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THE ASIA BUREAU'S ROLE IN ASSISTING PRIVATE
ENTERPRISE DEVELOPMENT OF AGRICULTURE

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1. INTRODUCTION AND SUMMARY RECOMMENDATIONS

A. Introduction

Certain definitions and guidelines have been provided by the Asia Bureau for the preparation of this paper. The AID policy paper on Private Enterprise Development (2), provides the following definition: "'private enterprises' consist of profit-oriented economic units producing goods and services for the market in which the means of production are privately owned." Programs and projects of private and voluntary organizations (PVO's) are excluded. Such activities are already well established in most Asia Missions. Also to be excluded is direct consideration of U. S. private sector involvement.

The above definition of private enterprises includes most farming operations in Asia. However, this paper focuses on non-farm enterprises. The terms of reference provide that the paper discuss the pre-conditions for successful private non-farm enterprises development in the agricultural and rural development sector; review private enterprises activities in the current and proposed project portfolio of Asia Missions; and provide recommendations and guidance regarding opportunities for private enterprise development in the Bureau's assistance programs for agriculture and rural development.

This assignment has been carried out in the spirit of the Agencies thrust for private sector development. The pros and cons of this thrust are not at issue in this paper, even though certain cons shape host government thinking about the private sector and will influence the final shape of each mission's private sector initiative.

B. Summary Recommendations

USAID's should concentrate on improving the climate for accelerating private sector growth in agriculture and rural development. Improving that climate will lay the necessary foundation for solid growth of small farm commercial agriculture as well as the non-farm private sector. The preconditions to a healthy climate for the private sector are, essentially, favorable policies, effective institutions, and appropriate physical infrastructure which are primarily the responsibility of government. Concentrating on improving the climate for private sector growth through public sector interventions is recommended because USAID's are more experienced in these areas, not as much staff training or retraining will be required, and appropriate policy, institutional or infrastructure interventions will equally benefit AID's primary target group-small and marginal farmers.

When the climate is right, it will be effective to concentrate on direct private sector involvement emphasizing private institutions that facilitate individual private enterprise growth and development. Examples

are (LAAD) the Latin American Agribusiness Development Corp. and the marketing corporations being experimented with by the Bureau for Private Enterprise (PRE).

Direct assistance to individual enterprises by AID would be as "pilot" efforts designed to test the functioning of public or private institutions or to enlighten and instruct host governments and AID.

The tactical approach to implementing this basic recommendation is to focus first on study and analysis of the private sector. Necessary studies are identified throughout the paper. Second, based on these studies, would be to engage host governments in dialogue regarding private sector growth. Third, when specific project interventions are identified they would focus on technical assistance and training for the institutional improvements described above. Fourth, opportunities for capital assistance would be explored where mission resources permit.

With the exception of non-agricultural manufacturing, the private non-farm sector is servicing the farming sector. There is little likelihood of a healthy non-farm private sector without a healthy farming sector. Therefore, the bulk of USAID's agricultural and rural development portfolio could, appropriately, be concentrated on creating a healthy small farm commercial agriculture. This requires research for creating improved technology, extension to deliver it to farmers, availability of purchased inputs (private sector can provide), developmental credit, markets (private sector can provide), irrigation, and other public infrastructure (the same as required for improving the private sector climate). A private sector initiative in agriculture and rural development then becomes part of an overall program to create a healthy small farm agriculture.

PRE has a number of innovative efforts for private sector development underway, some of which may prove to be useful to Mission programs. The Asia Bureau should track PRE efforts closely, keep missions currently informed, and encourage PRE work in Asia.

2. AID POLICY FRAMEWORK

A. Overall

Three policy papers of AID bear directly on private sector involvement in agriculture and rural development ^{1/}. These papers provide the background for this section as well as guidance for AID Missions on private sector development.

The "Food and Agricultural Development" paper states:

^{1/} "Food and Agricultural Development," May 1982.

"Private Enterprise Development," May 1982.

"Bureau for Private Enterprise Development Policy Paper," May 1982.

