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PRIVATE SECTOR INITIATIVE FOR AFRICA

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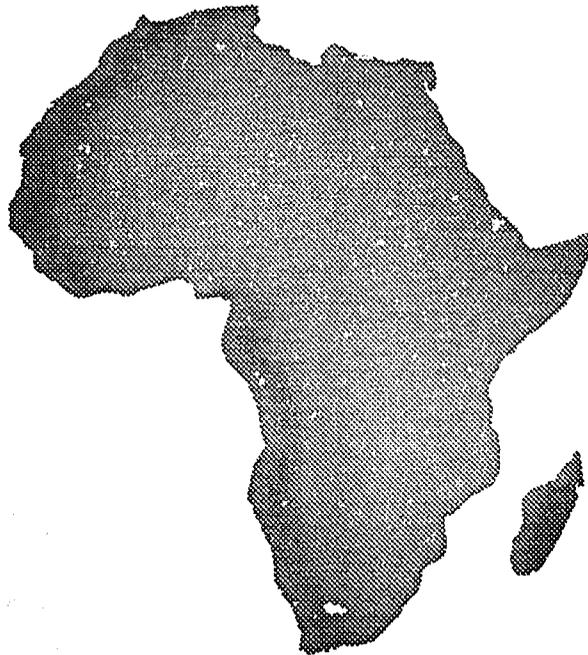
ENDOWMENTS  
AND  
INTERMEDIARY INSTITUTIONS

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

CONTENTS

Background ..... 2

Foundations as Beneficiaries and Intermediaries ..... 2

Endowments ..... 3

    Purposes ..... 3

    Advantages ..... 3

    Disadvantages ..... 4

    Selection Criteria ..... 4

    Issues and Concerns ..... 5

        Government Attitudes ..... 5

        Protection of the Fund ..... 5

        Financial Accountability ..... 5

        Disposition of the Endowment ..... 5

        Dependence upon A.I.D. .... 6

        Institutional Duplication ..... 6

        Source of Funds ..... 6

Experience ..... 7

Considerations for Selecting Funding Mechanisms ..... 7

Project Concepts ..... 7

    Local Currency Loans to Private Sector

        U.S. and Host Country Firms ..... 7

    Africa Agribusiness Development Corporation ..... 9

    Institute of Policy Reform ..... 9

    Foundation for African Institutional Reform ..... 9

    African Private Enterprise Fund ..... 10

    Enterprise for Africa Initiative ..... 10

    Debt-for-Private-Enterprise Swap ..... 11

Recommendations ..... 11

DRAFT



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

Selected Bibliography .....	12
Appendix A	
Experience with Selected Foundations, Funds, and Institutes .....	13
Foundations .....	13
National Development Foundations and SOLIDARIOS .....	13
Salvadoran Fund for Economic and Social Development .....	13
Fundación Privada Ecuatoriana .....	14
Honduran Foundation for Agricultural Research .....	14
Funds .....	15
Central and Eastern Europe Enterprise Funds .....	15
African Capacity Building Fund .....	16
Africa Growth Fund .....	17
Mozambique Private Sector Development Fund .....	17
Fondo Ganadero de Honduras .....	17
Institutes .....	17
Institute for Liberty and Democracy .....	17
Institute of Small Enterprise Development .....	17
Superior Institute of Agriculture .....	18
Appendix B	
Guidelines for Providing Assistance to the Private Sector .....	19

DRAFT



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

**F**OUNDATIONS, INSTITUTES, CENTERS, and other intermediary private sector institutions possess substantial potential for transmitting A.I.D. development assistance. Supported through endowments<sup>1</sup> and other funding arrangements, they can provide guidance, maintain focus, and ensure that results are effective and lasting. Where such institutions and funding mechanisms exist in Africa, A.I.D. can support them and help them to grow; where they do not, the Agency can help to establish them as it has done in other regions.

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

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

A.I.D. has extensive experience with foundations and endowments—most of it in Latin America—and the models and lessons from that experience can guide A.I.D. missions in Africa in their consideration of new opportu-

nities for private sector development (see Appendix A).

