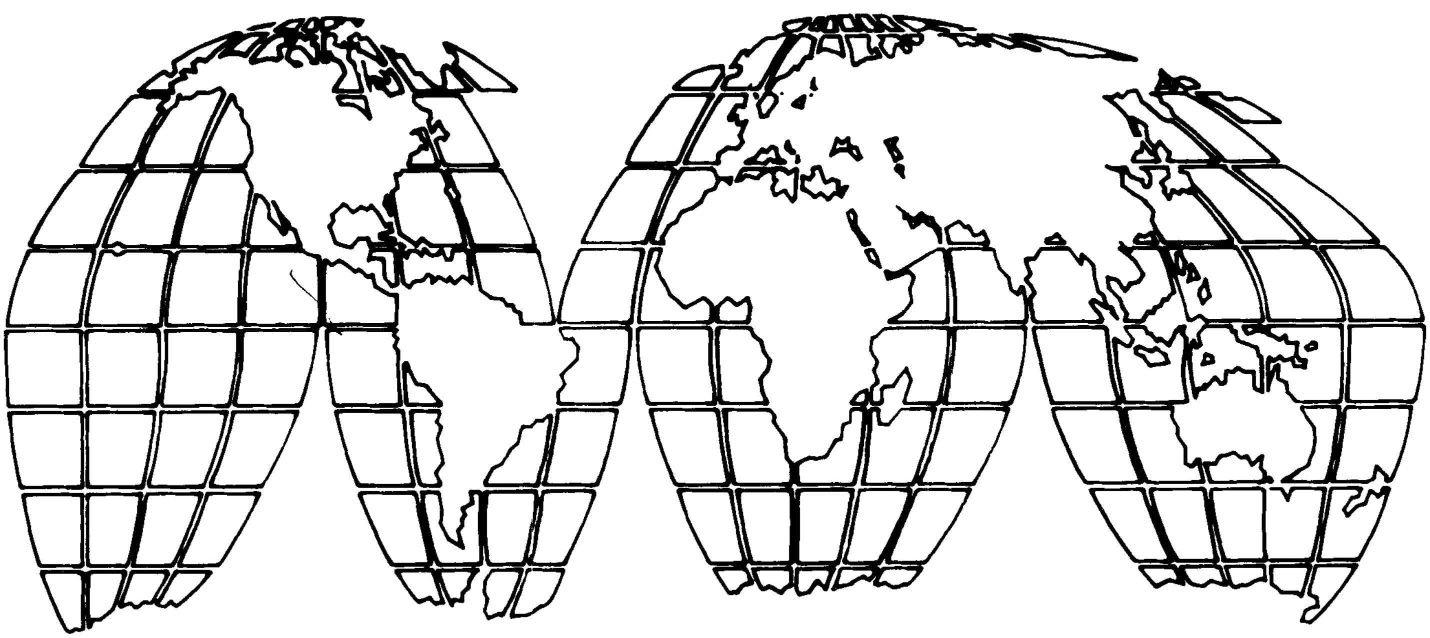
A.I.D. Program Evaluation Discussion Paper No. 20

A Comparative Analysis of Policies and Other Factors Which Affect the Role of the Private Sector in Economic Development



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A COMPARATIVE ANALYSIS OF POLICIES AND OTHER FACTORS WHICH AFFECT THE ROLE OF THE PRIVATE SECTOR IN ECONOMIC DEVELOPMENT

A.I.D. Program Evaluation Discussion Paper No. 20

by

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Bureau for Program and Policy Coordination

U.S. Agency for International Development

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FOREWORD

The author wishes to acknowledge the constructive comments provided by Richard Blue, Dayl Donaldson, Molly Hageboeck, Twig Johnson, Tim Mahoney, and Nena Vreeland on an earlier draft of the paper. Any errors and/or omissions remain the responsibility of the author.

SUMMARY

It is seductive to propose simple answers to the complex problems of economic development. The experience of economic and social change which has occurred in just six countries--four of which were studied intensively--is difficult to generalize. The Office of Evaluation carefully selected countries for intensive study which provided requisite geographical balance, had recorded reasonably high rates of economic growth since 1960, and which had, according to all accounts, supported private initiatives to further sustain and increase the past record of growth. The countries studied were Cameroon, Costa Rica, Dominican Republic, Malawi, Sri Lanka, and Thailand. Despite a certain pragmatic orientation to support all efforts which might improve their well-being, each was different in historical, economic, social, political and cultural context, policy definition, implementation, and measures of performance.

While each country professed to support private sector efforts, the governments of each country intervened in a number of important ways, some of which are not generally conducive to the development of open and competitive markets. At least one country, Malawi, has deliberatley supported the development of monopolies on economic efficiency grounds which they then regulate. Given its multiethnic and diverse colonial history, Cameroon is careful not to provide any private organization with too much economic latitude, particularly if the organization's operations are antithetical to the equitable development of the nation state. Further, the government in Cameroon controls a number of essential commodity prices as do other countries, e.g., Costa Rica, Sri Lanka, and, to a lesser extent, Thailand. Most countries have established minimum wages as well as regulating the prices of key food and other agricultural commodities. All countries except, perhaps, Thailand have subsidized credit in the formal sector of the economy.

With respect to trade and industrial policies, most of the countries have coordinated their tariffs to support an import substitution-focused industrialization policy. Several countries, including Costa Rica, Sri Lanka, Thailand, and Malawi are now in various stages of attempting to reorient their industrialization, tax, and trade policies toward export promotion. The extent to which a full implementation of a reorganized set of policies will occur is unclear. However, to date, Costa Rica, despite its present financial difficulties, which are based in part on its social welfare commitments, has had the most successful export-oriented industrial policy within the context of the Central American Common Market.

Finally, all countries, despite supporting private sector activities and private ownership, have established a number of government firms which are active in all sectors of the economy, from public utilities to agriculture. Costa Rica has had no private firm in the formal financial sector for a number of years, and other countries have established parastatals which dominate other sectors in their respective economies.

The economic performance since 1960 of each of the six countries under study has differed. While all six have experienced growth at an average annual per capita rate of 2.2 percent or better over the period, three of the six have outperformed the average of other countries with similar per capita income levels. These three countries include Malawi, Sri Lanka, and Thailand. At the same time, in terms of the limited evidence available on trends in the distribution of income, only Thailand has continued to progress toward greater equality. Quality of life indicators such as life expectancy, per capita food availability, literacy, access to safe water, and population change vary considerably across the six countries, with Sri Lanka, one of the poorest, scoring higher than any other country except Costa Rica, which has a per capita income about nine times as great. Many of the differences between countries on such indicators can be attributed to considerable diversity in government policies during the post World War II period in supporting health and educational programs.

Probably the single most important reason for the sustained high rate of per capita growth occurring in Thailand has been the continuing rates of growth in agriculture. Indeed, the principal reason for the sustained growth achieved in all of the countries is the performance of the agricultural sector. Cameroon and Malawi are two of a very small number of African countries where agricultural output was relatively high particularly over the decade of the 1970s. Most of the increased output in agriculture has been achieved in the private small-scale agricultural sector, particularly in Thailand and Cameroon. It would appear from the limited evidence reviewed that the linkages between farm and nonfarm economic activity are great. Much more intensive analytical work is required on this subject which has considerable relevance to the design of a "private sector strategy."

All of the countries have been the recipients of considerable foreign capital inflows which are increasingly from multilateral and bilateral donors, rather than from private lenders (with the exception of Sri Lanka). These capital inflows have comprised a significant share of the available funds for new investment. Without these inflows, countries like Malawi and Cameroon (before oil) would not have been able to maintain their economic growth.

All of the countries, with the possible exception of Cameroon (largely due to the exploitation of oil), have experienced and are experiencing varying degrees of indebtedness and foreign exchange constraints. Costa Rica and Sri Lanka are perhaps the most constrained, although Malawi may be the hardest hit since its economy is the least well developed and most dependent on a few exports whose value has plummeted more than other commodities, even though it has made significant progress. Costa Rica is de facto bankrupt. Sri Lanka has also had substantial government budget deficits which are partly due to its social welfare programs as well as being heavily dependent--more than any other of the six countries--on a static revenue base which is based on high export duties on its agricultural production. The importance of analyzing the structure of government revenue and the potential for changing it to improve the support provided for increasing recurrent commitments (which all poor countries have made in concert with donors) cannot be overemphasized. Without a significant restructuring of government revenues, the development efforts of the past and near future will languish as governments will seek any available supply of saving, whether domestic, from foreign sources, or via the mechanism of inflation, to maintain the set of commitments which they have already implemented. The political discontinuities may be profound.

To end on a positive note, this review reports the dynamism of the nonsubsidized, perhaps excessively taxed, small-scale sector in both agriculture and manufacturing in both rural and urban areas of a number of developing countries, including those constituting the principal focus of this analysis. Much more information is needed about the entrepreneurial and managerial skills necessary to improve the dynamism of this sector and how these skills might best be acquired. The development of the necessary infrastructure to further foster this subset of the private sector represents one of the principal challenges of the donor community and Third World governments in the years ahead.

I. INTRODUCTION

The U.S. Agency for International Development (AID) and other donors want to know in what manner, under what conditions, and in what policy environment a vigorous private enterprise sector can make a positive difference in the economic and social development of poor countries. AID, therefore, has taken a retrospective look at past experience and seeks to learn from it to improve future development assistance programming.

This paper has been written to comparatively analyze four country case studies which the Bureau for Program and Policy Coordination, Office of Evaluation conducted in Malawi, Cameroon, Costa Rica, and Thailand. Also included in this comparison is an additional special country study commissioned by the office in the Dominican Republic, and information from Sri Lanka on the progress made since initiating its economic liber- [illegible] am in 1977.

[illegible] objective of the country studies was to retrospectively examine the relationship between private sector growth, economic development, and the distribution of the gains of development. More specifically, the country studies endeavored to examine (a) the impact of government policies on the development of free markets and measures of economic development, and (b) whether and how AID and other donor programs have promoted economic development by strengthening the capabilities of the private sector in these developing countries. While this paper does not claim to unambiguously answer these important questions, it provides additional insight about these relationships. It also assists in specifying where our understanding requires further thought and consideration.

The paper is organized as follows. First, an analysis of the economic and social development of the six case study countries since 1960 is presented in comparison with the experience of all low- and middle-income countries. Second, the present international economic context facing these countries is reviewed. In this contextual review, international trade vulnerability of the countries is analyzed from a historical perspective. Third, a comparative analysis of the economic policy context of the six countries is presented, taking into consideration political economy factors. This analysis is conducted to ascertain the extent of government support for private sector development and whether governments have facilitated the growth of open and competitive markets. Fourth, the analysis seeks to ascertain patterns of mobilizing and allocating capital resources between the public and private sectors within the six countries. Further, it reviews available information on investments made by the six countries in human capital. Sixth,

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the paper reviews available information on a number of issues pertinent to developing a private sector capable of contributing to sustained economic and social development. The issues reviewed include (a) the development of entrepreneurial talent, (b) the role of small-scale enterprises, (c) the experience with government-supported development organizations, (d) agriculture, (e) market infrastructure, and (f) the role of external organizations. The paper concludes with lessons learned for governments and donor agencies.

II. A COMPARATIVE ANALYSIS OF ECONOMIC DEVELOPMENT IN SIX COUNTRIES

A comparative analysis of economic development in Costa Rica, Cameroon, Malawi, Thailand, Dominican Republic, and Sri Lanka from 1960 to 1980 is presented to provide a broader context for analyzing the country case studies. The economic development process which has occurred since 1960 in the six countries is also compared to the experience encountered by all low- and middle-income countries.

Over the two-decade period from 1960-1980, the real rate of growth in GNP per capita has averaged 1.8 percent per year for all low-income countries; the comparable rate for middle-income, oil-importing countries was 4.1 percent (see Table 1).[1] Three of the six countries, Malawi, Sri Lanka, and Thailand, grew more rapidly than did countries in their respective income group. In 1960, Malawi and Sri Lanka had incomes below the average for low-income countries. However, by 1980, both were approaching the average income level of $240 per capita for such countries.

With the exception of Thailand, the rates of per capita income growth achieved by the three other middle-income countries over the two-decade period were lower than the average attained by oil-importing middle-income countries. (Thailand, which had a very low per capita income level at the start of the two-decade period, about $240 per capita, has grown at the average rate of 4.6 percent per year since 1960.) Despite steady progress of 2.5 percent per year, Cameroon has not matched the growth rates of other middle-income countries. Costa Rica started the two-decade period at a per capita income

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[1]In 1978, Cameroon began exporting oil. However, since most of the period included in this analysis was prior to 1978, it is appropriate to compare Cameroon's development experience with other oil-importing middle-income countries. This comparative standard is followed throughout the paper.

Table 1. GNP per Capita and Rates of Growth in GNP per Capita, 1960-1980
(in 1979 U.S.$)

Year	Malawi	Sri Lanka	All Low-Income Countries (excl. India, China)	Cameroon	Thailand	Dominican Republic	Costa Rica	All Middle-Income Oil-importing Countries
1960	113	147	168	342	240	511	940	694
1965	134	167	187	396	314	624	1,149	883
1970	155	188	206	448	394	738	1,358	1,080
1975	179	209	225	508	493	869	1,599	1,320
1977	189	219	233	534	539	929	1,709	1,430
1979	200	230	240	560	590	990	1,820	1,550
1980	206	235	244	575	617	1,023	1,882	1,614
Rate of Growth 1960/1979	2.9	2.2	1.8	2.5	4.6	3.4	3.4	4.1

Source: World Bank, World Development Report 1981; derived from Appendix Table 1.

level above the average middle-income country, even though it has not grown quite as fast as the average of middle-income countries. Over the two-decade period, the Dominican Republic has experienced an income per capita growth pattern similar to that of Costa Rica.

A. Demographic and Quality of Life Characteristics

Table 2 presents demographic and quality of life data for the countries under analysis. With the exception of Sri Lanka, which had the lowest population growth rate of the six countries, the other countries experienced rates of growth which were greater than the average for their respective income groups. While the population growth rate for low-income countries is greater than the population growth for middle-income countries (2.6 percent versus 2.2 percent), the countries studied do not conform to that pattern. Among middle-income countries, only Thailand has witnessed a significant decline in the rate of population growth to its present level, which is slightly above the average for middle-income countries.

Crude birth rate (CBR) and crude death rate (CDR) data for 1960 and 1979 (rows 3 and 4, Table 2) provide information about the demographic transition process underway in each country. Malawi and Cameroon have just entered the transition. This entry point is typically defined by a minimal decline in the crude birth rate preceded by a significant drop in the crude death rate of more than one third in the prior two-decade period. On the other hand, Sri Lanka, Thailand, the Dominican Republic, and Costa Rica all show declines in the crude birth rate over this period as well as continuing declines in the crude death rate to under ten per thousand. Sri Lanka's crude birth rate is the lowest among the countries under study and below the 1979 average for middle-income countries.

Further information about the demographic transition is also evident from total fertility rate data (row 5). Sri Lanka and Costa Rica have total fertility rates below the average middle-income level, while the Dominican Republic and Thailand figures are indicative of being in transition. The transition has not yet occurred in Cameroon and Malawi.

Finally, the data on the proportion of the population residing in urban areas show that Malawi and Thailand have the largest proportion of their populations residing in rural areas. Sri Lanka, despite having a large rural-based population, is more urban than the average low-income country. Finally, despite the fact that Costa Rica has a fairly high per capita income, a large proportion of its population (60 percent in 1979) is rural.

Table 2. Demographic and PQLI Characteristics, 1960 and 1979

Item	Malawi 1960	Malawi 1979	Sri Lanka 1960	Sri Lanka 1979	Low-Income Countries 1960	Low-Income Countries 1979	Cameroon 1960	Cameroon 1979	Thailand 1960	Thailand 1979	Dominican Republic 1960	Dominican Republic 1979	Costa Rica 1960	Costa Rica 1979	All Middle-Income Oil-Importing Countries 1960	All Middle-Income Oil-Importing Countries 1979
Demographic Measures																
(1) Population (in millions)	3.4	5.8	9.9	14.5	-	-	4.7	8.2	26.4	45.5	3.0	5.3	1.2	2.2	-	-
(2) Population Growth Rate	-	2.7	-	2.0	-	2.6	-	3.0	-	2.3	-	2.9	-	2.5	-	2.2
(3) CBR	53	51	36	28	47	42	43	42	44	31	47	29	50	36	38	31
(4) CDR	27	19	9	7	24	16	27	19	16	8	10	5	16	9	14	9
(5) Total Fertility Rate	-	7.0	-	3.8	-	5.7	-	5.7	-	4.3	-	4.8	-	3.5	-	4.4
(6) % Urban	4	10	18	27	12	19	14	35	13	14	30	51	37	43	39	52
PQLI Measures																
(1) Life Expectancy Years	-	47	-	66	-	50	-	47	-	62	-	61	-	70	-	63
(2) Adult (1976) Literacy	-	25	-	85	-	43		(E)45[1]	-	84	-	67	-	90	-	76
(3) % Pop. Access to Safe Water (1975)	-	33	-	20	-	25	-	26	-	22	-	55	-	77	-	57
(4) Calorie Supply Per Capita (1977)	-	2,066	-	2,126	-	2,108	-	2,069	-	1,929	-	2,094	-	2,550	-	2,641

[1] (E). Based on education enrollment data presented in World Bank document #2229 CM.

Source: World Bank, World Development Report, 1981.

Quality of life (PQLI) measures clearly show that Sri Lanka is unique among low-income countries. It has nearly the same level of life expectancy as Costa Rica even though the per capita income for Costa Rica is about nine times as high. Adult literacy in Sri Lanka as well as in Thailand is nearly as high as in Costa Rica.

Life expectancy in Thailand has also increased significantly. Malawi, on the other hand, while making considerable strides since independence (1964), is still lagging behind the average for all low-income countries. In Cameroon, the estimated levels of adult literacy and life expectancy are considerably behind the average for middle-income countries and are closer to the levels found in low-income countries.