"Realization of the full potential of the private sector to contribute to food and agricultural development requires:

- government policies and regulations that encourage rather than discourage the private sector;
- programs to overcome deficiencies in management and technical skills; and
- private sector access to market and technical information, credit, infrastructure, services, and materials. ((1) p. 6).

In addition, because of the widespread use of public and parastatal organizations in agricultural marketing, processing, storage, and/or distribution activities and their perceived high inefficiencies, it is AID policy to encourage improvement or elimination of these organizations through:

"(1) policy and management reforms that give public enterprises a greater market orientation and put them on a commercial basis; (2) encouraging greater competition from private enterprises in the same spheres; and/or (3) turning public enterprise management and/or assets over to the private sector." ((1) p. 6).

In order to implement these policy objectives AID will:

"-identify private and public sector institutions such as banks, technical institutions, and trade and marketing associations, through which technical and financial assistance can be effectively provided to private enterprise;

"- engage in dialogue with governments on changes in policies and other regulations to encourage and strengthen private sector development, including small and medium scale enterprise; and

"- where appropriate, help countries improve the efficiency of public and para-statal enterprise engaged in food and agricultural-related activities." ((1) p. 6).

A final element of the policy set is to encourage the utilization of the skills and resources of the American private sector through the development of "mechanisms and processes to facilitate the involvement of the U. S. private business community in food and agricultural development, including technical assistance and training as well as direct and joint investment." ((1), p. 6).

B. Asia Bureau

Informal guidance has been provided in a paper prepared by the Asia/TR 2/. The following paraphrases some of the points in that paper.

²/2 Asia/TR, "Private Sector Initiative - Guidelines for Asia," October 14, 1982.

The objective of the private sector initiative in Asia is to accelerate economic growth on an equitable basis. By definition, there are three aspects to the Bureau's private sector initiative. First, emphasis will be placed on strengthening the private sector role in the traditional sectors - agriculture, energy, population, and health. The goals of these sector programs remain in force and the mix of public and private activities will depend on analyses of the most effective ways to reach those goals.

The second aspect of the private sector initiative is an increased emphasis on economic policy analysis and study of the macro-economic environment which conditions private sector production.

The third aspect of the private sector initiative is programs and projects to aid non-farm enterprises (industry and services). General and project specific guidelines for such projects are discussed. Study and analyses are emphasized. "Missions should place a premium at this time on analysis and on understanding obstacles to the growth of non-farm enterprise. ((4) p. 2).

The ASIA/TR paper states that publicly owned (parastatal) non-farm enterprises in Asia will not be assisted unless they are part of a program of government divestiture of these enterprises. The Food and Agricultural Development Policy Paper (above) indicates that where appropriate parastatals may be assisted. The question of how to deal with parastatals is still under consideration in the Agency. It is a complex issue that is not yet resolved.

This set of policy guidance has resulted in the Mission projects and programs analyzed in Chapter 5 and presented in detail in Annex A.

3. PRECONDITIONS FOR SUCCESSFUL PRIVATE SECTOR INVOLVEMENT

Perhaps the most important precondition for successful private sector involvement in agriculture and rural development is an attitude on the part of the host government that encourages, rather than discourages, the private sector. A positive attitude toward private entrepreneurship and a willingness to permit relatively free markets to allocate resources and determine returns for the use of those resources, will result in a "climate" conducive to private sector development. A strong contrast in attitudes and climate is exemplified by Thailand, where the private sector is strong and vigorous, and Indonesia where official government policy reflects a deep distrust of the private sector 3/.

Stepanik notes that "Indonesian policy-created constraints (to private sector development) reflect the government's own views on the constraints caused by the market and by 'capitalistic tendencies' to make money with little regard for social consequence . . . The governments economic philosophy is to direct trade and investment (public and private) to serve social purposes." ((5) p. 47).

^{3/} An historian could probably explain these two sharply different attitudes. One manifestation of the difference, without knowing whether it is cause or effect, is assimilation (i.e., absorbed into the cultural tradition of the population) of the Chinese in Thailand and their being held at arms length (or further) in Indonesia (see Taylor and Stepanik).

