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TRADE AND INVESTMENT
A Conceptual Outline for New Programming

Prepared for:

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The views and interpretations expressed in this conceptual paper are those of the author and should not be attributed to USAID/PRE

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EXECUTIVE SUMMARY

PRE was established to provide leadership and to serve as the catalyst for AID's private sector initiatives. As both an innovator and educator in private sector programming, PRE has the obligation to identify specific areas of need for appropriate interventions.

New programming emphases directed at sound trade policies and a supportive investment environment are essential to the development of effective LDC strategies to stimulate growth and the productive use of available resources.

A PRE commitment to a Trade and Investment program-development effort would provide a capability to identify and evaluate policy and nonpolicy constraints and to mitigate barriers to the development of market economies. The expected result would be to institutionalize the knowledge of and exceptional expertise in: how the development process occurs; a procedural approach to effect change through the process; and, the appropriate PRE role in support of the process.

PRE has access to an extensive multiplier network through its relationships with IESC, other international agencies and private sector organizations. These and other linkages should be expanded in order to enhance PRE's opportunities for leadership in developing innovative mechanisms and strategic approaches for Missions' use.

Given its agency-wide role, it appears that PRE-acquired expertise and technical assistance in export and investment promotion, with particular emphases on the conditions necessary to encourage both; mobilization of U.S. private sector organizations; specialized training through seminars and conferences; and support of policy, legal and regulatory reform are the most promising for a new program initiative under the generic term, Trade and Investment.

A dynamic, well-designed private sector initiative will provide PRE with that essential linchpin, coupling already existing programs with new, complementary activities in support of Missions. The initial task in the refinement of this "menu" of options for strategic approaches is the commitment of resources to conduct an assessment of Missions' needs--to examine, on a macroeconomic level, the prioritization of program emphases.

An initiative in the area of Trade and Investment embodies the essential elements of the AID policy paper entitled Private Enterprise Development. It also incorporates the more significant programmatic elements reported from the strategy retreat of November, 1986.

PREFACE

This is in response to a request for the preparation of a concept paper which presents findings and conclusions in support of a PRE program initiative in the area of Trade and Investment.

The contractual Scope of Work called for, ". . . options for a strategic approach for PRE to implement a program to promote Trade and Investment utilizing, inter alia, Revolving Fund resources." The work product of this effort was to be: "A concept paper outlining recommended interventions that reduce the institutional barriers to trade and investment, including use of Revolving Fund resources."

The following is an attempt to synthesize personal experience, in-depth interviews and extensive research. The product of this effort is one of abstract, reflective thinking which is intended to stimulate creative action.

INTRODUCTION

PRE was established to provide leadership for the Private Sector Initiative as both an educator and an innovator in private sector programming.

It has been said of the Private Sector Initiative that perhaps its single most important undertaking is to build a favorable climate for private enterprise in the developing countries. USAID has, therefore, placed the highest priority on identifying constraints and removing, through policy dialogue and direct program actions, barriers to economic development.

The A.I.D. policy paper entitled, "Private Enterprise Development" stated that while the stipulated intention of A.I.D.'s private enterprise policy, ". . . to conduct programs in an environment of policy dialogue with the host country so as to affect the operation and growth of free markets and private entrepreneurship," policy dialogue may, in fact, not be sufficient to achieve the desired objectives.

Accordingly, the policy paper asserts that A.I.D. should also engage in specific, direct program actions to eliminate legal, regulatory and other constraints to private enterprise development and to assist and promote private enterprises.

What follows is a conceptual framework within which PRE may proceed toward the establishment of a new program initiative, developing institutional capability to provide technical assistance and private-sector programming leadership.

TRADE & INVESTMENT
An Outline for New Programming

A principal role of governments in the process generally referred to as economic development is to identify and remove barriers to trade and investment.

In addressing constraints to trade and investment, government programming initiatives should be targeted toward the establishment of conditions necessary for attaining economic growth. Such conditions are both essential and sequential to the attainment of broader, societal objectives.