With respect to access to safe water supplies, only the Dominican Republic and Costa Rica are at or above the levels for their respective income groups; Thailand and Cameroon are significantly below the average level for all middle-income countries. Finally, with the exception of Costa Rica, all countries have per capita food supplies approximating the average for low-income countries, e.g., around 2,100 calories per person per day.

B. Indicators of Equity

While income distribution data must be treated with caution due to incomplete reporting and definitional discrepancies,[2] analysis of available data on the distribution of income in the countries under study shows that income distribution tends to be more skewed in the middle than in low- or high-income countries.[3] Table 3 combines several sources of data on income distribution for five of the six countries.

With the possible exception of Malawi, and more recently Sri Lanka, the income distribution data show a more equitable trend evolving over the two-decade period since 1960 for the

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[2]For a discussion of these data problems, see S. Jain, Size Distribution of Income: A Compilation of Income, (Washington, D.C.: World Bank, 1975).

[3]See Felix Parkert, "Income Distribution at Different Levels of Development: A Survey of Evidence," International Labor Review, 108, 2/3 (August-Sept. 1972) 97-127. See also a more complete study of these patterns by Hollis Chenery, et al., ed., Redistribution With Growth, (London: Oxford University Press, 1974).

Table 3. Income Distribution: Percentage Share of Household Income for Selected Years
(by percentile groups of households)

	Cameroon	Costa Rica		Dominican Republic		Malawi		Sri Lanka			Thailand		
	NA	1960[2]	1971[1]	1970[2]	MRE[2]	1967/68[1]	1970[2]	1960[2]	1969/70[1]	1978/79[3]	1963[2]	1968[2]	MRE[2]
Lowest 20%	-	5.7	3.3	4.3	5.0	10.4	5.7	4.5	7.5	3.8	6.2	6.1	7.6
Second Quintile	-	-	8.7	-	-	11.1	-	-	11.7	8.4	-	-	-
Third Quintile	-	-	13.3	-	-	13.1	-	-	15.7	13.2	-	-	-
Fourth Quintile	-	-	19.9	-	-	14.8	-	-	21.7	20.4	-	-	-
Highest 20%	-	-	54.8	-	-	50.6	-	-	43.4	54.3	-	-	-
Highest 10%	-	-	39.5	-	-	40.1	-	-	28.2	39.0	-	-	-
Highest 5%	-	33.0	-	26.3	25.1	-	29.5	26.4	-	-	21.8	23.3	14.0

Notes: These data should be treated with caution. MRE = most recent estimate.

Sources: [1]World Bank, World Development Report 1981, Table 25.

[2]United Nations, Social Indicators: World Tables, 1980.

[3]World Bank, document No. 3901-CE, p. 159.

other countries. While a lower proportion of total income appeared to be accruing to the poorest 20 percent of the population in Costa Rica in 1971 compared to 1960, the data also suggest that there has been a redistribution of income from the more affluent quintiles to the less wealthy ones. In the Dominican Republic, there appears to be movement toward a more equitable distribution, as indicated by the increased share accruing to the poorest 20 percent and a slightly decreased share to the wealthiest 5 percent.

Between 1960 and 1970 in Sri Lanka, the data show an increase in the proportion of income going to the poorest 20 percent, with a concomitant decline in the proportion accruing to the wealthiest 5 percent. Much of this change can be attributed to the social welfare programs initially implemented during World War II and strengthened in the 1960s and early 1970s. The data for 1978/1979 reflect in part the results of the 1977 economic liberalization program initiated by the new government elected to power in that same year.

In Thailand, there has been a significant increase in the income share going to the poorest income groups, with the share accruing to the most wealthy being considerably lower than in Sri Lanka according to the most recent estimates. These data suggest that the benefits of the rapid economic growth occurring in Thailand were widely distributed throughout the population.

C. The Economic Structure of Production

As economic development occurs, the structure of economic activity is altered. Some of these changes are evident from the data presented in Table 4, which shows the economic structure of production for the six countries, and for low- and middle-income countries as a whole. These data show a significant decline in the proportion of GDP accruing from agriculture and a concomitant increase in the proportion from industrial production and services.

In low-income countries, agriculture typically is the largest sector with nearly 40 percent of GDP accruing from that sector. For middle-income countries, however, agriculture's share of GDP has declined to about 15 percent. The economic structure of the countries under study tends to conform to this pattern, with most of them retaining a slightly larger agricultural base than for low- and middle-income countries as a whole. It is important to remember this structural fact when analyzing the sources and structure of government revenue. Typically, the agricultural sector is heavily taxed for use by the public

Table 4. Economic Structure of Production, 1960, 1970, and 1979

Item	Malawi		Sri Lanka		Low-Income Countries		Cameroon		Thailand		Dominican Republic		Costa Rica		Middle-Income Oil-Importing Countries	
	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
I. GDP ($mill)[2]	170	1,220	1,500	3,160	-	-	550	5,330	2,560	27,640	720	5,230	570	3,990	-	-
A. % Ag. of GDP	58	43	32	27	52	38	35[1]	32	40	26	27	19	26	19	21	14
B. % Industry	11	20	20	31	13	23	16[1]	16	19	28	23	26	20	26	32	36
C. % Services	31	37	48	42	35	39	49[1]	52	41	46	50	55	54	55	46	50
Years	60/70	70/79	60/70	70/79	60/70	70/79	60/70	70/79	60/70	70/79	60/70	70/79	60/70	70/79	60/70	70/79
II. Rate of Growth in GDP	4.9	6.3	4.6	3.8	4.3	3.8	3.7	5.4	8.2	7.7	4.5	7.5	6.5	6.0	5.9	5.5
A. Rate of Growth in Ag.	-	4.1	3.0	2.6	2.7	1.9	-	3.5	5.5	5.4	2.1	3.3	5.7	2.6	3.9	3.3
B. Rate of Growth in Industry	-	7.0	6.6	3.6	6.6	3.6	-	6.5	11.6	10.4	6.0	10.1	9.4	8.5	7.1	5.7
C. Rate of Growth in Services	-	9.1	4.6	4.5	3.8	4.6	-	6.3	9.0	7.7	5.0	7.7	5.7	6.0	5.7	5.7

[1]For year 1965/1966.

[2]Current dollars.

Source: World Bank, World Development Report 1981, Annex Tables 2 & 3.

sector in financing recurrent and capital expenditures. Governments act in this manner since it is often easier and less costly from an administrative perspective to tax large flows of agricultural goods shipped in and out of a few points of entry, rather than the myriad transactions occurring in the service and small-scale industrial sectors.

Only in Thailand and Sri Lanka does industrial development approximate or exceed the average figures for low- and middle-income countries. There has been tremendous growth in Thailand's industrial sector over the two decades, from 19 percent to nearly 30 percent of its GDP. Malawi's industrial growth is also impressive compared to other low-income countries. However, its industrial growth is heavily dependent on an expanding international demand for sugar and tobacco. In recent years, the market for both items has been severely depressed and prospects are not bright for a rapid recovery. Thus, it is likely that Malawi's industrial growth will not be as impressive as has been the case in the previous two-decade period.

Cameroon's industrial base is significantly below the mean for middle-income countries (16 percent compared to 36 percent in 1979). Its very modest rate of industrial growth of 6.5 percent per year is the second lowest recorded among the six countries studied; only Sri Lanka's is lower.

The most important reason for the relatively favorable economic growth recorded by the six countries over the two-decade period is that agricultural growth rates exceeded the average rates of growth in agriculture reported by countries both in the low- and middle-income groups. Thailand recorded the highest growth rate. The agricultural growth of Malawi and Cameroon over the 1970s has also been very high, particularly when compared with the rate of growth of agriculture in other African countries where the rate of food production has declined by about 1 percent per year during the 1970 decade.[4] Cameroon has been the only African country to record a per capita growth rate in food production of greater than 1 percent per year during the 1970s.

In comparing industrial growth rates over the two-decade period ending in 1979 (row II-B, Table 4), one is impressed by the relatively strong performance of virtually every country in this group with the exception of Sri Lanka, whose industrial growth rate was equal to the average for all low-income countries. Thailand, and more recently the Dominican Republic, had

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[4]Elliot Berg, et al., Accelerated Development in Sub-Saharan Africa: An Agenda for Action, (Washington, D.C., World Bank, 1981).

rates of growth which were significantly above the average for their respective cohorts.

D. Structure of Employment

While Table 4 focuses on the changing structure of economic production in the countries under analysis, Table 5 presents the labor force structure among the three sections for the same countries. In Table 4, the data indicated a significant decline in the agricultural share of GDP. However, Table 5 shows that the agricultural sector continues to retain a large share of the labor force. With the exception of Costa Rica, over 50 percent of the labor force is still engaged in agriculture; and in Malawi, Cameroon, and Thailand, over three-quarters of the labor force are still in agriculture. The sectoral distribution of the labor force in Sri Lanka is more representative of an average middle-income country than a low-income country and approximates that of the Dominican Republic or Costa Rica. Since 1960, the share of the labor force in agriculture has declined in all six countries, although in Malawi, Sri Lanka, Cameroon, and Thailand, the decline has been modest.

In Thailand, despite significant industrial development during the two decades since 1960, the share of the labor force in the industrial sector is small, representing only 9 percent in 1979. Similarly, a small proportion of the labor force is engaged in service activities (14 percent in 1979).

Table 5 does not provide all relevant evidence with respect to employment. In particular, it does not reflect the full extent of nonfarm employment by the rural-based labor force. The empirical work of Carl Liedholm and other colleagues, in a number of developing countries, e.g., Sierra Leone, Thailand, Egypt, and Jamaica, has shown that at least 20 percent of agricultural-based households are engaged in nonfarm rural employment activities, e.g., small-scale industry or services.[5] For this and other reasons, the data presented in Table 5 underestimate the proportion of the labor force engaged in industrial service activities. Nevertheless, Table 5 shows a lag in the transition of the labor force from one sector to another as the structure of economic production is shifting from agriculture to the industrial and service sectors.

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[5]See Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment: A Review of the State of the Art, MSU Rural Development Paper #4, (East Lansing, Michigan: Department of Agricultural Economics, Michigan State University, 1979).

Table 5. Percentage of Labor Force in Each Sector, 1960 and 1979

Sector	Malawi		Sri Lanka		All Low-Income Countries		Cameroon		Thailand		Dominican Republic		Costa Rica		All Middle-Income Oil-Importing Countries	
	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
Agriculture	92	86	56	54	79	70	87	83	84	77	67	50	51	30	57	42
Industry	3	5	14	14	8	11	5	7	4	9	12	18	19	23	17	23
Services	5	9	30	32	13	19	8	10	12	14	21	32	30	47	25	35

Source: World Bank, World Development Report, 1981.

E. Structure of Output and Employment in Manufacturing

Since the potential impact of government policy on industrial and manufacturing development is closely related to the purpose of this study, it is useful to review the limited comparative evidence available about the structure of manufacturing output and employment characteristics.

1. The Distribution of Value-Added in Manufacturing

In Table 6, comparative data are presented on the distribution of value added across industrial sectors. Like many other developing countries, the six included in this analysis have employed policies to enhance the development of import substitution manufacturing since 1960. More recently, Thailand, the Dominican Republic, and Sri Lanka have instituted policy changes to place more emphasis on export promotion. Costa Rica also has adopted an export promotion strategy but within the Central American Common Market context.

The structure of manufacturing value added presented in Table 6 reflects each country's pattern of domestic and external demand for such goods. The data show food and agricultural processing activities dominating the manufacturing sector, with textiles and clothing being the second largest sector. The structure of Thailand's manufacturing sectors is more diverse than in the other countries. This diversity of value added across sectors in part reflects the fact that Thailand's economy is much larger, in an absolute sense, than any of the other countries studied (see line 1, Table 4), despite its lower per capita income. Given the economy's large size, Thailand can justify domestic production in machinery and chemicals more easily on economic efficiency grounds than other countries under study.

2. The Development of Small-Scale Industry

There is little comparable information available for each of the six countries under study on small-scale private manufacturing. However, the data available for Thailand are informative. Since Thailand has experienced such impressive growth over the last two decades, the evidence on small-scale

Table 6. Pattern of Industrialization:
Distribution of Manufacturing Value Added
(1975 prices)

Sector	Cameroon 1978	Costa Rica[1] 1977	Dominican Republic 1978	Malawi 1978	Sri Lanka 1978	Thailand[2] 1978
Food & Agriculture	37	47	72	51	38	32
Textiles & Clothing	15	10	4	12	15	19
Machinery & Transport Equip.	2	7	1	-	-	12
Chemicals	8	8	5	-	4	6
Other	38	28	18	37	43	31

[1] World Bank document #3193-CR.

[2] UN, Yearbook of Industrial Statistics, 1979.

Source: World Bank, World Development Report, 1981.

manufacturing in that country reinforces the importance of similar activities in other developing economies.[6]

In Table 7, data are presented from Thailand which show the importance of conducting special employment surveys to ascertain the extent of small-scale industrial activity and employment in both urban and rural areas. In this table, a comparison is made between data from a special survey of the number of establishments and employment with data collected by Thailand's Ministry of Industry. The table clearly shows that the number of establishments enumerated via Ministry of Industry surveys is a significant undercount of such establishments in urban and rural areas. The Ministry of Industry only enumerates firms which have ten or more employees, whereas the special survey established that many firms which were not enumerated by the Ministry of Industry surveys are entities employing fewer than 10 persons.

There is ample evidence from other countries which also shows an underenumeration of manufacturing activity in official statistics. If the information generated from Sierra Leone approximates the experience in other countries, the income elasticity of demand for domestically manufactured commodities produced by small-scale manufacturers is about 1.6.[7] This figure means that if incomes increase by 10 percent, the demand for rural-based manufactured products will increase by approximately 16 percent. Thus, if agricultural production is increasing such that rural incomes increase, rural-based manufacturing establishments and their workers will rise concomitantly. In the countries included in this analysis, agricultural output has increased significantly. To the extent that these countries have a small-scale rural-based manufacturing sector as in Sierra Leone, the demand for their output is likely to have grown even more rapidly. Such conditions create a rural economic base conducive for long-term growth.

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[6]For an informative comparative analysis of the importance of small-scale industry, see Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment, 1979. Other country-specific evidence is presently available on Jamaica, Haiti, Kenya, Sierra Leone, and Egypt.

[7]Carl Liedholm and Enyinna Chuta, The Economics of Rural and Urban Small Scale Industries in Sierra Leone, African Rural Economy Paper #14, (East Lansing, Michigan: Michigan State University, 1975).

Table 7. Comparison of Special Employment Survey With Statistics From the Ministry of Industry, Thailand, 1979

Item	Special Survey	Ministry of Industry	Difference (% of Ministry of Industry)
Number of Establishments			
Chiang Mai City	1,290	292	441.8
Chiang Mai Area incl. city	1,488	513	290.0
Other Areas	2,442	1,018	239.9
Employment			
Chiang Mai City	8,919	NA	
Chiang Mai Area	10,856	NA	
Other Areas	10,953	11,852[1]	
Average Number Employees per Establishment			
Chiang Mai City	6.9	NA	
Chiang Mai Area	7.3	NA	
Other Areas	4.5	12.1	

[1]Don Chedi not included in figure. Figures also include large factories outside municipal area enumerated in special survey.

Source: Donald Mead & Prodit Charsombut, "Rural Off-Farm Employment in Thailand: Phase I Survey Results," Center for Applied Economics Research, Kasetsart University, Research Paper #3, June 1980, p. 31.

3. Structure of the Enumerated Manufacturing Sector

In Table 6, the structure of manufacturing value added was comparatively analyzed. More detailed information on the size and structure of specific industries is not readily available for all six countries. However, in Table 8, data are presented for Costa Rica, the Dominican Republic, and Sri Lanka on the number of firms, total employment, and employment per establishment in a selected set of manufacturing industries. For the Dominican Republic, where there has been a significant rate of growth in industrial output during the 1970s, the data in Table 8 also show an increase of over 100 firms enumerated between 1975 and 1978 (nearly a 10 percent increase). These additional firms are widely distributed across all industrial categories.

The rise in industrial and manufacturing activity in Sri Lanka between 1975 and 1978, as indicated in Table 8, is related to the "liberalization" policies taken after the 1977 election in Sri Lanka. Between 1975 and 1978, over 200 new firms were reported in the annual industrial survey. There was also a reported increase in manufacturing employment by nearly 20,000 people (15 percent increase).

There are significant differences in the relative size of manufacturing firms in these three countries. In Costa Rica there are about 20 workers per establishment whereas in the Dominican Republic, establishments average around 100 workers. As mentioned above, the Dominican Republic structure of industrial activity tends to be concentrated in food products, e.g., sugar processing. Since export-oriented sugar processing mills are large-scale manufacturing plants, it is not surprising that the number of employees per establishment (150) in the Dominican Republic's food products sector is significantly higher than in Sri Lanka or Costa Rica, where sugar processing does not dominate the sector. In Section III.B below, data are presented which show the importance of sugar to the economy of the Dominican Republic. In Sri Lanka the predominant industries tend to be textiles and wearing apparel, and the average number employed per textile firm is significantly greater than in either of the other two countries. In Sri Lanka there are a large number of small wearing apparel-producing firms (12 workers per firm).

