~~CONFIDENTIAL~~

DDI- 3605-83

17 MAY 1983

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Deputy Director for Intelligence

FROM : [redacted] 25X1
Director of Global Issues

SUBJECT : Less Developed Countries: The Private Investment Option

1. Action. This paper responds to your request of 26 February 1983 for a look at what Western investment could do to help reverse the downward economic spiral in LDCs important to the US. You requested that it be prepared for Secretary Shultz and perhaps the President to focus their thinking on the aid-investment issues likely to arise at the Summit.

2. Background. The accompanying package of background material contains information on the role of private investment versus aid, OECD investment support programs, and the USSR's joint ventures in LDCs. Part or parts of it could be pulled out and attached to the paper — for example, the descriptions of investment support programs for just the seven Summit countries.

3. Little detailed information is available concerning investment opportunities in the LDCs. Examination of AID reports yielded mostly information of a general nature. We fared somewhat better with OPIC project appraisals but there, too, reporting is limited to a few countries and projects. [redacted] 25X1

[redacted] 25X1

~~CONFIDENTIAL~~

[redacted] 25X1

Distribution:

Orig - DCI
1 - DDCI
1 - ExDirector
1 - ExRegistry
1 - SpAsst to DCI
1 - ES
1 - DDI
1 - ADDI

1 - Henry S. Rowen, NIC
1 - D/OGI
1 - OGI/ECD
1 - OGI/ECD/TW
8 - OGI/PUB

OGI/ECD/TW: [redacted] (16 May 83)

25X1

Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

LESS DEVELOPED COUNTRIES: THE PRIVATE INVESTMENT OPTION (U)

Summary

Private resource flows are the principal source of external capital for development in LDCs, particularly those that are more advanced and strategically important. Private flows not only exceed official development assistance, they also serve many of the same Western political and economic interests. Private investment can demonstrate the ability of the free market system to benefit all segments of society, increase chances for political and economic stability, and augment the growth potential of Western export markets. Many of the key LDCs have favorable investment climates, and the amount of money needed for projects that provide fast and visible improvements in living standards is relatively small. Host governments and investment missions have identified a number of opportunities for foreign private investment in LDCs which could be mutually beneficial to both LDC development goals and Western interests. [redacted] 25X1

All of the OECD countries have programs on the books designed to spur private investment flows to LDCs. We do not know the degree to which these programs encourage new investment. The worldwide recession and concurrent budgetary constraints in the Member countries have probably led to a reduction in such programs. Soviet participation in LDC private sector activities has so far been limited largely to joint venture fishing agreements, with trading, marketing, and freight companies playing a small part in about 10 countries. [redacted] 25X1

This memorandum was prepared by [redacted] Third World Issues Branch, Office of Global Issues. The information contained herein is updated to 9 May 1983. Comments may be addressed to Chief, Third World Issues Branch [redacted] 25X1 25X1

GI M 83-10134
May 1983

25X1

CONFIDENTIAL

[redacted]

Less Developed Countries: The Private Investment Option

Introduction

Thirty years of domestic savings and investment, supplemented by foreign aid and private capital flows, contributed to an unprecedented era of growth in less developed countries (LDCs). According to the World Bank, between 1950 and 1975 LDC annual per capita income growth averaged 3.4 percent, faster than either developed or developing nations' growth in any comparable period before 1950. Although LDC growth rates declined in the late 1970s, primarily as a result of worldwide recession, a foundation for self-sustaining growth and future private investment was established in many key LDCs. 25X1

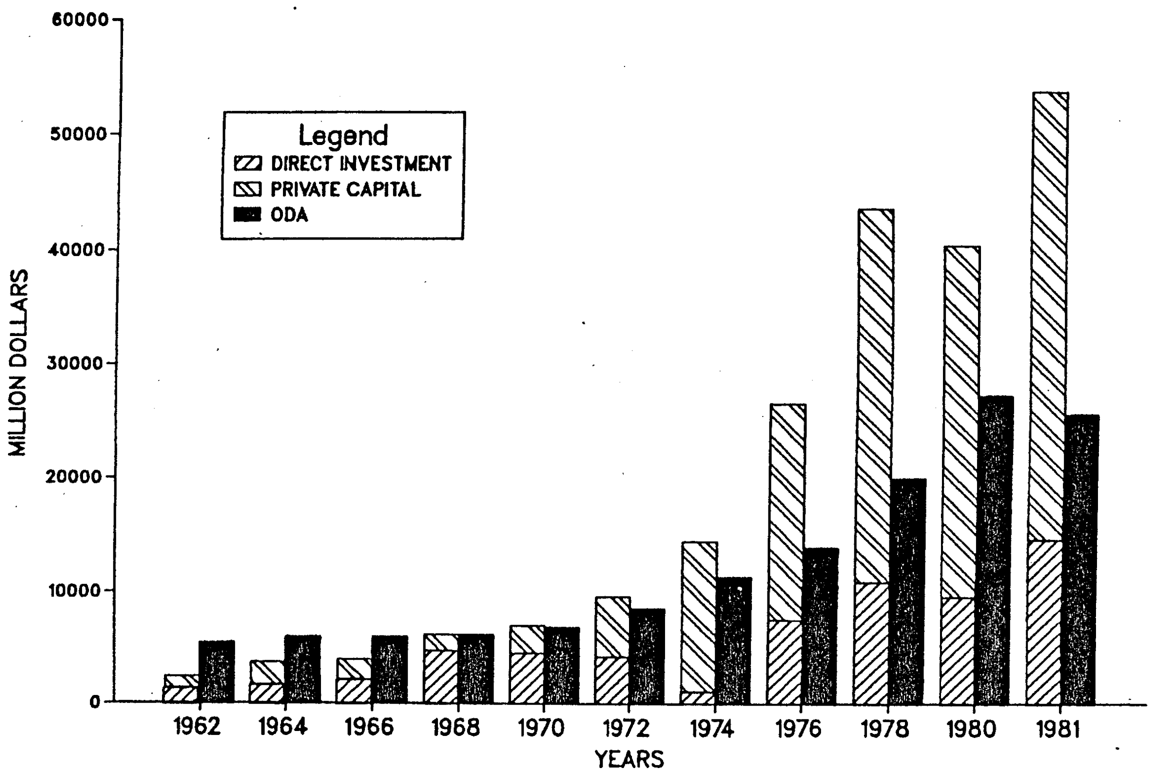
Role of Official Aid

Public attention and North-South negotiations tend to focus on levels of official development assistance (ODA). This emphasis misses the fact that in each year since 1968, flows of private resources — of which private investment currently comprises about 25 percent — have exceeded official aid (See Figure). Today, the ratio between private capital and aid flows stands at more than two to one. Official development assistance will continue to be an important source of supplementary financing, particularly for the poorest LDCs that have poor resource endowments and offer few opportunities for foreign investors. These countries are generally unable to secure commercial financing and have low capacities for generating the domestic savings required to achieve increased growth. In addition, aid will continue to serve humanitarian considerations and diplomatic requirements. However, in the more advanced developing countries, many of which are strategically important to the West, private capital will be the dominant source of external finance in the future, as it is today. 25X1

25X1

CONFIDENTIAL

NET FLOWS FROM DAC COUNTRIES TO LDCS, SELECTED YEARS, 1962–1981



SOURCE: OECD

25X1

CONFIDENTIAL

Western Investment: Strategic Benefits

Private investment in key LDCs can bolster both the economic and security interests of the United States and its allies by:

- Further strengthening existing economic and political institutions in the LDCs and increasing chances for stability.
- Providing a tangible demonstration of the ability of the market system to create employment and production leading to improvements in living standards in the LDCs.
- Contributing to the establishment of a Western presence with institutional linkages to influential sectors of LDC economic and political systems.
- Enhancing the ability of LDCs to become trading partners with the West. 25X1

