in well at this stage.

Means-ends analysis will be facilitated by the Framework. Recommendations received during the dialogue stage will have already generated some ideas. The diagnosis step will have sharpened AID's focus on the more important problems and opportunities.

For each problem or opportunity identified in the diagnostic paper in each of the three strategic areas, action option can be specified. This ensures comprehensiveness in the options generation; all the areas of concern will have a possible corresponding response. The diagnostic paper can prioritize these problem and opportunity areas by relating them to the Private Sector Priority Inventory and to other analyses.

Fitting Options to Objectives

The next task is to assess how each of the action options contributes to the private sector development objectives formulated in task one above. This can be done through an Options and Objectives Matrix (see Exhibit 4-A). The options indicated in the previous section can be placed on the vertical axis and the objectives on the horizontal. For each option one can indicate whether the contribution to each objective is positive, negative, or neutral. This will allow one to refine the options list. It also allows AID officers to consider unintended consequences of projects which contribute to one objective while impeding the attainment of another. It can also be helpful in examining second order and third order impacts.

EXHIBIT 4-A

OPTIONS AND OBJECTIVES MATRIX

OBJECTIVES

OPTIONS	OBJECTIVE A	OBJECTIVE B	OBJECTIVE C
---------	-------------	-------------	-------------

RESOURCE FLOWS

A.

B.

C.

POLICY REFORM

A.

B.

C.

D.

COMPETITIVENESS

A.

B.

C.

Assessing Feasibility

The final task in strategy formulation is to assess the feasibility of the options. Here one is considering the political, economic, and administrative feasibility of implementing the option. This entails, of course, considerable qualitative judgement and forecasting.

Procedurally the Options Feasibility Matrix (Exhibit 4-B) can be used. On the vertical axis the options are once again listed. The horizontal axis contains the three feasibility parameters: political, economic, and administrative. These three could be subdivided into finer categories to increase the specificity of the feasibility assessment.

Political feasibility requires an analysis of where opposition will occur and whether such opposition can be managed. It identifies areas in which actions might be formulated to improve feasibility. Economic feasibility requires an assessment of the resources which can be mobilized by AID, the local private sector, the host government and other international sources. In assessing administrative feasibility, special attention should be paid to the capacity of key implementing organizations. This may require detailed institutional analysis.

EXHIBIT 4-B

OPTIONS FEASIBILITY MATRIX

OPTIONS	F E A S I B I L I T Y P A R A M E T E R S		
	POLITICAL	ECONOMIC	ADMINISTRATIVE

RESOURCE FLOWS

- A.
- B.
- C.

POLICY REFORM

Implementing Agencies

By choosing to work through and strengthen private sector organizations, AID immediately contributes to its end goal. Several considerations are important here. The first is that of administrative feasibility, that is, identifying organizations which have the institutional capability to handle AID's proposed activities. AID often promotes new local organizations which later run into problems of long term viability. Careful attention at prior stages can help AID identify those initiatives already being developed by the local private sector. AID should, if possible, seek to catch that wave rather than create its own. Private sector institution building may be the means to successful project development. It can also be considered a goal in and of itself if it leads to a more vigorous and articulate network of private sector organizations capable of lobbying, proposing new projects and continuing to promote private enterprise. The role of local implementing agencies should be given careful attention in strategy formulation. How AID goes about implementing its programs and projects can be as important as the projects themselves if the process itself strengthens and expands the private sector. This is as true on the program side as it is on the project side.

Other Donor or International Agencies

Strategy formulation should explicitly take into account the activities of other international agencies including the International Monetary Fund, the World Bank, the International Finance Corporation, the regional banks and other bilateral and multilateral development agencies. Both on the policy dialogue and on the project development fronts, it is important for AID to leverage its influence and maximize its project impact by coordinating with these other groups.

Other U.S. Agencies

Another factor to take into account explicitly in strategy formulation is cooperation with other U.S. agencies such as the Department of Commerce, the USDA, OPIC and other agencies which can play a constructive role in private enterprise development.