With the exception of the heavy metals and industrial chemical sectors, there does not appear to be a heavy concentration of output in a few firms. Sri Lanka's iron and steel industry represents the possible exception. In 1978, there were only six firms. The average firm employed over 350 employees. The wood products industry in Sri Lanka may also be concentrated. There are only six firms with the average size of

Table 8. Selected Manufacturing Sector Statistics for Costa Rica, the Dominican Republic, and Sri Lanka: (1) Number of Establishments, (2) Employment, and (3) Average Number of Employees per Establishment

Item	Costa Rica			Dominican Republic						Sri Lanka					
	1975			1975			1978			1975			1978		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Total Manufacturing Entities	2870	55.6	19.4	1205	122.3	101.5	1312	113.3	87.0	2403	125.0	52.0	2587	144.0	55.7
Food Products (311/2)[4]	770	15.0	19.5	510	95.4	187.1	539	81.3	150.9	184	13.1	71.2	195	19.0	97.3
Textiles (321)	84	5.8	69.0	24	2.6	108.8	30	3.5	115.6	388	25.8	66.5	267	33.7	126.1
Wearing Apparel (322)	476	5.9	12.4	153	2.2	14.2	169	2.6	15.6	839	8.9	15.2	602	7.5	12.6
Wood Products (331)	209	2.9	14.0	28	0.1	3.6	26	0.1	4.6	22	4.8	216.5	6	4.3	724.8
Furniture (332)	378	2.4	6.2	98	1.0	10.2	97	1.0	10.5	13	0.4	32.7	117	2.4	20.3
Printing, Publishing (342)	93	2.0	21.8	47	1.1	23.6	50	1.3	25.4	-	-	-	-	-	-
Industrial Chemicals (351)	9	0.5	60.8	13	1.1	85.4	16	1.4	86.2	12	0.8	66.8	22	1.0	46.0
Drugs and Medicines (3522)	24	1.0	42.0	15	0.2	15.3	18	0.5	27.8	16	-	-	24	-	-
Plastics NEC (356)	24	1.7	71.5	14	0.9	62.9	18	1.2	68.9	78	1.7	21.7	77	1.5	19.8
Pottery, China, etc. (361)	16	0.2	11.9	-	-	-	-	-	-	-	3.3	-	65	4.6	70.2
Nonmetal Products (369)	138	2.6	18.8	38	3.9	102.6	50	4.1	81.4	65	8.3	127.2	88	10.3	116.8
Iron & Steel (371)	15	0.4	29.6	7	1.1	155.7	7	1.0	140.0	4	1.5	362.8	6	2.1	352.2
Metal Products (381)	199	2.6	12.9	32	2.0	64.1	33	2.3	70.3	246	6.6	26.7	306	9.3	30.4
Transport Equip (384)	29	1.8	63.8	1	0.02	20.0	1	0.01	10.0	78	5.6	71.8	129	4.6	35.9

(1) Establishments.

(2) Employment in 1,000's.

(3) Employment/Establishments.

(4) Manufacturing Sector Code.

Source: U.N. Yearbook of Industrial Statistics, 1981.

each firm being over 700 employees per firm. The fact that metal products represents a much larger share of total manufacturing firms in Sri Lanka than in the other two countries may partially be explained by its geographical distance from more industrialized countries.

Without more detailed information about the changes in the size and structure of specific industries, which can only partially be deciphered from the data presented in Table 8, the impact of specific economic policy changes on market power, output, and employment cannot be clarified. A careful review of such detailed information, including import and export data over several years, is necessary to understand the dynamic effects of policy change or other governmental interventions.

F. Sources of Government Revenue

To complete the general economic review of the six countries, it is useful to analyze the structure of government revenue shown in Table 9. By reviewing these data one can better understand why certain policy choices have been made in each country over the last two decades with respect to price and other market intervention policies.

Costa Rica's emphasis in developing and maintaining a social welfare program is evident in the structure of government revenue; social security contributions constitute over one-quarter of its total revenue in 1979. This proportion has increased dramatically from 1973 when social security contributions represented about 12 percent of government revenues in that year. On the other hand, in three of the six countries social security contributions do not exist. In the other two countries where it does, Dominican Republic and Cameroon, the contributions represent a minor share of government revenue.

Of primary analytical importance is the proportion of total government revenue coming from import-export duties (see row 7, Table 9). This proportion varies from a low in Malawi of 19 percent to a high in Sri Lanka of over 50 percent. (A more detailed review of this issue is presented in Section III.B below.)

Finally, some countries receive a large share of government revenue from nontax revenue sources (row 9, Table 9). In 1979, Cameroon obtained a large proportion of its revenue from nontax revenue, i.e., the "new" oil revenue. This nontax revenue became important in 1978 and reduced the country's dependence on import and export duties. The significance of nontax revenue in the Dominican Republic, Malawi, and Thailand is related to past economic decisions made by government. In the

Table 9. Sources of Central Government Revenue
as a Percentage of Total Revenue in 1979

Revenue Source	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
1. Individual Income Tax	9.76	15.86	7.00	12.39	10.79	7.67
2. Corporate Income/ Profit Tax	5.81	0.01	10.46	22.25		9.64
3. Social Security Contribution	7.19	25.54	3.98	-	-	-
4. Taxes on Property	1.97	0.93	0.71	0.05	0.54	1.31
5. Sales Taxes Including VAT[1]	14.42	28.24	24.14	29.95	27.51	43.99
6. Value Added or Turnover Tax	5.58	8.67	-	25.25	10.83	18.78
7. Import & Export Duties	27.46	21.52	37.75	19.06	53.94	24.31
8. Other Taxes	1.79	1.31	1.11	0.28	0.59	0.65
9. Nontax Revenue	31.79	6.58	13.25	15.78	6.60	12.41
10. Property Income	1.47	2.11	8.42	6.99	4.23	4.13
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1]VAT = Value Added or Turnover Tax.

Source: IMF, Government Finance Statistics Yearbook 1981, Volume 5.

case of the Dominican Republic, much of the nontax revenue comes from firms previously owned by the Trujillo family. In Malawi, such revenue comes from the holding companies which are owned in part or wholly by the government. In the case of Thailand, a large portion of the revenue comes from public sector corporations established in the 1950s and 1960s. Thus, the revenue structure of each country's government is reflective of a number of historical policy decisions.

III. THE INTERNATIONAL ECONOMIC CONTEXT

There are a number of factors which enhance and/or constrain the economic and social development of each country discussed in this analysis. One of the most important factors is the state of the world's economy and the related trade flows between countries. These factors are reviewed in greater depth below.

A. Trends in the World Economy

The condition of the world economy has a considerable impact on a poor country's development possibilities. Since the second significant increase in oil prices by OPEC in 1978-1979, the industrialized countries have recorded a very slow rate of economic growth, most have suffered recessions, and many still have not recovered but have been afflicted with a secular rise in unemployment, coupled with high inflation and interest rates.

When economic difficulties occur in the industrialized countries, the demand for imports is restricted. Without increases in demand for imports in the industrialized countries, the export earnings of poor countries are constrained and this situation often leads to balance of payments difficulties for the poor countries as well as a decline in their rates of economic growth.

The World Bank has projected that the economic growth rates of industrialized countries will not regain earlier historical trend levels of slightly over 3 percent per year until the late 1980s since the structural adjustments necessary to address the increased price of energy require additional time to fully implement.[8] The continued rise in unemployment and the lack of any significant increase in the rate of growth in GNP in the United States during 1982 further reinforce the projections of the World Bank.

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[8]See Tables 1.1 and 2.1, World Bank, World Development Report, 1981, (Washington, D.C.: World Bank, 1981), pp. 3 and 10.

The importance of the saga of international economic interdependence is that without a strong and continuing rate of economic growth in the industrialized countries, poor countries will continue to experience major economic difficulties. (See Sections III.B and IV.A for more details.) Their ability to successfully pursue their economic development objectives irrespective of sector orientation--public or private--is thereby hampered.

B. The Role of International Trade

In this section, the analysis centers on a country-specific analysis of (a) the size of exports and imports relative to GDP, (b) trends in terms of trade and major commodity prices, (c) the structure of exports as they have emerged over the last ten years, and (d) the importance of international trade taxes as a source of government revenue. In Table 10, trend data are presented for the six countries and for the low-income and middle-income countries as a whole on the ratio of exports and imports to GDP.

The data in Table 10 show that exports and imports constitute a large proportion of GDP in the economies of the six countries included in the analysis than is the case generally in low- and middle-income countries. For these countries, exports in 1979 or 1980 typically composed 25 percent and imports 30 percent of GDP respectively. For most of the countries, the proportion of both exports and imports has risen secularly since 1960. These data clearly indicate that the economic performance of the six countries is highly dependent on the global demand for their exports.

The capacity of a country to import essential items is not only determined by the quantity of exports, but also the prices of exports relative to imports. The trends in relative prices between exports and imports are defined as the terms of trade. The terms of trade for these six countries are summarized at the bottom of Table 10. With the exception of Cameroon, the data show these countries experiencing a more adverse reduction in the prices of their exports relative to imports than has generally occurred in low- and middle-income countries.

The degree of international trade vulnerability is further depicted by the data presented in Table 11, which shows trends in the prices of the two principal export commodities for the six countries. While most commodity prices have risen over the two-decade period, they have generally not kept pace with the prices of manufactured goods. Coffee, cocoa, tea, and rubber prices have risen significantly. However, some of the other commodities, such as bananas (Costa Rica), sugar (Dominican

Table 10. Exports and Imports as a Percentage of GDP, 1960-1980

Year	Cameroon		Costa Rica		Dominican Republic		Malawi		Sri Lanka		Thailand		Low-Income Countries		Middle-Income Countries	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1960	30.5	26.1	21.4	26.2	23.8	16.1	20.0	38.0	30.1	33.0	17.5	18.9	14	-	14	-
1965	22.9	22.3	22.8	33.8	15.1	17.4	18.4	30.5	25.9	25.5	18.3	19.6				
1970	28.3	26.1	28.2	35.0	17.2	24.5	22.7	35.4	25.5	28.6	16.7	21.5				
1975	25.1	28.0	30.4	38.7	28.0	28.0	27.7	43.1	27.5	35.0	19.1	23.7				
1977	25.6	28.1	31.1	36.5	20.2	24.4	28.4	32.8	33.8	32.2	20.9	26.3				
1979	23.3	27.9	27.1	38.3	20.5	25.7	20.8	36.3	33.7	45.8	23.7	29.8	20	-	18	-
1980	NA		25.9	35.8	NA		21.6	33.2	31.3	53.2	25.0	31.1				
Year	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
Terms of Trade 1975=100	106	144	132	103	47	40	115	84	203	116	121	73	111	99	109	94
	+35.8		-22.0		-14.9		-27.0		-42.9		-39.7		-10.8		-13.8	

Note: Exp. = Exports, Imp. = Imports.

Source: IMF, International Financial Statistics Yearbook, 1981.

Table 11. Trends in Prices of the Two Principal Export Earners, 1960-1980
(1975=100)

	Cameroon		Costa Rica		Dominican Republic		Malawi		Sri Lanka		Thailand	
Year	Coffee	Cocoa	Coffee	Bananas	Sugar	Coffee	Wholesale Tobacco	Tea	Tea	Rubber	Wholesale Rice	Wholesale Rubber
1960	-	-	50.8	44.5	16	56	46	-	64	95	35.7	142.9
1965	64	27	59.4	58.8	19	62	47	63	59	70	38.3	90.6
1970	95	62	65.1	46.4	23	72	75	70	55	73	40.5	72.9
1975	100	100	100.0	100.0	100	100	100	100	100	100	100.0	100
1977	310	148	375.6	114.9	34	300	116	159	236	157	74.9	144.9
1979	248	188	258.1	133.0	33	267	123	113	178	318	94.4	224.8
1980	NA		274.7	160.7	61	191	129	109	268	367	119.8	253.3

[1] In 1980, ferronickel and ore were larger export earners than coffee. Both have become principal exports in the last 10 and 5 years, respectively.

[2] In 1980, sugar surpassed tea earnings.

[3] Tapioca products, tin, and corn are also important export items.

Source: IMF, International Financial Statistics Yearbook, 1981.

Republic), tobacco (Malawi), and rice (Thailand), have not increased as rapidly as the prices of other primary commodities.

One primary response to adverse trends in prices is to diversify the mix of export commodities. For example, Thailand no longer relies on rice and rubber and has developed other export items, e.g., tapioca products, tin, corn, and a number of other agricultural and raw materials. Similarly, Malawi has expanded its production of sugar. Unfortunately, sugar prices have declined significantly since 1975 (see Dominican Republic sugar prices in Table 12). The price decline has contributed to Malawi's present financial problem. The Dominican Republic has recently diversified its exports by expanding mining activities. In addition, the country has increased the value added of agricultural exports by further processing its raw commodities as an additional response to the decline in the price of sugar.

Besides diversifying agricultural production into more lucrative commodities, another response has been to expand efforts to promote manufacturing exports. In Table 12, data are presented to show the extent to which the composition of exports has changed. In Costa Rica, Dominican Republic, and Thailand, manufacturing items compose a large proportion of merchandise exports. This proportion is increasing, particularly in Thailand and Sri Lanka.

The data for Cameroon are difficult to compare with those of the other countries since they are taken from a different source, and agricultural processing is not included as a manufacturing item as it is in the data for the other five countries. However, the data for Cameroon show that until 1978, agriculture increased its share of exports and manufacturing exports remained at a very minor level. Since 1979, oil exports have undoubtedly changed the existing structure.

To the extent that the prices of manufactured commodities are increasing more rapidly than agricultural commodities, countries which have a larger share of their total exports embodied in manufactured as opposed to agricultural commodities will tend to be less vulnerable to price changes than countries which rely on one or two agricultural commodities for exports. Malawi is more vulnerable since (a) its manufacturing base is small, (b) manufacturing composes a small proportion of exports, and (c) the prices of its principal agricultural exports are lagging behind the prices of other agricultural commodities and manufactured goods.

Table 13 presents data on the extent to which governments rely on export taxes to finance government activities. The top part of Table 13 shows the proportion of total central government revenue from import and export duties (taxes). The lower

Table 12. Structure of Merchandise Exports, 1960-1980

Country (Source)	1960	1965	1970	1975	1977	1979	1980
Cameroon (2)							
% Ag. (Primary)	77					90[1]	
% Mining (Petrol.)	19					6[1]	
% Mfg.	4					4[1]	
Costa Rica (1)							
% Ag.				53.3	63.9	58.6	
% Mining				-	-	-	
% Mfg.				46.7	36.1	41.4	
Dominican Republic (1)							
% Ag.				23.3[2]	45.2	40.2	26.2
% Mining				3.0	3.2	3.1	3.0
% Mfg.				73.7	51.6	56.7	70.8
Malawi (1)							
% Ag.				80.1	84.7	83.0	
% Mining				-	-	-	
% Mfg.				19.9	15.3	17.0	
Sri Lanka (1)							
% Ag.				77.8	80.9	69.7	64.1
% Mining				5.3	4.9	4.1	3.4
% Mfg.				16.9	14.2	26.2	32.5
Thailand (1)							
% Ag.				42.4	34.6	36.7	
% Mining				3.8	3.5	4.0	
% Mfg.				53.8	61.8	59.3	
All Low-Income (2) Excl. India & China							
Ag.	79					40[1]	
Mining	15					49	
Mfg.	6					11	
All Middle-Income Oil-Importing (2)							
Ag.	67					37[1]	
Mining	16					11	
Mfg.	17					52	

[1] 1978
[2] 1974

Sources: (1) IMF, International Financial Statistics Yearbook 1981.
(2) World Bank, World Development Report, 1981, Annex Table 9.

Table 13. Trends in International Trade Taxes: (1) Percentage of Central Government Revenue From Import and Export Duties and (2) Ratio of Export to Import Duties, 1973-1979

Item/Year	Cameroon	Costa Rica	Dominican Republic	Malawi[1]	Sri Lanka[2]	Thailand
I. Percent of Total Central Goverment Revenue from Import and Export Duties						
1973	-	18.1	42.0	17.7	35.4	26.8
1975	45.7	23.6	48.2	18.3	29.6	26.3
1977	44.9	23.5	44.1	15.9	38.2	24.7
1979	27.5[3]	21.5	37.8	19.1	53.9	24.3
II. Ratio of Export to Import Duties						
1973	-	0.059	0.226	0	1.820	0.129
1975	0.375	1.051	0.860	0	1.360	0.253
1977	0.290	0.861	0.440	0	1.400	0.142
1979	0.064	0.672	0.245	0	1.835	0.165

[1]Malawi does not report export duties. The government's agricultural marketing board, ADMARC, buys agricultural cash crops, e.g., tobacco, at a price set below the international price and thereby makes a profit on its international sales. The net profits from all of its operations, including from the firms in which it has a holding-company interest, are then reported as the government revenue item under "Nontax Revenue" (Table 9).

[2]Sri Lanka has a separate Marketing Board for each cash crop which it markets internationally.

[3]The figure for Cameroon dropped significantly because of oil revenue which began in 1978.

Source: IMF, Government Finance Statistics, 1981.

portion of the table presents the ratio of export to import duty revenue generated during the 1970s. The data presented in the top part of Table 13 show that in four of the six countries, more than 25 percent of total central government revenue came from import and export duties during the 1970s. In Malawi, where the government does not impose export duties on agricultural items per se, international trade taxes yielded less than 20 percent of government revenues (see Note 1, Table 13 for additional detail on this point). In Sri Lanka, however, revenue from international trade transactions constituted over 50 percent of total government revenue in 1979. In Cameroon, the proportion of government revenue from taxes on international trade declined with the onset of oil revenue in 1979.

From a policy point of view, the data about the ratio of export to import duties are important. With the exception of Malawi, all countries have export taxes. Countries like Sri Lanka and Costa Rica are more dependent on export relative to import taxes (thus, the higher ratio). The Dominican Republic has reduced its export duties relative to its import taxes since 1975. Because of oil, Cameroon also shows a significant decline in the ratio of export to import duties. Thailand also has not relied on export duties as an important source of government revenue, particularly in comparison to import duties.

When governments do not have to rely on export duties for a significant proportion of their revenues, they have more latitude for policy choice. Disincentive agricultural tax policies can be minimized and increased production may result. The agricultural sectors of Malawi, Cameroon, and Thailand have recorded more robust growth over the past two decades than in the other countries which have taxed agricultural exports more heavily relative to imports (see Table 4 for comparative agricultural sector growth rate data).