In contrast Taylor ((6) pp. 1 and 3) notes that "There are many opportunities and few constraints involved in Thai agribusiness investment." Further, "Thailand must be ranked as the leading ASEAN country in terms of overall agribusiness potential."

The climate for private sector development can be defined to include essentially three elements, all of which are publicly determined: (1) a set of policies that facilitate private sector development; (2) physical infrastructure which, particularly for agribusiness development, penetrates existing and potential farming areas; and (3) an institutional infrastructure that effectively services agricultural areas and enterprises.

A. Policies

The policy set of most concern to private sector development includes prices - commodities, margins, interest rates, export and other incentives, etc.; taxes; labor laws and employment policies; regulatory controls; and credit policy ⁴/. The key precondition for private enterprise development is profitability. Entrepreneurs must expect that their investments in agriculture and rural development will return profits. In Asia, this usually must be a substantial return since the alternate opportunity of placing funds in the informal credit structure at interest rates (not rates of return) ranging from 35 or 40 percent to more than 100 percent is likely to be available.

The key to profitability is pricing and margins. If governments rely on market forces to set prices for products, and have not imposed artificial or controlled margins for services, private sector entrepreneurs can be expected to respond. Adequate margins are particularly important for private sector involvement in input (seeds, fertilizer, pesticides, credit, etc.) marketing and distribution. However, pricing policies are inextricably tied to country politics which, in turn, makes them more difficult to change.

For example, politicians decide that lower than market rates of interest will benefit farmers. The banking community cannot make money at those rates. This results in federal subsidies to move credit to farmers and, typically, the creation of a government credit delivery mechanism which, by definition, must be subsidized. Or, politicians decide that

⁴ See Dainer, Samuel R., "Agribusiness and Rural Enterprise Project Analysis Manual," prepared for AID, 1979, Chapter 3 for a discussion of public policies impacting on small and medium rural enterprises. lower than market prices for fertilizer will stimulate fertilizer use and increase food production. The private trade cannot make money at these prices. This results, again, in subsidies, industry regulation and control and typically, again, the creation of public or parastatal entities to distribute fertilizer. Once such situations and institutions have evolved it takes a major act of political will, and more time than is usually expected, to correct the situation.

Parastatal operations cannot be successfully turned over to the private sector until the conditions (policies) that brought about creation of the parastatal are corrected.

Labor laws may impose minimum wages and customs may require high fringe benefits that may unfavorably influence enterprise profitability. Careful analyses of the labor situation are necessary at the pre-feasibility stage of project investigation.

Property and income taxes are probably not a major problem for rural enterprises. Many are exempted because of size and weak tax administration misses a lot more. Small rural enterprises may find it difficult to compete, however, if larger enterprises receive tax incentives.

"Health and sanitary regulations, transport regulations, controls on the movement of goods . . . licenses and fees, all tend to be regressive in nature" ((7), p. 17). Thus they tend to influence unfavorably the competitive position of smaller rural enterprises.

Appropriately, the Asia Bureau emphasis on policy analysis and studies is the first step in developing an understanding of the consequences of existing versus changed policies, including the political consequences. Only with in-depth understanding of the full ramifications of a particular policy change can Missions hope to bring about such changes.

B. Physical Infrastructure

Rural physical infrastructure is essential for agricultural growth and development - for farmers to have access to inputs and services and to be able to get their produce to market. This same infrastructure is a pre-condition for profitable private sector entrepreneurs who supply inputs and buy what farmers produce. Provision of this infrastructure is a public responsibility.

Probably of most critical importance is the transport network which provides entrepreneurs access to local market towns, and farm to market roads that bring farmers to market. Mosher ((8) p. 5) highlights transport facilities in discussing the composition of a progressive rural structure. Adequate roads, both to connect the farms within each farming locality to its market center and to connect its market center to the outside world, are essential. Also highlighted is the requirement for a market center to provide markets for farm products and retail outlets for farm supplies and equipment. The market center requires sales yards, holding pens, storage facilities, farmer accommodations, offices and other physical infrastructure. Also required are financial, inspection, and other services.