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

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

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

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



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

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

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

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

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

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## BACKGROUND

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

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## FOUNDATIONS AS BENEFICIARIES AND INTERMEDIARIES

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

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

tives, the Agency may seek to use them as intermediaries, to “wholesale” one or more development services to private sector, generally for-profit, organizations.

Most of A.I.D.’s experience with foundations and endowments has been in Latin America. A.I.D. missions can draw on this experience for models and lessons, positive and negative, that should inform designs for activities in Africa. The recent emergence of A.I.D.’s enterprise funds for Central and Eastern Europe and the newly created African Capacity Building Fund also should provide applicable design lessons.

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## ENDOWMENTS

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

### *Purposes*

An endowment is a mechanism for providing financial sustainability. Endowments can strengthen the financial base and future of an existing institution or help to establish a new institution. In A.I.D.’s experience, the typical recipient has been a foundation, institute, or similar nongovernmental organization (NGO) whose mandate is to perform development

functions that the public sector is performing inadequately or not at all.

### *Advantages*

The endowment mechanism offers several attractions:

- It does not require the extent of repetitive analysis, justification, paperwork, and other logistics associated with annual or periodic project funding.
- It creates the following favorable attributes for an NGO (attributes that the more typical A.I.D. pattern of funding is less able to provide):
  - With independence arising from financial sustainability, the NGO can be more resistant to political whims and corruption
  - An endowment can provide the basis for greater assurance as to higher salary levels and their continuity, resulting in enhanced ability to attract and retain high-quality management and staff
- The endowment can be protected through wise capital fund or trust investment decisions against inflation and decapitalization in a variety of ways, including the conversion of funds to offshore investments.
- Funds from A.I.D. for an endowment can be a leveraging device, encouraging the recipient to raise funds from other sources and encouraging other sources to make contributions.
- The endowment-NGO model can mobilize indigenous private sector contributions to promote private sector development.

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

*Disadvantages*

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

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

Endowments have their disadvantages and pitfalls:

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

*Selection Criteria*

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

- The recipient must have a long-term mission—a cause or objective to be pursued indefinitely.

- Either the recipient or the outside entity in charge of asset allocation and income generation must be experienced, competent, and trustworthy.
- The recipient's management and staff should possess professional, technical, and other characteristics that ensure effective and appropriate use of the endowment.

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

Other criteria are also important:

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

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

*Issues and Concerns*

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

*Government Attitudes*

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

*Protection of the Fund*

The endowment must be accompanied by several safeguards:

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

but an endowment vulnerable to withdrawal by A.I.D. diminishes the advantages of the endowment mechanism and tends to generate tension between A.I.D. and the endowed institution.

*Financial Accountability*

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

- Tranching endowment contributions and conditioning them upon financial reforms and performance can help ensure financial security
- Expenditure approval and disbursement authority should be separated
- A.I.D. could provide technical assistance in the form of an experienced contractor playing a defined and temporary training role
- If possible, the financial organization that will manage the endowment should be a trading firm selected in a competitive process, or a reliable bank
- Periodic audits by competitively selected firms are a must

*Disposition of the Endowment*

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

- If reliable alternative institutions exist (or can be formed) that can carry out the purposes of the endowment, the dissolving institution could transfer the funds to the appropriate entity (this would be

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

preferable if the endowment included contributions from other donors)

The funds could revert to A.I.D.

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

### *Dependence upon A.I.D.*

A.I.D.'s involvement with an endowment could, in theory, begin and end with a single contribution, but it is not unusual for new needs or unforeseen problems to arise. When this occurs, the foundation or institute naturally tends to look to A.I.D. for an additional contribution. This may be appropriate, and it is usually difficult to avoid.

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

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

### *Institutional Duplication*

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

### *Source of Funds*

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

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

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




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 ENDOWMENTS AND INTERMEDIARY INSTITUTIONS
 

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 EXPERIENCE
 

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A.I.D. has funded a variety of institutional arrangements over the years, including foundations, institutes, federations, universities, centers, and consortia. It has also used a variety of grant and loan funding mechanisms, including local-currency-counterpart funding, annual project funding, contributions to "funds" and trusts, grants to establish or contribute to endowments, and the financing of debt swaps. (See Appendix A.)