IV. A COMPARATIVE ANALYSIS OF THE POLITICAL ECONOMY CONTEXT REGARDING THE PRIVATE SECTOR AND DEVELOPMENT

International donors and many poor countries would like to improve the effectiveness of assistance and create the social, political, and economic environment which is conducive for sustained economic development. The above analysis has demonstrated that these are important international and domestic economic constraints which many poor countries face, including the six countries embodied in this comparative analysis. This section of the paper analyzes the political economy considerations facing these six countries and how such considerations facilitate or constrain the policy options which may be considered in each country. It then reviews the policy context of these countries to determine the extent to which private sector initiatives are enhanced or constrained by government policy. The policy context of the six countries is also analyzed in light of the political economy context prevailing in each country.[9]

A. Political Economy Considerations

The history of every nation-state has witnessed a process of maintaining a relative power balance between competing social and ethnic groups. In addition to the major groups involved in this process, a number of other potential political cleavages exist in developing countries, including (a) religious differences, (b) institutional differentiation within government as well as within the business community, (c) different types of leisure organizations, (d) cultural diversities, and (e) other factors which differentiate people. The extent to which political power is distributed among these many differentiated groups and institutions defines the extent to which governments must allocate resources to groups in order to maintain both political power and social stability.

It is possible to distinguish various regime types, from a very stable regime type, e.g., an enlightened dictator or an orderly democracy, to very unstable regimes where the number of coups or attempted coups represent evidence of regime instability. When regimes are unstable, considerable government resources, in terms of tax revenues, manpower, and policy advantages, are allocated to maintain power and maximize regime stability. These decisions affect the extent to which economic activity becomes sustainable. In most countries, the private sector represents but one institutional base of power within the body politic. Governments address its concerns in conjunction with those of other competing claims for resources in order to maintain regime stability.

In Table 14, the six countries under study are shown in a matrix which describes this reality, and suggests the political objectives and their implications for resource allocation required to maintain stability. For example, among enlightened rulers or dictators where there are many loci of power, governments can implement policies to maximize economic growth, but must also be careful to distribute resources equitably. If there are few loci of power, concern about the equitable distribution of economic growth and resources across groups or entities is lessened. Similarly, if regime stability is low,

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[9]Each country study provides an in-depth review of the prevailing policy context and prospects for change which may enhance economic development.

Table 14. Resource Allocations in the Context
Of Political Economy Consideration

	Regime Stability			
Institutional Differentiation of Power[1]	High Enlightened Ruler-Personal Dictator	Democracy With Long Tradition of Orderly Succession	Medium Stability	Low Unstable; Many Coups or Attempted Coups
Many Loci of Power-High Institutional Differentiation	1. Government can seek to maximize growth. 2. But must be careful about equity.	1. Equity among groups vital to maintenance of political power. 2. Growth important to spread more equity. Sri Lanka Costa Rica		1. Equity of resource distribution only consideration of government.
Medium	Cameroon		Thailand Dominican Republic	
Low-Few Loci of Power	1. Can maximize economy growth. 2. Can be unconcerned about equity. Malawi			1. The powerful receive the benefits. They are bought off.

[1]Defined by such factors as religious, ethnic, economic organization, clubs, culture, political participation. All act to diversify the polity and differentiate power.

and if society has many institutional power bases, the equitable distribution of resources, however meager, dominates government decision-making, whereas if few loci of power exist, the regime can maintain its stability by "buying off" the few powerful entities.

In the schematic representation of Table 14, the six countries are located according to their regime stability and institutional differentiation. Two countries, Cameroon and Malawi, are ruled by relatively enlightened dictators, with Cameroon being more concerned about distributing resources on a basis which will ensure geographic and ethnic equity. Two other countries, Sri Lanka and Costa Rice, have democratic traditions of long standing. Thailand and the Dominican Republic have regime traditions which suggest less stability but which may be moving toward more stable democratic traditions. Thailand appears more institutionally differentiated according to ethnic differences and its economic size than does the Dominican Republic.

Analysis that takes into account characteristics of the political economy can assist in ascertaining the likely nature of government objectives, particularly with respect to maximizing economic growth, the extent to which governments may intervene in the economy, and how the tax structure may be organized, including who gets taxed and by how much. Such characteristics also determine the kinds of policy options that can be considered by countries within their political and historical contexts.[10]

The above analysis suggests why equity concerns perhaps have historically dominated political decisions in such countries as Sri Lanka and Costa Rica in the past and will continue to be weighted heavily even in these times. Cameroon and Thailand will continue to be concerned about issues of equity as well, although probably for different reasons. As long as the present political order remains in place in Malawi, economic growth will likely continue to dominate the policies established there.

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[10]For an insightful comparative analysis of the relationship between regime type and economic performance in Asia, see Dwight King, "Regime Type and Performance: Authoritarian Rule, Semi-Capitalist Development, and Rural Inequality in Asia," Comparative Political Studies, 13, 4 (January 1981) 477-504. Other researchers have also investigated this issue. See for example, Irma Adelman and Cynthia Taft Morris, Economic Growth and Social Equity in Developing Countries, (Stanford, Calif.: Stanford Univ. Press, 1973).

B. The Policy Context

In the following section a systematic review of government policy in the six countries is presented. The focus of the analysis is to ascertain the extent to which private sector initiatives that can contribute to economic development are enhanced or constrained by government policy.

1. General Policy Perspectives

Table 15 reviews government policy from a number of perspectives. The governments of five of the six countries have a general underlying policy to promote economic growth via the expansion of a private enterprise economy. In Cameroon the government's continuing priority is to develop a "sense of nation" and to equitably allocate resources throughout the entire country. The state intervenes in Cameroon in many ways, perhaps more so than in the other countries, with the possible exception of Sri Lanka before 1977. Cameroon provides latitude to the private sector, but uses public power as is necessary to guide that sector.

All six countries promote private ownership but the extent of private ownership varies from country to country. Malawi really does not have many privately owned enterprises. The government holding companies tend to control approximately 75 percent of all nonagricultural large-scale "private enterprise" in the economy (see the Malawi country study for the details).

In each country there are one or more mechanisms which the government uses to promote private investment. All of the countries use public investment organizations and holding companies to cofinance private initiatives. In Cameroon, the SNI group (a public holding company established by the government) provides equity assistance. In the late 1960s and early 1970s, the Dominican Republic, Sri Lanka, and Thailand went through a period of developing publicly owned and operated corporations. At the present time, however, most countries seek to expand the number of privately owned enterprises.

2. Government Ownership Regulation

In Table 15, Part II, data are presented on the extent of government ownership of financial and nonfinancial enterprises. The Government of Sri Lanka owns more nonfinancial enterprises (122 in 1981) than other countries despite the fact that it has moved away from a public-sector orientation since 1977. While there are no available data about the total number of enterprises in each economy, it is quite possible that the 43

Table 15. Summary of Government Policy Regarding Private Sector and Development

Policy	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
I. General Policy Perspective Promote Econ. Growth Via Expansion of the Private Enterprise Economy	1. Need to develop sense of national equity in resource allocation. 2. State guides development. Has planned liberalism. 3. Gives lots of latitude to private enterprise. 4. Public power used economically. 5. Much public control at decision point to begin. After begun, is controlled via indirect rule.	Is predisposed to the idea.	1. Country to foster equitable development. 2. Essentially oriented to the private sector. Public sector is a historical accident (Trujillo).	Government favors.	Since 1977 has moved from an economy almost entirely controlled by the state to one where the private sector plays the lead role and market forces determine resource allocation.	Government policy: the production of goods and services has been the exclusive province of the private sector, with a free market price system.
Promote Private Ownership in Economy	1. Some but deliberate. 2. Government investments to stimulate private investments, particularly foreign private investments (SNI). 3. Promotes in nonstrategic sectors.	1. Economy can be characterized as competitive and open, i.e., therefore no political or social barriers to entering almost any type of economic activity or to compete for credit, labor, markets, or materials. 2. During decade of 70s 88-90% of gross investment was in the private sector.	Becoming more private sector-oriented after Trujillo overthrow. Pragmatic about government holdings. There is no simple way to dismantle.	1. Not much, given holding companies. 2. Government and holding companies = 75%	1. Yes. 2. Discourage public corporation expansion. 3. Private sector now relied-on for any new activity in manufacturing.	With the exception of approx. 60 parastatals rest of economy is privately owned. Number of publically owned firms has declined since mid-1970s.
II. Government Intervention Government Ownership	1. Government: owns and operates 43 nonfinancial public enterprises 33% Agriculture 25% Manufacturing 9% Transport 9% Public Utilities 12% Commerce 12% Other 2. Government also controls 10 of 19 financial institutions operating in formal sector.	1. Government: owns and operates 25 nonfinancial public enterprises 8% Agriculture 28% Manufacturing 24% Transport 28% Utilities 4% Commerce 8% Other 2. Government also controls the entire formal financial sector (n=14).	1. Government: owns and operates 40 nonfinancial public enterprises 10% Agriculture 50% Manufacturing 5% Transport 20% Public Utilities 10% Commerce 5% Other 2. Government controls 9 of 60 financial institutions operating in formal sector.	1. Government: owns and operates 23 nonfinancial public enterprises 17% Agriculture 30% Manufacturing 9% Transport 17% Public Utilities 4% Commerce 22% Other 2. Government controls 7 of the 34 financial institutions, including 4 holding companies operating in formal sector.	1. Government: owns and operates 122 nonfinancial public enterprises 10% Agriculture 50% Manufacturing 6% Transport 6% Utilities 15% Commerce 13% Other 2. Government controls 16 of 49 financial institutions operating informal sector.	1. Government: owns and operates 62 nonfinancial public enterprises 10% Agriculture 35% Manufacturing 13% Transport 19% Utilities 15% Commerce 8% Other 2. Government controls 8 of 165 financial institutions operating in formal sector.

Table 15. Summary of Government Policy Regarding Private Sector and Development (cont.)

Policy	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
Government Regulates Monopolies	1. By part-ownership. 2. Has a government-owned holding development investment Co. (SNI). 3. Price controls on products.	1. Government owns utilities. 2. Government runs a holding investment company. 3. Regulates prices.	Many administrative approval restrictions.	Small market size lends itself to monopolies, which if regulated will yield socially desired results.	1. Government has broken up the 2 public tea corporations into 8 private firms. 2. Public textile firm now on a management contract with private operators. 3. Discourages expansion of public corporations. 4. Reduce import monopolies to increase competition. 5. Government eliminated public monopoly in road transport.	1. Not really but can; particularly those firms dependent on imported raw materials. 2. Government doesn't like monopolies which were developed under import substitution period.
III. Price Policy						
Prices Should Equal Opportunity Costs	1. Some critical/essential commodities have price controls. Covers all locally manufactured goods. 2. Controlled by Ministry of Planning. 3. Strengthened controls in 1979.	1. Basically true. 2. Basic needs are subsidized. 3. Quotas of minimum amounts to be sold at low prices.	Not really.	Basically true.	Generally true. Economy moving in that direction since 1977.	Basically true. One important exception being energy prices have been subsidized since 1974.
Agricultural Price Policy	1. Producer prices controlled for primary export crops. Coffee, cocoa, cotton, palm oil, via a national produce marketing board. Taxes agricultural sector for investments in other sectors. 2. Government coming to recognize it must increase producer prices to get more production. 3. Special technical assistance provided via SODECOTON.	1. Subsidizes credit. 2. Has Coffee Marketing Board set coffee prices. 3. CNP sets minimum prices for basic grains 4. Urban interests outweigh rural ones. 5. Rice supported but other food crops, e.g., corn and beans, not assisted due to food price controls.	Have export duties.	1. Use-marketing board (excluding large tobacco growers) favors certain crops, i.e., rice, and taxing groundnuts, cotton, tobacco. 2. Fertilizer subsidized. 3. To maximize revenue, must keep tobacco production low.	1. Has high export duties on tea. 2. Reduced export duties on most items. 3. Has increased procurement price of rice. Country becoming self-sufficient. 4. Subsidized fertilizer for rice. 5. Reduced state role in rice trade. Now government procures less than 10% of crop. 6. Subsidize replanting of tea.	1. Government taxes exports of rice and rubber, two important foreign exchange earners. 2. Government sometimes imposes quotas on exports if domestic supply is low. 3. Government sets price floors for key commodities. 4. Induce crop diversification. 5. Sugar is overpriced.
Wages Equal to Opportunity Costs	Unclear; probably not. No minimum wage.	1. Has minimum wage. 2. Small-scale industry ignores. 3. With social security contributions added, wages are greater than the marginal product of labor.	Unclear.	1. Wages have not risen rapidly. 2. Wage employment has increased at 5%/year. 3. Skilled workers in short supply earn 20-40 times unskilled.	1. Has minimum wages which have increased markedly since 1977 in nominal and real terms. 2. Demand for labor has increased significantly relative to supply. The unorganized sector has seen a tightening D/S situation.	1. Has minimum wage; until 1978 minimum wage below market wage; after 1978 minimum wage greater than market wages. 2. Expand minimum wage coverage to other areas outside Bangkok. 3. Compliance to minimum wage function of size of firm.

Table 15. Summary of Government Policy Regarding Private Sector and Development (cont.)

Policy	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
Price of Money	1. Limited role for monetary policy due to monetary union with other countries. 2. Interest rates controlled, kept low to encourage investment.	1. Subsidized capital to industrialists. 2. Government allocates credit.	1. Some credit subsidized to import substitution investors. 2. Have varying rates but generally rates on savings are low; leads to capital flight.	Subsidizes.	Stopped subsidizing in 1978.	1. Not really. The discount rate in Thailand has been higher than in U.S. 2. Other credit markets, including informal, reflect opportunity cost of capital.
Food Prices	1. Basically uncontrolled-too many open air markets. 2. Government tries to procure grain and uses it to try to stabilize market fluctuations.	Basic needs subsidized. Milk, cheese, rice, corn, tortillas, flour, bread, pastas, meat, chicken, fish, tuna, eggs, beans, oil, sugar, coffee and salt.	Regulated scarcities developed.	Eight staple commodities have price controls.	1. Most commodities no controls. 2. Subsidies on "sensitive" items, e.g., wheat flour, infant formula decontrolled over 3-year period. 3. Moved to a food stamp program rather than the general rice rationing system.	Not really. Country makes sure there is adequate domestic supplies before exporting food items.
Other Subsidies	See other price policy items.	1. Utilities. 2. Public transport. 3. Construction materials. 4. Pharmaceuticals.	Subsidizes many consumer prices.	Airline, health care, education, railway tariffs.	Reduced food and petroleum subsidy; petroleum firm made profit.	1. Energy price subsidy. Has gradually reduced that subsidy in recent years when it contributed to balance of payments problems. 2. Had controlled prices of 59 items, but no longer.
Profit Controls	Via prices on manufactured items.	No Business profits tax.	1. Via tax exemptions for import substitution investors and low duties on imports. 2. Controlled margins until scarcity developed.	Ministry of Trade & Industry limits profit margins, esp. wholesalers and retailers.	1. Via import tariffs reduction of import monopolies. 2. Has raised prices of government firms to increase financial profitability.	1. None. Country can control if it desires via tax and quota policies. 2. Profits can be repatriated.
IV. <u>Trade Policy</u>	1. Import policy generally less restrictions than other LDCs. 2. Sensitive products such as food closely watched. 3. To complement last stage import substitution, import restrictions are granted to help infant industries. 4. Have some export duties. 5. Must have export geographic diversification within country still heavily dependent on primary commodities, excluding oil. 6. Wants to increase trade in Central African Customs and Economy Union, have common tariffs.	1. Tariffs the key instrument used to implement import-substitution policy. Low on raw materials, high on final external items. 2. Export promotion center established. 3. Income tax credits for exports. 4. Use of drawback schemes.	1. Duties structure often tied to import substitution.	1. No import quotas. 2. Generally low tariffs. 3. Minor infant industry protection.	1. Revise tariff structure to complement export promotion industrial strategy. 2. Eliminate quantitative import restrictions. 3. Created an Export Development Board and a free trade zone. 4. Domestic producers still have high levels of protection. 5. Mixed policies at the moment. Effective protection ratios vary considerably.	1. Have quotas on some imported items to protect "infant" industries. 2. Have tariffs and export taxes. Tariffs important for government revenues and are around 20-40%. Tariffs were lower before import substitution policies of 1960s. Now tariffs are used to restrict demand.

Table 15. Summary of Government Policy Regarding Private Sector and Development (cont.)

