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MOBILISING PRIVATE SECTOR RESOURCES FOR RESEARCH & DEVELOPMENT IN THE CARIBBEAN

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INTRODUCTION

Inherent in the term, "*mobilization*" is the notion that there exists a pool of private sector resources available. I therefore do not plan to spend a lot of time on trying to enunciate some of these resources except for mention of one major new source namely, *Debt/Equity Conversion Schemes*.

In a debt/equity swap, a sovereign debtor's foreign currency obligations are typically exchanged for equity claims on the private sector. However, establishing a debt for equity conversion mechanism provides the framework for undertaking many different innovative financial transactions. One such approach is debt for development, in which debt conversion is used to finance Research and Development Projects in many Developing Countries, thereby providing the means to turn Third World debt into a development opportunity. The debt for development concept hinges primarily on converting foreign debt into local currency.

SOURCES OF DEBT

There are basically two major sources of external debt or local currency to be used in a debt for development programme. They are:

1. *Commercial Banking Institutions* - basically, loans extended to Third World Governments and Companies by Commercial Banks are due to be repaid primarily in U.S. dollars. Some developing countries, as we well know, have increasing difficulty in finding the dollars to make interest and principal repayments. Others have difficulty even in making interest payments and in a few instances some have ceased payments altogether. On the other hand, the

commercial banking community so far, is against any generalised *forgiveness* or across-the board writing down of these debts. With the increasing arrears situation, Commercial Banks are now looking for ideas that can help turn this problem into a productive situation.

2. *Corporations* - Many corporations have economic activities in foreign countries that have generated income and earned profits which they want to repatriate eventually. In some countries these assets are blocked and the prospects for conversion to an international currency, even in the intermediate term, are not promising.

MECHANISMS FOR ACCESSING DEBT

There are three primary means for utilizing debt or *blocked currency* to support development programmes.

Firstly, there is debt purchase. This option allows the interested party to use hard currency to purchase debt from a Bank or Corporation that is selling at a substantial discount. It also involves the co-operation of the host country to repay a negotiated sum in local currency and these funds would support projects as agreed to by the purchaser of the debt and the host country.

The second option is the debt for equity swaps in which holders of outstanding unpaid debt utilise the debt as a means of investment in a corporation or a project in the host country. This mechanism has been more popular with corporations than with the commercial banking system which is sometimes reluctant to take equity positions in host countries. Within this option there has been a variation initiated by environment and

conservation groups known as the *debt for nature swaps*, in which a portion of the debt to be retired is used in exchange for local investments by Non-Governmental Organisations to conserve and manage natural resources.

The third option is debt contribution. This option allows not-for-profit institutions to receive outstanding debt as a donation to support certain projects in the host country, as the U.S. Treasury ruling allows banks to take a tax deduction for donated debt.

In all these options there is need for close working relationships between the host country, the client - namely, the person holding the debt, and the institution that is to be the likely beneficiary under the debt. I therefore would now like to turn my attention to the kind of issues that are involved insofar as a beneficiary seeking to tap into these sources of funding of which the debt conversion option is but one opportunity.

IMPORTANT ISSUES

The Private Sector Resources (local & foreign) are either going to come from Corporations, Commercial Banks, and/or, Individuals. The availability of such resources to deserving institutions is going to revolve around certain considerations which are embodied in the statement that *"private sector institutions primarily like to deal with institutions which understand their operating style, their operating procedures, and do not create additional difficulties for them in the administration of funding"*.

To a large extent therefore, the success of the mobilization effort of private sector resources in research and development in the Caribbean is embodied in the concept of the research/development institutions adopting an operating stance which provides some degree of reassurance to the private sector. Since my own institution, the Jamaica Agricultural Development Foundation, was structured on the basis of eventually sourcing private sector resources for agricultural development, I will attempt to enunciate some of these concerns, and, where applicable, will cite examples from my own experiences.