Western Investment: Problems for the West

Although Western private investment in LDCs provides significant strategic and economic advantages for investors' governments, it also can adversely affect bilateral government relations when:

- LDC governments believe they are being exploited by foreign firms.
- Assets are expropriated without adequate compensation.
- Foreign investors become the target of political dissidents or terrorists.
- Investors put pressure on home governments to undertake efforts intended to support investor interests.
- A successor regime closely identifies Western investors with a corrupt or unpopular previous government. 25X1

Western Investment: Benefits for LDCs

From the LDC perspective, Western investment can offer significant economic and political advantages. These are enhanced during times of economic distress when investment capital is scarce and a government's need to demonstrate economic progress is intensified. Our research indicates that LDCs such as Angola, India, and Burma are becoming more pragmatic in their dealings with Western investors because they have recognized the need for their capital and expertise. Western investment can benefit LDCs by:

- Injecting long-term financing, technology, training, and management and marketing expertise into their economies.
- Leading to structural economic shifts and income redistribution.
- Stimulating domestic entrepreneurship and further employment creation through backward and forward economic linkages such as the purchase of raw or semi-finished materials from local firms or supplying inputs to local manufacturers. 25X1

Western Investment: Problems for LDCs

Substantial inflows of foreign capital can have negative economic and political effects on host governments because:

- Technologies employed by foreign investors can be very capital intensive, creating few jobs and necessitating increased imports of capital equipment.
- Foreign firms may preempt the best investment opportunities and may gain privileged access to scarce local capital, crowding out local firms instead of adding to the total capital stock of the host country.
- Growing competition among the LDCs for private investment capital has led many to offer a similar range of costly incentives, such as tax holidays and relief from import and export duties, which reduce government revenues and may lead to economic distortions.
- Profit repatriation by the foreign investor could lead to a net loss of foreign exchange. 25X1

Small-scale Investment Projects: Case Studies of Potential Impact

LDC governments have underestimated and in some cases ignored the beneficial developmental impact of small businesses and even cottage industries. They have usually catered to large investors, partly because large corporations are often much more willing to assume large risks and more able to obtain loan capital than smaller firms. Smaller businesses help acheive government goals through industrial decentrialization, employment generation, and income redistribution in rural areas. Because they can often be located away from major business centers, small-scale industries are advantageous to LDCs, particularly when transport costs are high because of long distances to interior markets or when the product is heavy, bulky, or perishable. Labor-intensive industries of this scale are also likely

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3

to use a high percentage of local inputs rather than imports. In addition to traditional export oriented production, food and other agricultural processing, the manufacture of building materials, and meat and dairy product preparation are particularly well-suited to decentralized, smaller units near input sources. Service and repair shops are also ideally located in or close to the markets they serve. 25X1

Case studies of a number of projects that have been guaranteed or financed by OPIC over the past few years illustrate the development potential of small investments:

- In Thailand, a project to dry, pelletize, and ship tapioca for export will provide training and employment for 185 people in a poor rural area, transfer new technology, and increase foreign exchange earnings.

- In Costa Rica, expansion of acreage for a tropical houseplant export project will generate some 500 new jobs and is expected to earn $10 million in foreign exchange over a five year period.

- In Rwanda, expansion of a tea factory will create 103 jobs, generate $3.4 million in foreign exchange earnings, and provide an expanded market for 3,000 farmers who belong to the cooperative which sells tea to the factory.

- In Haiti, two plants currently employ more than 400 Haitians who use traditional weaving skills to make parts for high quality office furniture.

- In Pakistan, a project to produce ethical pharmaceutical products will ultimately employ 139 workers and save the Pakistani government $35 million in foreign exchange annually.

- In Dominican Republic, expansion of a meat processing plant will provide 51 new jobs and will improve the quality and quantity of meat available to the domestic market, as well as some for export.

- In Sudan, expansion of a small cargo service business will create 26 new jobs and include training in equipment maintenance and operation.

- In Peru, a fish processing plant to produce a high-protein food ingredient for local consumption and export will create 125 jobs in an area of high unemployment and generate significant foreign exchange earnings.

- In Kenya, a hybrid flower and vegetable seed production and processing facility will create some 80 jobs and support government plans to increase agricultural productivity and labor-intensive exports.

- In Sri Lanka, expansion of a rubber tire manufacturing company will create 92 local jobs and introduce advanced molding technology to the country.

- In the Yemen Arab Republic, a small contract well-drilling business will drill, construct, and service water wells for private, agricultural, and industrial use.

- In Honduras, expansion of a small condiment packaging and processing will create an estimated 30 jobs in an import-substitution project.

- In Egypt, a plant to assemble electronic video components will provide training and employment for 122 people in a rural area, in addition to earning $1.15 million annually in foreign exchange.

- In Guatemala, expansion of a small frozen vegetable processing and packaging business will increase the local network of contract growers by 300 and will generate foreign exchange. In addition, the company also provides technical and financial assistance to its network of 1,200 local contract growers. 25X1

OPIC also gives Investment Encouragement Loans and Grants to non-profit organizations for relending to small local entrepreneurs. In 1981, one of these corporations gave support to five small businesses in the Caribbean area which in turn created 170 jobs. 25X1

Opportunities for Supporting Private Investment in LDCs

Studies undertaken by bilateral, multilateral, and host government entities have identified many opportunities for private foreign investment in LDCs. We have reviewed those studies and selected highlights of their findings—both positive and negative—for a number of key countries. We have supplemented their findings with US Embassy reporting.

Mid East/Africa

Egypt

Investment Climate

- Open door policy toward foreign investment

- Law 43 gives preference to projects that will reduce basic imports, generate foreign exchange, use advanced technology or patents of well-known products, or encourage tourism.

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3

- Benefits available to foreign investors under Law 43 are sometimes difficult to obtain in practice.

- Private firms are wary of the special treatment accorded the public sector firms with which they often compete.

Opportunities

- Government officials have said they will give high priority to projects designed to satisfy basic mass consumption needs.

- A recent study by a major US bank identified opportunities for joint ventures with both public and private sector firms in the manufacture of: starch, glucose, and syrup from corn; nontraditional confectionery items such as biscuits, chocolates, and candy; dehydrated vegetables and soups; and processed poultry.

- Joint venture possibilities exist in the pharmaceutical sector for medical supplies and drug containers.

- Manufacturing options include production of such items as small hand power tools, irrigation pumps, small air compressors, incandescent light bulbs and flourescent tubes, and fire and burglar alarm system components.

Support

- The US Government currently administers a number of programs to assist the Egyptian private sector such as:
  — the Trade Opportunities Program
  — the Trade Financing Facility
  — trade and investment counseling. 25X1

Sudan

Investment Climate

- Uniform investment code for both foreign and domestic investors.

- Foreign exchange shortages, poor basic infrastructure, scarce skilled labor, and bureaucratic inertia have kept foreign investment outside the petroleum sector to a minimum.

Opportunities

- The US Embassy in Khartoum believes there is potential, particularly in agro-industry, for firms that are willing to take the long view.

Support

- We believe aid will have to continue to play a strong role in Sudan's economic picture because of investor wariness and the country's difficulties in obtaining new commercial loans. 25X1

CONFIDENTIAL

Kenya

Investment Climate

- Business activities have been hampered in recent years by foreign exchange restrictions, price controls, excessive red tape, and the government's failure to implement many stated policies.

- Measures intended to restore investor confidence announced after last August's coup attempt include a new investment center, an export compensation scheme, and an easier system for obtaining expatriate work permits.

- Incentives are offered to firms locating outside the Mombasa and Nairobi metropolitan areas.

Opportunities

- The government prefers investments that earn or conserve foreign exchange and involve some degree of foreign equity participation.

- The IBRD has identified agribusiness opportunities for foreign investors including: import substitution industries such as small electric appliances; new industries such as low-cost pre-fab housing; and export industries based on agricultural product processing such as jojoba, eucalyptus and castor oil extraction, cassava chips and pellets, secondary wood processing, and fruit and vegetable canning.