OUTPUT

The output of the strategy step is the Private Sector Development Strategy Paper which summarizes the private sector diagnosis (i.e., the basis upon which the strategy was formulated) and presents AID's objectives and action areas. This is then incorporated as part of the local mission's CDSS. The output includes the identification of goals, leading programmatic and project initiatives and the identification of key potential implementing institutions and channelling agents.

STEP 5 -- PROMOTION

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
5. PROMOTION	<p>WHOSE SUPPORT IN PUBLIC SECTOR IS CRUCIAL?</p> <p>WHOSE SUPPORT IN PRIVATE SECTOR IS CRUCIAL?</p> <p>HOW SHOULD THEY BE CONTACTED?</p> <p>WHO SHOULD CONTACT THEM?</p> <p>WHAT FORMAL AGREEMENTS WILL BE REQUIRED AND HOW LIKELY WILL IT BE TO GET THEM?</p> <p>WHAT INDIVIDUALS/GROUPS WILL BE LIKELY TO OPPOSE PRIVATE SECTOR INITIATIVES?</p> <p>WHAT CAN BE DONE TO ALLEVIATE CONCERNS OF OPPOSITION OR LIMIT DAMAGE?</p>	PROMOTION ANALYSIS FORMAT	<p>PRIVATE AND PUBLIC SECTOR SUPPORT FOR STRATEGY ACHIEVED</p> <p>PROJECT FEASIBILITY RATINGS ASSIGNED</p>

Promotion is an iterative process which begins early on and continues during project implementation. Some promotion has been going on at each step whenever there has been involvement between AID staff and local private or public sector groups. Specifically, the private sector inventory (in the Step 2--Diagnosis) provides an excellent series of opportunities to promote the concepts and objectives of AID's Private Sector Initiative. It serves as a vehicle to develop a firm base of support for strengthening the private sector. Also, in Step 3 (dialogue), AID officers will have important opportunities to develop further this consensus and broaden the base of support. Still, once strategy has been formulated, a systematic attempt to develop a base of support in both the private and public sector must be undertaken.

DEFINITION

Promotion will be defined as the process of communication and interaction which effectively mobilizes support and cooperation among people and groups whose support or activities are critical to program success.

KEY QUESTIONS/ANALYTICAL TECHNIQUES

The analytical technique used for the promotion stage is the systematic consideration of the series of key questions presented below:

1. Whose support in the public sector is crucial to the success of our programs?
2. Whose support in the private sector is crucial for the success of our programs?
3. What specific kind of cooperation are we seeking from each individual or group?
4. How should these people be contacted? What are the most appropriate vehicles? Individual appointments? Group meetings? Seminars? Editorials? Written documents?
5. Who should do the contacting?
6. Will this cooperation need to become formalized as part of a project activity?
7. What individuals or groups will most likely oppose the objectives, reforms, or project initiatives proposed in AID's strategy?
8. What can be done to alleviate the concerns or limit the damage of likely opposition?

These questions should be asked first for the overall private sector program and then later for each particular project as well. There are many action areas which will need support. It is important that AID think clearly about whose support is needed for which projects. It is important to think through this crucial stage carefully as it may determine the success or failure of the program. Local "ownership" of program objectives, policy reforms, and project initiatives may be the single most important determinant of success or failure.

ANALYTICAL TECHNIQUES

In Step 5, the analytical technique consists of carefully considering each of the questions mentioned above. This can be called a "support mobilization matrix" and is presented in Exhibit 5.

EXHIBIT 5
SUPPORT MOBILIZATION MATRIX

WHO IS CRUCIAL?	WHO SHOULD CONTACT THEM?	HOW TO CONTACT?	WHO WILL OPPOSE?	HOW TO ADDRESS OPPOSITION?
--------------------	--------------------------------	--------------------	---------------------	----------------------------------

OVERALL
AID STRATEGY

GENERAL
PROGRAM

SPECIFIC
PROJECTS:

--PRIVATE
SECTOR

--AGRICULTURE

--EDUCATION

--HEALTH

CONCLUSIONS: STRATEGY COMPONENTS CAN BE RATED AS TO
FEASIBILITY IN TERMS OF MOBILIZING THE NECESSARY SUPPORTS
AND APPROVALS AND IN COUNTERING WHATEVER OPPOSITION MAY
EMERGE. PROJECT FEASIBILITY RATINGS CAN BE ASSIGNED.