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

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

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 CONSIDERATIONS FOR  
SELECTING FUNDING  
MECHANISMS
 

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A.I.D.'s decision on how to fund an institution should depend upon the objectives of the activity and its setting. Where A.I.D. intends the outputs to continue long after Agency assistance has ended or where the institution's financial sustainability is an important objective,

an endowment may be an attractive option. However, other funding mechanisms might be equally (or more) desirable, for example, revolving funds (protected against decapitalization), reasonably assured periodic funding for several years, or "funds" supported by several reliable donors.

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

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

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 PROJECT CONCEPTS
 

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

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

Years ago, A.I.D. used "Cooley" loans, financed from local-currency Public Law 480 repayments, to provide credit to U.S. companies or their affiliates in Agency-assisted coun-

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

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

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

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

tries. The program was not successful everywhere, but it did well in Brazil, India, Pakistan, the Philippines, South Korea, Taiwan, and Turkey.

The shortage of credit for capital investment in Africa suggests the notion that some version of the Cooley loans could play a useful private sector development role. This notion need not require renewed legislative sanction for local-currency repayment of Public Law 480 or other debt to the United States. Local-currency counterpart (from Public Law 480, CIPs, or cash transfers) could be used. Continuity of assistance would be promoted by a revolving loan fund and by using the funds for long-term investment. The Partnership for Business and Development would be abetted by the financing of joint U.S.-host-country ventures. The loan funds would be administered by U.S. branch or local banks for a fee.

### *Africa Agribusiness Development Corporation*

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

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

equity financing to agribusiness small enterprise firms.

### *Institute of Policy Reform*

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

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

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

### *Foundation for African Institutional Reform*

Africa's dearth of effective private institutions is a serious constraint to development. A.I.D. should continue to strengthen existing private institutions and create new institutions to serve the African private sector. This could be done by establishing a Foundation for African Institutional Reform (FAIR). The association-strengthening project proposed in *Private Sector*

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

*Initiative for Africa: Business and Professional Associations* could be a separate initiative or a major component of the suggested sub-Sahara foundation for institutional reform.

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

### *African Private Enterprise Fund*

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

ing his reference to the Polish American Enterprise Fund, A.I.D.'s positive experience with TransCentury in Senegal should also be examined for application to the design of the proposed Private Enterprise Fund, and an endowment mechanism should be considered.

### *Enterprise for Africa Initiative*

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

- Concessional debt reduction (A.I.D. and Public Law 480 obligations)
- Reduction, sale, or cancellation of Export-Import Bank and Commodity Credit Corporation obligations
- In eligible countries, local-currency interest payments on new obligations provided for in agreements to cancel or reduce debt to the U.S. government
- Grants to a multilateral investment fund

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

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

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

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## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

*Debt-for-Private-Enterprise  
Swap*

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

To ensure continuity of assistance, financing could take the form of an endowment (as it has in several debt-for-nature swaps), as well as more traditional project funding. ESF or Development Assistance funds could be drawn upon to finance debt swaps.

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## RECOMMENDATIONS

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

- The field would benefit from A.I.D./ Washington and Africa Bureau clarification of what can and cannot be done directly for the for-profit private sector.

This would be helpful to those who are under the mistaken impression that nothing can or should be done directly by A.I.D. for this critical sector as well as those who are open to such activity but are less than fully informed.

- The field would benefit from A.I.D./ Washington and Africa Bureau guidance on the definition and uses of endowments. This funding mechanism is not always clearly understood, as is illustrated by the fact that several A.I.D. projects (past, ongoing, and planned) are thought to involve endowments when in fact they do not. This would help clarify the dialogue within A.I.D.
- Current legislation allows A.I.D. to create endowments under certain circumstances and to use interest earnings to support a range of activities, particularly in the environmental protection area. A.I.D. should explore the possibilities for broadening the range of activities that can be financed by endowments as well as widening the use of dollars for directly establishing endowments in host countries.
- A.I.D. should seek legislative authority to convert at least portions of less developed countries' debts to the U.S. government to local currency, which, in turn, can be used to finance endowments, trusts, and revolving funds to promote private sector development.