Barriers to trade and investment may vary from country to country but some of the more significant constraints are common among LDCs. It is with that perspective that one may begin to identify and address key problem areas through a centralized program initiative using the generic title of Trade & Investment.

I. Definition of Trade & Investment:

For the purposes of this conceptual framework, the term Trade & Investment is used as a descriptive title for that universe of activities normally associated with economic development. Those would include virtually all private sector initiatives directed toward the goals of increased private investment, increased individual income, higher rates of employment and, the expansion of exports.

II. Statement of Objectives:

The purpose of this paper is to encourage a PRE commitment to the development of a proactive program, linking trade and investment strategies with LDCs' internal growth policies.

The contractual Scope of Work called for the consideration of:

- (1) Constraints to Trade and Investment and a proposed A.I.D. role in reducing such constraints,
- (2) Problems and Solutions associated with promoting greater regional trade,
- (3) Common problems in such areas as tariff structures, customs operations and quality standards,
- (4) The impact of free-trade zones, and
- (5) Other matters deemed appropriate.

The resultant program elements would provide Missions with the technical capability and professional confidence to provide diagnostic analyses and/or other technical-assistance support.

III. Identification of Constraints:

Attention is directed to the AID policy paper entitled "Private Enterprise Development" in which constraints established by governments were discussed at length.

For the purposes of this conceptual discussion, LDCs' private sectors are generally constrained by economically irrational policy, administrative and developmental barriers. The most significant constraints are: A) restrictive government policies; B) industry and firm level constraints; and, C) capital markets constraints.

A. Restrictive government policies such as foreign exchange policies and regulations; import and export restrictions; banking and market entry restrictions; limitations on investment; subsidies for non-economic enterprises or price-setting parastatals; labor laws and regulations; taxation, user fees and tariffs should be targeted for assessments by PRE in support of its private sector programming prerogative.

B. Industry and firm level constraints include the lack of skills in management, marketing and distribution techniques; and, the inability to conduct feasibility and export financing studies, all of which require training, informational and technology transfers. Enhanced capability to support Missions within these areas is essential to successful private sector development.

C. Capital markets constraints require that attention must be given to addressing financial policies, legal and structural barriers. The Financial Markets Development Program addresses the mobilization of capital and the appropriate allocation of financial resources. However, this area is one requiring specialized technical assistance and may provide opportunities for innovative uses of Revolving Fund resources.

While trade barriers are both internal and external to LDCs, this paper is concerned only with those of an internal nature. Internal constraints may exist due to general economic conditions or at the level of the local economy.

Within the policy environment, there are specific policies and regulations limiting the development of the private sector. Common LDC problems such as tariff structure, customs operations and others exist, in part, due to the lack of an appropriate infrastructure for private enterprise development.

A recent World Bank paper entitled, "Creating a Better Environment for Private Enterprise in Africa" addressed the key issues affecting private sector development, barriers which are common to most LDCs. While these have been mentioned elsewhere

in this paper, a brief reiteration of the five key policy areas examined serves to highlight the principal deterrents to private enterprise:

1. Barriers to entry include state monopolies and marketing boards, transportation systems, restricted private access to the natural resources extractive industries, manufacturing and utilities ownership.
2. Obstacles to foreign investment include government imposed restrictions on employment, location and local inputs; price controls; excessive legal requirements; and uncertainties about taxation, enforceability of contracts and legislated red tape.
3. Financial constraints are usually considered to be the result of a shortage of investment funds and working capital which, in part, is due to financial market regulations, inability to mobilize equity capital, foreign exchange systems, taxation policies limiting internal investment funds, limited private access to financial markets due to excessive government borrowing and public investment programs.
4. Labor policies and price controls which are counter-productive to economic growth and the expansion of employment, require liberalization in order to free the mobilization of human and financial resources.
5. Trade policies and competition constraints usually center on overvalued exchange rates and import substitution practices. Overvalued currencies, high tariffs, quantitative restrictions on imports and taxation-bias against exports all require special attention.

Missions require substantive technical assistance in order to deal with LDCs' institutional barriers and other restrictions to growth and development.

