PN-AAP-435 / 62
ISN- 33720

October 12, 1982

Dear Conference Attendee:

On behalf of TRITON Corporation, I wish to take this opportunity to welcome you to the Washington, D.C. area. I hope your participation in the conference will be both useful and informative.

TRITON Corporation, an international marketing and management firm, is coordinating conference activities. In addition, TRITON staff will be available throughout the duration of the conference to assist you during your stay.

Mr. Albert Ferri, Jr., Executive Vice President, is Conference and Staff Director. He is assisted by:

- Maricel Quintana, Conference Coordinator
- Richard F. Scarino, Assistant Conference Coordinator
- Terri McGinnis, Assistant Conference Coordinator.

If you should require any additional assistance or information after the conference, please feel free to contact conference team members by:

Telephone: (202) 332-8310 or

Telex: (710) 822-1184

Once again, welcome and enjoy your stay.

Sincerest regards,

Richard D. Salvatierra

Richard D. Salvatierra
President

TRITON

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523



October 12, 1982

Dear Conference Participant,

The Agency for International Development is pleased to welcome you to our conference on LDC Experience with Private Sector Development.

The conference workbook you are receiving today has been prepared to introduce you to each other, to the sessions which will be going on and to the building we are in and its procedures.

Our conference support staff from Triton Corporation and the staff of A.I.D.'s Office of Evaluation will try to provide you the services you need to make this conference one which makes it easy for you to concentrate on the sessions you have come to attend and to meet with other participants to discuss mutual concerns.

Attached to this letter you will find a letter which introduces you to the Triton staff and a list of the people who have been invited to this conference.

We look forward to your active participation in the conference sessions and to learning from your experiences as well as sharing our own.

Richard N. Blue
Director
Office of Evaluation

LDC EXPERIENCE WITH PRIVATE SECTOR
DEVELOPMENT CONFERENCE

OCTOBER 12-15, 1982

# LIST OF INVITEES

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7

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Ambassador Michael Samuels
U.S. Chamber of Commerce

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Bureau for Latin America and the
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Charles Tulloh
Vice President
Planning Dynamics, Inc.

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## GENERAL INFORMATION

In this section of your conference workbook you will find all of the basic administrative and logistical information we anticipate you will need during the four days of the conference. The section includes:

- A summary of all the key services and procedures pertinent to our stay at the Planning Research Corporation conference facility;
- A copy of the session selection form sent to you with the conference agenda. If you have not yet completed this form we request that you do so as soon as possible;
- A map of the area, showing the location of the Planning Research Corporation's conference facility;
- Maps of the floors of the building in which the conference is being held. These maps will help you to locate the roundtables and workshops held outside our plenary meeting room on the 5th floor;
- A travel arrangements form, should you need the assistance of our conference staff in altering your reservations;
- A typing and Xerox request form, which you may need in connection with your participant workshops;
- A copy of the shuttle bus schedule for trips beween the conference site and the Westpark Hotel
- A telex/cable form, should this be needed;
- An expenditure reporting form for people on per diem;
- The CONFERENCE EVALUATION FORM which we hope that each of you will complete.

# GENERAL INFORMATION

## EMERGENCY PROCEDURES

In case of emergency or need of assistance, pick up any telephone in the building and dial either #1122 or #1133. These numbers ring at the reception desk in the lobby. Persons staffing that desk have been trained by PRC and know what to do in the case of any emergency.

## LAYOUT OF THE BUILDING

In the General Information Section of this workbook is included a guide to PRC's facilities. This guide shows where each room used throughout the conference is located, as well as the Conference Center (Suite 100), the dining facilities and the convenience store.

## MESSAGE CENTER

The Conference Center Phone number is 556-3015. If you need to be reached during the duration of the conference, this is the number. Please check our Message Center, in Suite 100, regularly.

## OUTGOING CALLS

Several phones have been installed in Suite 100 for your convenience. However, these phones can only handle local calls and credit card calls.

## TYPEWRITERS (For personel use)

Two workrooms with typewriters have been set up for your convenience in Suite 100. These will be available during conference hours only. If you wish to use a typeriter after hours, there's one available at Westpark Hotel. Please check the Message Center for its location.