Support

- Kenyan financial institutions need assistance in developing and financing agribusiness projects.

- The industrial transportation infrastructure needs further development.

- Training in management and market research would likely help Kenya's export performance. 25X1

Morocco

Investment Climate

- Private foreign investment is actively encouraged, and policies are clearly stated in six sectoral investment codes.

- Certain types of businesses, primarily in the service sector, must have at least 50 percent Moroccan ownership. However, up to 100 percent foreign equity ownership is possible in selected industries, including tourism.

- Incentives include exemption from various taxes and duties, low-cost loans from domestic financial institutions, and subsidized land purchases for eligible projects.

CONFIDENTIAL

- A large debt burden, continuing current account deficits, and arrearages to local suppliers are dampening business confidence.

<u>Opportunities</u>

- The government is creating twenty-five new industrial zones focusing on small- and medium-sized businesses.
- Industries such as fishing and tourism are actively promoted and offer opportunities for further diversification and expansion.
- Mechanical and electrical industries have also received priority in order to reduce Morocco's heavy dependence on imported capital goods.

<u>Support</u>

- We believe development of Morocco's significant agricultural potential would be enhanced by training and technical assistance, particularly in dry land agriculture. 25X1

Ivory Coast

<u>Investment Climate</u>

- Strong, liberal regulatory framework.
- Significant incentives are granted to investments in agribusiness, real estate development, and the manufacture and assembly of mass consumer goods.
- Investment application procedures are lengthy, but attractive export-oriented projects are usually processed without delay.

<u>Opportunities</u>

- The government favors diversification of the agricultural base, industrial development of interior areas, and projects that employ large numbers of Ivorians.
- Coffee, cocoa, and sugar processing, cloth dying and cloth production, fruit canning, and edible oil refining are projects considered promising by the government.
- Some agricultural exports—such as wood—which currently undergo primary processing could be processed further to increase their value added.

<u>Support</u>

- More work is needed to strengthen the project identification/formulation system and local marketing and market research skills.
- Capital markets should be expanded. 25X1

Central America/Caribbean

Jamaica

Investment Climate

- The government vigorously promotes foreign investment and offers a number of incentives.
- The relatively stable political climate, low wages, well-developed economic and financial institutions, and advantageous location are all attractive to investors.
- Deterrants to potential investors include capital shortages, deteriorating power and water infrastructure, recent financial difficulties, deficient manpower and management skills, and red tape in project approaval procedures.

Opportunities

- Foreign investors will find opportunities in cut flower exports, fish, shrimp, and lobster farming, electronics assembly, furniture manufacturing, and tourism.

Support

- Jamaica was counting on CBI investment incentive provisions—which are not likely to be ratified—to further stimulate US investor interest.
- Much external aid will be needed to keep Seaga's recovery program going.
- Further assistance in drawing up a private investment strategy is also warranted. 25X1

Costa Rica

Investment Climate

- The Monge government has made some limited progress to date with its much-needed economic reform measures.
- The country is endowed with rich agricultural lands and a well-educated populace.
- Investment incentives offered vary depending on such factors as the use of local resources, the number of jobs created, export potential, and whether or not a similar industry already exists in Costa Rica or in the Central American Common Market (CACM).

Opportunities

- The government strongly encourages foreign investment in agribusiness.
- Two new free trade zones on the Atlantic and Pacific coasts offer further opportunities and incentives for investment.

Support

- We believe assistance will be needed to further develop transport, communications, and power infrastructure. 25X1

Haiti

Investment Climate

- The government is extremely receptive to foreign investment, and incentives such as tax holidays, duty exemptions, and import protection are available to selected industries.
- Haiti has a plentiful supply of low-cost labor, relative political stability, and proximity to North American markets.
- Poor local managerial and technical skills, limited local capital, and underdeveloped market links somewhat counterbalance positive factors.

Opportunities

- Transformation and assembly industries for such things as toys, textiles, and handicrafts are well-suited to Haiti's cheap labor supply.
- Agro-industries are also particularly encouraged by the government.

Support

- We believe an integrated production, processing, and marketing system must be established before further agricultural investments can have a significant impact on the Haitian economy.
- Vocational training will be necessary for more sophisticated industries.
- Domestic capital markets require development and expansion before they can play a catalytic role in the industrial growth process.
- The scarcity of well-defined projects and the absence of a project development system lessen Haiti's chances of attracting productive foreign investments. 25X1

Asia

Philippines

Investment Climate

- Manila has an ambivalent attitude toward foreign investment.
- Foreign equity in local industries is normally limited by law, but there is warmer treatment of investment in pioneer and non-traditional export-oriented industries.
- There are currently five Export Processing Zones—

planned industrial communities complete with power, water, and other necessities—and the government plans to eventually develop 10 more in various parts of the country to encourage further industrial decentralization.

- Corruption, labor trouble, inadequate infrastructure—particularly communications and transport—and occasionally arbitrary application or withdrawal of government incentives in some areas are drawbacks.

Opportunities

- Foreign investment in labor-intensive and export-oriented industries is particularly favored by the government.

- The IBRD and the government have identified small-scale power loom weaving, processing of fruit for domestic consumption and export, fish farming, metalworking, diversification and upgrading of the garment industry, and high quality leather footwear as potential areas for foreign investors.

- Investment in the manufacture of packaging materials would help eliminate a key production bottleneck in other areas of Philippine industry.

Support

- Better communications infrastructure and improved distribution channels are needed to facilitate the flow of raw materials to processing centers.

- Access of small firms to credit and technical assistance should be increased. 25X1

Thailand

Investment Climate

- The government welcomes private foreign investment, particularly in agro-industrial, labor intensive, export-oriented projects.

- Board of investment assists actual and potential investors by identifying investment opportunities and deciding which proposals will qualify for tax and financial incentives.

- Certain conditions may be imposed regulating source of capital, nationality and number of employees and shareholders, and local inputs used.

Opportunities

- The Thai Government and USAID have identified several areas for foreign investment: agribusiness-related projects including reconstituted dairy products, ricemilling, and grain drying and storage; manufacturing possibilities including consumer electronic products and consolidation and standardization of the farm machinery/implements industry; and an opportunity to establish a world-scale export project for TV picture tubes.

Support

- o Thai financial institutions need help in project identification, packaging, and promotion.
- o More trained managers and technicians will be needed in order to avert a future shortage.
- o Project approval time could be shortened by streamlining bureaucratic procedures. 25X1

Pakistan

Investment Climate

- o The investment code is flexible, and each proposal is considered on an individual basis.
- o A number of incentives are provided to encourage investment in less developed areas of the Northwest Frontier Province, Baluchistan, Punjab, and the Sind.
- o Labor costs are low, as is labor productivity due to low literacy, high rates of absenteeism, poor diets, and skill deficiencies.
- o Despite the government's efforts to improve the investment climate, credit scarcity, labor laws that constrain management decisions, a complicated government approval process, and underdeveloped infrastructure are deterrents to investors.

Opportunities

- o The government particularly welcomes foreign private investment in industries that are capital-intensive, introduce sophisticated technology, increase exports, or promote import substitution.
- o Over the next five years, foreign investment will be promoted in textiles, food and beverage processing and packaging, electronics, metal products, rubber products, and leather goods.
- o Projects for the manufacture of ready-made garments, tries and tubes, dehydrated vegetables and other foods, footwear, plate glass, and wooden furniture would be welcomed by the Investment Promotion Bureau.

Support

- o Because of Pakistan's desire to promote high-technology, capital-intensive production methods, we believe more ODA will be needed than might otherwise be required if investments with more local economic feedbacks were chosen. 25X1

Indonesia

Investment Climate

- Foreign investment has been declining in recent years in part because of pervasive bureaucratic and regulatory obstacles and widespread corruption.
- Indonesia's large domestic market, low-wage labor force, and lack of foreign exchange controls would probably attract more investors if more favorable policies were in place.
- Falling oil revenues could lead Jakarta to seek larger taxes from foreign investors rther than giving greater consideration to encouraging both foreign and domestic private investment.