Rural industries and more highly developed farming activities also will require an effective communication system and the former depends on service from public water, sewerage, electrical, and other physical

infrastructure. There is little likelihood of successful non-farm private enterprise development if these facilities are missing. Missions, other donors, and host governments should coordinate infrastructure development with efforts at non-farm private enterprise development.

C. Institutional Infrastructure

The availability of certain support services is an essential pre-condition for successful private enterprise development. Such services may be provided through private or public institutions.

Financial institutions able to supply investment as well as working capital are critical to efficient operation and to enlargement of private non-farm enterprises.

Private non-farm enterprises also may need access to educational and training institutions. Training in all aspects of business management - accounting, inventory control, marketing, quality control, financial management, etc.- as well as the technical skills required for efficient production of a particular commodity or group of commodities will be required. If the institutional capability to provide such training does not exist, it should be created.

Small and medium scale industries, the primary area of concern, typically do not have an R&D capability. They must look outside their own organizations for assistance in selecting among available technologies for a particular process, adapting some of the available technology to their needs, or creating new technologies. There are few institutions in Asia, either public or private, with such capabilities. AID has had successful experience in helping to create such institutions (Korean Institute of Science and Technology) and should look favorably on projects that will create this capacity in other Asian countries. (The Thai Institute of Science and Technology is now being designed).

4. OPPORTUNITIES FOR PRIVATE ENTERPRISE DEVELOPMENT AND SUGGESTIONS FOR AID PARTICIPATION

Some of the opportunities for private sector involvement in agriculture and rural development are related to the "preconditions" discussed in Chapter 3. There are things to be done about the "climate" for private sector involvement, - particularly, those policies affecting private enterprise. In some Asia Bureau countries it is possible for AID to invest in physical infrastructure - rural roads, electrification, and so on. In all AID assisted countries in Asia it is possible - essential - to invest in the institutional infrastructure to assist private enterprise development.

In addition to what can be done to make available the preconditions for private sector development, which is primarily the responsibility of government, host governments, with AID support, can assist private enterprise participation in certain aspects of the agricultural development process. These are primarily agricultural support services and facilities/commodities - seeds, fertilizer, pesticides, equipment, credit, storage,

and transportation (not infrastructure) and the processing of agricultural products.

With a focus, generally, on employment creation, opportunities also are available to assist private, non-farm cottage and other rural industry enterprises to become more effective and more profitable.

A. Studies and Analyses

Interventions by AID Missions to assist private non-farm enterprise development require, first of all, an understanding of the existing private sector. This is highlighted in the ASIA/TR paper ((4), page 2). Some relevant questions are: What does it do? What is the state of its economic health? Under what policy framework has it evolved? Under what kind of constraints does it labor?

Such studies should be sponsored jointly by USAID's and host governments. With the resulting information, AID Missions will be able to identify specific kinds of interventions leading to project proposals and will be in a position to engage host governments in dialogue regarding possible policy changes affecting private enterprise development. The common base of information and understanding should facilitate agreement between USAID's and host governments on interventions to be attempted.

Such studies have been made or are underway in Indonesia, Bangladesh, Thailand, India, Philippines, and Sri Lanka. Some of these have been separately financed contract studies. Others are provided for as a component in private sector projects that are in the design/approval process, which may put off actual study implementation for some time. The program documentation reviewed suggested only minor constraints regarding financing of such studies. However, the Asia Bureau (AID/W) could facilitate the study process, particularly at this early stage of private sector development, by making study funds and the necessary talent, readily available to missions. This could be done through liberal availabilities of PDS funds or through a regionally (AID/W) funded research project. The existing regional project (0275 Rural Enterprise Development) might be adapted effectively to this purpose.

In addition to understanding the private sector, per se, particular focus should be placed on analysis of host government policies and the climate generally affecting the private sector. These would be national level studies. Study and analysis of the physical and institutional infrastructure, to be manageable, may have to be confined to states or regions where USAID has placed a program emphasis.