## DEVELOPMENT OF WORKSHOP MATERIALS

During the conference we expect that the workshop groups may want to prepare materials for presentation in our plenary sessions. Materials to facilitate these workshop efforts available in the reception area. Should you want materials xeroxed as hand-outs, please contact our reception desk. Quick typing jobs can also be handled through the reception desk.

## MEALS

During the conference, participants will be able to have breakfast, lunch and dinner at the conference facility if they choose. On the evening of the 12th and at luncheon on Friday, the 15th, AID will be sponsoring conference participants; at other times, participants will be able to purchase their own meals which are priced very reasonably.

other materials that may interest you, will be available in this "free" bookstore. The second bookstore in our reception area is being set up to provide you with an opportunity to purchase hardback and paperback publications on pertinent subjects. Our "for profit" bookstore is being stocked by Sidney Kramer Books and the World Bank. Our procedures for buying books call upon you to fill out order forms from the supplier and pay by check or credit card. The books you purchase will be sent to you after the conference is over.

- October 12: 2 pm. - 5 pm.
- October 13 & 14: 9 am. -5 pm.
- October 15: 9 am. - 1 pm.

## CONFERENCE STAFF

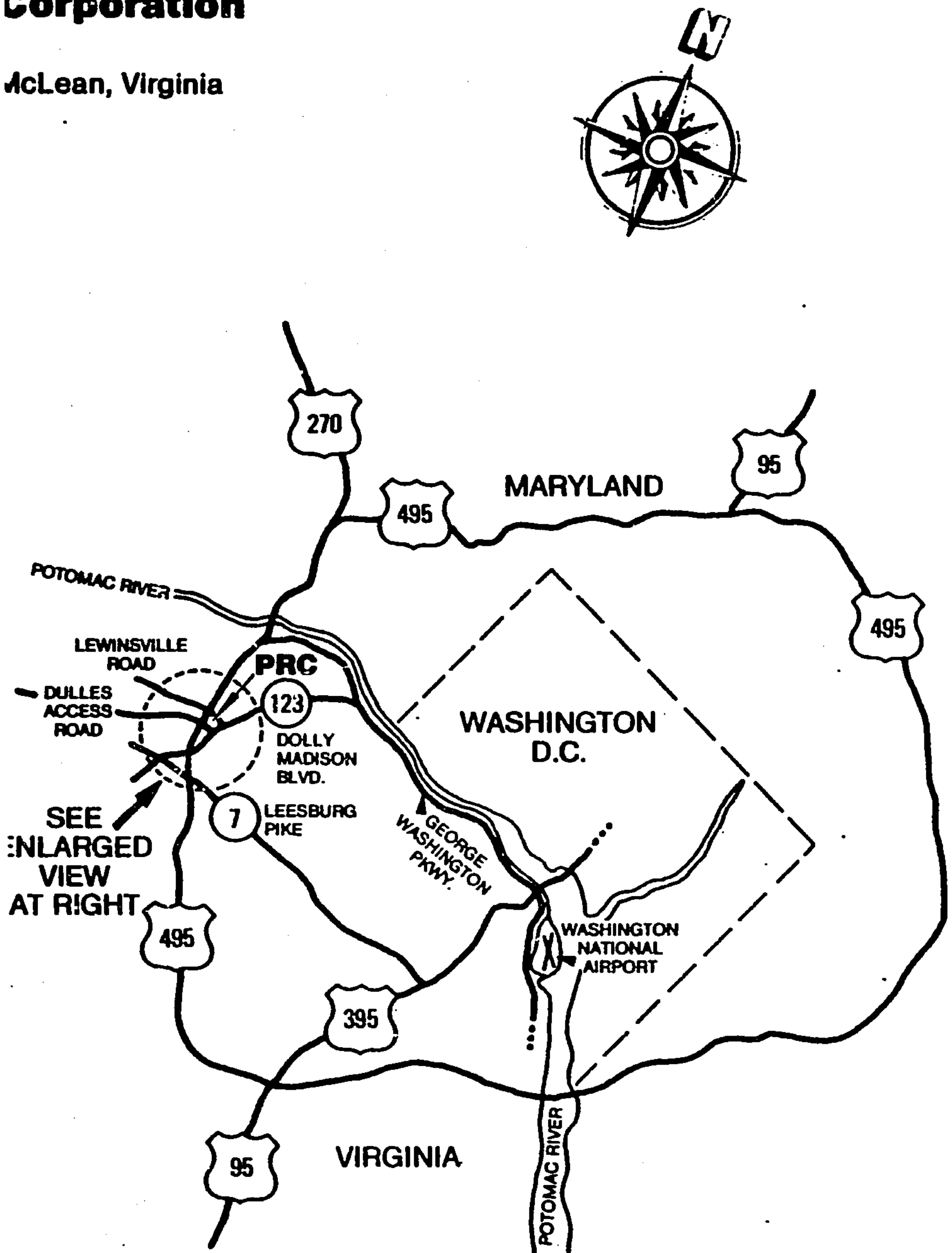
Should you need any assistance during the conference the AID conference staff and our support staff for this conference form TRITON Corporation will be available to help you. All staff will have staff on their name tags for your convenience.