Opportunities

- The government seeks high technology, capital intensive industries as well as projects based on what are now largely unprocessed exports of timber, palm oil, and rubber.

Support

- Indonesia's power, communications, and transport facilities require further development.
- Lower oil revenues will likely require government spending cutbacks and thereby increase the apparent need for ODA, at least over the short term. 25X1

Malaysia

Investment Climate

- Liberal investment code.
- Accelerated depreciation, tax holidays, export credits, duty exemptions, and other incentives are available to new investments that contribute to national development and decentralization plans.
- Although the law generally requires the formation of joint ventures with a Malaysian majority partner, up to 100-percent foreign ownership may be approved for projects manufacturing solely for export.

Opportunities

- Kuala Lumpur wants to promote heavy industry and resource-based manufacturing, as well as development of Borneo and the east coast.
- Eastern Malaysia offers opportunities for small- and medium-sized light industrial projects aimed at both import substitution and export.

Support

- Investment in Borneo would be facilitated by enchanced communications and transport networks. 25X1

Sri Lanka

Investment Climate

- Market-oriented development strategy.
- According to Embassy reporting, tax and other incentives are likely to be reduced over the next few years.
- Pressure is also likely to mount for increased use of local raw materials and higher tariffs on imorts of finished goods.
- Firms exporting 100 percent of their output are eligible for "free trade zone" status and unlimited foreign equity ownership.
- Government agencies cannot be counted upon to live up to agreements reached during negotiations for investments located outside free trade zones.

Opportunities

- Agri-business possibilities for foreign investors include manufacture of fats and oils, dairy and soy products, poultry, fruit juices, spices, and yarns.
- Increased production of ground nuts, sesame, vegetables, and sugar cane would be welcomed by the government.
- The manufacture of electronic components and graphite-based products are also investment options.

Support

- Priority should be given to project identification and feasibility studies for labor-intensive, export-oriented industries.
- Training is needed to beef up Sri Lanka's short supply of skilled managers, technicians, and administrators.
- Capital markets should be expanded. 25X1

Less Developed Countries: The Private Investment Option

Background Material

Appendix A

OECD Development Support: The Roles of Private Investment and Official Development Assistance

After increasing slowly from 1961 to 1970 net official development assistance (ODA) flows from OECD countries to the LDCs (Tables 1 and 2) picked up sharply during the 1971-81 period. The nominal increase in net ODA disbursements since 1970 has been an impressive 375 percent. Even taking inflation into account, the real increase amounted to 25 percent. (See Figure) According to the OECD, the decline in real ODA outflows registered in 1981 was due almost entirely to delays or reductions in contributions to multilateral banks. 25X1

Total net private capital flows to LDCs, which include loans, credits, and portfolio investments as well as direct investments, began to exceed ODA flows in 1968. They have risen rapidly since then, largely due to the major expansion of commercial bank lending which began in 1974. 25X1

The US has always contributed the largest proportion of both ODA and direct investment inflows to the LDCs from the OECD countries, although its share of both has generally been declining over time. In 1961, the US contributed 57 percent of the OECD's total net ODA to LDCs. This share declined to 23 percent by 1981. Japan's share of ODA has shown the most marked rise, from 2 percent of the total in 1961 to 12 percent in 1981 (Table 1). According to the OECD, major increases in aid will likely be forthcoming over the next few years from France, Italy, and Japan. Further increases in aid can also be expected from Denmark, the Netherlands, Norway, and Sweden. German, US, and UK official aid flows will likely stabilize around their current levels. 25X1

Total net direct investment flows from OECD countries to LDCs more than quintupled in nominal terms between 1961 and 1981. In real terms, however, the increase was slightly more than 80 percent. The US share of OECD net direct private investment flows to the LDCs declined from 51 percent to 44 percent between 1971 and 1981. Japan's share showed the largest increase over the period, rising from 7 to 17 percent of the total. 25X1

In our judgment, neither OECD programs nor host country incentives are likely to induce much foreign investor interest in a number of the poorest countries (LLDCs), whose minimal resource endowments, small domestic markets, uncertain political climates, and inappropriate economic policies render most commercial projects unfeasible. These countries generally did not share in the export boom of the 1970s, and the volume of their total exports declined by an average of about 1 percent annually during the decade. Moreover, because the access of these countries to international capital markets is limited, ODA will necessarily continue to make a large contribution to the maintenance of their living standards. 25X1

Some of the major recipients of ODA — such as Brazil and South Korea — have also managed to achieve the highest sustained rates of economic growth among the LDCs. The direct contribution of aid to GNP growth is probably limited, although this point is difficult to establish empirically. Aid's indirect contributions to GNP growth are likely substantial, however, through its contributions to health and labor productivity and to the development of road, electric power, and communications facilities — all of which create an environment conducive to productive investment of both foreign and domestic capital. 25X1

In LDCs where past ODA flows have played a part in establishing significant economic infrastructure and increasing productive potential, private capital will become the principal source of development financing. However, the need for ODA to supplement government spending for food, health care, and education — which private investment cannot replace — will continue until government revenues are sufficient to bear the burden. 25X1

Table 1

Net ODA Flows From DAC Countries To LDCs and Multilateral Agencies, Selected Years

Million US$

DAC COUNTRY	1961	Share[1] (%)	1971	Share[1] (%)	1981	Share[1] (%)
Australia	74	1	202	3	649	2
Austria	6	*	12	*	313	1
Belgium	95	3	146	2	575	2
Canada	64	1	391	5	1189	5
Denmark	11	*	74	1	403	2
Finland	--	--	--	--	135	*
France	906	17	1075	14	4177	16
Germany	369	7	734	9	3181	12
Italy	63	1	183	2	666	3
Japan	111	2	511	7	3171	12
Netherlands	59	1	216	3	1510	6
New Zealand	--	--	--	--	68	*
Norway	10	*	42	*	467	2
Sweden	11	*	159	2	916	4
Switzerland	11	*	28	*	237	1
United Kingdom	460	9	562	7	2195	9
United States	2947	57	3324	43	5783	23
TOTAL	5197	100	7759	100	25,635	100