IV. Initiatives to Mitigate Barriers:

A program initiative that charts the course for development through a legal and regulatory framework which promotes private access to competitive markets, encourages the mobilization of foreign and domestic capital, strengthens indigenous financial institutions, protects private property, and enforces valid commercial transactions would assure access to a minimum-level threshold for private sector development.

Some see the role of PRE in export and investment promotion assistance as a reactive one, responding to Missions' requests for technical assistance, holding seminars for cross-fertilization with LDC private sector participants; facilitating

joint activities with the Bureaus; developing state-of-the-art mechanisms for use by the missions; and one of providing passive coordination of AID private sector programming.

There is a much broader role for PRE, an assertive one that takes on the responsibility of developing new linkages with U.S. private sector organizations, institutions, other government agencies and even private firms. This would enable PRE to become familiar with the latest techniques and applications of development assistance. It would provide for coordination with the World Bank and others having somewhat different approaches to the developing countries.

PRE would, in part, develop a "think tank" resource capability, attending conferences, staying on top of developments in private sector initiatives and serving as both a point of contact for and an outreach mechanism to the U.S. private sector and government agencies. It would have access to others with experience in regional trade development and other complex issues which are not likely to be addressed by individual missions. It would develop the institutional experience to conduct seminars and issue publications on what works, the essential ingredients, and how to go about the implementation process.

A network of dynamic, innovative relationships focused on the preconditions for trade and investment would allow PRE to develop an expertise transferable to the Missions. This expertise would be used to identify issues and prescribe alternative directions for program implementations. It would facilitate the flow of technical and financial information to the LDCs, through direct assistance or institutional intermediaries.

One very important contributing activity is that of encouraging and mobilizing support of strategic U.S. and LDC private sector organizations. Linking LDC private sectors to the development process is essential to the success of AID efforts.

PRE could assist such efforts by mobilizing the support of U.S. and LDC private sector organizations. PRE would provide technical assistance to:

- Seek opportunities to provide assistance directly to LDC private enterprise organizations

- Identify institutional intermediaries for delivering project assistance

- Increase the flow of technical and financial resources through the involvement of U.S. private enterprise in the transfer of technology and project financing

PRE needs to develop an assertive outreach, a program element

engaging U.S. and LDC private sector resources in the development process. A partial list of initiatives would include but not be limited to:

- The strategic use of private sector delivery systems,
- Seminars and publications explaining what is going on in business development activities,
- A US-based program for direct U.S. investment capital,
- Successful training programs for Missions and LDCs to tap into the enormous technical capacity of the private sector,
- PRE may call upon IESC to develop specific areas of expertise and thereby target its resource utilization and,
- Encourage relationships with large firms that would provide stable markets, technology, training and credit to small and medium-scale enterprises.

While there is a vital role for the LDCs in providing the policy environment and legal framework necessary for private sector development, the public sector must also foster an increased awareness of the possibilities for private sector development.

Such emphasis on the role of the private sector in donor assistance projects has been recognized to be important to sustained economic growth. The linking of LDCs with U.S. and other developed-country private sectors in the development process would serve to enhance the results potential.

PRE could position itself by taking the lead with other U.S. agencies engaged in trade and overseas investment. By developing an understanding of and coordination with other donor agencies and institutions supporting development cooperation, PRE could most effectively contribute to the process of achieving equitable growth.

PRE/P's market-oriented approach to development assistance is the very core of the Private Sector Initiative. Innovative lending concepts developed through the use of RF resources need to be communicated and promoted throughout AID for replication.

PRE could enhance the efficiency of LDCs' institutions and organizations by providing technical assistance in management, informational systems, and training in project monitoring and evaluation.

PRE could develop specific products such as model licensing legislation or a basic, uniform commercial code for distribution to Missions.

PRE could develop knowledge of specific actions such as the impact of free-trade zones and the steps and conditions necessary to establish a successful trade zone.

PRE could develop a program-element engaging U.S. private sector resources in support of Missions, e.g., promoting U.S. direct investment, and, encouraging U.S. and LDC private sector cooperation through existing or newly formed organizations.