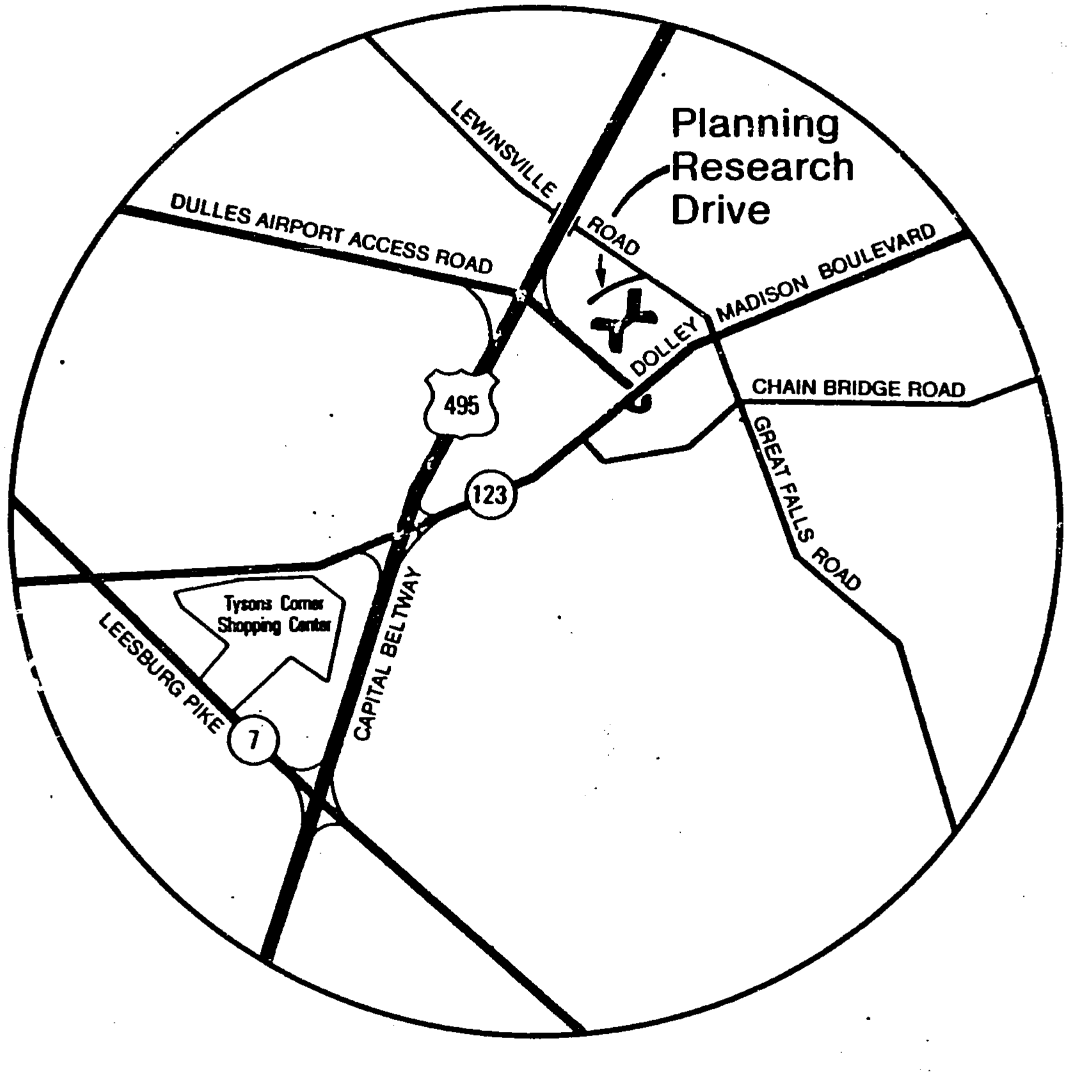
## NOTE

Following the afternoon sessions each day, cocktails and hors d'oeuvres will be available at the conference site. Cocktails will be on a cash basis.