1 Numbers may not add due to rounding.
* Negligible.

25X1

Table 2

Net Direct Investment Flows From DAC Countries To LDCs, Selected Years

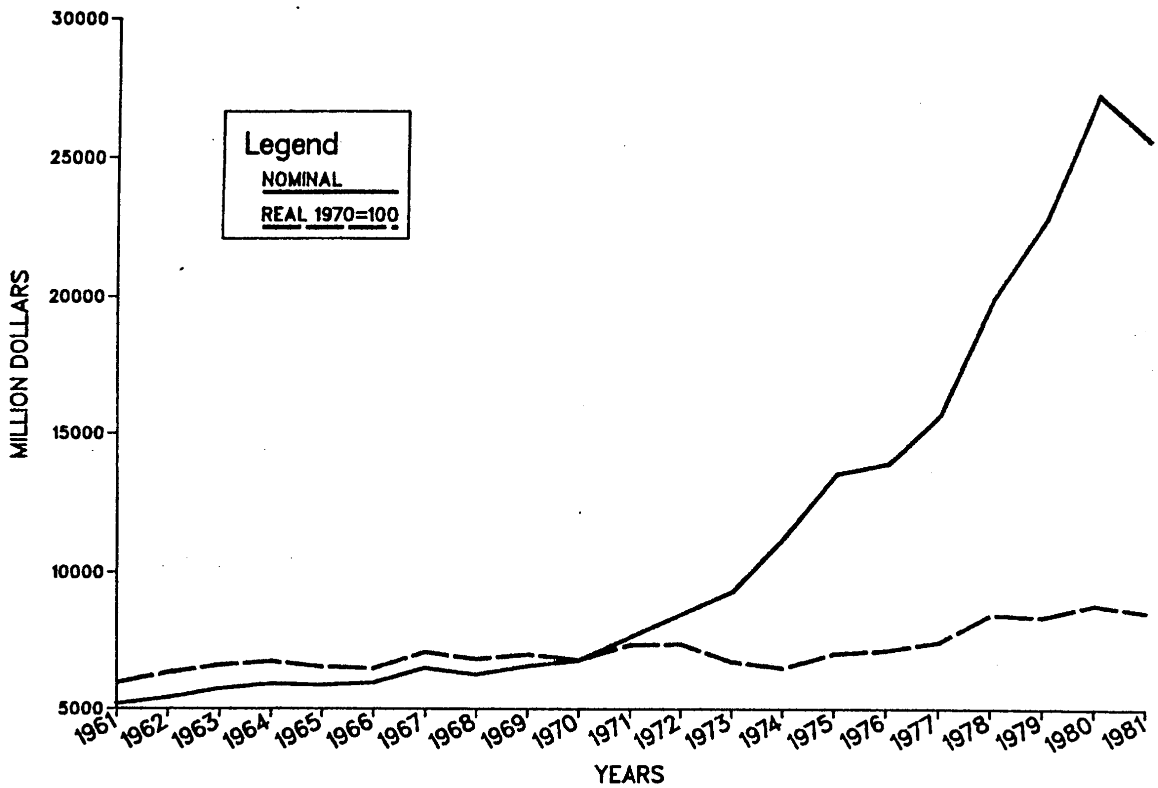
DAC COUNTRY	1961	Share[2] (%)	1971	Share[2] (%)	Million US$ 1981	Share[2] (%)
Australia	n/a	--	48	2	159	1
Austria	--	--	--	--	32	*
Belgium	29	1	29	1	123	1
Canada	8	*	76	2	700	5
Denmark	12	*	25	1	66	*
Finland	n/a	--	1	*	17	*
France	308	13	170	5	1137	8
Germany	156	7	358	11	1352	9
Italy	--	--	214	6	132	1
Japan	115	5	222	7	2426	17
Netherlands	98	4	130	4	354	2
New Zealand	n/a	--	--	--	15	*
Norway	n/a	--	11	*	8	*
Sweden	37	2	40	1	86	1
Switzerland	81	3	66	2	340	2
United Kingdom	375	16	233	7	1,217	8
United States	1,101	47	1,686	51	6,475	44
TOTAL	2,320[1]	100	3,309	100	14,639	100

1 Based on incomplete information.
2 Numbers may not add due to rounding.
* Negligible.

25X1

CONFIDENTIAL

NET ODA FLOWS FROM DAC COUNTRIES TO LDCS, 1961–1981



CONFIDENTIAL

Appendix B

OECD Programs to Support Private Sector Initiatives in LDCs

The OECD countries administer a variety of LDC investment incentive and promotion programs. These programs can be grouped into five general categories:

- Investment guarantee schemes.
- Fiscal measures — preferential treatment for capital invested in LDCs through tax deferral and tax credit systems.
- Information and promotion activities— includes partial financing of pre-investment and feasibility studies.
- Official financial support — export credit programs and government loans to firms investing in LDCs.
- Public development finance corporations — mobilize foreign capital for investment projects.

Japan and West Germany, and France have the most pervasive programs among the OECD members, including low-interest loans to domestic firms from government financial institutions, equity financing, and the right to accumulate tax-free reserves. Fourteen OECD countries[1] have investment insurance programs similar to the US OPIC program. All of the country programs cover the three main categories of political risk: inconvertibility, expropriation, and war. In addition, Japan, Switzerland, and the US also insure against commercial risk. The following sections, based on the OECD's Investing in Developing Countries, outline the major aspects of individual member programs to support private investment. 25X1

1. Australia, Austria, Belgium, Canada, France, Germany, Japan, Netherlands, New Zealand, Norway, Spain, Switzerland, and UK.

25X1

CONFIDENTIAL

AUSTRALIA

Exchange Control

Approval for direct investment abroad conditional upon any return of capital being remitted to Australia.

Investment Protection Agreements

None.

Investment Guarantee Schemes

Overseas Insurance Investment Scheme (1966) provides investment insurance against the three main categories of non-commercial risk. Equity participation or loans are eligible for coverage. The maximum amount of insurance is 200% of the value of the original investment. A lower premium applies to joint ventures with local investors with at least 25% equity in the enterprise.

Fiscal Measures

No distinction is made between income from developed and Third World countries. Relief from double taxation provided by means of a credit against Australian taxes. Double taxation agreements have been signed with Singapore, Malaysia and the Philippines.

Public Investment Corporation

Unknown.

Other Official Financial Support

Australian Development Assistance Bureau (1981) uses aid funds to help South Pacific countries purchase equity in joint ventures with Australian businesses.

Information and Promotion Programs

Unknown.

Other Official Support

Unknown.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3

AUSTRIA

Exchange Control

Transfer of capital for direct investment abroad will be approved if the investment will result in establishment and maintainance of commercial relations with Austria.

Investment Protection Agreements

None.

Investment Guarantee Schemes

Oesterreichische Kontrollbank (OKB) administers a scheme which applies to both industrialized and developing countries, normally covering 90-100% of the initial new investment in the form of equity participation, loans, and licenses. An extension of the guarantee may be obtained to cover reinvested earnings.

Fiscal Measures

Profits earned and taxed in other countries are not taxable in Austria. Double taxation agreements are in force with Brazil, Egypt, Greece, India, Indonesia, Israel, Pakistan, Mexico, Portugal, Spain, and Turkey. Investors in other countries must apply to the financial authorities for relief. Investors with more than 25% equity in foreign firm which sells, installs, or services Austrian products may value their investments at 90% of their costs for tax purposes.

Public Investment Corporation

Unknown.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

"Start-up assistance" program (1964) administers credits on relatively favorable terms to investment projects in LDCs, with preference given to joint ventures with local investors. Similar credits are offered, at higher interest rates, to larger projects in developed countries as well as LDCs. Austrian development assistance program provides funds for feasibility and pre-investment studies.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3

BELGIUM

Exchange Control

No authorization necessary to carry out a direct investment.

Investment Protection Agreements

Agreements have been signed with Cameroon, Egypt, Indonesia, Malaysia, Morocco, Romania, Singapore, South Korea, Tunisia, and Zaire.

Investment Guarantee Schemes

Administered by the Office National du Ducroire. Guarantees against the three main categories of political risk. Projects must contribute to the economic and social development of the recipient country and promote Belgium's foreign economic relations. The investment must also be protected by the laws of the host country or by a bilateral agreement between Belgium and the other country. Coverage applies to the initial investment and to reinvested earnings, up to 50% of the amount of the initial investment.

Fiscal Measures

Some double taxation agreements have been signed by specific countries (India, Malaysia, Morocco, Singapore, Tunisia, Philippines, Korea, Pakistan, Thailand, Zaire, Indonesia). In the absence of such agreements, taxes on foreign earnings are reduced by one-quarter or one-half depending on whether the recipient is a company or an individual. Dividends from permanent holdings in foreign companies are tax exempt. Normal taxes are reduced on other forms of foreign investment income. In tax conventions with LDCs a "tax sparing credit" is available off-setting against Belgian taxes those temporarily forgone by the LDCs as an investment incentive.

Public Investment Corporation

Societe Belge d'Investissement International (1971) — participates in the capital financing of foreign business ventures through equity holdings or long-term loans. Activities are not restricted to any specific geographic area; however, the SBI is particularly interested in LDC ventures.

Other Official Financial Support

Fund for Development Cooperation (1983) — finances productive investment in LDCs, mainly in the manufacturing sector, through participation in national or regional development banks or in public or semi-public enterprises. Aims to promote LDC economic and social development. At least 25% of Fund resources will be devoted to projects in low-income countries. Financial support can take the form of loans, interest subsidies, or equity participation.