PRE could provide the impetus for the development of a regional-trade program, combining the mutuality of concerns of the private sector initiative with an integrated use of resources.

Finally, PRE options for developing strategic approaches must emanate from an understanding of and support for policy and regulatory reform. In order to impact underlying structural problems, economic measures must be preceded by fundamental policy and regulatory changes:

Virtually all private sector initiatives by missions fall within the six categories of: 1) Policy Reform; 2) Capital Formation; 3) Export and Investment Promotion; 4) Micro-Small-Medium Enterprise Development; 5) Housing/Land Purchases Financing; and, 6) Privatization. While this paper is limited to a discussion of the first three categories, it follows that PRE should examine each of these in order to determine its focus for a new program initiative, concentrating its resources to specific areas of comparative advantage in performing its leadership role:

1. Policy and Regulatory Reform: According to "A Review of AID's Experience in Private Sector Development" April 1985, "Policy has been identified as the single most important and most prevalent factor constraining expansion of the private sector . . . It is interesting to note that, despite the priority of the dialogue and the widespread perception that some dialogue activity is underway in most Missions, formal documentation of this activity and its result is virtually nonexistent."

Review of responses to a recent PPC/EA survey of missions' capacity, activity and needs pertaining to "restrictive trade policies and practices" indicated a significant, potential demand for technical assistance (TA) in private sector interventions.

While some missions indicated a reluctance to become involved, all responded that they would require experts in identifying constraints: technical assistance in estimating fiscal impacts; and, consultancies, training and implementation assistance to effect private sector policy planning and institutional development. TA would also be required to establish coordination between the missions, business associations and ministries as well as the World Bank and other donor organizations.

The A.I.D. Policy Paper "Private Enterprise Development", March, 1985, indicated that AID's private enterprise policy is; "... intimately related to the need to conduct our programs in an environment of policy dialogue with the host country. The essence of the policy dialogue should be to deal with the country's development strategy and related policies . . ."

Further, it has been said that greater attention to sound policy and sectoral analysis should be a prerequisite to AID assistance. It follows that more resources should be devoted to policy analysis, training and host country institutional development in support of policy dialogue and economic reforms.

One such area for consideration is that of a commitment to proactive support for dialogue regarding policy and regulatory reform. Virtually every AID publication and policy paper refers to its working through the four policy pillars, particularly policy dialogue, to reduce constraints and remove obstacles to private enterprise development in LDCs.

The objective in doing so would be to develop organizational-capability for the preparation of high-quality policy analyses, contributing to missions' capacity for ongoing policy dialogue. However, it will be necessary for PRE to develop a thorough understanding of the process of policy dialogue and the use of conditionality before it may fully assess its' potential role.

A study of policy, legal and regulatory measures that encourage or impede private sector development would provide that understanding. It would examine such concerns as:

What is needed to develop the capacity to do quality analyses of policy, regulatory and other barriers

What are the institutional mechanisms necessary for implementing policy changes and,

What is the time-frame needed for policy reforms to generate their impact

It would focus on technical assistance needed to effect macro-economic reform and for the development of institutional experience and knowledge of what policies work and how to implement them.

By developing a PRE expertise in reform analyses, Missions would be better prepared to provide assistance to host governments in achieving a more favorable policy environment. Enhanced performance in policy formulation and implementation through policy dialogue is essential for developing appropriate strategies for trade and investment programming.

PRE has asserted that its focus on policy and regulatory reform and its resultant impact on business development and employment generation is the most promising area for achieving substantive results.

Concern for the quality of reform analyses, policy advice and implementing mechanisms should certainly warrant a commitment of resources targeted on policy analysis, training and institutional development in support of policy and regulatory reforms.

The need for a comprehensive approach to any particular reform initiative can be illustrated by the following example:

Privatization: This program initiative is multifaceted in that it evolves from the initial steps of policy dialogue through all subsequent steps leading to actual divestiture. It combines the various aspects of policy reform and private sector development.