**Planning Research Corporation**

McLean, Virginia

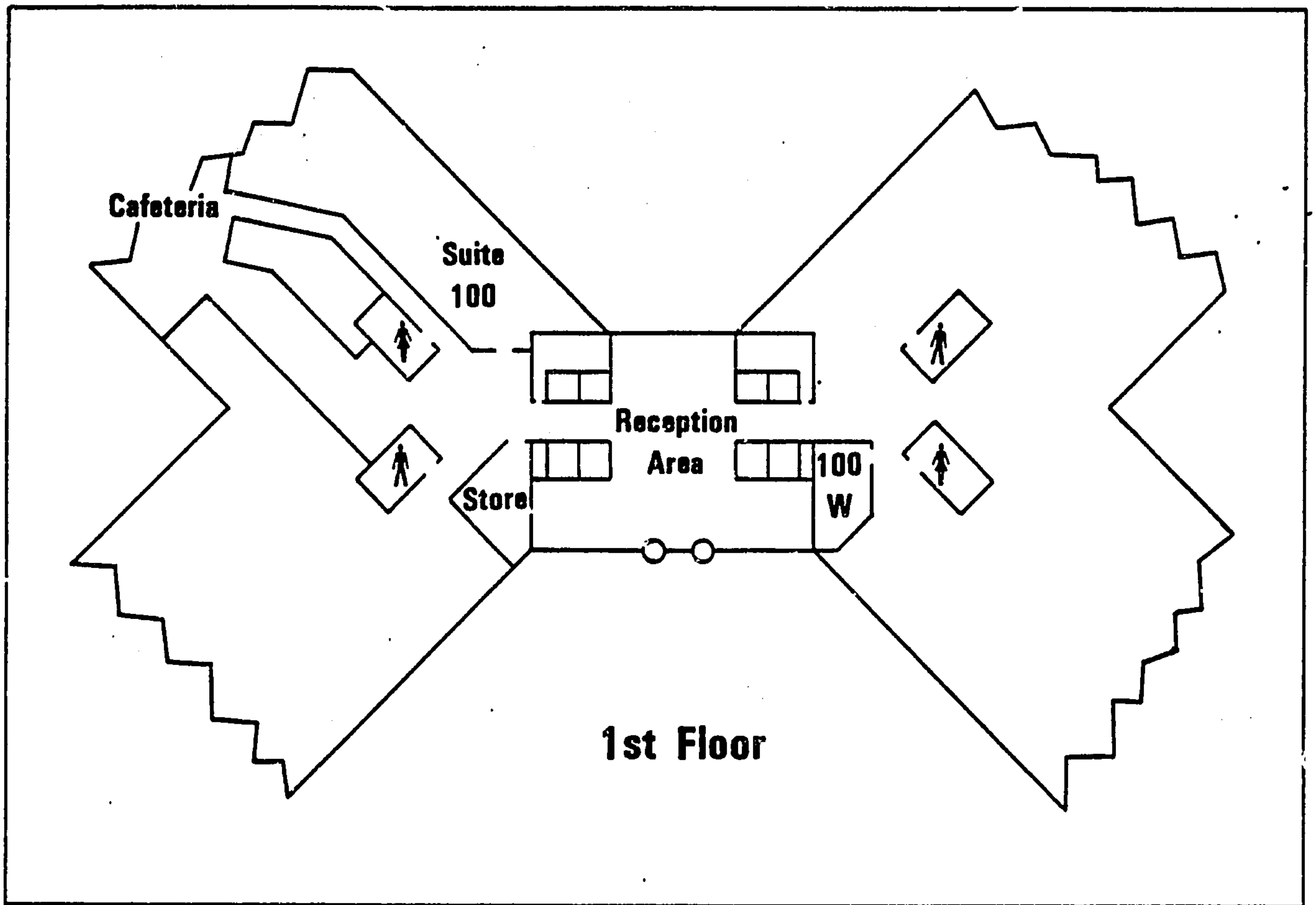


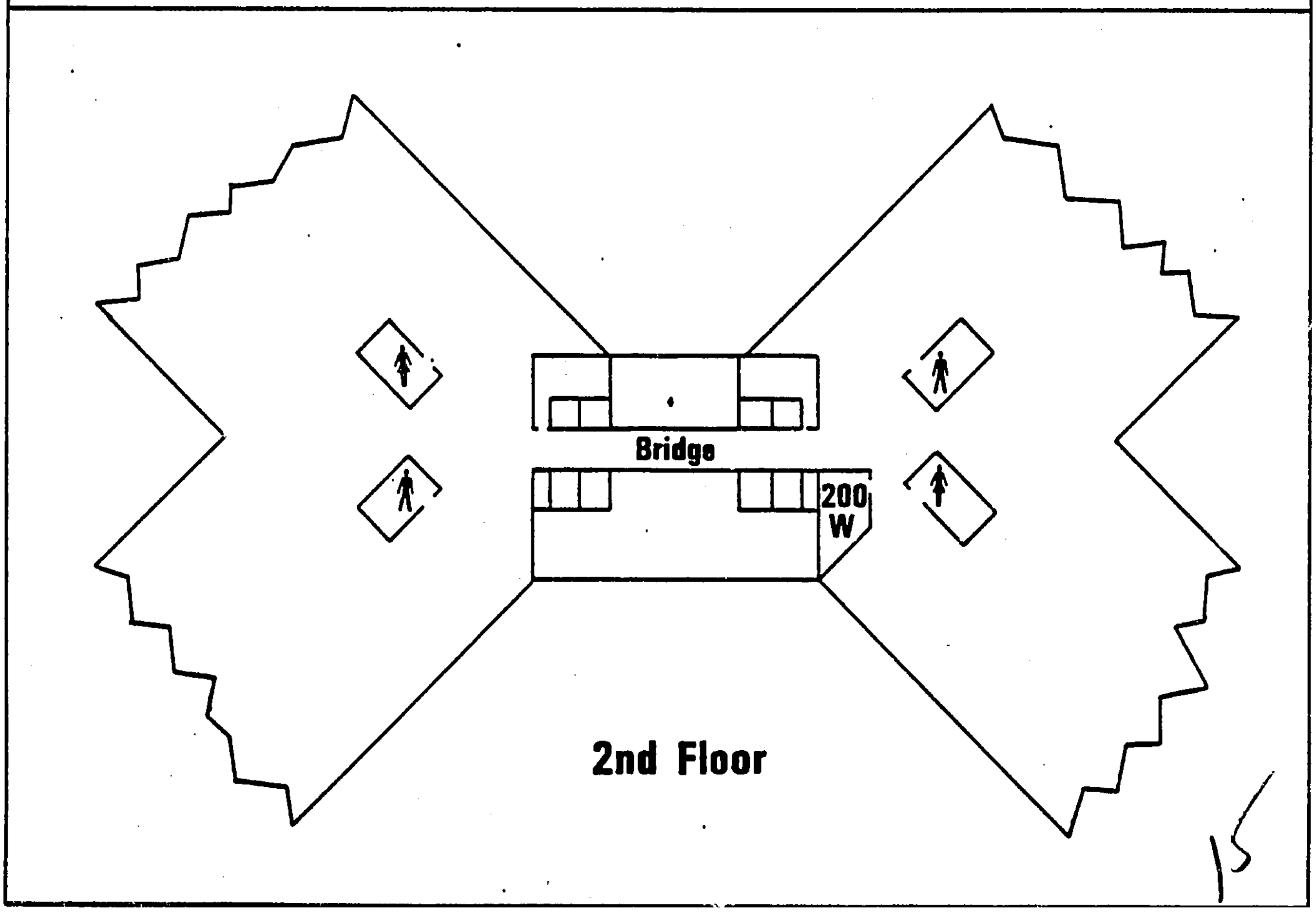




ENLARGED VIEW