Information and Promotion Programs

None.

25X1

CONFIDENTIAL

BELGIUM
(Continued)

Other Official Support

The General Administration for Development Cooperation provides feasibility studies, training centers, and technical assistance via contracts with Belgian firms.

25X1

CANADA

Exchange Control

None.

Investment Protection Agreements

Unknown.

Investment Guarantee Schemes

The Export Development Corporation provides guarantees against the three main political risks for foreign investment in LDCs (equity, loans, tangible assets, service contracts, royalties, trademarks, leaves). Coverage up to 100% of the initial investment; an additional 50% of this amount can cover reinvested earnings.

Fiscal Measures

No distinction is made between income from investments in LDCs and those made in other countries. Tax sparing is granted under the provisions of specific double taxation conventions with LDCs. Resident corporations are granted credits for foreign taxes.

Public Investment Corporation

Unknown.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Industrial Cooperation Program (1979) — disseminates information on potential projects and partnerships.

Other Official Support

Industrial Cooperation Program (1978) — contributes funds to investigations of joint ventures and other forms of cooperation in the Third World; provides funds for training, workshops and seminars for LDC counterparts. Provides financial assistance to perform pre-feasibility studies.

25X1

DENMARK

Exchange Control

Transactions for direct investment abroad require a license from the Danish National Bank, which is usually granted.

Investment Protection Agreements

Agreements have been signed with Malawi, Indonesia, and Romania.

Investment Guarantee Schemes

The Danish International Development Agency (DANIDA) provides coverage for the three main political risks for new direct investment in LDCs. Investor must have a certain degree of control over an enterprise to be eligible. Some long-term loans may also be coverable.

Fiscal Measures

Unknown.

Public Investment Corporation

The Industrialization Fund for Developing Countries (1967) — promotes investments in LDCs through equity and loan financing, feasibility studies, transfer of know-how and other services. Concentrates on manufacturing and agri-business, although it also is involved in tourism and local shipping.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

Unknown.

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3

WEST GERMANY

Exchange Control

None.

Investment Protection Agreements

By yearend 1981, agreements had been signed with 49 LDCs.

Investment Guarantee Schemes

The official guarantee scheme established in 1960 covers the three main categories of political risks. Equity, loans, and endowment capital can be guaranteed. Coverage is limited to 95% of the initial investment and reinvested earnings up to 100% of the covered initial investment.

Fiscal Measures

By yearend 1981, 29 bilateral agreements for the avoidance of double taxation had been signed with LDCs. Most of these agreements apply the principle of taxation in the source country; therefore, tax holidays and exemptions are treated as tax credits deductible from German tax liabilities.

Tax Measures for Foreign Investment of German Industry (1969) — applies to developed and underdeveloped countries. Allows investor to create profit-reducing reserves or to deduct losses incurred abroad from domestic profits.

Public Investment Corporation

The German Development Corporation (DEG) aims to encourage medium and small-scale German entrepreneurs to establish operations in LDCs. It actively seeks new investment opportunities, makes proposals to German industry, and helps firms make local contacts.

Other Official Financial Support

A support program set up in 1979 provides loans at highly favorable terms to promote the establishment of German subsidiaries in LDCs.

Information and Promotion Programs

A number of official and private investment advisory services provide information on investment opportunities for German industry.

Other Official Support

Unknown.

25X1

ITALY

Exchange Control

No authorization is required for foreign investments by enterprises, except by banks.

Investment Protection Agreements

Agreements have been signed with a number of LDCs, including Ivory Coast, Gabon, Guinea, Malta, Morocco, Niger, and Tunisia. Trade and cooperation agreements between Italy and some other LDCs also deal with private investment interests.

Investment Guarantee Schemes

The Special Section for Export Credit Insurance (SACE) provides guarantees for direct investment consisting of the provision of capital or capital goods, technologies, licenses, patents, etc. Maximum coverage is 70% of the initial investment value.

Fiscal Measures

There are no special fiscal incentives for private investment in LDCs. Dividends received by a parent company from a foreign subsidiary are subject to a lower tax rate than profits earned in Italy.

Public Investment Corporation

None.

Other Official Financial Support

None.

Information and Promotion Programs

Unknown.

Other Official Support

Official subsidies are available to partially finance the cost of pre-investment studies.

25X1

JAPAN

Exchange Control

Direct foreign investment exceeding Y3 million requires a prior notification to the Minister of Finance.

Investment Protection Agreements

Agreements have been signed with Egypt and Sri Lanka; Japan has also ratified treaties of friendship, commerce, and navigation containing clauses on the protection of private interests with a number of LDCs.

Investment Guarantee Schemes

Overseas Investment Guarantee Scheme (1970) — provides coverage for the three categories of political risk for direct investment in the form of equity, long-term loans, real estate, etc. It can also apply to portfolio investment in and long-term loans to an enterprise engaged in the exploitation of natural resources. In this case, coverage is extended to credit risk (bankruptcy or default of the borrower for 6 months or more) as well as political risk.

Fiscal Measures

Double taxation agreements and agreements to extend tax credits have been signed with Brazil, Egypt, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Spain, Sri Lanka, Thailand and Zambia. A system for tax deferment on investments in LDCs will apply until 31 March 84.

Public Investment Corporation

Japan Overseas Development Corporation (1970) — a semi-public entity which promotes industrial development and trade in LDCs. Also provides financing for joint ventures with local firms.

Other Official Financial Support

ExIm Bank of Japan (1950) — extends medium and long-term export credits to Japanese firms but also provides long-term funds to Japanese investors. More than half of the scheme's total operations support investments in LDCs.

Overseas Economic Cooperation Fund (1961) — extends official development loans to LDC governments. It also supplies long-term soft loans to Japanese firms engaged in projects which are likely to promote economic development in the host country.

Japan International Cooperation Agency (1974) — Primarily the executing agency for technical cooperation, but also provides finance for infrastructure related to development projects undertaken by Japanese nationals. JICA also facilitates the financing of "experimental" development projects which require technical innovation.

JAPAN
(Continued)

Information and Promotion Programs

Unknown.

Other Official Support

OECF also supplies funds for pre-investment surveys.

The Japanese Government subsidizes various private technical assistance activities — such as training, management consulting and technical advice — to encourage direct investment in LDCs.

25X1

NETHERLANDS

Exchange Control

Outward direct investment is free. Loans to foreign subsidiaries exceeding FL 10 million per year per debtor are subject to prior authorization.

Investment Protection Agreements

Agreements have been signed with Tunisia, Ivory Coast, Cameroon, Senegal, Indonesia, Sudan, Kenya, Tanzania, Uganda, Malaysia, Morocco, Korea, Yugoslavia, Egypt, Singapore, Thailand, and Sri Lanka.

Investment Guarantee Schemes

The Netherlands Credit Insurance Company is a private firm which operates the official reinsurance scheme, which applies only to new direct investments in LDCs and is subject to satisfactory procedural arrangements for dealing with disputes. The scheme covers the three main categories of political risk and applies to both equity and loan investments.

Fiscal Measures

To date ten bilateral tax agreements have been signed with LDCs. In the absence of bilateral tax conventions, the Dutch tax law does not generally make any distinction in the treatment of investment income from developing or industrialized countries. Taxes on dividends, interest and royalties may be credited against the tax levied in the Netherlands thereon.

Public Investment Corporation

Finance Company for Developing Countries (FMO) — provides complementary finance in the form of risk capital and extends medium and long-term loans for local projects. FMO also procures or finances technical assistance and participates in the share capital of local and regional development banks. FMO has recently started promoting small-scale enterprise through a new institutional setup in cooperation with local entities.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

Unknown.

25X1

NEW ZEALAND

Exchange Control

Transfer of funds for outward direct investment is subject to Reserve Bank approval. Proposals which lead to increased exports are favored. Funds must usually be borrowed outside New Zealand.