Studies of particular industries or functions also will be required. These are covered in later sections. But, there is a special set of studies that should be initiated immediately. AID's nascent private sector activities could be helped and guided considerably with an understanding of successful private sector operations in agriculture and rural development. Outstanding successes should be readily apparent to Missions. One or two of these could be selected in each country (except perhaps Burma and the South Pacific) and case studies made to determine how and why they are successful. One candidate study is Adams International in Thailand which

has successfully organized 50,000 dependable small farmer growers/suppliers of oriental tobacco. Other activities are under consideration by Adams ((6) pp. 8-10). Case studies could be handled by individual Missions or AID/W could organize and finance studies throughout the region.

With regard to talent for studies identified in this section, many can be contracted to local universities or research institutes. When high quality technical work can be expected, this is preferred. However, the Asia Bureau (AID/W) should arrange for a pool of first class U. S. talent on which Missions would draw on short notice when needed.

For the longer run, missions should consider projects to develop analytical capability in the host country for conducting research on the private sector (and other sectors as appropriate) with a focus on policy analysis. At least some of this effort should be devoted to government agencies, particularly those in direct decision making roles regarding private sector development.

B. Agricultural Support Services

The following subsections deal with various agricultural support services - most where private enterprise is typically found, but some where it is not. The focus is on what facilitates private sector involvement in these activities.

(1) Agricultural Research

This is an activity usually thought of as belonging to the public sector and, in fact, the public sector is the essential actor. However, there do appear to be opportunities related to particular commodities where some private sector research has been feasible and profitable. Pray (21) has reported on private agricultural research in Asia. He found a general shift away from private research by cash crop commodity groups due to the take-over by governments. He notes a few cases of private research still underway - mechanization in Thailand and India, milk in India, tobacco in Bangladesh, sugar in the Philippines, and so on.

It appears that hybrids, mechanization, chemicals and/or market control provide the most likely opportunities for private sector agricultural research. The question raised by Pray, but not answered, "Should there be more private sector research in Asia,?" is where the Asia Bureau should concentrate its efforts. It is not at all clear at this point that encouraging private sector agricultural research would be in the public interest - particularly the interests of AID's target group of small farmers.

Studies are recommended in selected countries for selected commodities to determine the desirability of more private research before turning, if desirable, to analysis of present constraints and to the evolution of policies and conditions conducive to private sector research. Overall, this would not appear to be a high-payoff effort as part of a private sector initiative.

(2) Seed Industry Development 5/

a. Characteristics of a Seed Business

"The seed business involves risks that are common to both farming and Manufacturing processing operations plus some that are unique. On the farming side, there are the risks of unfavorable climatic conditions, diseases, insects, floods, widely fluctuating markets, etc. On the manufacturing side, there are the risks of labor problems, equipment breakdown, slow markets, customer dissatisfaction, obsolescence of product, excessive waste, poor turn out, inflation, and so on. Additionally, seed are a perishable, living biological material. The seed business is also characterized by a need for considerable short-term credit (operation capital), seasonal marketing and slow turnover of inventory, and by the ease with which the product (seed) can be reproduced and multiplied (exception is hybrids) by the consumer. Reviewing the risks and uncertainties inherent in the seed business, it is not surprising that seed industries have developed slowly."

b. Seed Industry Opportunities

"It appears that opportunities for substantial development of a private seed industry are present in many of the LDC's. But, these opportunities for "substantial" development are limited to hybrids, vegetables, forage and fodder crops, and some fiber crops. Except for the hybrids, these crops are produced for products other than seed, and seed production is very specialized and beyond the experience of most cultivators.

Opportunities for less substantial (or large scale) but no less important development are available in rice, wheat, corn (composites), soybeans, and other large seeded legumes, peanuts, and cotton seed production and supply. These opportunities can be pursued to greatest advantage by small, family-owned and managed, locally oriented enterprises.

Finally, private seed industry has the best chance in countries where "time" is available for orderly, progressive development. The uncertainties of the seed business, the skills and knowledge necessary for successful operation, and the perishable nature of seed are such that development and growth of a seed business is relatively slow."

c. Restrictions on Private Sector Participation

^{/5} This section is abstracted from Delouche, James C. "Problems and Prospects in Seed Program/Industry Development in the Less Developed Countries," Part II, Mississippi State University, October 1969. Unpublished manuscript prepared for AID.