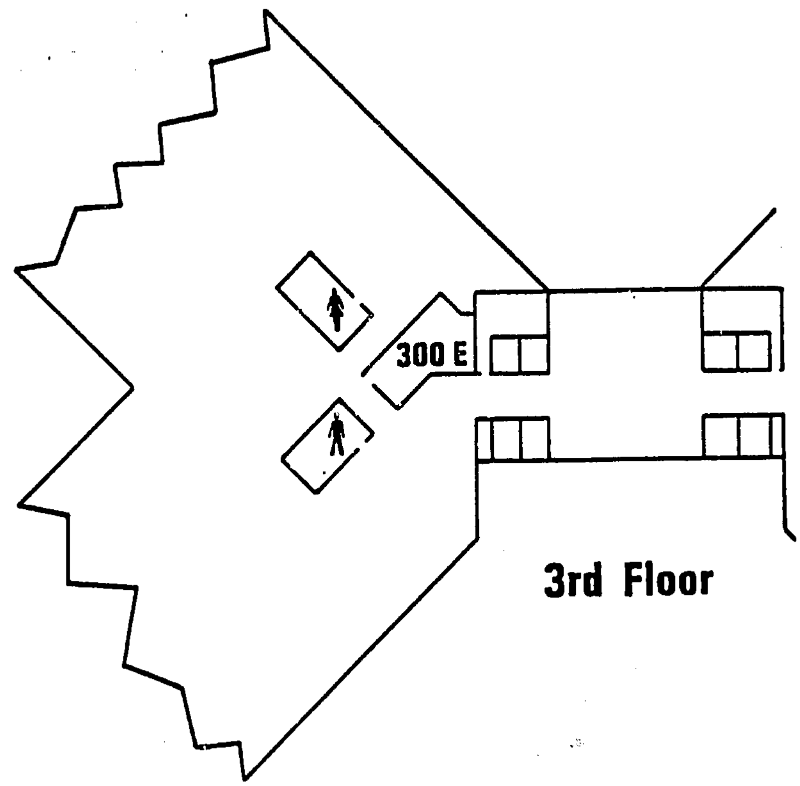
Planning Research Drive is off Lewinsville Road, which you can reach from Dolley Madison Boulevard (Route 123) in