Investment Protection Agreements

None.

Investment Guarantee Schemes

New Zealand Investment Guarantee Scheme (1973) — provides coverage against the three main categories of political risk. Guarantees 90% of the initial amount of investment and accumulated earnings up to the value of 90% of the initial investment.

Fiscal Measures

Agreements for the avoidance of double taxation have been signed with the Philippines, Fiji, Singapore, and Malaysia.

Public Investment Corporation

The Development Finance Corporation of New Zealand can also supply commercial loans and financial assistance to joint ventures, mainly in the South Pacific.

Other Official Financial Support

Pacific Islands Industrial Development Scheme (1976) — provides financial assistance and incentives for New Zealand companies developing approved manufacturing, horticulture, and agricultural-based ventures in Pacific Forum Member countries.

Information and Promotion Programs

Unknown.

Other Official Support

Export Suspensory Loan Scheme — offers loans for 40 percent of amount spent by exporters on promotional expenditures for market development.

25X1

CONFIDENTIAL

NORWAY

Exchange Control

Outward direct investment subject to prior authorization by the Central Bank of Norway.

Investment Protection Agreements

An agreement has been signed with Indonesia. A trade agreement with Madagascar also contains a clause for the protection of private investment.

Investment Guarantee Schemes

The Export Credit Guarantee Institute administers a scheme which covers new investments in the form of equity and loans. The potential investor must obtain prior approval from the Norwegian Agency for International Development (NORAD), which advises the Institute as to the potential economic benefit of the investment for the host country.

Fiscal Measures

Investment income from LDCs does not receive special treatment under Norwegian tax law. Agreements for the avoidance of double taxation have been signed with Benin, Brazil, Egypt, India, Israel, Ivory Coast, Kenya, Malaysia, Malta, Morocco, Netherlands Antilles, Portugal, Singapore, South Korea, Spain, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey and Zambia.

Public Investment Corporation

Unknown.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

NORAD participates in financing of pre-investment studies, in medium and long-term concessional loans, and in loan investment guarantees. NORAD seeks to ensure that projects meet the developmental needs of the host country.

25X1

SWEDEN

Exchange Control

Direct investment abroad must be authorized by the Bank of Sweden. Funds must be borrowed abroad at an average maturity of not less than 5 years. Investment in sales companies, investments of less than SKr 1 million, and investments in those LDCs which are the main recipients of Swedish ODA are exempt from this requirement.

Investment Protection Agreements

Agreements have been signed with China, Egypt, Malaysia, Pakistan, Sri Lanka, and Yugoslavia.

Investment Guarantee Schemes

The Swedish Export Credits Guarantee Board administers a scheme primarily intended to encourage projects which benefit LDCs. Guarantees are only available for investment in countries which are major recipients of Swedish ODA. Only direct investments which give the investor substantial control of an enterprise are eligible.

Fiscal Measures

There are no special tax advantages given to income derived from investment in LDCs. Agreements for the avoidance of double taxation have been signed with Argentina, Bangladesh, Brazil, Egypt, India, Kenya, South Korea, Liberia, Malaysia, Malta, Morocco, Pakistan, Peru, Philippines, Singapore, Sri Lanka, Thailand, Tunisia, Tanzania and Zambia. Arrangements for the avoidance of double taxation have been made with Barbados, Botswana, Burundi, Cyprus, Ghana, Jamaica, Malawi, Mauritius, Nigeria, Rwanda, Seychelles and Sierra Leone. Swedish companies are normally excempt from domestic tax on dividends from a foreign subsidiary. Companies can also receive credits for taxes spared under incentives granted by the host company.

Public Investment Corporation

Swedish Fund for Industrial Cooperation with Developing Countries (1979) — SWEDFUND acts as a broker between interested parties in Sweden and the LDCs, partially finances feasibility studies, and contributes with equity participation and/or loans and guarantees in joint ventures. SWEDFUND promotes projects in those countries which already have long-standing development cooperation relationships with Sweden. Projects involving exploitation of natural resources are not eligible for support unless they include an element of manufacturing.

Other Official Financial Support

Unknown.

25X1

SWEDEN
(Continued)

Information and Promotion Programs

Unknown.

Other Official Support

Unknown.

25X1

SWITZERLAND

Exchange Control

None.

Investment Protection Agreements

Bilateral agreements for the promotion and protection of investments have been signed with 17 LDCs; agreements on commerce, investment protection and technical cooperation have been signed with 14 LDCs; and agreements on commerce and investment protection have been signed with 3 LDCs.

Investment Guarantee Schemes

The Swiss Department of Economics administers a scheme which guarantees investments in LDCs against the three main categories of political risk. The guarantee normally applies only to equity participation but can be extended to foreign loans issued in Switzerland. For loan capital and interest the guarantee can be extended to cover insolvency or refusal to pay on the part of governments and other public authorities.

Fiscal Measures

There are no special tax advantages to promote direct investment in LDCs. Agreements for the avoidance of double taxation have been signed with Pakistan, Trinidad and Tobago, Malaysia, and Singapore.

Public Investment Corporation

Unknown.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

Unknown.

UNITED KINGDOM

Exchange Control

None.

Investment Protection Agreements

Agreements have been signed with 19 LDCs.

Investment Guarantee Schemes

The Export Credit Guarantee Department administers a scheme which applies to new investments in virtually all foreign countries. The scheme provides coverage for equity and loan investments against the three main categories of political risk. Coverage is also available for portfolio investments meeting certain criteria.

Fiscal Measures

In general, the UK domestic financial system does not have any measure designed specifically to favor direct investment in LDCs. However, agreements on the avoidance of double taxation have been signed with 78 countries. Some of these agreements contain "tax sparing" provisions.

Public Investment Corporation

Commonwealth Development Corporation (1948) — CDC aims to make at least one-half of its new commitments in the poorer LDCs and in renewable natural resource projects. CDC particularly favors joint ventures with local entrepreneurs and local capital. Except for economic infrastructure the emphasis is on large agricultural and medium-sized industrial projects. Technical, managerial, and financial assistance is given to plantations and smallholder schemes.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

ODA funds can be used to finance infrastructure needed to investment projects, and to provide local development institutions with funds to contribute local capital to joint ventures involving private investment in partnership with local investors or public bodies of the host country.

The Overseas Development Administration can provide financial support for pre-investment studies by private investors in LDCs.

25X1

UNITED KINGDOM
(Continued)

Other Official Support (Cont'd)

Under the official technical assistance program, host countries can request the services of experts in drawing up development plans which may include a role for foreign private investment.

UNITED STATES

Exchange Control

None.

Investment Protection Agreements

The US has completed bilateral investment protection agreements with 114 LDCs, which provide procedurally for the operations of OPIC.

A program has recently begun to negotiate a series of bilateral investment treaties with selected LDCs in order to establish a common frame of reference and legal basis for private investors. The first BIT was signed with Egypt last year; negotiations with Panama have been concluded and negotiations with several other countries are in process. Key elements of this program include: national/MFN treatment for foreign investment; recognition of international law standards; free transferability of capital and other payments; and use of international arbitration procedures for settling disputes.

Investment Guarantee Schemes

Overseas Private Investment Corporation (1971) — conducts financing, insurance and reinsurance operations, supporting only those projects which contribute to the economic and social development of the host country and are consistent with US balance of payments and employment objectives. The Investment Insurance Program offers coverage against the three main categories of political risk, civil strife, and several types of commercial risk. Coverage of 90-100% of the initial investment and up to 180% of retained earnings is offered. OPIC exposure is limited in any one country or category of risk to 10% of total outstanding insurance. The Investment Loan Guarantee Program offers lending institutions 100% guarantees for both loan principal and interest against political and commercial risk.

Fiscal Measures

US investors receive tax credits for taxes paid in a host country on income from a foreign subsidiary. Income earned in LDCs is not treated more favorably than income earned elsewhere. Foreign subsidiary profits are not generally subject to US tax until repatriation.