Policy	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
V. Foreign Exchange Policy	1. CFA pegged to French franc. 2. No restrictions on international payments. 3. Currency may be undervalued. Economy may be stronger than exchange rates indicate.	1. Overvalues colon. 2. Has multiple exchange rates.	Have several currency exchange rules.	1. No foreign exchange restrictions until recently. 2. Central Bank now requires licenses to import. Leads to foreign exchange delays. 3. Currency pegged to the SDR. Approximates opportunity cost of FX.	1. Currency floats. 2. Allow purchases of foreign exchange for travel, etc. 3. Encourages remittances from abroad. Now single biggest foreign exchange earner.	1. Profits can be repatriated without restriction. 2. Baht closely tied to money. 3. No foreign exchange restrictions.
VI. Industrial Policy	1. Import substitution. Small market leads to monopolies and protection inefficiency due to high import tariffs. 2. Have high rates of effective protection. 3. Since 1973, try to increase manufactured exports but still have export duties of 2-42%. The variation can cause distortions. Need to reduce and equalize. 4. Tried to promote small and medium scale via technical assistance and a guaranteed loan fund. - feasibility studies - duties reduced on capital equipment and raw material imports, case by case. - has an incentive investment code (functions on a case by case basis).	1. Import substitution and infant industry. 2. Emphasizes industry over agriculture. Public investment in manufacturing via AID-sponsored CODESA. 3. Participate in Central American Common market via exports. 4. Attract private investment via (a) protective tariffs, (b) tax incentives, (c) tariff exemptions, (d) stable exchange rate. 5. Donors support via industrial credit, manpower, and infrastructure. 6. Give tax credits for export promotion. CODESA, a holding company of last resort has a huge annual deficit. Runs businesses which private investors would not touch.	1. Encourages local processing of export crops especially sugar. 2. Favors import substitution. Grants tax exemptions. 3. Policies have favored capital-intensive enterprises.	Encouraged first import substitution. Now examining export promotion, e.g., sugar. Especially given (a) domestic market size and (b) foreign exchange.	1. 1977 marked the end of import substitution; now its export promotion. Capacity use very low. 2. Recent industrial investments are still biased toward import substitution, and capital- and energy-intensive propositions. Need to reduce dependency on imported energy. 3. Has marketing constraints on export growth.	1. Import substitution until mid-1970s. Now export promotion. 2. Defined by Industrial Investment Act of 1960, and ammended 1960, 1972, 1977. 3. Established BOI to provide technical assistance to firms, e.g., staff recruitment, staff training, proposal analysis, MIS. 4. Have other ministries of government to support industry development. Minimum of industry is training of staff and conducting industry surveys. 5. Has taxes.
VII. Financial Policies	1. SNI controls public investments into private sector. 2. Special credit allocations for small businesses, 20%. 3. Overall credit policy determined by the 5-country central bank of the Central African Custom Union. 4. Banks not a substantial source of development finance. 5. Large informal sector (tontines). 6. Development Bank--donor financed. 7. Commercial banks controlled on interest rates.	1. Nationalized banking system is inept. 2. Low interest rates, overvalued colon has encouraged export of capital and local savings and use of borrowed monies. 3. Collateral required for loans-favors already wealthy. 4. Very little equity capital from foreign sources.	Have a well-established set of procedures for loans. Technical assistance followup by credit institutions.	1. Little equity capital. Firms are highly leveraged with debt. 2. Relies on donors and donor-established financial entities, e.g., CDC. 3. Encourages inflow of foreign capital.	1. Has established credit quotas to public corporations to allow private sector an increased share of available credit. 2. Has allowed foreign banks to operate and improve the flow of credit. 3. Given inflation, Central Bank is tightening credit expansion. Reduced rate of money growth.	1. Has well-developed commercial banking system. Efficient at mobilizing savings. 2. Promotes investment via Board of Investment (BOI); Industrial Finance Corporation of Thailand. 3. Encourages foreign capital.

Table 15. Summary of Government Policy Regarding Private Sector and Development (cont.)

Policy	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
VIII. Manpower Policy	1. Labor market functions poorly. Unemployment exists among unskilled. 2. Country still allows many expatriates to run businesses. 3. Trying to increase employment. 4. Government established national office of employment and manpower. 5. Education exp. increased by 25% P.A. recently. 6. Not much vocational education. 7. Focuses on primary and general secondary education. 8. Problems between French and British legacy. 9. Not much practical education. 10. Has just a small college of commerce.	1. Country committed to universal education; leads to literate population. 2. Few labor shortages. 3. No labor problems; union not strong. 4. Large numbers of university graduates, esp. in Business Administration. Therefore few management problems. 5. Not much out-migration. 6. Vocational skills training emphasized in education, esp, important in high school. 7. Lots of evening classes at university in business and economics.	There are a number of technical training institutions from universities, to finance company training courses and technical assistance centers. Large-scale business organizations supporting small scale. They act as support groups.	1. Allowed continued use of expatriates. 2. Trying to Malawianize high-level positions today. Only 40% in 1980. 3. Established more vocational, technical, and training schools. 4. More secondary and college. 5. Replace Asians in rural areas. Has lead to some mismanagement in various firms. 6. Managers must show profit results.	1. Manpower can migrate-many are in Middle East. 2. Promote primary and secondary education; has the most literate population in LDCs. 3. High unemployment due to slow economic growth.	1. General society respects education. Thus, resources are allocated. 2. Wanted more vocational and technical trained people. Asked for donor assistance as early as 1961. 3. Concern for imbalances (region, sector, and target group) unemployment, migration (rural-urban). 4. General expansion of education; reformed to more technical skills. 5. Equity of education institutions especially regarding vocational and technical training. 6. Business community not much input on training content. 7. AID participants training vocational, technical. 8. Emerging Thai Trade Union Association.
IX. Information Policy	Via banks, ministry contacts, agriculture extension, etc.	Little support except via CENPRO, i.e., the Center for Export and Investment Promotion, a Government Organization.	1. Many private institutions. 2. Has several joint public-private institutions.	1. Has Chamber of Commerce newsletter. Identifies opportunities and acts as broker. 2. Malawi Export Promotion Council trade fairs, market surveys. 3. Informal communication, especially in small scale.	1. Trying to increase investment. 2. Trying to improve marketing of agriculture and manufactured products.	1. Government permits economic, financial, and technical information to be disseminated freely. 2. Plays positive role by producing and disseminating information but resources allocated to this effort are small, except Bank of Thailand. 3. Wants to expand information available to foreign investors. 4. BOI with AID assistance promotes feasibility studies, industrial surveys.
X. Welfare Policy	Equity across groups very important for national cohesion. Educational opportunities equalized.	1. Finance via payroll tax (social security). 2. Strong commitments to health and education for "equity" reasons.	Has indicated more interest in equity in recent years.	No specific policy.	1. Well-known in past in education, nutrition, health. Big government subsidies. 2. Equity important.	1. Government has strongly encouraged education.

Sources: 1. The Country Studies on Cameroon, Costa Rica, Malawi, and Thailand.
2. PPC/E/S "Special" Study on Dominican Republic.
3. PPC/E/S Sri Lanka PL 480 Title I Impact Evaluation.
4. Selected World Bank documents.

government-owned and -operated nonfinancial public enterprises in Cameroon represent the most pervasive government intervention in the six countries under analysis primarily because of the large proportion of public firms in agriculture, the most dominant sector in the economy.

Additionally, all countries control a certain number of financial institutions in the formal sector of the economy. The most controlled financial sector is in Costa Rica, where the government owns the entire formal financial sector. The Government of Thailand has intervened the least in the formal financial sector.

Public ownership of the nonfinancial sector of the economy (the data in Table 15, Part II) raises several important issues. There are economic rationales for governments to own and/or operate certain nonfinancial enterprises.[11] In particular, society may accrue certain positive externalities from the activity, or, where natural monopolies may exist as in the case of certain utilities and possibly some transport sector enterprises, e.g., railroads, ports, and airlines, public ownership or regulation may be warranted. National defense or security reasons may also dictate public ownership. Public utilities like electric companies, water and sanitation systems, and telephone companies are commonly owned by governments throughout the world, for the reasons enumerated above.

However, there is little economic rationale for governments to operate commercial, agricultural, or trading companies. Despite this fact some government ownership exists in these sectors in each country. In the Dominican Republic, Sri Lanka, and, to a lesser extent, Thailand, a large share of public enterprises is found in the manufacturing sector.[12] The most prevalent agricultural public enterprises consist of large plantations for cash crops, and some marketing boards.[13]

With respect to government regulation, virtually all governments have the power to regulate monopolies and other market situations. Each government has slightly different mechanisms

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[11]See Richard S. Newfarmer, "The Private Sector and Development," Overseas Development Council Draft Paper, September 10, 1982, pp. 3-10.

[12]Much of the government ownership in the Dominican Republic occurred during the rule of Trujillo, who was overthrown in the mid 1960s.

[13]For further details about the distribution of public enterprises in each country, see Annex Table A.

for doing so. For example, Sri Lanka has been involved in deregulating its economy and has divested two large public tea corporations into eight private firms. It has also contracted with a management consulting firm to operate a large public textile firm and is discouraging further expansion of other public enterprises by establishing credit policies which favor private enterprise development.[14]

Malawi has substantial regulatory control over monopolies because it has a small domestic market. By virtue of the economy's small size, it lends itself to monopolies. The country study team found that Malawians felt that it is appropriate to exercise considerable government control over private firms with respect to price and total output to obtain socially desirable results as long as each firm is operating in the "economies of scale" portion of their long-run average cost curve. Many monopolies in Malawi are regulated by establishing the prices of the final product.

3. Price Policy

There are a number of price policies which can affect the development process and the role of private initiative in that process. These policies are disaggregated, in Part III of Table 15, into two components which include (a) a general policy orientation that prices should approximate the opportunity cost of foregone resources, as well as (b) specific price policies with respect to agriculture, wages, interest rates, food, and profit (rates or total amount).

Most countries accept that prices should equal opportunity costs. Cameroon has defined a number of "critical" commodities, ("critical" defined by government) which are subject to some form of price control. In addition, in Costa Rica some "basic needs," e.g., food, are subsidized. In the Dominican Republic prices are regulated for a number of commodities. However, Sri Lanka has been deregulating prices on many items since 1977. In Thailand, with the exception of energy prices, i.e., oil, most prices reflect the opportunity cost of alternative uses.

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[14]For a recent analysis of Sri Lanka's government policies which under its economic liberalization program, see John Blackton, "The Private Sector Since 1977," Appendix D, in David Steinberg, et al., Sri Lanka: The Impact of PL 480 Title I Food Assistance, Impact Evaluation No. 39 (Washington, D.C.: AID, September 1982.

While most countries subscribe to the general price policy described above, all countries intervene in the pricing of agricultural inputs or outputs. Virtually all countries have a marketing board mechanism which taxes cash crop exports and regulates key input prices, e.g., fertilizer. Some countries subsidize fertilizer used by growers of specific cash crops. Others subsidize reinvestments made in cash crops, such as in Sri Lanka which subsidizes the replanting of tea bushes. Most countries are aware of the adverse production effect which export taxes have on agricultural commodities. Thus, most countries have reduced their export duties in order to stimulate output. However, the extent of reduction has varied since the impact on government revenue varies considerably from country to country. (See Table 13 above for an analysis of this differential effect.) Finally, the country studies did not report on the actual magnitude of each intervention so it is not possible to assess the relative impact on output of each country's interventions.

With respect to wage policy, three countries have minimum wages, Costa Rica, Sri Lanka, and Thailand. In the Dominican Republic it is unclear whether there is a minimum wage or not. In the countries which have minimum wage laws, they are only effectively administered in the large urban areas, or in the case of large employers. In the small-scale sector, minimum wage legislation is not enforced. Perhaps the only country where minimum wage legislation has had a negative impact on industrial growth is Costa Rica, where in addition to minimum wage legislation, a wage-based social security cofinancing program has been in existence for a number of years. This additional wage bill component significantly increases total cost and thus leads to a reduction in employment and output.

With respect to interest rate policy and the price of money, five of the six countries have significantly subsidized interest rates for a long time and four of them are so engaged at present. Sri Lanka stopped subsidizing interest rates as of 1978. The only country which has not significantly subsidized interest rates has been Thailand, although there is a differential between the interest rates in the formal and informal money markets. (See Table 25 for the details.) Basically, governments have only regulated the interest rates in the formal financial sector. In all countries, informal financial markets operate without controls placed upon the price of money.

In Thailand, Cameroon, and Sri Lanka (since 1978), food prices are not regulated. However both Thailand and Cameroon engage in food price "stabilization" policies. In the case of Thailand, where there has been a traditional surplus of rice, the country makes sure there is an ample supply for domestic consumption before exporting. In Sri Lanka food prices for the "poor" are subsidized via food stamps to provide certain minimum quantities of "sensitive items," i.e., wheat, flour, and infant formula. In the Dominican Republic and Costa Rica, the prices of staple commodities are controlled.

Most of the countries have some other commodities or products whose prices are either subsidized or controlled. For example, Thailand has controlled gasoline prices since 1973. Sri Lanka had similar price controls on gasoline, but they are being reduced. In Malawi certain services, e.g., health and education, are subsidized. In Costa Rica, public utility services are partially subsidized.

Virtually all the countries control profits via (a) direct price controls; (b) tax exemptions, particularly for import substitution investors; (c) profit margins, in the case of Malawi; (d) import tariff barriers; or (e) import quotas. Each country has a slightly different combination of policy mechanisms for controlling profits. Additional study is required to determine which type or set of policies has the most adverse impact on profits, output, new investment, and macroeconomic indicators of development.

4. Trade Policy

Trade policies in each country in the study are consistent with the programs of industrialization established by each country. Like many other developing countries, the six countries have primarily followed an import substitution strategy of industrialization. Trade policy addresses import and export quotas and/or tariffs. Malawi has generally had the lowest tariffs and virtually no import quotas, such that it is the least interventionist among the countries studied. The low tariffs are related to its location, which provides "natural" trade barriers via high transport costs for both imports and exports.

In those countries where export promotion has guided industrialization efforts, particularly in recent years, alterations in each country's tariff structure have been made to provide incentives for expanding exports.

Since foreign trade is one of the principal mechanisms available to governments for generating revenue, trade policy, i.e., levels of import and export tariffs, is based not only on infant industry or industrialization policy, but also on the needs of government to finance the recurrent and capital costs of government programs. Cameroon and Costa Rica are both in common markets or customs zones. As a consequence, additional market-wide considerations are incorporated into their tariff decisions in order to maintain stable relationships with their neighbors. Since Cameroon represents the predominant market in the Central African Customs and Economic Union, it has more power to alter trade policies than perhaps does Costa Rica with respect to her neighbors in the Central American Common Market.

5. Foreign Exchange Policy

There are a number of differences which exist in the foreign exchange policies of the six countries. For Malawi, Sri Lanka, and Thailand, the value of the currency fluctuates on the basis of the SDR or the U.S. dollar. With the exception of Costa Rica and the Dominican Republic, the other countries do not restrict foreign exchange transactions or the repatriation of profits. In Costa Rica and the Dominican Republic, several exchange rates exist depending upon the nature of the transaction. It is possible that the FCFA franc in Cameroon is undervalued particularly given its new oil revenue, whereas the Costa Rica colon is overvalued. All currencies have devalued recently, with Costa Rica devaluing the most although probably not enough. (See Annex Table B for further information on currency devaluations.)

6. Industrial Policy

Virtually all countries have implemented an import substitution industrialization policy which features high import tariff barriers or import quotas. As foreign exchange and balance of payments constraints have become more binding, several countries have altered their industrialization policies away from import substitution and toward export promotion. Since the discovery of oil, Cameroon has not altered its policy toward export promotion. In Sri Lanka and to a lesser extent Thailand and the Dominican Republic, export promotion has been a stepchild policy. This is particularly true when export duties on agricultural commodities continue to exist. In all countries there have been a number of government interventions designed to promote industrial development and entice foreign investment. The range of interventions is presented in Table 15, Part VI.

7. Financial Policy

All countries target commercial credit, and each government subsidizes credit to those sectors being favored by its industrialization strategy. These policies occur irrespective of whether the country uses the mechanism of government holding companies, as in Malawi, or private firms, as in Thailand and

Costa Rica. Most countries require collateral and favor capital-intensive and large-scale investments. With the possible exception of Thailand, it is difficult to mobilize sufficient capital for equity-based financing. This is particularly true in Malawi, where debt financing is the norm.

8. Manpower Policy

There is considerable diversity among the six countries with respect to education and related manpower policy.[15] In both Cameroon and Malawi, there is a substantial and continued use of expatriates in high-level management positions in both private and public enterprises. On the other hand, in Costa Rica and Sri Lanka, and to a lesser extent Thailand, there is an overabundance of trained manpower relative to demand. In Sri Lanka, substantial out-migration of trained personnel to the Middle East has occurred.

For the two countries which still require sizable increases in skilled domestic personnel, it appears that Malawi is presently investing more in vocational and technical education compared to Cameroon. Cameroon faces the additional problem of inheriting two education systems, i.e., the British and the French, which predominate in different sections of the country. This problem has caused some difficulty in achieving "equity" among the many ethnic groups and in forging a national identity.

9. Information Policy

There is relatively little government intervention into the dissemination of information about new technology, management practices, or other new ideas which could foster private initiatives. In the case of Thailand, the government has tried to increase the flow of information to potential foreign investors via the Board of Investment. In other countries, governments have primarily relied on the banking system to provide such information or have intervened in a rather ad hoc manner.

10. Welfare Policy

Considerable differences exist in welfare policy within the six countries. In Costa Rica, and until 1977 in Sri Lanka, the

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[15]The experience of the six countries in education and manpower development is found in Section V.B below.

governments made a significant commitment to provide education and health services. Sri Lanka also mounted a major nutrition program via rice quotas, to guarantee a minimum caloric intake to each resident. The low level of infant mortality and the rather high life expectancy in Sri Lanka reflect the lengthy and strong commitment to the provision of such services (see Table 2). Thailand has also made a strong commitment to education. Malawi has had no specific education policy and it is reflected in its social indicators (Table 2). The Dominican Republic and Cameroon have recently become more concerned about their respective governments' health and education programs and have made resource allocation adjustments to reflect their concern.

11. Summary

From the above review, it is clear that each country has a distinct set of policies. While all countries generally encourage the private sector, they all have established a number of public enterprises throughout their respective economies. They all regulate monopolies. They have intervened in agriculture through the imposition of export taxes on key agricultural products. Most subsidize credit in the formal sector. Their trade policies are generally consistent with an import substitution industrialization policy. Differences exist in the extent to which policies are actually implemented. Malawi and Thailand tend to have the most favorable policy context for encouraging private activities, while policies in Sri Lanka and the Dominican Republic are moderately favorable. Sri Lanka has witnessed the most remarkable reversal in policy since the election in 1977. Many of the policies of Cameroon and Costa Rica are not generally conducive to private sector activities.

V. TRENDS IN MOBILIZATION AND ALLOCATION OF CAPITAL AND HUMAN CAPITAL

A. Mobilization and Allocation of Capital

Economic growth, as measured by the rate of change in GNP or GDP, is positively related to investment in human or physical capital. Investment, however, must be financed from either domestic savings or resource transfers from other countries. In Table 16, comparative data show trends in consumption, saving, and investment as a percentage of GDP for the six countries and the average for all low- and middle-income countries from 1960-1979.