"Inevitably, the spectre of an uncontrolled, capricious, exploitative seed industry is resurrected at the moment private sector participation is first considered in seed program planning (if considered at all), and thereafter haunts most public servants involved in the seed program. In reality the danger is not from lack of control of the private sector participants but from over control to the point that participation is throttled.

"Some of the devices used to restrict and/or exclude private sector participation are: Restriction on land holdings and use; allocation of foundation seed only to those private cultivators who agree to contract their production to some governmental agency; compulsory certification or certification only of government produced seed; restriction on foreign exchange needed to purchase equipment from off-shore sources; unrealistically low prices for government produced seed, or in a few cases the seed is simply given away; compulsory registration and testing of varieties; restrictions on import of parental lines from off-shore sources; restrictions on movement of seed across political boundaries."

"It is with these situations in mind, that considerable emphasis has been given to high level support and coordination of the seed program/industry."

d. Suggestions for AID Participation

The above background suggests a number of points for USAID investigation or analysis, (particularly in countries having AID financed seed projects) and subsequently engaging host governments in dialogue regarding private seed industry development.

Several factors would tend to encourage private sector involvement in seed industry development and are suggested to guide both analysis and dialogue:

- o A strong government policy commitment favoring private sector involvement and including a clear statement of public and private responsibilities in seed industry development.
- o Since in nearly all developing countries, crop research and the multiplication of basic seed is a public responsibility, a government decision to provide the private sector with access to basic seed on a reliable and continuing basis is probably the most important factor affecting private involvement.
- o Profitable margins are essential.
- o Other facilitating arrangements can be provided by government including access to credit for seed industry development, inspection and quality control measures that support good performers, and an overall policy framework that facilitates seed industry development.

Missions in Indonesia, Nepal, Pakistan and Sri Lanka may want to explore possibilities of private sector involvement in their projects for which seed is a component (See Annex A). Thailand apparently already has some private sector involvement in the seed industry that probably is

related to the Missions Seed Development Projects. (6 companies reported by Howard Potts, MSU). Seed Development II could consider ways to enhance this involvement.

3. Fertilizer and Pesticide Distribution

The key to private sector involvement in fertilizer and pesticide distribution is adequate, (profitable) margins at each stage of the distribution process i. e. retailer, one or more sets of wholesalers and the fertilizer mixing plant. Where prices are not controlled by government, margins should be adequate. Over development of the distribution network leading to intense competition among dealers may temporarily reduce margins below profitable levels, as has been reported for fertilizer in Thailand. Time will sort this out in a free market (See "Thailand Strategy for Fertilizer Development," Technical Bulletin T-17, IFDC, May 1980, pp. 22 to 24).

The availability of other public or private services, such as credit, particularly for holding fertilizer inventory, will facilitate private involvement in fertilizer and pesticide distribution. Access to adequate storage facilities throughout the distribution network is essential because of the seasonal nature of the demand for fertilizers and pesticides. Information made available to retailers on fertilizer and pesticide recommendations for their service areas will permit them to do a better job for farmers and for themselves.

Another important factor facilitating private sector involvement is consistency in government policy and reliability in the performance of related programs. If government sets targets for production of specific crops in specific areas, fertilizer and pesticide dealers will plan accordingly. Failure to achieve targets, for whatever reason, is likely to result in unprofitable dealer operations. If this happens regularly, dealers will cut back to some safe level of operation and raise prices and margins, if not controlled, on a smaller volume of business. Dealer confidence in operation of the rest of the system is essential for efficient dealer involvement.

Even in the most recent Bangladesh fertilizer project 060 - Fertilizer Distribution Improvement III, it is still assumed that private sector distribution will improve small farmer access to fertilizer. In view of the long period of involvement and the heavy emphasis on the private sector, it would appear appropriate to test this assumption. This may have been done in the recent impact evaluation. If not, it would be useful to study this key assumption.

In India, fertilizer is distributed by both public and private entities. It might be instructive to make a comparative analysis of how effective the two are in getting fertilizer to AID target groups.