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*Appendix A*

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**EXPERIENCE WITH  
SELECTED FOUNDATIONS, FUNDS, AND INSTITUTES**

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*Foundations**National Development Foundations and  
SOLIDARIOS*

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

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

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

ment" fund. The fund was disbursed to NDFs in the form of income-generating, dollar-denominated loans to finance productive activities of low-income beneficiaries.

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

*Salvadoran Fund for Economic and  
Social Development*

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

A.I.D. has provided FUSADES with technical assistance and training, but most support has taken the form of grants that the Agency

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



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

has made to a trust (managed by a bank in the Bahamas) used when FUSADES offers credit to specific private sector borrowers. FUSADES can lend reflows of principal; reflows of interest go to FUSADES for its own use. In addition to interest income, FUSADES charges fees for its services, such as economic studies and forecasts and a quality control laboratory.

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

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

### *Fundación Privada Ecuatoriana*

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

date because of the following implementation problems:

- Foundation support for the A.I.D.-funded activity was inadequate
- Communication between the foundation and the university was poor and their relationship was characterized by conflict
- Most important, a preoperations agreement between the university and the foundation, spelling out roles, responsibilities, and relationships, was never achieved

### *Honduran Foundation for Agricultural Research*

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

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



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

abruptly; further, public donor support is frequently characterized by failure to meet time commitments.

FHIA's early reliance on project funding, which was less than anticipated, and its inadequate protection of A.I.D.'s original grants against inflation resulted in serious financial pressure. A.I.D. is now seeking an agreement with the government of Honduras to establish an endowment, funded by Public Law 480 and ESF counterpart. Agreement has been held up by the Honduran government's unwillingness to approve adequate maintenance-of-value provisions for the prospective endowment. It is the judgment of USAID/Honduras that without an endowment to cover FHIA's core budget, the foundation may not survive.

## *Funds*

### *Central and Eastern Europe Enterprise Funds*

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

Each enterprise fund is a not-for-profit corporation under U.S. law; the president of the United States selects the chairperson and the

manager. The fund chairperson nominates a managing board of directors composed of both U.S. and host-country financial and investment experts, who guide investment decisions and management. The enterprise fund has both a U.S. headquarters office and a host-country office. Its operations are considered to be fully within the private sector, with the U.S. government acting solely as a financing agent that will allow the fund to become self-sufficient over time. Each enterprise fund has its own bylaws and characteristics.

The following enterprise funds have been established:

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

DRAFT



ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

million, focuses principally on agribusiness and export industries

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

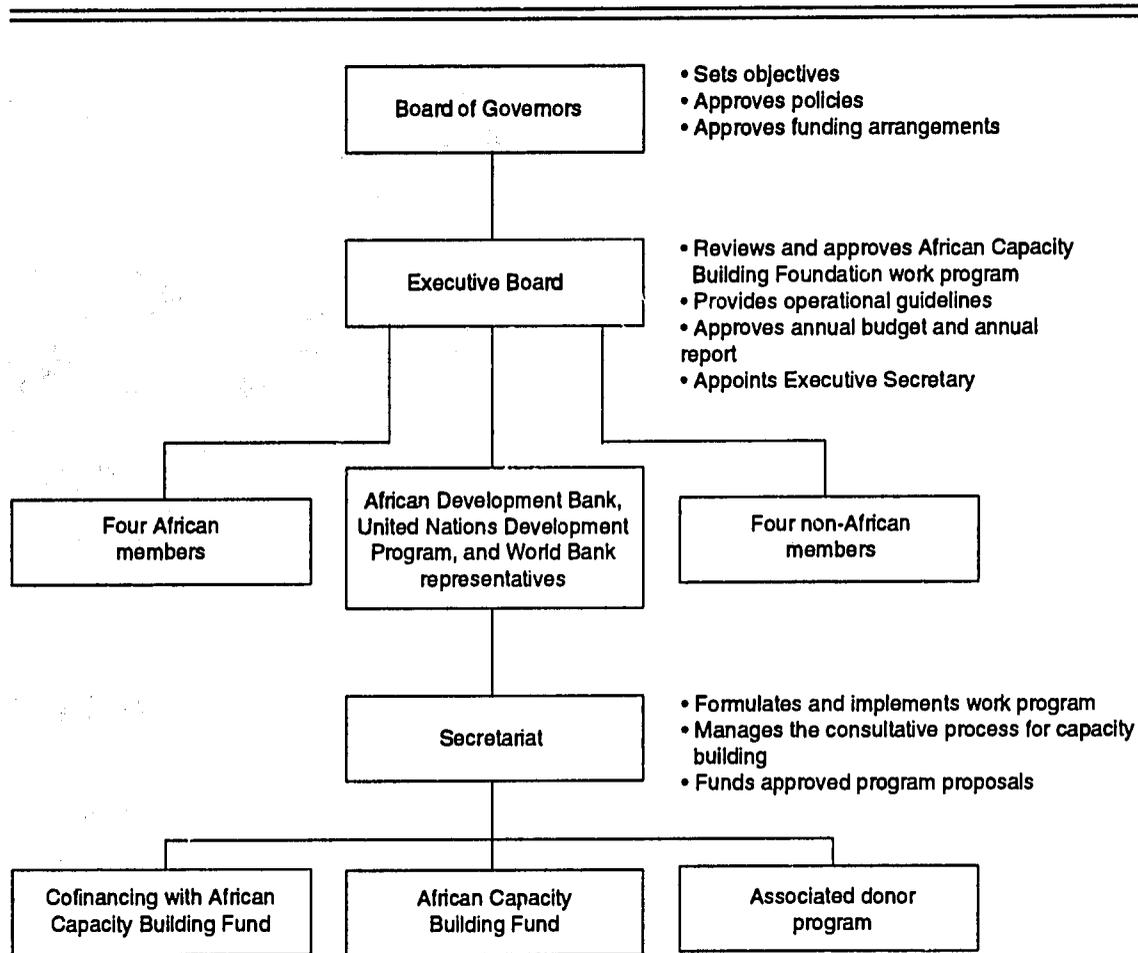
*African Capacity Building Fund*

As a component of the African Capacity Building Initiative, the African Capacity Building Fund supports the expansion of African skills,

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

Its organizational structure (Figure 1) allows for flexibility, features strong African participation, facilitates donor coordination, and emphasizes sustainability. The foundation's board of governors includes representatives of donors and African contributors to the fund. The ex-

FIGURE 1. AFRICAN CAPACITY BUILDING FOUNDATION ORGANIZATIONAL STRUCTURE



DRAFT



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

ecutive board consists of African and non-African experts in policy analysis and development management. The foundation's operations began in 1991.

*Africa Growth Fund*

The Africa Growth Fund is a regional project that established a privately owned and managed investment company to provide equity and quasi-equity financing to private industries throughout sub-Saharan Africa. The fund is managed by Equator Holdings Limited.

*Mozambique Private Sector Development Fund*

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

*Fondo Ganadero de Honduras*

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

*Institutes**Institute for Liberty and Democracy*

The Institute for Liberty and Democracy (ILD) is a Peruvian private voluntary organization that has received significant funding

from U.S. public and private sources for several years. A.I.D. has been its major financial supporter.

ILD's initial and, for some years, its principal work related to analysis of the role of the informal sector and of governmental constraints on its growth. The institute's research and its director, Hernando de Soto, have made important conceptual, analytical, programmatic, and policy inputs to the understanding of the informal sector and to ways to increase that sector's contribution to national growth and development. Until recently, ILD was a significant partner to the democratically elected Peruvian government in terms of economic policy and in the development of the government's antidrug program.

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

*Institute of Small Enterprise Development*

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

DRAFT



## ENDOWMENTS AND INTERMEDIARY INSTITUTIONS

The institute is a privately managed entity whose board of directors consists primarily of Guyanese private sector representatives. Public Law 480 counterpart (loaned by the government of Guyana to the institute), along with funds from the Canadian High Commission, the British High Commission, and the Inter-American Development Bank, as well as modest donations from the Guyanese private sector, have financed the provision of credit, technical assistance, training, and business guidance to the Guyanese private sector. Because of the quality of its management staff and directors and its multidonor and indigenous private sector support, the institute has been unusually successful in helping small enterprises, despite unfavorable economic circumstances and, at least at the outset, uncertainties with respect to the Guyanese government's attitude.

*Superior Institute of Agriculture*

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

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

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