Table 16. Trends in Consumption, Savings, and Investments, 1960 and 1979
(percentage of GDP)

Item	Malawi 1960	Malawi 1979	Sri Lanka 1960	Sri Lanka 1979	All Low-Income Countries 1960	All Low-Income Countries 1979	Cameroon 1960	Cameroon 1979	Thailand 1960	Thailand 1979	Dominican Republic 1960	Dominican Republic 1979	Costa Rica 1960	Costa Rica 1979	All Middle-Income Oil-Importing Countries 1960	All Middle-Income Oil-Importing Countries 1979
Public Consumption	16	17	13	9	11	12	-	10	10	12	13	6	10	18	11	14
Private Consumption	88	70	78	77	82	76	-	80	76	67	68	80	77	69	70	64
Gross Domestic Investment	10	29	14	26	10	18	-	25	16	28	12	21	18	25	21	25
Gross Domestic Saving	-4	13	9	14	8	15	-	10	14	21	19	14	13	13	19	22
Exports of Goods and Non-Factor Services	21	21	43	34	14	20	-	25	17	23	24	18	21	27	14	18
Resource Balance	-14	-16	-5	-12	-2	-3	-	-15	-2	-7	7	-7	-5	-12	-2	-3

Source: World Bank, World Development Report, 1981.

The data for low- and middle-income countries as a whole indicate that investment and savings have increased as a proportion of GDP from 1960 to 1979. The proportion of government to private consumption has tended to increase slightly over the two-decade period. Private consumption is a smaller share of GDP in middle- as compared to low-income countries. The export sector in both groups of countries has expanded as a proportion of GDP. Since 1960 and in 1979, it comprised nearly 20 percent of GDP. Finally, there has been net resource flow into all developing countries which has averaged between 2 and 3 percent of GDP during the 1960-1979 period.

In five of the six countries, the investment share of GDP was greater than the average for their respective income groups. By 1979, the Dominican Republic had nearly achieved the average level for middle-income countries as well. The high rate of investment was achieved largely because the external resource flow into each of the countries was considerably higher than the average for all countries. In 1979, Malawi and Cameroon obtained the largest flows of external resources. Sri Lanka and Costa Rica also obtained significant amounts of external resources.

In terms of mobilizing internal savings, perhaps the most remarkable progress has occurred in Malawi. In 1960, the country was dissaving. However, by 1979, it had a savings rate which approximated the average for all low-income countries. This notable achievement has contributed to the high rate of GDP growth since independence by facilitating higher levels of investment. Cameroon, on the other hand, has the lowest domestic savings rate of the six countries, and its rate of economic growth has been lower than in Malawi. Significant increases in the domestic savings proportion of GDP have also been recorded by Sri Lanka and Thailand.

For virtually all countries, the level of public consumption is lower than the average for their respective income group. In Sri Lanka, the decline in public consumption is significant and occurred after 1977 when a number of policy changes were implemented. The Dominican Republic reduction is related to Trujillo's overthrow in 1965. The only country which experienced a significant increase in the share of public consumption is Costa Rica, where social welfare programs were expanded during the 1970s.

1. Sources and Mobilizers of Savings

Unfortunately, comparable data on the sources of savings for all six countries are not readily available. However, some preliminary conclusions can be drawn from the available evidence. These data are presented in Tables 17, 18, and 19.

Table 17. External Capital Flows and Debt Service Trends, 1960, 1970 and 1979

Item	Malawi 1970	Malawi 1979	Sri Lanka 1970	Sri Lanka 1979	All Low-Income Countries 1970	All Low-Income Countries 1979	Cameroon 1970	Cameroon 1979	Thailand 1970	Thailand 1979	Dominican Republic 1970	Dominican Republic 1979	Costa Rica 1970	Costa Rica 1979	All Middle-Income Oil-Importing Countries 1970	All Middle-Income Oil-Importing Countries 1979
Flow of External Capital as % of GDP	13.7	11.5	1.5	5.9	NA		3.7	9.3	1.2	3.8	6.8	2.1	3.6	9.3	NA	
% of External Capital as Net Direct Private Investment	20.4	9.3	Neg.	25.3	NA		40.0	10.8	57.3	5.0	71.8	(11.8)	74.3	12.3	NA	
Year	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
Debt Service as % of Exports	7.0	9.4	10.3	6.5	9.1	10.8	3.2	9.5	3.3	4.2	4.5	13.9	9.9	23.1	8.1	11.5
Debt Service as % of GNP	1.8	2.1	2.0	2.3	1.4	2.8	0.8	2.5	0.6	1.0	0.8	3.1	2.9	6.6	1.3	2.4

Source: World Bank, World Development Report, 1981.

In Table 17, external capital flows into the six countries are presented. In Row 1, the data show that the flow of external capital has tended to increase over time as a proportion of GDP for all countries, except the Dominican Republic and Malawi. For Malawi, however, this inflow was nearly 12 percent of GDP in 1979. Between 1970 and 1979, Sri Lanka, Cameroon, and Costa Rica experienced three- to four-fold increases in the flow of external capital as measured as a proportion of GDP.

External capital comes in the form of official bilateral or multinational aid, or from private lenders, e.g., banks. Row 2, Table 17 shows direct private investment, e.g., from private banks, as a percentage of the total flow of external capital. The most significant finding is that from 1970 to 1979, direct private investment as a proportion of the total flow of external capital has fallen dramatically. In Thailand, the percentage has fallen from nearly 60 percent in 1970 to less than 5 percent in 1979. Similar examples exist throughout the other five countries. The only exception to this declining trend has been Sri Lanka, where private capital flows have increased largely due to the "liberalization policies" established in 1977.

Table 18. Borrowing From Abroad
(long-term foreign borrowing as percentage of exports and GDP)

	Cameroon		Costa Rica		Dominican Republic	
Year	Ex.	GDP	Ex.	GDP	Ex.	GDP
1960	0.0	0.0	2.7	0.5	0.0	0.0
1965	0.0	0.0	30.8	5.8	0.0	0.0
1970	2.4	0.5	11.2	2.6	4.0	0.7
1975	1.3	0.2	22.0	5.5	9.1	2.3
1977	0.6	0.1	27.2	7.3	18.7	3.2
1979	6.0	1.3	45.3	10.6	23.7	3.7
1980	9.8	-	52.0	10.9	32.7	-

Source: IMF, International Financial Statistics Yearbook, 1981.

Table 19. Trends in Structure of Savings in Cameroon and Malawi for Selected Years

Year	Percentage of Gross Domestic Savings — Cameroon: Private	Percentage of Gross Domestic Savings — Cameroon: Public	Year	Percentage of Total Savings — Malawi: Government	Public Enterprise	Private Monetary	Small Holder	Foreign
			64/66	-33.8	4.6	38.2	6.2	84.8
			67/69	-16.6	5.5	31.6	5.3	74.2
			70/72	0.7	12.9	33.1	2.9	50.4
1972	76.4	23.6						
1973	64.7	35.3						
			73/75	10.7	12.7	26.9	2.5	47.2
1974	65.3	34.7						
1975	50.7	49.3						
1976	49.9	50.1						
			76/78	10.2	15.6	36.6	2.2	35.4
			79/80	13.5	-0.3	34.3	2.1	50.4

Sources: Cameroon: World Bank, Country Economic Memorandum.
Malawi: Country Study.

The drop in direct private investment is partly attributable to the secular increase in debt servicing over the decade. (See Table 17, rows 3 and 4, which show the debt service to export or GNP ratios, respectively.) In 1979, except for Costa Rica, the countries were not heavily indebted, even though debt servicing had increased. However, most of the countries are incurring increased debt which is not amenable to a favorable future private investment climate (except in Thailand).

Data presented in Table 18 further confirm an increased indebtedness pattern in Cameroon, Costa Rica, and Dominican Republic, the three countries for which comparable data are available. Costa Rica obviously has the most serious problem, which was evident as early as 1965 when debt servicing had reached levels of 30 and 6 percent of exports and GDP, respectively. On the other hand, Cameroon has a very low level of foreign borrowing. Given its newly found oil, it may not incur the level of indebtedness which many other developing countries have.

The data in Table 18 also reveal that long-term foreign borrowing was not common until the 1970s. Thailand and perhaps Sri Lanka did incur some long-term foreign debt prior to 1970, but certainly not to the extent experienced by Costa Rica.

While some countries have obtained most of their savings resources from foreign sources, a large proportion of savings is generated domestically. Table 19 presents data for Cameroon and Malawi on trends in private and public sources of domestic savings. The data show that private savings as a proportion of gross domestic savings fell during the 1972-1976 period in Cameroon. The government increased its share from about one-quarter to over 50 percent. In Malawi, the government has been instrumental in improving the domestic rate of savings. In addition, Malawi's holding companies (public enterprises in Table 19) have become an increasingly important source of domestic savings (except in 1979/1980). However, in spite of the growth in public savings, the private sector (commercial banks and the smallholder) still accounted for about 75 percent of domestic savings in 1979/1980.

In Table 20, the six countries' formal financial sectors' institutional structure is presented. The data distinguish between the several subsectors, and between public and private institutions in each. With the exception of the central bank and the development banking subsectors, which are publicly controlled, all other sectors have public and private institutions. With the exception of Costa Rica, the countries have private commercial banks. In Sri Lanka private commercial banking was reinstituted in 1977. In general, insurance companies are public institutions, except possibly in Malawi and Thailand. The only financial market that lies entirely in the hands of the private sector is the small informal credit market, with institutional characteristics ranging from pawn

Table 20. Structure of the Formal Financial Sector, 1982

Type of Financial Institution	Cameroon Number of Pub.	Cameroon Number of Pri.	Costa Rica Number of Pub.	Costa Rica Number of Pri.	Dominican Republic Number of Pub.	Dominican Republic Number of Pri.	Malawi Number of Pub.	Malawi Number of Stat. Bodies	Malawi Number of Pri.	Sri Lanka Number of Pub.	Sri Lanka Number of Pri.	Thailand Number of Pub.	Thailand Number of Pri.
Central Bank	1	-	1	-	1	-	1			1		1	
(Ag.)													
Development	2	-	3	-	2	1				2		2	
Banks/Funds													
Coops													
Industrial Dev.			1	-									
Commercial	1	9	4	-	2	10			2	2	27	1	29
Banks													
Finance Companies				-									128
Savings Bank	1	Some	1	-	1	15	1			3		1	Many
P.O. & Other													
Credit Unions									24				
Home Loan	1	-	1	-	1	7	1			1		1	
Banks													
Insurance Companies	1	-	1	-	1	-			1	4			Some
Holdings Companies	1	-						4					
Produce Mkting													
Board	1	-											
<u>Other</u>				?									
Finance & Investment										1			
Private Foundation						1							
Exchange Equalization												1	
Small Scale Business	1											1	
Education Loans			1										
Municipal Finance			1										
Welfare & Housing Board					1								
Loan Fund/Board										2			
Tontines, Financieras, etc.		Many				17			Informal				
Total	10	9	14	?	9	51	3	4	27	16	27+	8	157+

Sources: IMF, Government Finance Statistics Yearbook, 1981.
Team reports.

shops, to tontines (Cameroon), to financieras (Dominican Republic).

In terms of the distribution of institutions, the Dominican Republic and Thailand have the largest number of private relative to public institutions. The country with the most governmental control is Costa Rica. As of 1981, it had no private institutions in the formal financial sector. Malawi has the interesting feature of having at least four statutory holding companies which act like equity capital financing institutions for industrial and agricultural activities. Cameroon also has a holding company, but it has not been nearly as significant for the financial development of the country as holding companies have been in Malawi.

2. Distribution of Financial Resources

In Table 21, data are presented which show the distribution of financial resources to the private and public sectors from 1960 to 1980. Only in Cameroon is the public sector a net contributor to private loans and credits, i.e., the ratio is greater than 100. Since 1960, the Cameroon Government has generally been a net contributor to private sector lending rather than an additional borrower in domestic financial markets.

Table 21. Percentage of Total Loans and Financial Credits to Private Sector, 1960-1980

Year	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
1960	120.0	78.8	30.9	-	34.0	65.2
1965	138.4	76.7	31.5	126.9	31.2	103.5
1970	146.6	77.4	43.6	94.2	38.8	79.1
1975	93.9	75.1	61.7	45.5	57.8	81.3
1977	103.8	70.1	64.2	51.5	54.2	79.2
1979	113.6	56.8	58.8	58.4	63.9	79.1
1980	114.6	52.1	57.0	56.8	55.6	75.3

Source: IMF, International Financial Statistics Yearbook, 1981.

In the other five countries, governments have been net borrowers throughout the period. Among these countries, Thailand has the largest proportion of total loan credits going to the private sector, i.e., 75 percent of loanable funds flow to the private sector. A similarly high proportion of loanable funds flowed to the Costa Rican private sector until 1975. However, since then the public sector has increasingly tapped the available resources. In the case of Sri Lanka, the data show an increasing trend toward the private sector. Since the early 1970s, a similar trend is also in evidence for the Dominican Republic. Thus, in both countries--Sri Lanka and the Dominican Republic--the private sector obtains approximately 55 to 60 percent of the total available credit.

The other significant borrower besides the private sector is the government. Table 22 presents trends in government borrowing from domestic and foreign sources during the 1960-1980 period. Table 22 data indicate that except for Cameroon, the other five countries have recorded government deficits in 1979 or 1980. The only other country that showed a budget surplus during the 1970s was the Dominican Republic when sugar prices were high in the mid-1970s (see Table 1).

The data for Sri Lanka show that the government budget deficit has reached extraordinary proportions (over 50 percent of total government expenditure) in light of its traditionally high deficit of about 20-25 percent since 1960. Until 1977, the deficit was generally financed domestically, but for several years after 1977, the deficit was primarily financed from foreign sources. In 1980 when the level reached crisis proportions, a reversal again emerged. In other countries, e.g., Thailand and Costa Rica, government deficits have been primarily financed from domestic savings.

3. Interest Rates

Tables 23, 24, and 25 present data to show the trends in and the structure of interest rates for various borrowers. In Table 23, the data show a secular rise in interest rates since 1960. The only country where the rate of interest was not greater than 10 percent in 1980 was Cameroon. However, as is shown in Table 24, the discount rate of the Central Bank in Cameroon of 8.5 percent is lower than most interest rates prevailing in the commercial banking sector.

Interest rates vary substantially from the discount rate. In Table 24 the data show that in 1982 in Malawi the interest rate to different borrowers varied from 10 percent to nearly 16 percent. Similarly, in 1980 in Cameroon, commercial banks charged between 7.25 and nearly 14 percent on loans. In 1978 the interest rate on loans in the Dominican Republic varied from 2 to 9 percent. Finally, 1982 data from Thailand indicate that interest rates varied from 13.5 to 19 percent, depending on the borrower. Since government policy establishes these rates, it can clearly influence the desired behavior of savers

Table 22. Trends in Government Financing: (1) Surplus or Deficit, (2) Domestic, and (3) Foreign Borrowing as a Percentage of Total Government Expenditure, 1960-1980

	Cameroon			Costa Rica			Dominican Republic			Malawi			Sri Lanka			Thailand		
Year	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
1960	-	-	-	-	-	-	- 2.2		2.2	-	-	-	-24.0	21.1	1.0	0.8	2.1	0.8
1965	-	-	-	-	-	-	-21.2		21.2	5.1	0.5	-0.2	-21.3	10.6	2.2	-4.8	9.8	2.6
1970	-	-	-	-6.3	15.1	0.5	-4.0	-0.1	4.0	-34.7	-3.7	42.1	-25.0	19.4	4.7	-22.6	3.7	1.7
1975	-12.6	5.0	7.6	-17.7	14.2	3.5	8.9	-10.1	1.2	-28.4	15.1	20.8	-29.3	13.6	9.9	-16.0	5.0	-0.4
1977	-2.3	-12.4	14.6	-19.9	16.8	30.	0.1	-0.8	0.7	-21.6	0.8	15.5	-24.2	9.7	14.2	-13.5	16.7	1.7
1979	16.8	-14.0	-2.8	-32.4	27.3	5.0	-32.8	11.3	21.5	-28.3	6.3	25.5	-37.4	14.7	1.84	-14.5	14.1	9.1
1980		NA			NA			NA		-24.1	8.7	20.6	-51.2	31.9	21.3	-21.4	16.2	5.8

Notes: (1) Surplus or (deficit) as a percentage of total government expenditure.
(2) Domestic borrowing as a percentage of total government expenditure.
(3) Foreign borrowing as a percentage of total government expenditure.

Sources: IMF, International Financial Statistics Yearbook, 1981.

Table 23. Trends in Interest Rates, 1960-1980

Year	Cameroon[1]	Costa Rica[2]	Dominican Republic[2]	Malawi[3]	Sri Lanka[4]	Thailand[1]	United States[1]
1960	NA	5.0	5.5	-	4.0	5.0	3.0
1965	NA	4.0	5.5	4.5	5.0	7.0	4.5
1970	NA	5.0	5.5	6.0	6.5	9.0	5.5
1975	NA	7.0	5.5	6.0	6.5	10.0	6.0
1977	NA	8.0	7.5	7.0	10.0	9.0	6.0
1979	NA	12.8	NA	8.0	10.0	12.5	12.0
1980	8.5	NA	NA	10.0	12.0	13.5	13.0

[1]Discount Rate.

[2]Commercial Discount Rate.

[3]Bank Rate.

[4]Advance Rate.

Source: IMF, International Financial Statistics Yearbook, 1981; and Country Reports.

Table 24. Structure of Interest Rates in Malawi, the Dominican Republic, and Cameron

Item	Malawi 1982	Dominican Republic 1978	Cameroon 1980
Savings Deposits	8.75	4.0-5.5	3.5-8.0
Commercial Mortgages	15.75		
Small Farmer Credit	15.00		
Groups of Small Farmers	10.00		
Certificates of Deposit Limited Use			
Commercial Banks		5.0-9.0	
Ag. Bank		2.0-4.0	
Financiers		2.5-8.0	
Indust. Dev. Bank		5.0-8.0	
Commercial Banks			
Preferential Rates			7.25- 9.25
Normal Rates			10.5-13.75
	1982	1970-79	1970-1979
Average Rate of Inflation	15.00	8.4	10.3
Real Rate of Interest	Negative	Negative	Negative

Source: Country Study Reports.