McLean or from southbound Exit 12E of the Capital Beltway (495).

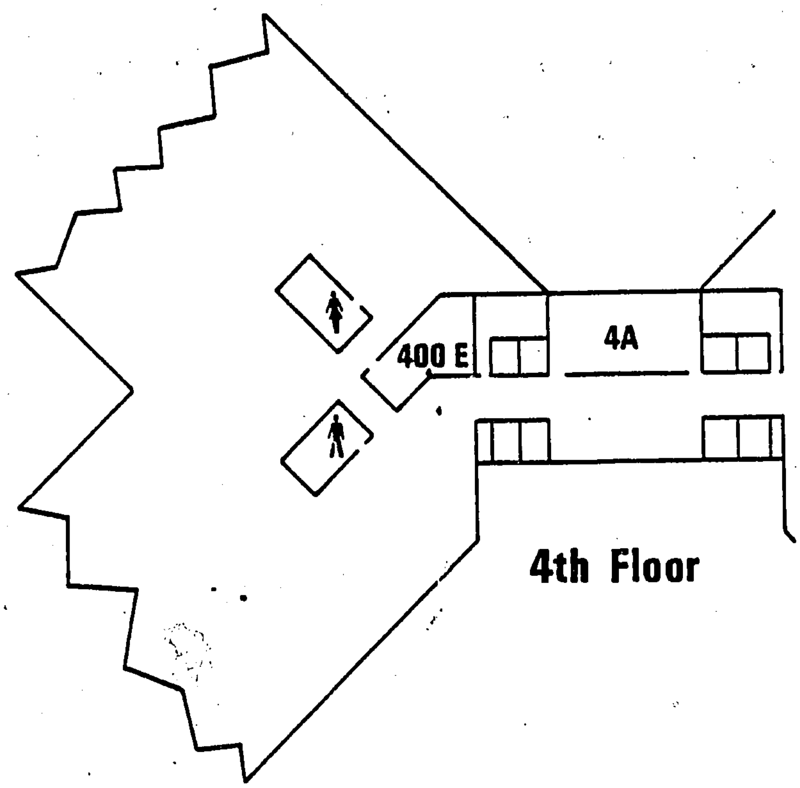
# CONFERENCE FACILITIES AT PRC
## (Page 1 of 3)