However, privatizations of LDC parastatals may only occur within the appropriate policy environment and are therefore the result of successful policy and structural reform.

There are a number of policy conditions needed for privatization to be successful. Market-based pricing; prompt and fair enforcement of contracts; equal access to credit and foreign exchange; and, other policy matters must be addressed. Reform of LDCs' legal framework, investment and tax codes and other commercial practices are particularly critical to success.

2. Capital Formation: Certainly one of the most important issues for policy dialogue is that of LDCs' need for access to capital. Through the Financial Markets Development Program (FMDP) PRE is providing Missions with an appropriately designed and well received resource. It is totally within the purview of FMDP to address restrictive financial policies, legal and structural constraints. It would seem evident that this particular program initiative should receive enhanced emphasis and concomitant resource allocations.

The purpose of FMDP, as stated in the FY 1987 Congressional Presentation, clearly enunciates development of capital markets as the corner stone for AID/PRE's efforts to encourage private sector, economic growth.

Sustained economic growth requires an indigenous capacity to address key problem areas. While each individual LDC may be economically constrained in various ways, they all share the need for remedial capital markets development. PRE should endeavor to incorporate FMDP projects in all Missions through aggressive promotion and competent technical assistance.

The Private Sector Revolving Fund (RF) is a unique mechanism for combining the need for the internal mobilization of financial resources with the access to capital from outside sources.

Again, PRE should develop "case studies" of successfully demonstrated, innovative loans and provide for their world-wide dissemination. In order to encourage the replication of RF financing experience and to have greater insight of Missions' requirements, there needs to be an ongoing interchange between PRE and the Regional Bureaus. This may be accomplished in two distinct ways:

- A. PRE/I personnel would visit Missions, sponsor regional seminars and work shops, interact with private sector lenders, intermediaries and other donor organizations.
- B. Regional Bureau personnel would serve on detail to the Office of Investment on a competition-based, rotational assignment.

3. Export and Investment Promotion: It has been observed that in the absence of energetic investment promotion activities, offshore firms rarely enter into joint ventures or other means of initial investment. The critical ingredient is said to be existing "commercial trade", which in turn is usually considered as a precondition to "investment".

Trade and investment promotion are important for diversifying exports, attracting new capital and technology and generally improving the participation of a country in world markets. A new program element in the promotion of exports, investments and tourism would delineate requisite conditions and mechanisms necessary for private sector development.

It follows that linkages between trade and new investment and/or trade and technology transfers may be strengthened by assertive promotion programs. However, in order to promote the development of individual enterprises and an environment of viable, competitive markets within which they may efficiently operate, there needs to be discernable opportunities for profit.

A comprehensive PRE program to assist Missions throughout the strategic planning and implementation process, should provide LDCs' governments and private enterprise with an enhanced ability to respond to such opportunities. The recent A.I.D. Program Evaluation Report No. 14, identified the following capabilities as factors requiring special attention to aid LDCs' private sectors in responding to profitable opportunities:

- A) the ability of correctly identify profitable opportunities;
- B) the ability to mobilize capital;
- C) the ability to assemble key factors of production; and,
- D) the ability to organize and manage the production, marketing and financial operation of the enterprise.

While the term Promotion is very general, it denotes the entire array of a wide range of conditions and actions leading to enhanced trade and investment activities. In the context of this paper, PRE-initiated promotion activities may include:

A. Providing Missions with guidance and support to assist governments in private enterprise policy reforms in areas such as commercial law, investment codes, taxation and others leading to a more favorable business climate.

B. Providing Missions with technical assistance for LDC private sectors in facilitating appropriate financing for private investment projects, increased access to credit, development loans designed to reduce certain financial and foreign exchange constraints, and the development of equity markets and direct foreign investment.

C. Providing Missions with information and training for the replication of successfully demonstrated financial mechanisms developed through the use of RF resources.

D. Providing Missions with the capability to sponsor seminars and workshops in key policy areas, organizing educational tours for LDC officials, and the development of reports describing and analyzing the LDC investment climate.