Table 25. A Comparison of Official and Unofficial Rates of Interest in Selected Developing Countries

County	Year	Nonofficial Rate of Interest	Official Rate of Interest
Thailand	1973	29	9
Korea	1973	35-60	17.5
Afghanistan	1973	33	NA
Gambia, Sudan	1963	50-100	10-12
Sierra Leone	1969	50-100	10-12
Colombia	1974	36-60	24
Haiti	1979	40-240	12-15

Source: Table 4.1, pg. 55 in Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment: A Review of the State of the Art; MSU Rural Development Paper #4, (East Lansing, Michigan: Dept. of Ag. Economics, Michigan State Univ., 1979).

and investors. The differences in rates will affect the way in which loanable funds are used by each investor group.

The interest rate data presented in Table 25 provide further insight into the availability of credit throughout entire economies of selected countries. It is clear from the data that there are significant differences in interest rates between official and unofficial money markets. The data show that the unofficial rate of interest from a money lender or pawn shop is likely to be 3 to 5 times as high as in the official financial sector. Since many small private borrowers have virtually no access to the formal credit market, they must make their investment or consumption borrowing decision based on the informal rate of interest, and they must be able to realize very significant returns in order to repay at the higher rates of interest.

To summarize, capital comes from both domestic and foreign sources. In some countries like Malawi, donors have been a significant source of financial resources. In virtually all countries, the private sector obtains at least 50 percent of these funds. There are considerable differences in the interest rates charged different borrowers. The private sector pays higher rates than does the public sector. In addition, the informal rate of interest charged small borrowers in rural areas often is five to ten times as high as rates charged in the formal credit market.

B. Pattern of Educational Investment

With respect to investments in education, the six countries show interesting similarities and differences (see Table 26). The most important similarity is that all countries have emphasized primary education. The data indicate that significant progress is being made toward universal primary education. There is still a male-female differential in enrollment, but it is not large except in Cameroon.

There may be quality differences in education if expenditure figures are any indication of relative quality (bottom row, Table 26). Per capita expenditures vary widely across the countries, from $4 to $68 in 1978.

The differentials in educational investments appear in secondary and higher education enrollments. The poorest countries have low levels of enrollment in secondary school and at the higher education level. Even Costa Rica, where per capita income is approaching $2,200, only 50 percent of the age-specific population is enrolled in secondary school. At the same time Sri Lanka, with a per capita income level one-ninth as

Table 26. Education Enrollment Trends, 1960-1979

Item	Malawi		Sri Lanka		All Low-Income Countries		Cameroon		Thailand		Dominican Republic		Costa Rica		All Middle-Income Oil-Importing Countries	
	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979	1960	1979
Primary Education																
Percent of Age Group Enrolled Total	-	59	95	94	46	74	65	101	83	82	98	96	96	107	87	97
Male Percentage	-	73	100	98	59	89	87	91	88	85	99	95	97	108	92	100
Female Percentage	-	51	90	90	33	63	42	43	79	78	98	96	95	107	83	95
Secondary Education																
Percent of Age Group Enrolled	1	4	27	52	6	20	2	16	13	28	7	28	21	46	19	44
Higher Education																
Percent of Age Group 20-24 Enrolled in 1977	-	min	1	1	1	2	-	1	2	5	1	10	5	19	5	13
	1972	1978	1972	1978	1972	1978	1972	1978	1972	1978	1972	1978	1972	1978	1972	1978
Central Government Revenue Expense on Education	4	4	12	8	3	3	-	11	11	15	18	NA	48	68	20	34

Note: min = small number.

Source: World Bank, World Development Report, 1981.

large as Costa Rica's, had more than 50 percent of its age-specific population enrolled in secondary school, and was sp·nding about one-ninth as much as Costa Rica on a per capita b... s. Again the relative quality of the education cannot be determined from per capita expenditure figures and requires a more in-depth analysis.

In terms of higher education, the only country with significant enrollment levels is Costa Rica. The Dominican Republic and, to a lesser extent, Thailand have also achieved enrollment levels which can significantly expand the supply of people who can be absorbed by the government and the private sector. The enrollment figures for Malawi and Cameroon indicate that the countrys' capabilities to provide trained personnel in all areas of expertise will not be forthcoming in the near future. Technical expatriate assistance appears to be the practical alternative which both countries have employed.

Sri Lanka has a significantly small higher education enrollment ratio, reflecting a deliberate choice in the allocation of education resources. To achieve a high level of basic literacy, government restricted the growth of higher education. Since a large number of skilled personnel in Sri Lanka have emigrated to the Middle East and since the economic growth of the country has not been rapid enough to absorb the existing supply of trained individuals, the decision to minimize the growth of higher education appears to have been a wise one.

In a number of countries, private schools have educated large numbers of the citizens, particularly in Cameroon, Thailand, and Sri Lanka. In the former British part of Cameroon, there is a long history of private schooling.

Should the government be involved in educating a managerial and technical class? If so, to what extent and how? The theoretical argument for government intervention rests on the extent to which the education or training yields societal benefits beyond those acquired by the individuals themselves. The literature has generally concluded that there are significant, positive social benefits which result from additional schooling, such that countries can obtain a positive return to further education.[16] However, when it comes to specific occupational training required for certain tasks in a particular organization or business, then the specific individuals and the firm obtain virtually all of the benefits of the additional training. In such instances, the view is that individuals and

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[16]See Theodore W. Schultz, Investing in People: The Economics of Population Quality, (Berkeley, California: University of California Press, 1981).

businesses should make those investments rather than having them financed or provided by the government.[17] This perspective also holds where emigration is a distinct possibility.

In Table 26 the data show considerable variation in per capita expenditure levels on education across the six countries. In Table 27 the relative commitment to education by central governments in the six countries under investigation is provided. For 1977, Costa Rica and Thailand allocated the largest share of central government budgets to education, with Costa Rica being significantly higher than all of the other countries. Cameroon only began to spend a significant share of government revenues on education after a 1975 World Bank-sponsored study indicated significant educational problems which would be likely to constrain the country's development. Malawi, Sri Lanka, and the Dominican Republic all allocated about the same proportion--11 percent. However, the Sri Lanka proportion was considerably greater in earlier years, so that nearly the entire population has received a minimum level of literacy. The situation is significantly different in Malawi, where well over three-quarters of the population are still illiterate.

Table 27. Percentage of Central Government Expediture on Education During the 1970s

Year	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand
1973	N/A	27.1	14.3	17.0	13.0	17.8
1975	N/A	27.7	10.3	9.2	10.5	19.5
1977	16.8	27.9	11.0[1]	11.1	11.7	21.6
1979	13.6	24.5	N/A	6.7	N/A	19.9

[1]For 1976.

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1981.

[17]See Gary Becker, Human Capital: A Theoretical and Empirical Analysis With Special Reference to Education, (New York: National Bureau for Economic Research, 1964).

VI. FURTHER ISSUES

Considerable emphasis was placed in the previous sections of the paper on reviewing the available comparative empirical information on factors affecting the role of the private sector in economic development. Other factors which affect the private sector's role in development have also been identified. These factors are analyzed below, and available empirical evidence is reviewed. Conclusions about these factors' relative importance in contributing to private sector and economic development remain open to further investigation.

A. The Development of Entrepreneurs

In order for private sector development to occur, managerial and entrepreneurial skills are necessary. It is important to make the distinction between the entrepreneurial and the managerial function, since both are required. The management function is related to motivating and maintaining the productive resources of an enterprise and requires skills such as recordkeeping, personnel management, and financial management. Entrepreneurship requires other talents, e.g., an ability to see new opportunities, take risks, and implement innovative new methods of production, sales, or distribution.

To begin a small business, the entrepreneurial skills of taking risks and being innovative are perhaps more important than the management function. However, as a firm grows in size, management functions become increasingly important. At a certain point in the growth of a firm, the individual entrepreneur and/or owner cannot perform all of the tasks that are required to successfully operate the firm when management tasks are required.

Peter Kilby and Carl Liedholm believe that the managerial skills can be taught in training courses, perhaps sponsored by donor agencies. They suggest that entrepreneurial skills are perhaps best taught through apprenticeship programs which operate in small business operations.[18] Additional thought and consideration are perhaps warranted on this issue.

A number of studies have underlined the importance of culture in the development of entrepreneurial activity,[19] the role of the economic context, and the extent to which political elites can create the necessary environment for successful development of entrepreneurial effort. With respect to culture, some scholars have found that in certain Asian societies, e.g., in Thailand, where interpersonal relationships are nonconfrontational, an external minority group is required in order to provide the necessary entrepreneurial talent for private enterprise to succeed.[20] In Thailand, the ethnic Chinese have performed this role. In other countries, other minorities have performed this role, but perhaps for other reasons than the one described above. This role has also been performed in East Africa by the the Indians or Pakistani and in West Africa by the Lebanese.

Several societies in Africa have developed entrepreneurial reputations. These groups include the Bamileke in western Cameroon, the Ibo in Nigeria, the Kikuyu in Kenya, and the Buganda in Uganda. All of these groups are seen to value wealth and associate wealth accumulation with status within the group. They also value innovation and individual progress, such that with the advent of European education and the inculcation of European ideas, these groups became economically successful. These groups have also been known for their group solidarity, manifested in part by the extended family or, in modern urban situations, ethnically based societies or clubs. The organizations act as support groups for new migrants to

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[18] See Peter Kilby, Small Scale Industry in Kenya, MSU Rural Development Working Paper #20, (East Lansing, Michigan: Michigan State Univ., 1982); Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment, op. cit., 1979; and A.F. Mabawonku, "An Economic Evaluation of Apprenticeship Training in Western Nigeria Small-Scale Industries," MSU Rural Economy Paper #17, (East Lansing, Michigan: Michigan State Univ., 1979)

[19] See for example, Peter Kilby, ed., Entrepreneurship and Economic Development, (New York: Free Press, 1971). See also Hazel McFerson, "Ethnicity, Individual Initiative, and Economic Growth in an African Plural Society: The Bamileke of Cameroon," Paper Prepared for AID, August 1982, Mimeo.

[20] David Steinberg, "Private Enterprise in National Development; A Review of AID Experience," Draft Paper, AID, Washington, July 18, 1982.

cities and towns, and informal credit institutions often revolve around such organizations.[21]

The economic context is also important for the development of entrepreneurial activity which is socially beneficial. For example, in many West African countries, entrepreneurial talent has been engaged in various forms of smuggling, often as a consequence of inappropriate foreign exchange policies or price policies, or because of political instability. In such instances, entrepreneurial talent is focused on the rapid turn-over of items instead of concentrating on long-term productive investment necessary for sustained economic growth. Smuggling also occurs in Thailand and in other societies where trading in narcotics or weapons occurs.

1. Government Reaction to Entrepreneurship

The political elite can influence the long-term development of entrepreneurial groups depending on their reactions to such groups. One reaction is assimilation. In Thailand, the political elite has tried to assimilate the Chinese by employing an educational policy which requires young Chinese to attend school with Thai children rather than in separate ethnic Chinese schools.[22]

Another reaction of political elites is to simply acknowledge existing entrepreneurial or managerial elites and tolerate their continued existence. In Cameroon and Malawi, for example, political elites have allowed the previous colonial expatriate community considerable latitude in the operation of private enterprises and public corporations. Policies of rapid

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[21]Hazel McFerson, "Ethnicity, Individual Initiative, and Economic Growth in an African Plural Society: The Bamileke of Cameroon," *op. cit.*, 1982.

[22]See Fred Simmons, et al., *Thailand: Private Sector Study*, Impact Evaluation Report, (Washington, D.C.: AID, August 1982).

"Malawianization" or "Cameroonization" have not been implement-ed as in most other African countries after independence.[23] The political elites in these two countries have co-opted an external group to guide the major economic entities in their respective economies, since they do not believe their own peo-ple will operate them with the same degree of economic effi-ciency--at least in the short run.

Another reaction of a political elite has been to drive out a particular expatriate entrepreneurial class. In many West African countries, the Lebanese have been pressured to leave. A similar reaction has occurred in varying degrees in East Africa regarding Indians and Pakistanis. In Uganda under Amin, the "Asian" community was driven from the country. To a lesser extent in Malawi, the Asian community has been driven from the rural areas and can now operate only in urban cen-ters.[24]

Some governments have been active in assisting the devel-opment of indigenous entrepreneurs and management talent. In the Dominican Republic, both the government as well as the pri-vate sector have provided support for new entrepreneurial acti-vities.[25] Many management training opportunities have been developed in both Costa Rica and the Dominican Republic. In Costa Rica, for example, the universities and business colleges operate evening classes in management skills, e.g., accounting, finance, marketing, and personnel.[26] In more rural countries than Costa Rica and the Dominican Republic, it is important to facilitate the development of entrepreneurial talent, (i.e., the actual development of new firms and businesses) to expand rural-based commercial trading and manufacturing.

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[23]Salvatore Schiavo-Campo, et al., The Tortoise Walk: Public Policy and Private Activity in the Economic Development of Cameroon, Impact Evaluation Report, (Washington, D.C.: AID, August 1981); and Jerome Wolgin, et al., Malawi: Private Sector Study, Impact Evaluation Report, (Washington, D.C.: AID, August 1982).

[24]See Jerome Wolgin, et al., Malawi: Private Sector Study, Ibid, 1982.

[25]Jack Sullivan, et al., The Development of the Private Sector in the Dominican Republic, Special study prepared for AID, Washington, D.C., July 1982 draft.

[26]Robert Pratt, et al., Costa Rica: Private Sector Study, Impact Evaluation Report, (Washington, D.C.: AID, August 1982); and Jack Sullivan, et al., Dominican Republic, op. cit., 1982 draft.

2. Characteristics of Entrepreneurs

Most entrepreneurial talent in developing countries operates small-scale enterprises. In order to help strengthen the development of such enterprises, it is important to determine the characteristics of these entrepreneurs and their principal problems. Although there is still very little information on these topics, some comparative data are available (see Table 28). The comparative data indicate that a large proportion of entrepreneurs are women, with the proportion varying from country to country, i.e., from 76 percent in Egypt to 20 percent in Haiti. Most entrepreneurs have large families. In both Jamaica and Haiti the number was over four children.

Education background varies dramatically depending upon the history of the country. In countries like Jamaica where there has been a long history of public investment in education, over 95 percent of the entrepreneurs have had some primary or secondary education, whereas in countries with a shorter governmental commitment to educational development, the percentage is considerably less.

Although there are variations in educational background, entrepreneurs in Sierra Leone, Jamaica, and Haiti have had about ten years of experience. Of further interest is the fact that perhaps as much as five of the ten years was spent in an apprenticeship.

Most entrepreneurs obtain their initial financing to start their businesses from their personal savings or from families or very close friends. Also, most have started their own businesses as contrasted to buying an existing one.

The average number of workers in small businesses is, of course, small. Depending upon the particular country involved, the average number of workers is between one and a half and four. The average initial investment varies from as low as about $120 in Egypt to $1,000-2,000 in Haiti.

When asked about the principal problems which entrepreneurs face, the most frequent answers are lack of demand, lack of finance, and difficulties in obtaining raw materials or critical tools. One question was asked of entrepreneurs in Jamaica about their main source of competition. The response was that most competition was from other small businesses, with perceived competition from large manufacturing or imports being relatively insignificant.

Table 28. Characteristics of Small-Scale Entrepreneurs in Selected Developing Countries

	Egypt 1981	Sierra Leone 1974	Jamaica 1979	Thailand 1979/80	Haiti 1979
Characteristic					
Average Age	N/A	N/A	40.1	N/A	N/A
Sex (% Female)	76	N/A	49.3 (workers)	42	18
Average No. Children	N/A	N/A	4.0	N/A	6+
Education - % Primary	N/A	23%	77.8	N/A	47.7
- % Secondary	N/A	23%	18.3	N/A	31.1
Experience (years owned)	N/A	12.6		N/A	
% 10			55.8		50
% 11-20			26.7		24
% 20+			17.5		25
Source of Initial Financing				N/A	
% Personal Saving	Personal or Family Predominate	60	89.9		62
% Family & Friends		20	6.0		29
Mode of Business Acquisition	N/A	N/A		N/A	N/A
% Started from Scratch			86.0		
Average No. Workers	1.3	1.8	2.2	3.7[1] 5.5	4.1
Average Initial Investment	£E 55-60	31-90 Leones	$1,410 ($Jamaican)		$1-2,000 (U.S.$ 1978)
Principal Probs. Perceived (% having problem)	N/A	N/A	- Demand (38%) - Finance (36%) - Raw Materials (8%)	N/A	- Cash (38%) - Machines & Tools (20%) - Demand (9%)
Main Source of Competition	N/A	N/A		N/A	N/A
% Small Manufacturer			70.0		
% Large Manufacturer			6.1		
% Other (Import)			1.0		
% None			23.1		

[1]Top figure for Commerce Sector Data, p. 21; Lower figure for other manufacturing, p. 20.

Sources:
1. Jamaica Yacob Fisseha and Omar Davies, "The Small-Scale Manufacturing Enterprises in Jamaica: Socio-Economic Characteristics and Constraints," MSA Rural Deve. Series, Working paper #16, Dept. of Ag. Econ., Michigan State University, East Lansing, Michigan, 1981.

2. Steve Haggblade, Jacques Defay, and Bob Pitman, Small Manufacturing & Repair Enterprises in Haiti: Survey Results, MSU Rural Development Series Working Paper #4, 1979.

3. Steven Davies, et al., "Small Scale Enterprises in Egypt: Fayoun and Kalyabia Governments; Phase I Survey Results," MSU Rural Development Series Working Paper #23, Michigan State University, East Lansing, Michigan, March 1982.

4. Donald Mead and Pradit Charsombit, "Rural Off-Farm Employment in Thailand: Phase I Survey Results," Rural Off-Farm Employment Assessment Project, Kasetsant Univ., Michigan State University and Ohio State University, Research Paper #2, June 1980.