The Sri Lanka mission has had fertilizer import loans in the recent past, but none are reflected in the FY 84 documentation. Whether there is a private sector role in the Sri Lanka fertilizer program is not clear from the documentation.

The portfolio review did not reveal other fertilizer projects nor any projects focused on pesticides.

4. Equipment Manufacture and Sale

Domestic manufacture of machinery and equipment usually is justified (a) on the basis of foreign exchange savings from not having to import, (b) on having machinery and equipment better suited to the needs of the country, and (c) increasing industrial employment.

Manufacture of farm machinery and equipment may be taken up by existing, well established firms or new enterprises may be created. In the latter case, a major institution building task may be at hand. The managerial and administrative capacity of the organization must be developed to the point where dependable quality products are being produced. This frequently will require training in management as well as in technical or engineering fields.

A key factor in a successful manufacturing operation will be to establish a sales and support organization in the market area to be served. This must include a maintenance and repair capability and a stock of spare parts.

Subsidies, through credit or otherwise, frequently are provided to facilitate the establishment of a new enterprise. So long as these subsidies are used on establishment and development costs and do not result in lower than market prices for the machinery and equipment, there should be no uneconomic impact on employment. If machine owners bear the full cost of these innovations, then any labor displacement is an adjustment that must be accommodated in the interests of overall agricultural and economic growth in the country.

The only mechanization project in the Asia Bureau portfolio is a regional project for extension of small scale agricultural machinery. Assistance is provided to private manufacturing entrepreneurs. In Pakistan, agricultural machinery is being imported under commodity import program.

The present level of Asia Bureau involvement in farm mechanization is probably about right. This does not appear to be a high payoff sub-sector. Missions should include in policy dialogue with host governments, consideration of prices and subsidies related to farm equipment so that mechanization does not create unemployment or otherwise impact unfavorably on AID's small farmer target group.

5. Storage

Storage facilities for inputs and farm products are an essential part of rural infrastructure. Such facilities may be public or private, depending on country and location. Successful private storage operation will depend on need, i.e., a sufficient volume of business in the area served, and remunerative fees.

The only current project in the portfolio for financing storage facilities is the Fertilizer Distribution II project in Bangladesh, which finances private local storage. In 1978 projects in Sri Lanka (Paddy Storage and Processing) and Nepal (Seed Production and Input Storage) storage facilities were financed.

USAID involvement in private sector storage, other than the financing of facilities, can be most effective in its policy dialogue with governments to try to assure that where governments control storage fees, that these are set at remunerative levels.

6. Transportation

Local and district market level truckers are frequently private entrepreneurs. Again, sufficient demand and remunerative fees will determine their success. The commodity import program in Pakistan includes trucks and other transportation equipment made available to the private sector.

Again, the most appropriate USAID role appears to be in the policy dialogue to assure that transportation fees, where controlled, are set at remunerative rates. Where resources permit, importation of trucks (Pakistan) for the private sector is an obvious help.

Infrastructure projects to improve the rural road network are included in the programs of Bangladesh, Pakistan and the Philippines. Such projects improve opportunities for both the private sector and AID's target group of small farmers.

7. Credit

Formal private credit facilities operating successfully in rural areas are probably the exception rather than the rule. Government financed cooperatives or other organizational forms of local credit facilities represent the general rule. Informal private credit - money lenders, merchants, friends and relatives - is ubiquitous.

USAID assistance to credit institutions, either public or private, can be direct or indirect. The unanimous conclusion of participants in AID's Spring Review of Small Farmer Credit was that significantly improved technological packages for farmers are essential for a successful credit program. Equally necessary are the other facets for creating a healthy small farmer agriculture (See Sec. 1.B above). Such activities are indirect assistance to credit institutions. Also indirect, would be USAID attempts through dialogue with host governments, or otherwise, to assure that interest rates are set at or near market levels so that profitable banking operations are possible. Direct assistance to credit institutions usually involves institution building activities - managerial and other training, technical assistance, or augmentation of financial resources.