These are but a few of the informational and technical assistance needs of Missions in the more common, functional areas yet they are representative of resource requirements within this category.

V. The Structure of Technical Assistance:

To conduct specific analyses of private sector constraints, to identify and evaluate barriers to the development of market economies, it shall be necessary to create a team of experts, a core group of outside consultants, led by a PRE professional with experience in private sector development activities.

A. Technical Assistance in such areas as tax reform, investment regulations, import restrictions, state trading companies, tariff structures, customs operations and fiscal impacts will be required. The following specialty areas will require expertise to include but not be limited to:

Project Design and Evaluation; Strategic Planning;
Macro-Economic Analysis; Legal/Regulatory Analysis;
Taxation and Tariffs Fiscal Impacts and Revenue
Projections; International Trade and Investment;
Industrial Development; Export Development; and,
Industry-Specific Analyses in Financial, Marketing,
Manufacturing and Distribution.

B. Management Support for the planning, awarding and monitoring of a new program of this scope requires delegation to and the responsibility of senior staff. The Trade and Investment program may consist of only one AID/PRE individual (employee or contractor) and a stable of outside consultants experienced in planning and implementing effective private enterprise strategies. Whatever is determined to be the management structure, PRE must commit to a program of quality assurance.

C. Mission Buy-In provisions are to be part of the final program structure. However, the initial development phase of the Trade & Investment initiative will be funded by PRE/PD. While Missions have access to TA contracts for investment climate surveys, private sector profiles, economic sector analyses and financial, capital markets studies, etc., they particularly need an "off the shelf" capability to undertake the difficult tasks described above.

VI. Planning and Evaluation of Programming Content:

In terms of expected program results, it is essential that there be a commitment to a comprehensive design effort.

A PRE commitment of resources for the development of such an initiative, the preparation of budget and staffing estimates along with the expected results over a specified period of time, is the first requisite step.

According to a recent A.I.D. report, the major factors influencing the effectiveness of private sector programming were considered to be: 1) Quality of Design; 2) Sustainability; 3) Strength of Constituency; 4) Host Country Policies; 5) Organizational Capacity to Continue Project Benefits.

PRE's concern for the quality of design throughout the process will provide a focus and strategic targeting of its initial efforts. Its utility as a laboratory for experimentation, to test and try out new ideas that can then be replicated by the other AID bureaus, provides an unusual opportunity for thoughtful programming. To identify issues and define alternative approaches for Missions, PRE would provide the description of a new program initiative and would begin the building of a constituency within AID. In terms of an incremental approach, PRE needs to introduce its initiatives at the appropriate levels within AID and undertake specific pilot efforts to develop Mission confidence.

There is always demand, a need, for quality assistance, both within AID and through contractors who are known to produce substantive work.

The true objective here is to target activities where you are likely to get optimum results. It appears that a centralized policy and regulatory reform capability within PRE would be a most appropriate program element. Expertise in tax reform, investment regulations, import restrictions, state trading companies, fiscal impacts and revenue projections are areas of priority among design considerations.

PRE mechanisms such as PEDS and IESC contracts, the investment office and other program elements are responsive to Missions for "across-the-board" technical assistance. What appears to be needed is programmatic leadership which specifies actions to be taken and then provides the tools necessary to implement the initiatives. A proactive "menu" of diagnostic assessments, strategies and implementation assistance, with emphases on the implementation "how to" aspects, would be generated through the program design phase.

PRE is expected to stimulate new ideas and enhanced knowledge of private sector programming. However, the creative process must also include knowledge of how demand for new programming is developed. The specificity of actions to be taken, the necessity of Missions' acceptance and the commitment of senior staff are equally important as are the initiatives' substance.

The effectiveness of this program initiative will, in part, be determined by the explicitness of its design, an essential element highlighted in the recent report synthesizing private sector program evaluations from FY-85 and FY-86.

Therefore, as a follow-on to this conceptual framework, there needs to be a complete analysis of:

- * Demand for technical assistance within specific program areas
- * An estimate of resources required to meet the demand
- * An assessment of PRE's options for managing the initiative

The above may be accomplished through a single contract or a series of closely coordinated consultancies. Most importantly, there needs to be recognition that the experience and skills required to complete this effort are numerous and diverse.