5. Carl Liedholm and Enyinna Chuta, "the Economics of Rural and Urban Small Scale Industries in Sierra Leone," Africa Rural Economy Paper #14, Michigan State University, East Lansing, Michigan, 1976.

B. The Role of the Small-Scale Private Sector

In Section IV above a review was made of the policies affecting private sector development in the six countries included in this study. One additional issue of relevance, however, regarding such policy analysis is the differential impact of those policies across enterprise types. The analysis embodied in Table 15 and summarized in Section IV indicated a strong government tendency to develop a policy environment which favors either parastatal entities or large private firms over small-scale private ones through tariff policy, industrialization policy, interest rate subsidies, taxing agriculture, subsidies on food in urban areas, etc. However, the importance of the small-scale sector in contributing to the economic development of poor countries is being increasingly recognized.[27]

The dynamism of the small-scale nonfarm sector in some of the countries under analysis is presented in Tables 29 and 30. In Table 29, data from a selected set of countries show that rural nonfarm employment growth has generally exceeded the rate of growth of the labor force, which for most countries is between 2 and 3 percent per year. Thus, the share of the rural labor force involved in nonfarm employment activities has increased.

In Table 30, additional data are provided which show the extent of small-scale industry employment in total industrial employment in both urban and rural areas. As much as 20 percent of the labor force is employed in small-scale manufacturing enterprises with fewer than five employees. For the few countries where small-scale employment estimates have been made, the data show that the small-scale to large-scale manufacturing employment ratio ranges from 0.5 to more than 20. Since the rate of employment growth in small-scale enterprise in rural areas is greater than the rate of growth of the labor force (Table 29) and a large proportion of manufacturing employment is found in small enterprises (Table 30), it is increasingly important to focus attention on the impact of policy decisions on this sector. More research is required in order to fully understand the overall and differential impact of government policy on various parts of the private sector. Some individual cases are intriguing. For example, when import duties on sewing machines were removed in Sierra Leone, the

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[27]See Vernon Ruttan, op. cit., for a comprehensive review of the role of small-scale enterprise in the development of Japan.

Table 29. Growth of Rural Nonfarm Employment in Selected Countries

Country	Period	Rural Nonfarm Employment Growth Rate (percentage per year)	Nonfarm Share of Rural Labor Force (percentage) Initial Period	End Period
Taiwan	1955-66	9.4	30	49
Kenya	1969-74	8.8	NA	NA
Philippines (Gapan area)	1961-71	8.5	NA	NA
Mexico (Sinaloa)	1960-70	5.6	14	23
Indonesia	1961-71	5.5	17	24
Iran	1956-72	4.8	20	33
India	1953-60	4.0	NA	NA
Afghanistan (Paktia)	1964-71	3.9	NA	NA
Korea	1960-74	3.2	18	19
Sierra Leone	1974-80	2.4	NA	NA

Sources:
1. Taiwan: Ho (1976).
2. Kenya: Steele (1976).
3. Philippines: Gibb (1974).
4. Mexico: Mexico (1978a).
5. Indonesia: Leiserson (1974).
6. Iran: Dhamija (1976).
7. India: India (1965).
8. Afghanistan: Gerken (1973).
9. Korea: Korea (1976).
10. Sierra Leone: Chuta, et al. (1981). Small localities only.

Source : Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment: A Review of the State of the Art, op. cit., 1979, p. 18, Table 25.

Table 30. Employment in Small-Scale Industry in Selected Countries

Country	Year	(1) Estimated Number of Estab-lishments (000's)	(2) Estimated Number of Employees in Small-Scale Manufacturing (000's)	(3) Estimated % Labor Force	(4) Enumerated Employment in Manufacturing Firms over 100 Employees (000's)	(5) Ratio of Small-Scale to Large-Scale Manufacturing Employment (2) (4)
Egypt[1]	1981	90	140	9	13.2[2]	10.61
Sierra Leone	1974	50	89	6	4	22.25
Jamaica[3]	1979	38	79	10	155	0.51
Thailand	1979/80	6	30	4-20[4]	N/A	N/A
Haiti[5]	1979	8.5	34	1.5	25[6]	N/A

[1] Fayoum and Kalyubiya Provinces only.
[2] Only for localities of more than 1,000 in firms employing fewer than 50 workers.
[3] National samples, rural and urban.
[4] Employment in firms with 10 persons or more employed.
[5] In Port au Prince only.
[6] Estimated from page 11 of Thailand source for the 4 urban areas enumerated in survey.

Sources:

1. Omar Davies, Yards Fisseha, and Clavemont Kirton, "Small Scale, Non-Farm Enterprises in Jamaica: Initial Survey Results," Michigan State University, Rural Development Series Working Paper #8, Department of Ag. Economics, Michigan State University, East Lansing, Michigan, 1979.

2. Steve Haggblade, Jacques Defay, and Bob Pitman, "Small Manufacturing and Repair Enterprises in Haiti: Survey Results," Michigan State University, Rural Development Series Working Paper #4, Department of Ag. Economics, Michigan State University, East Lansing, Michigan, 1979.

3. Steven Davies, et. al., "Small Scale Enterprises in Egypt: Fayoum and Kalyubiaya Government Phase I Survey Results," MSU Rural Development Series Working Paper #23, Michigan State University, East Lansing, Michigan, March 1982.

4. Donald Mead and Pradit Charsombut, "Rural Off-Farm Employment in Thailand: Phase I Survey Results," Rural Off-Farm Employment Assessment Project, Kasetsart University, Michigan State University, Ohio State University, Research Paper #2, June 1980.

5. Carl Liedholm and Enyinna Chuta, "The Economics of Rural and Urban Small Scale Industries in Sierra Leone," African Rural Economy Paper No. 14, Michigan State University, East Lansing, Michigan, 1976.

small-scale tailoring industry expanded rapidly.[28] Similarly, small-scale tailoring is clearly the predominant source of employment in that industry in Malawi, despite the existence of several large textile and clothing manufacturing firms operating in the country.

C. Institutional Development: The Experience With Government-Supported Development Organizations

In each country case study, a review was conducted of the role of government in developing organizational entities designed to promote the development of private firms. In Malawi, the four government-controlled holding companies have made a positive contribution to the development of various manufacturing and nonmanufacturing private enterprises. The Malawi Government established each holding company on a profit-making basis. Thus, whenever it was obvious that a firm which was held by one or more holding companies was unprofitable, the government made the necessary management and/or personnel changes.

In Cameroon, SODECOTON, the cotton marketing board, made important contributions to the growth of the cotton industry. SODECOTON provided technical assistance and critical inputs such as fertilizer to smallholder cotton producers and was involved in processing and exporting as well. The study team concluded that under expatriate management, the organization performed better from a financial point of view than if the management had been Cameroonianized.

In Costa Rica, SNI contributed to the development of the private sector by providing the necessary debt financing to manufacturing entities so that they could expand plant capacity to produce for both the domestic and Central American markets. The primary problem with SNI was that it increasingly recycled debt from foreign banks rather than reducing it. When the credit crunch hit in 1980, the enterprise was vulnerable and suffered many losses. However, during the period from the mid-sixties through the late-seventies, it materially assisted in the development of Costa Rica's manufacturing sector.

The Entente Fund in West Africa was established by six French West African countries to provide credit and technical assistance to small-scale enterprises. The impact evaluation study conducted last year by AID concluded that the Fund was a

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[28]Carl Liedholm, Enyinna Chuta, The Economics of Rural and Urban Small Scale Industries in Sierra Leone, op. cit., 1976.

worthwhile experiment but that many implementation problems occurred. The evaluation team recommended significant changes or termination of this project.[29] What is not well known is how to design institutions in order to facilitate, rather than limit, long-term growth and development of successful private sector entities.

D. Agriculture

As a consequence of reviewing the economic structure of the six countries included in that study, agriculture and agricultural processing are and will continue to be important components of a long-term development strategy for each country. Thailand and, to a lesser extent, Cameroon and Malawi have experienced relatively high rates of agricultural output growth, despite public policies which have taxed that output through export duties or market board profits. In recently conducted evaluation studies of PL 480 Title I programs, clear evidence was found that an agricultural price policy which taxes agricultural production will reduce output.[30] One of the reasons for agricultural output growth in Malawi has been the limited export taxation of agricultural commodities. On the other hand, in Sri Lanka and, to a lesser extent, Costa Rica, the output growth of traditional cash crop foreign exchange earners has been limited by the taxation imposed by marketing boards.[31] The Dominican Republic has engaged in backward linkage manufacturing. Most of its manufacturing sector is based on the raw agricultural commodities that it has traditionally produced, particularly sugar.

Since agriculture dominates export earnings of the countries studied as well as in many other developing countries, it is important that this sector earn as much foreign exchange as possible to minimize balance of payments constraints on economic growth and development. The Ivory Coast is often viewed as

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[29] Ray Malley, et al., Assisting Small Business in Francophone Africa--The Entente Fund African Enterprises Program, Impact Evaluation Report (Washington, D.C.: AID, September 1982).

[30] See Richard Blue, et al., PL 480 Title 1: The Egyption Case, (Washington, D.C.: AID, June 1983).

[31] Robert Bates, "The Regulation of Rural Markets in Africa," (Paper commissioned by the Office of Evaluation, AID, Washington, D.C., August 1982) reports on the mounting evidence from Africa which confirms this finding.

an example where continued rapid growth of agriculture has led to long-term economic development.

E. Market Infrastructure

One of the most important roles of government investment is the development of market infrastructure, i.e., railroads, roads, transport systems, ports, power, and water supplies. Also, communication systems such as telephone, radio, and possibly television and postal services are appropriate areas for government investment, and complement rather than compete with private initiatives. A traditional public finance rationale can be invoked for such government endeavors, since there are a number of positive externalities which accrue to the entire economy. The existence of a road, for example, implies that all who live along it can use it, with no individual being excluded from its use. Similar arguments hold for electric power grids as well.

It is interesting to review the extent to which the countries in this study have made investments in such enterprises. In the public policy section above (Section IV, Table 15), an analysis of government ownership of economic enterprises was conducted. It indicated that all governments have invested in public utilities. However, the review also found that governments have also invested in many other enterprises as well, where the case for public investment is not nearly so compelling.

The "vent for surplus" theory of development, initially espoused by Hla Myint,[32] is based on the rapid expansion of exports which occurred after investments were made by colonial governments in the development of ports and railways to the interior. Substantial increases were recorded in agricultural raw material exports, such as groundnuts in Nigeria, tea in Southeast Asia, and palm oil in other countries, when such infrastructure investments were made. These examples present empirical confirmation of the complementarity between government infrastructure development and private sector development. It would be useful to further document the existence of such complementarities, particularly in such areas as industrial park

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[32]Hla Myint, Vent for Surplus: The Economics of the Developing Countries, (London: Hutchinson, 1964) and J. S. Hogendorn, "The Origins of the Groundnut Trade in Northern Nigeria," pp. 30-51, in Carl E. Eicher and Carl Liedholm, eds., Growth and Development of the Nigerian Economy, (East Lansing, Michigan: Michigan State University Press, 1970).

development, water supply development, sewer systems, energy, and other health and environmentally related investments.

F. Role of External Organizations/Donors

The data presented above in Section V--mobilizing and allocating capital--clearly indicated that official donor assistance substantially augmented domestic savings in all six countries studied. Thus, perhaps the single most important donor role in facilitating long-run sustained economic growth is to expand the capability for significant resource transfers to developing countries on a subsidized basis. Chenery and Strout suggested this in the 1960s.[33] They argued that the role of international assistance is to provide a savings "safety net" for countries undergoing rapid capital expansion when domestic savings are insufficient. Donors can provide the capital for government infrastructure development in the form of roads, ports, and other transportation networks. As was discussed above, these activities are complementary to private sector activities. Similarly, where donors have provided assistance to educational and/or manpower training efforts, the contribution has enhanced further private sector activity.

An important issue that must be addressed is the extent to which price distortions have been created by certain types of foreign assistance. The PL 480 Title I program has clearly contributed disincentives to agricultural production in certain countries.[34]

AID and other donors have contributed to the development of small-scale industrial activities. For example, AID has assisted Costa Rica in the creation of SNI. AID has also assisted in developing the Entente Fund for a number of West African countries, and has assisted Kenya by providing financial and technical assistance to improve the management and operation of such enterprises.

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[33] Hollis Chenery and Alan Strout, "Foreign Assistance and Economic Development," American Economic Review, 56 (Sept. 1966) 679-733.

[34] Edward Clay and Hans Singer, "Food Aid and Development: The Impact and Effectiveness of Bilateral PL 480 Title I-Type Assistance," Paper prepared for AID, Washington, D.C., February 1982.

The accumulated experience from the Entente Fund indicates that small entrepreneurs have difficulties repaying loans.[35] The Kenyan experience had led to the development of a number of criteria that now are applied through KIE to improve the loan repayment rate.[36] For example, it is now necessary for a business to have a checking account for a minimum of six months prior to loan application approval so that a record of disbursements is available to loan officers. Collateral is also required to provide a guarantee of repayment. The experience from the small-scale lending program of the World Bank in Jamaica also suggests that there is a certain minimum size firm below which the formal lending sector cannot effectively compete with the informal network in most countries. Apparently, it costs three to four times the amount of the loan to administer and monitor a small loan in Jamaica.

VII. LESSONS LEARNED

As a consequence of engaging in the country case studies on the role of the private sector in development, it is clear that the private sector's role is affected by the actions of government. As a consequence, it is important to know how governments can provide positive environments for private initiative rather than become an enigma to that endeavor. Governments can do some things better than others. These include investing in infrastructures which are complementary to the production processes of private entrepreneurs and entities. Governments can also contribute to the supply of savings resources and broker official donor assistance, preferably on concessionary terms. In addition, governments can improve the human capital of the country and thereby contribute to both private and public sector activities. However, it is probably wise for governments to focus on general education and not on training for specific occupational requirements.

The country studies also suggest that pragmatic leadership is important. It appears that the governments of Malawi, Cameroon, Thailand, and the Dominican Republic have been fairly pragmatic and have increasingly required that public entities perform without subsidies or special assistance. This pragmatism is particularly important in countries where resource

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[35] Ray Malley, et al., Assisting Small Business in Francophone Africa, op. cit., 1982.

[36] Peter Kilby, Small Scale Industry in Kenya, op. cit., 1982.

endowments are meager and where there is no institutional capability, in the form of other private investors, to help shape this process.

There are several things that governments probably should not do. They should not try to control or regulate prices, establish quotas, or engage in any kind of alteration of "market solutions." Adverse circumstances can result when price controls lead to the transfer of goods and services across political borders, which has often occurred in Africa. If governments try to control prices, particularly in agriculture, to help finance social welfare programs beyond those that they can easily finance through user charges or direct local taxes, long-run problems can quickly emerge, as Sri Lanka and Costa Rica are finding out.

Governments should increasingly minimize their interventions in agriculture. Governments originally established marketing boards to minimize price fluctuations to the small producer. However, virtually every country which has established a marketing board has used it primarily as a taxation mechanism rather than for stabilizing prices. As soon as it is used to tax agriculture, output or its rate of growth is reduced, thus contributing to more adverse balance of payments problems and long-term financing difficulties.

Governments probably should get out of the business of owning companies or producing units, with the exception of public utilities where there are clear economies of scale and where potential monopoly power exists. For most parastatals, the discipline of the marketplace has largely been swept away. While certain political benefits may be derived in the short run, the long-term implications can be disastrous. A number of African countries have witnessed this disaster, e.g., Tanzania's National Milling Corporation.

ANNEX TABLES

Annex Table A. Distribution of Nonfinanical Public Enterprises in Selected Countries, 1981

Sector	Cameroon		Costa Rica		Dominican Republic		Malawi		Sri Lanka		Thailand	
	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
No. of Non-financial Public Enterprises	43	100	25	100	40	100	23	100	122	100	62	100
Agricultural	14	33	2	8	4	10	4	17	12	10	6	10
Marketing Boards	1				1		1		1		2	
Cash Crops	8		2		3		3		4		1	
Food Crops	3				-				2		1	
Other, incl. fishing	2				-				2		1	
Manufacturing	11	25	7	28	20	50	7	30	61	50	22	35
Food	1		2		3		1		3		4	
Publishing Printing	3		1				1		7			
Petroleum	1		1						1		2	
Fertilizer	1								3			
Cement	1		2		2		1		2			
Other inc. Mining	4		1		15		4		45		16	
Transport	4	9	6	24	2	5	2	9	7	6	8	13
Air	1				1		1		2		1	
Rail	1		2				1		1			
Shipping/Ports	1		2		1				5		6	
Other	1		2									
Public Utility	4	9	7	28	8	20	4	17	7	6	12	19
Commerce	5	12	1	4	4	10	1	4	19	15	9	15
Marketing: Retail/ Wholesale	1		1						5		5	
Hotels	3								4		1	
Tourism	1											1
Other					4		1		10		2	
Other	5	12	2	8	2	5	5	22	16	13	5	8

Source: IMF, Government Finance Statistics Yearbook, 1981.

Annex Table B. Currency Devaluations: Percentage Change From Previous Year
(devaluation based on SDR exchange rate)

Year	Cameroon	Costa Rica	Dominican Republic	Malawi	Sri Lanka	Thailand	United States
1960	-0.1	0	0	0	-0.1	-0.2	0
1965	-0.0	17.7	0	0	0.5	-1.4	0
1970	12.6	0	0	16.7	24.8	0.5	0
1975	-4.9	51.2	17.1	26.5	51.5	14.1	17.1
1977	8.8	3.7	3.8	0	109.3	3.8	3.8
1979	-7.3	8.5	8.4	0	7.6	8.6	8.4
1980	8.8	-3.2	-3.2	0	12.8	-2.2	-3.2

Note: Minus sign means revalued, + devaluation.

Source: IMF, International Financial Statistics Yearbook, 1981.

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