The private sector wants to know, and to be assured, that the funds requested are going to be used for the designated project in an efficient manner and not diverted to other uses. This introduces the concept of accountability. Beginning with a set of quantifiable objectives set out in a concise manner for which the funding is being

sought, the requesting institution has to demonstrate accountability in very concise and practical terms. This involves the capability to provide up-to-date financial information on a regular basis and the provision of evidence of adherence to budget. For institutions planning to go the debt contribution route, this is particularly important, as the U.S. Internal Revenue Service (IRS) will also want to have a report on this expenditure. At the Jamaica Agricultural Development Foundation we have to present monthly financial statements to our Board of Directors and our annual audit has to be completed within six weeks of the end of the Foundation's Financial Year. I know in the university setting, Budget Reporting and Financial Reporting is not necessarily in the control of the research group or grouping that is hoping to access funding. But, I am, nevertheless, bringing the reality to your attention in the sense that this is what the private sector wants.

Equally important, the private sector needs to be convinced that the applicant has the capability to execute the project. Evidence of past performance in this regard is extremely helpful - but the commitment to, and provisions for presentations of regular progress reports is of significant importance in reinforcing the application. I know that researchers tend to feel that the end-of-project write-up should be ample in terms of project completion, and if a project is funded there should be enough confidence in the researcher to feel that he/she is executing the project in an expeditious manner. This is often not quite adequate for a private sector organisation. The rigor of progress report writing is commonplace in private sector institutions.

Aligned to the question of performance is the matter of continuity. Private sector donors are going to want to know what are the prospects for the applicant in terms of funding and manpower support in the medium-to-long term, depending on the nature of the financing being requested. In instances where the requesting institution is the beneficiary of several sources of funds, the private sector company or institution approached for the most recent request needs to be assured that there is ample capability to administer all the funds being accessed, and at the same time, it needs to be assured of its due recognition, on a reasonable footing, compared to other donors.

Private sector organisations are purportedly, *lean* and tightly managed institutions in which overheads are kept at a minimum and expenditures tightly controlled. Here again, an institution requesting funding will need to

demonstrate that only a small amount of the funding will be going into overheads, and that the possibility of co-mingling or leakage of funds is minimised. In this context the concept of not-for-profit institutions has emerged. These are commonly found in the USA. What the concept means is that none of the Directors of these institutions can derive any benefit from the operations of the institutions by virtue of the fact that they are Directors. For example, in the case of the Jamaica Agricultural Development Foundation, we are a not-for-profit institution and our Directors cannot borrow from the Foundation and do not receive Directors' fees. As a matter of fact, in our case it goes even further, because the Jamaica Agricultural Development Foundation is a company limited by guarantee - meaning that there are no shareholders. Hence there is no possibility of a Director deriving benefits in the role as a Shareholder or vice versa. Another facilitating requirement is that the beneficiary institution or the applicant has a tax free exempt status. This condition is particularly important in terms of institutions trying to access debt conversion programmes.

Private sector donors also prefer a situation in which there is an independent control of the applicant and the possibility of Government or bureaucratic interference is minimised. They therefore prefer those situations in which the administrative roles are clearly defined and where there is some degree of integrity of the institution. Caribbean Governments have gone some way in responding to this particular need by creating what are known as Statutory Boards, in which Boards of Directors tend to have the ability to operate more within the private sector focus. It may be, that more emphasis will have to be placed on this mechanism as a means of presenting our Research and

Development Institutions in a more private sector mode. These institutions so far, have tended to be either Government or of the university and this new orientation can provide them with an advantage in the active competition that is going to be around for private sector funding.

COMPETING EFFECTIVELY

We in the Caribbean, can, with relative ease, document a host of problems and development opportunities that require funding. It is my opinion that the funding is available and that the pool of funds will be increased significantly by the debt. I feel that the competition for these funds will also become fairly intense. I would not be surprised to see more private sector institutions actually getting involved in research and development initiatives. What this means is that Government and University organisations are going to be faced with increasing competition, and this competition will only be effectively met if we re-orient our existing development and research institutions to think in terms of the potential donors. Administrative reforms will be necessary, organisational reforms will be necessary, and perhaps, most importantly, the attitudinal reforms - attitudinal reforms in which we, the researchers, seek to establish and maintain constant dialogue and interchange. The present circumstances dictate that we can no longer feel that research and development is the province of public sector and/or university environment with the private sector playing an interested but passive role. Research and Development efforts that are relevant to problems in the Caribbean will get private sector funding support, if we cultivate the private sector and bring them in, in a deliberate manner. Thank you!