Public Investment Corporation

OPIC's Direct Investment Fund offers direct loans to small US investors when private financing is unavailable on appropriate terms. Rates are close to long-term fixed rates available in commercial money markets.

25X1

UNITED STATES
(Continued)

Other Official Financial Support

AID directs industrial financing through loans to private investment funds established in the host countries, and also to regional development banks.

AID provides loans and technical assistance to small indigenous entrepreneurs in Africa to expand their enterprises.

AID's Housing Investment Guarantee Program makes available to housing institutions in LDCs long-term financing from US lenders, in order to stimulate investment in low-income housing projects.

Information and Promotion Programs

OPIC participates financially in the identification, assessment, survey and promotion of private investment by small businesses in LDCs.

Partners of the Alliance — establishes links between the business communities in Latin America and the US.

Other Official Support

OPIC's Business Management Education and Manpower Training Program provides funding for various technology transfer and training opportunities.

AID's Bureau for Private Enterprise assists host countries in creating a legal, regulatory, and policy environment conducive to private business investment by identifying constraints in these areas and recommending changes to alleviate them. The Bureau leverages relatively small amounts of public funds to attract greater amounts of private resources. The initial focus of the program will be on 12 selected countries, and it will attempt to identify key opportunities for development-oriented investment in agri-business, capital mobilization institutions, non-traditional export business development, and vocational/management training.

International Executive Service Corps — provides short-term management assistance to LDC enterprises.

25X1

FINLAND

Exchange Control

Direct investment abroad requires authorization from the Bank of Finland. The investment should promote exports or have other favorable balance of payments impact.

Investment Protection Agreements

An agreement has been signed with Egypt.

Investment Guarantee Schemes

The Export Guarantee Board administers a scheme which guarantees investments (equity, loans, or loan guarantees) againt the three main categories of political risk. The investor must demonstrate that his project will provide economic benefits to both Finland and the host country.

Fiscal Measures

Unless a double taxation agreement applies, foreign national income taxes may be credited against Finnish income tax on the foreign source income. Agreements for the avoidance of double taxation have been signed with Brazil, India, Israel, Korea, Morocco, the Philippines, Singapore, Tanzania, Zambia, and Egypt. These agreements are generally more favorable than those between Finland and industrialized countries.

Public Investment Corporation

Finnish Fund for Industrial Development Cooperation (1979) — The terms of FINNFUND investments qualify them as Official Development Assistance. The Fund promotes the initiation, establishment and expansion of joint ventures in LDCs, in cooperation with Finnish and local entrepreneurs. The Fund assists in particular medium- and small-scale enterprises.

Other Official Financial Support

Unknown.

Information and Promotion Programs

Unknown.

Other Official Support

FINNFUND also participates in financing costs of project preparation work and feasibility studies.

25X1

FRANCE

Exchange Control

Investments may be undertaken in Franc Area Countries without authorization. Direct investment transfers to the EEC require prior notification to the Ministry of Economics. Direct investment transfers to other countries exceeding FF 1 million per year require authorization and have to be financed from foreign sources.

Investment Protection Agreements

Agreements have been signed with Senegal, Madagascar, CAR, Congo, Chad, Gabon, Togo, Mali, Tunisia, Zaire, Mauritius, Indonesia, Haiti, Yugoslavia, Egypt, South Korea, Malaysia, Morocco, Singapore, Philippines, Malta, Romania, Jordan, Syria, Sudan, Paraguay, Liberia, and Sri Lanka.

Investment Guarantee Schemes

The Banque Francaise de Commerce Exterieur (BFCE) manages a general scheme designed to encourage the growth of French industrial establishments, services, and know-how abroad. Guarantees may be given to investments in almost all sectors. The Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE) encourages investments which will bring about a significant increase in exports of French goods or services. Provisions of this scheme are more advantageous than BFCE's, but investors must commit themselves to an export program, and there is a penalty for non-compliance. Only new investments (i.e., those not yet completed when the application is made) can qualify for these schemes.

Fiscal Measures

Tax incentives for investment in LDCs fall into five groups:

1. Applies to countries with which there are no tax conventions. Application of French tax laws, and the rules of territoriality in particular, differs for firms and individuals.

2. Applies to Guinea, Vietnam, Cambodia, and Laos. A system of "fiscal neutrality" allows tax on distributed profits collected in the host countries to be deducted from French tax payable on dividends arising in those countries.

3. Applies to the French Overseas Territories, the Black African States and Madagascar, Algeria and Tunisia. These countries have signed bilateral tax conventions with France to avoid double taxation. These agreements confer a yield on capital invested in securities in those countries that is higher than would be obtained in countries not linked to France by a tax convention.

25X1

FRANCE
(Continued)

Fiscal Measures (Cont'd)

4. Conventions of a special type have been established with India, Lebanon, Pakistan, Brazil, Iran, Singapore, Malaysia and the Philippines. As a general rule, these conventions avoid double taxation for French investors and enable them to retain the tax benefits which the states in this group allow to foreign investors through matching credits and "tax sparing".

5. Special tax arrangements encourage private investment in the French Overseas Departments.

Public Investment Corporation

The Caisse Centrale de Cooperation Economique (CCCE) provides direct support of private investment mainly in the form of medium-term rediscount credits and long-term loans. CCCE takes holdings in the capital of LDC development banks and makes loans to them.

Other Official Financial Support

The Fonds d'Aide et de Cooperation (FAC) makes grants to public or semi-public bodies to enable them to take equity holdings in the capital of companies contributing to the development of the African and Malagasy States. Loans are also made to partially finance pre-investment studies and training programs.
Union Pour le Financement et l'Expansion du Commerce International (UFINEX) — grants credits for up to 15 years to investment operations that will generate a volume of French exports three to four times greater than the initial investment within a five-year period. Approximately 25% of its loans are for investments in LDCs.

Developpement Industriel a l'Etranger (DIE) — extends loans to finance industrial and commercial investment abroad. Approximately one-half of its operations concern LDCs.

Information and Promotion Programs

The FAC can bear up to 50% of the cost of investment promotion measures, market research, feasibility studies, and engineering surveys in the African and Malagasy States.

Other Official Support

Unknown.

25X1

Appendix C

Soviet Participation in LDC Private Sector Activities[1]

Moscow's ventures in LDCs reflect longstanding Soviet policies that emphasize developing influences by expanding economic relationships. Moscow has used the joint venture device in LDCs only in the field of fishing, where LDC governments have demanded equity in return for use of their resources. An analysis of Soviet joint venture contracts with LDCs shows that most have been capitalized at under $1 million each. In contrast to its normal practice in industrial countries, Moscow has accepted 49 percent minority holdings in LDC ventures but retains operational control through contribution of most of the assets. 25X1

Of the 30 Soviet companies formed in the Third World since the mid-1960s, more than half have been joint fishing ventures. The USSR provides boats, equipment, expertise, and training in return for the privilege of fishing within the partner country's territorial waters. A 1977 fishing agreement with Angola is representative of most Soviet joint venture fishing agreements with LDCs. It calls for the USSR to provide surveys of Angolan fishing areas, 30,000 tons of fish annually, 10 fishing boats, onshore processing areas, 30 scholarships for Angolans, 100 ship-to-shore radios, and 50 Sovietspecialists to advise Angola's fishing industry—particularly in fleet maintenance, product distribution and marketing, and planning and establishinging cooperatives. 25X1

Aside from its 17 joint venture fishing arrangements in LDCs, the USSR has also opened:

- o Transport companies with Afghanistan, Iran, and Singapore

25X1

CONFIDENTIAL

- Trading and marketing companies in Cameroon, Ethiopia, Morocco, Nigeria, Mexico, and elsewhere.
- Branches of Moscow Narodny Bank in Singapore and Lebanon.
- Freight companies in Iran and Singapore. [redacted] 25X1

CONFIDENTIAL

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP85B00652R000100050016-3