Issues revolving around the above questions will each be addressed in turn.

1. Whose support in the public sector is crucial to success?

The strategy developed in Step 4 will suggest many different AID priority actions. Each of these will require the support of different actors. The issue is not necessarily one of generating support for the program in its entirety, but is rather one of identifying whose support may be critical to the success or failure of each programmatic initiative.

In some cases, such as privatization, support may be required at the highest level of government, at the Cabinet or even the Presidential level. On the other hand, the private sector priority survey may, for example, have revealed that delays in processing exporting or importing licenses may be causing considerable headaches. This would require a more targeted approach at a different institutional locus to improve administrative efficiency.

2. Whose support in the private sector is crucial for success?

When this question is asked, the names and faces of business leaders may come to the minds of private sector officers and mission directors. It is also important to have in some way measured the intent of a broader sector of private sector managers and entrepreneurs to participate in AID projects which depend on their taking advantage of capital development, training, health, and other initiatives. Also important is the assessment of institutional capability of those being considered as potential implementing agencies. AID's assumptions regarding responsiveness of private and public sector actors to AID potential initiatives must be tested.

3. What specific kind of cooperation are we seeking from each individual or group?

In some cases, support will mean active lobbying and taking on of visible leadership roles. In other cases, it may mean a commitment at the formative stage to participate in AID projects to be developed later. In still other cases, it may mean obtaining necessary government approvals for certain kinds of projects targeted at the private sector. In any case, the mission should think very carefully about what it will need from each of the individuals and groups identified in answering questions #1 and #2.

4. How should these people be contacted?

Once AID Missions have identified which persons and groups are crucial to program success and the kind of cooperation needed, it will be necessary to think very carefully about how to go about mobilizing their support. In some cases, individual appointments will be appropriate. Or, more formal meetings with leaders of various associations and groups may be called for. In other cases, more formal activities such as conferences or seminars may be required. When widespread popular support or education is necessary then mass media may be brought into play. In part, this will depend on the size of the local private sector, the size of the country, the norms of the local culture, and the historic relationship between AID and the host country. It will also depend on whether the Mission considers a high profile or a low profile approach to be appropriate.

5. Who should do the contacting?

Protocol and etiquette, as well as practical concepts of strategy should be used in deciding who should do the contacting of those individuals and groups whose support is required. In some cases, the Ambassador and the Mission Director will be working with the highest levels of the host country government in the dialogue and support mobilization process. In other cases, private sector officers will be generating support among entrepreneurs and business leaders. In still other cases, AID contractors will be performing surveys and contacting a wider base of private sector companies or individuals. In still other cases, key groups and individuals can most effectively be reached via host country organizations such as industry associations and interest groups. The question of who should do the contacting should receive careful consideration as part of the support mobilization strategy.

6. Does this cooperation need to become formalized as part of a project activity?

Already at the strategy stage, project opportunities will have been identified. It is helpful then to think through the kinds of formal agreements which will be necessary to make these projects a reality. At this point, one must deal with the tough issue of political feasibility. The climate may be particularly "ripe" for specific initiatives and AID should not hesitate to take full advantage of timely opportunities by placing high priority on such initiatives.

However, initiatives which could have great impact but which face political resistance must not be ignored. The strategy formulation process outlined in this document will help ensure that such strategically important but tough initiatives are flagged early on and receive sustained attention.

When such resistance is encountered, the interaction taking place at Phase 5 can help identify the underlying concerns and find creative alternative ways to address these, perhaps in close coordination with other donor agencies.

7. What individuals or groups will most likely oppose AID objectives, policy reform dialogue, or project initiatives?

Just as AID officers must think clearly about whose support is crucial to success, so to must they take into account the opposition that may be generated. A number of AID projects have been defeated because of "unexpected" opposition which could have been anticipated and perhaps managed. For instance, sugar diversification and privatization efforts by a Latin American government corporation can be expected to lead to political opposition from the employees affected. It is important to identify such groups.