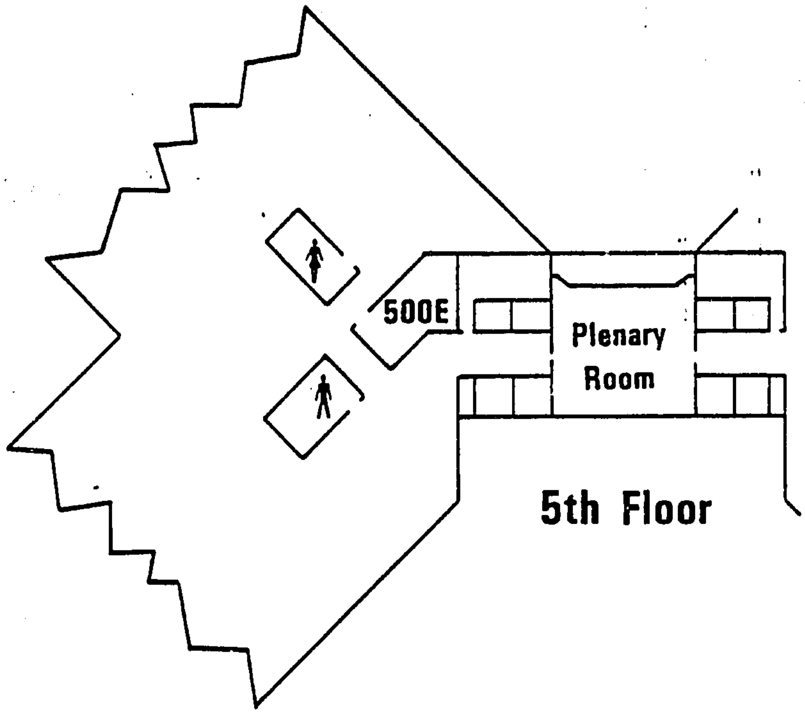



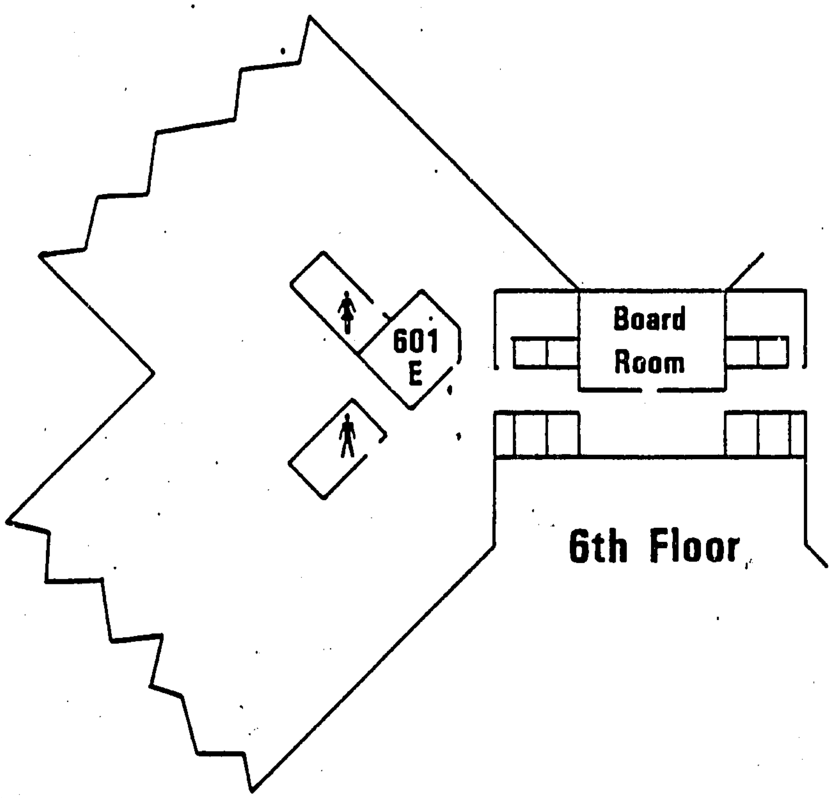
# CONFERENCE FACILITIES AT PRC
## (Page 2 of 3)