The program documentation reviewed did not reveal any credit projects focused on assistance to private sector banks. However, a number of projects are providing credit to the private non-farm sector. In Bangladesh (Rural Finance) and Indonesia (Local Credit Institutions) local non-farm

enterprises are targeted for assistance. In Pakistan, the Philippines, and Thailand, proposed private sector projects have included non-farm enterprise credit.

C. Agricultural Processing and Rural Non-Farm Enterprises

Interventions to assist private agricultural processing and non-farm enterprise development can take two broad forms: (1) correcting the inadequacies in the preconditions to private sector growth which are discussed in Chapter 3, or (2) direct assistance to plants or industries. In both cases, the first step is an analysis of the sector or subsector to determine the obstacles or constraints to growth and development and to identify subsectors for possible assistance.

Where inadequacies or obstacles relate to public policy, physical, or institutional infrastructure, the analysis should provide the basis for a policy dialogue with the government which, it is hoped, would lead to policy changes and to consideration of investments in roads, markets, management training centers, science and technology institutes, or other public infrastructure that is constraining private enterprise development.

In the case of private enterprises the analysis will have identified subsectors or industries where intervention may further AID's objectives. The next step here is to make more detailed profile or prefeasibility studies of these subsectors or industries to identify specific projects. The final step is a full feasibility analysis which could lead to technical assistance, training, and capital outlays by AID. Typical private enterprise problems will include shortage of raw materials and weak or non-existent product markets. Technical, organizational, and promotional skills can be brought to bear on these problems.

Typical problems related to the private sector that one might expect to find requiring interventions directed at the public sector would include government policies and regulations of all kinds - prices, interest rates, taxes, export/import regulations, labor laws, property rights, licensing requirements, industrial location, and so on. There may be inadequate physical infrastructure, such as roads, ports, communication facilities, market yards, water, sewers, electricity, and so on.

In addition, the sector or sub-sector analysis may reveal (1) a lack of managerial capability, (2) a shortage of skilled labor, (3) inadequate technologies, and (4) insufficient capital. For these four items, interventions directed at the public sector would focus on long run solutions, primarily through institutional infrastructure - managerial and technical training facilities, revised university curricula, scientific and technological institutes, or intermediate financial institutions. USAID's should concentrate on these types of intervention where AID's comparative advantage is greatest.

These same four problems can be tackled by short-run interventions directly with the private sector- in-plant managerial and technical training, direct technology transfer, or loans made directly to private enterprises. A preferable approach to direct assistance would be the

creation of a private "marketing corporation," now being experimented with by PRE, with the capability to finance and otherwise assist agricultural processing enterprises. The objective is to create an institutional mechanism that can service individual private enterprises, including the financing of inventory and acquisition of inputs, provide managerial knowhow and other training, and provide access to current technology appropriate to the enterprise. This would be a new kind of institutional development activity for most USAID's. The experimental work now being tried by PRE should be tracked closely for USAID's planning this type of intervention.

Missions are tackling these problems with interventions in both the public and private sectors. Indonesia proposes to develop a private sector training institute and a quasi-public (parastatal) training institute. Other projects provide for short-term management training in U. S. business schools for entrepreneurs and staff training for BKPM, Indonesia's investment control agency. Bangladesh is providing various technical and liaison services indirectly to private enterprise through 40 non-government agencies promoting rural industries. The Philippines also is working at both levels - directly with the private sector through marketing and product development, market promotion experimental finance, and technical assistance to business associations and assistance through government by creating service centers to help micro-enterprises and analysis of policies affecting rural enterprise. Sri Lanka is working primarily with public level interventions to help the private sector. Thailand is working at both levels, including special credit and technical assistance for small/medium industry, establishing a mechanism for policy analysis and dialogue by the private sector with the RTG, and extensive Mission dialogue with the RTG.

In summary, USAID interventions in agricultural processing and other non-farm enterprises must start with studies and analysis; focus on indirect public interventions rather than directly with private enterprises is more likely to achieve AID's overall goals; and USAID's should concentrate on institutional improvements to service private sector growth. Where resources permit, public infrastructure investments benefit both the private non-farm and farming sectors.

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