8. What can be done to alleviate the concerns or limit the damage of likely opposition?

After one has identified the interest groups likely to be affected by various AID initiatives, one must think about how such opposition could be softened. In the case mentioned above, one way to address the potential opposition of affected workers would be to develop an employment generation project such as an export free-zone in the affected area which could generate more employment and perhaps even better conditions than the inefficient parastatal operations which are being replaced.

OUTPUTS

Although there is no formal written output recommended at this stage, there is an important result which must be evaluated. Support for the strategy and cooperation on necessary activities must be achieved. It is recommended that AID not move forward to the implementation stage until it has achieved what can only be described as "local ownership" of the objectives and programs.

This is critical in many ways. For example, AID's attempt at policy dialogue will have limited success unless important segments of the local private and public sectors join forces in policy reform efforts. Privatization efforts will be opposed by those whose interests are tied to the status quo and such opposition will likely seek to raise nationalist and anti-foreign sentiment. At such times it will be necessary for other nationalists to argue intelligently to their fellow nationals why institutional reform is in the national interest.

How will AID know when it has attained the necessary support, cooperation and commitment? In some ways this is an ongoing process that is difficult to quantify. Nonetheless,

certain objective indicators can be identified which measure the extent to which promotion efforts have been successful. These include:

- Government policy statements and resource allocations in support of private sector development;
- Government commitment to privatize one or more state-owned enterprises;
- Legislation or government mandates which introduce free market forces into the foreign exchange, export, and commodities markets;
- Phasing out of subsidies for inefficient corporate enterprises or ending of monopolistic licensing practices;
- Willingness to approve AID programs targeted directly to private sector in agriculture, health, education, etc;
- Acceptance of institutional changes allowing PL 480 commodities to be handled by private sectors;
- Commitments by business leaders to participate in AID project activities as advisors, borrowers of loan funds, contractors, beneficiaries or co-contributors;
- Private sector surveys and demand studies which indicate wide support for proposed projects and likely commitments to actively participate in their realization;
- Editorials in the local media which indicate growing public opinion in favor of policy reform and goals consistent with AID objectives: employment generation, export-led growth, private enterprise, phasing out of inefficient parastatal monopolies, etc.

STEP 6 -- PROGRAMMING AND PROJECT DEVELOPMENT

STEPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
6. PROGRAM AND PROJECT DEVELOPMENT	WHAT SPECIFIC PROGRAMS AND PROJECTS WILL MOST EFFECTIVELY ACHIEVE GOALS GIVEN THE CURRENT LEVEL OF RESOURCES?	CONCEPT PAPERS PROJECT DLVP. DOCUMENTS PROJECT PAPERS & LOGFRAMES	PROGRAMS PROJECTS
	HAS THE PRIVATE SECTOR BEEN GIVEN THE MAXIMUM ROLE IN PROGRAM AND PROJECT IMPLEMENTATION?	PAIPS PAADS	

The sixth step in the framework for private sector promotion and development is that of programming and project development.

DEFINITION

Program and Project Development can be defined as the process by which strategy gets translated into specific programmatic and project activities.

KEY QUESTIONS AND ANALYTICAL TECHNIQUES

The key questions at this stage are:

1. What specific programs and projects will most effectively achieve the goals given the current level of resources?
2. Has the private sector been given the maximum role in program and project implementation?

This stage is familiar to AID officials as it follows from the preparation of the five year-CDSS, the yearly Action Plans, the Annual Budget Submissions and Congressional Presentations. It then entails the activities of identification of projects via project identification documents (PIDs) and the elaboration of these into project development documents, including full fledged Project Papers (PPs). On the program side it includes the programming of ESF, CIP and PL-480 and the development of Program Assistance Initial Proposals (PAIPs) and Program Assistance Approval Documents (PAADs). The key concern here is linking these together so that they mutually reinforce one another and come together as one coherent strategy. Another key concern is channelling program and project activities through private sector organizations.