CONCLUSIONS

Enhanced capability for the identification and removal of constraints, limitations which have restricted and continue to inhibit the development of LDC economies, is needed. The indicated, potential demand for technical assistance from outside consultants as well as PRE expertise is substantial.

It is fundamental to AID's private sector initiative that there be an increased awareness of barriers to economic development and enhanced professional capability to engage LDCs in:

- A) Specific, direct program actions to eliminate legal, regulatory and other constraints to development
- B) Substantive economic policy and regulatory reforms directed at sectorial and infrastructure development

Personal observations and comments of others lead to the conclusion that a new PRE initiative in Trade and Investment would attain broad-based support so long as it demonstrated the following characteristics:

- * An enhanced capacity to serve Missions' needs
- * Not competitive with other Bureaus' initiatives

PRE's examination of the Trade and Investment initiative will bring focus to and acknowledgement of its private sector programming responsibilities.

Conversations with AI personnel and other informed individuals provided a perspective of overall program content and the effectiveness of various delivery mechanisms. It appears that PRE is well positioned to effect its organizational, long term objectives. Its major program initiatives are well-designed and appropriately targeted.

This conceptual outline points to existing programmatic gaps. It suggests two distinct thrusts--one for its current portfolio of activities and the other for complementary, new initiatives:

- * Missions' increased awareness and subsequent, expanded use of existing programs is a function of PRE's assertiveness and its capacity to serve Missions needs and meet the expectations of Regional Bureaus
- * Missions selected for private-sector development potential (or other criteria) should be targeted to receive an extraordinary level of professional assistance in order to institutionalize the delivery of private sector programming and to demonstrate PRE's competence to sustain high levels of support

SUMMARY

The overriding intent of A.I.D.'s private enterprise policy is to promote the establishment of a climate conducive to LDC private sector activity, the establishment of viable, competitive markets and the expansion of private enterprise in LDCs.

The A.I.D. Program Evaluation Report No. 14, entitled "A Review of AID's Experience in Private Sector Development" suggested several areas for new programming emphases:

- * A commitment to engage LDC governments in an active dialogue regarding policy reform
- * The preparation of high-quality policy analyses and the creation of capacity for ongoing analysis
- * Projecting opportunities to provide development assistance directly to LDC private enterprises and intermediaries
- * Increasing the flow of technical and financial resources through the engagement of U.S. private enterprise

Virtually all of these could be incorporated in a new program initiative under the generic title of Trade and Investment.

Trade and investment promotion are essential tools for diversifying exports, attracting new investment capital and the transfer of technology as well as general business knowledge and skills.

PRE has asserted in various publications that it would play the lead role in creating Agency focus, providing support to Missions by concentrating on helping governments identify and remove policy, legal and other constraints to improve the climate for private sector development. Establishment of a Trade and Investment initiative will provide the appropriate mechanism to demonstrate that leadership.

The work product of this outline was to be recommendations for interventions to reduce barriers to trade and investment, including the use of Revolving Fund resources.

Recommendations for interventions are outlined above in Section IV, Initiatives to Mitigate Barriers.

The use of Revolving Fund resources is clearly an established, well-received program element. PRE/I should continue to use the RF for demonstration purposes and actively promote the replication of its successes on a world-wide basis. The adaptation of innovative financial strategies, capital markets development and individual lending will be of paramount importance to the success of any new program initiative targeted to the promotion of investment.

A PRE commitment to a program for Trade and Investment would result in the development of expertise in strategic, private sector planning, knowledge of how the development process occurs and, implementation experience in effecting change through the process.

Finally, this proposed initiative is not conceived to be just another consulting contract. Rather, this conceptual outline lends itself to that of a "menu" for filling of gaps of already existing programs and technical assistance capability. It may be implemented on a limited basis over a relatively short period of time in order to field test both the need for such assistance and the institutional capability to provide the full range of appropriate expertise.

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