To the extent that Steps 1-5 have been effectively undertaken, Step 6 should fall into place. The descriptive steps will have provided much necessary background data and the benchmark indicators which will allow AID to set reasonable and quantifiable performance objectives. The diagnosis step will have provided AID with a comprehensive and strategic view of the private sector constraints and the opportunities. Dialogue will have provided the necessary "reality testing" to ensure that AID's impressions are in touch with the business community and that the diagnosis is sound. This will have improved AID's strategy formulation. The promotion step will have provided a further testing of the feasibility of these options as AID officials will have tested the waters to see if the necessary support and cooperation would be forthcoming.

The above steps will lead to greater coherence between the program side and the project side of an AID Mission's activities. They will also help to assure the eventual success in implementation through effective support mobilization which begins at an early stage.

The current analytical techniques developed by AID (PIDs, PAIPs, PAADs, Project Papers) are the result of years of refinement and the contractor does not feel it would be useful at this time to substitute or complement these with other analytical tools. Rather, the analytical tools presented in other stages of this framework are designed to complement current AID procedures and fit neatly into the AID project development cycle.

It is important to expand as far as possible the role of the local private sector as channelling agents of USAID programmatic activities and as implementers of projects. Careful attention should be given to identifying such organizations and working with them to expand their institutional capabilities.

OUTPUTS

The outputs at this stage are AID's programs and projects. The output includes the answer to the question "who do you give the money to?" To some extent this is a procedural thing: one identifies the financing entity through which PL 480, PL 416, and Development Assistance loans and grants will be channeled. In other cases, developing institutional capability with a local implementing agency will require considerable attention, analysis and elaboration.

STEP 7 -- EVALUATION

STLPS	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
7. EVALUATION	IS THE PRIVATE SECTOR STRONGER TODAY THAN BEFORE?	PRIVATE SECTOR INDEX (PSI)	FORMAL EVALUATION REPORTS
	DO MARKET FORCES NOW PLAY A GREATER ROLE IN HOST COUNTRY ECONOMY?	PRIVATE SECTOR GROWTH INDEX (PSGI)	MID-TERM EVALUATION
	TO WHAT EXTENT DID AGENCY PROGRAMS CONTRIBUTE TO THESE OUTCOMES?	INDEX OF PRICE DISTORTION	END OF PROJECT EVALUATION
	HAVE AID PROJECTS BEEN SUCCESSFUL IN ACHIEVING THEIR STATED OBJECTIVES?	LOGFRAMES	PROGRAM AND PROJECT IMPACTS
	WHAT WERE THE MAJOR IMPEDIMENTS AND WHAT CAN WE LEARN FROM THEM?		

The final step in the private sector development framework is that of evaluation. It is not enough to evaluate individual projects. Rather, AID needs to develop ways to think about entire programs and to assess the overall effectiveness of its private sector initiative efforts. AID officials have expressed a sense of frustration in trying to measure impacts on the private sector and much conceptual difficulty has been noted among mission level staff.

The following discussion is designed to clarify the evaluation process and to make private sector evaluation a more conceptually manageable and objectively verifiable process.

DEFINITION

Evaluation can be defined as the process of measuring progress in overall country strategy goals, and of assessing the impact of individual projects in contributing to that progress and in meeting their own stated objectives.

KEY QUESTIONS

The key questions at the evaluation stage are:

1. Is the private sector stronger today than it was five years ago (or three years ago. . .or last year)?
2. Do market forces play a greater role in the economy of the host country than they did before?
3. How have AID programs and projects contributed to these results?
4. Have the general objectives presented in the AID strategy been accomplished?
5. Have AID projects been successful in achieving their specific objectives?

ANALYTICAL TECHNIQUES

Current AID techniques for evaluation include: 1) project-level evaluation; and 2) sector specific evaluations which include results of project evaluations as these have contributed to the overall strategy. To AID's credit, current evaluations stress private sector activities in a more comprehensive way. Rather than evaluate each project in terms of its own criteria, there is a growing tendency to evaluate the private sector strategy as a whole and to focus on those aspects of evaluation from which AID can learn most about how to design effective interventions. To date, however, measurement of private sector impact has been hard to quantify and has been described by one AID project evaluator as "an area of great fuzz." Hence, any techniques which can specify objective measures of private sector health and can be applied universally and over time should receive a warm welcome in the field as well as in Washington. Three such measures will be presented which can help AID measure overall country-level impact on the private sector. Three indexes that we have discussed previously can serve as effectiveness measures: the PSI, PSGI, and PDI.

THE PRIVATE SECTOR INDEX (PSI)

The first indicator is the Private Sector Index (PSI), the composite index of private sector share of output, investment and employment which was already discussed in Step 1. It can be used to measure the strength of the private sector in one country with that of similar countries. The power of this indicator is in its simplicity. It provides a simple score for a country's private sector. When used as an evaluation measure it can focus energies toward promoting private investment and private employment

generation. It is also a relative indicator and so can be used to assess private sector strength in both booms and recessions. However, it can only be used to compare countries of similar stages of development.

PRIVATE SECTOR GROWTH INDEX (PSGI)

The second indicator is the Private Sector Growth Index (PSGI) which measures the growth in output, investment and employment from one year to the next and provides an overall sense of the dynamism of the private sector. Here one simply uses the PSI numbers previously obtained for output, investment and employment and calculates year to year growth. While in any given year this indicator may be adversely affected by a poor economic cycle, it is expected that over time this indicator will provide a reliable indication of how well the private sector is performing in terms of growth, employment generation and investment promotion.

PRICE DISTORTION INDEX (PDI)

After assessing the extent to which the private sector is thriving in a given economy, one must evaluate the extent to which the policy environment has changed toward market forces. After all, a private sector could be thriving behind anti-competitive protectionist trade barriers, or it could be growing in an oligopolistic fashion. Some analytical tool is needed in order to assess the extent to which free market forces are being allowed to reign in a given country.

The World Bank Index of Price Distortion mentioned in Step 2 (pages 39-40) can be used to assess progress in this area. If AID is successful one should be able to detect improvements over time in this Price Distortion Index (and hence in economic growth rates as well). If policy dialogue has led to the introduction of market forces in distorted markets, then this will show up immediately as an improvement in the Price Distortion Index.

EVALUATING AID EFFECTIVENESS

These three macro indicators are the acid test for measuring the bottom line private sector results. However, this is not enough. Many factors may have intervened to have either promoted or stifled the private sector. Economic and political events may do more to change the climate for private initiative than all of AID's programs combined. Therefore, it is necessary to go beyond the broad macro indicators of private sector prevalence and look at the specific program and project objectives established by AID as part of its overall country strategy.

To evaluate the effectiveness of individual projects one must return to the objectives established for them and to the verifiable project goals reflected in the project papers and logframes. If these have been clearly stated, and if they are indeed measurable, the question is simply one of determining whether these objectives have been met. Micro indicators may include return on investment, employment generation, and other such specific and quantifiable results at the project level.

Once one has gotten down to the project level, evaluation techniques will be familiar to most AID officials. The more difficult part of the evaluation is determining the linkages between the achievement of project goals and the overall private sector and public policy changes at the macro level.

The important thing to keep in mind here is that up to now AID has focused on project level evaluation. By including the macro-level analytical tools mentioned above, AID will have a better grasp on the extent to which its programs are actually making a difference in the private sector of a given country. If AID can demonstrate that a) the private sector in a given country has been thriving; b) distortion in market forces has been reduced; and c) AID projects have met their objectives, then AID will be on firm ground in asserting that its projects have indeed helped bring about these macro changes in countries throughout the world.

CONCLUSION

The Private Sector Development Framework presented above has been designed to help AID think strategically and systematically about private enterprise development. The Framework, at this stage, needs to be field tested and undoubtedly can be refined through its application in the field. It does not and cannot provide all the answers. It does, however, provide a framework which facilitates a clearer understanding of the local private sector, an improved diagnosis, better strategy formulation, and more effective implementation.