# CONFERENCE FACILITIES AT PRC
## (Page 3 of 3)

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NAME:_______________________ TIME:__________

HOTEL:______________ROOM______ DATE:__________

# TRAVEL ARRANGEMENTS REQUEST FORM

Please complete this form and return it to the Registration Desk in the Conference Center ONLY IF YOU WISH TO CHANGE YOUR PRESENT TRAVEL ARRANGEMENTS.

<u>PRESENT TICKET:</u>

DESTINATION:_______________________

AIRLINE:______________FLIGHT NUMBER:__________

DEPARTURE DATE:______________

DEPARTURE TIME:______________
(Specify a.m. or p.m.)

<u>PLEASE CHANGE TO:</u>

DESTINATION:_______________________

AIRLINE:______________FLIGHT NUMBER:__________

DEPARTURE DATE:______________

DEPARTURE TIME:______________
(Specify a.m. or p.m.)

<u>PRESENT HOTEL ARRANGEMENTS:</u>

HOTEL NAME:______________ CITY:__________

CITY/COUNTRY:_______________________

DATES:_______________________

<u>PLEASE CHANGE TO:</u>

HOTEL NAME:_______________________

CITY/COUNTRY:_______________________

DATES:_______________________

TIME:__________

DATE:__________

TYPING/XEROXING REQUEST FORM

Complete this form and return it with the document to be typed or x roxed to the Registration Desk in the Conference Center. Prepared documents will be distributed from the Registration Desk.

________TYPED

________Double spaced

________Single spaced

________Letter

________Report

________Other, please describe____________________

________XEROXED

________Number of copies

DATE NEEDED BY:________________ DAY:__________

TIME NEEDED BY:________________
(Please specify a.m. or p.m.)

SPECIAL INSTRUCTIONS:____________________

NAME:____________________

HOTEL:________________ ROOM NUMBER__________

________________
OPERATOR

# SHUTTLE
# BUS SCHEDULE

Schedule for bus transportation between West Park Hotel and Planning Research Corporation

## October 12, 1982 - Day One

| West Park (Departs) | PRC (Departs) |
|---|---|
| 1:30 pm | 1:45 pm |
| 2:00 pm | 2:15 pm |
| 2:30 pm | 2:45 pm |
| 3:00 pm | 3:15 pm |
| 6:00 pm | 6:15 pm |
| 6:30 pm | 6:45 pm |
| 7:00 pm | 7:15 pm |
| 7:30 pm | 7:45 pm |
| --- | 9:30 pm |
| 9:45 pm | 10:00 pm |
| 10:15 pm | 10:30 pm |
| 10:45 pm | 11:00 pm |

## October 13, 1982 - Day Two

| West Park (Departs) | PRC (Departs) |
|---|---|
| 8:00 am | 8:15 am |
| 8:30 am | 8:45 am |
| 9:00 am | 9:15 am |
| --- | 9:30 pm |
| 9:45 pm | 10:00 pm |
| 10:15 pm | 10:30 pm |
| 10:45 pm | 11:00 pm |

## October 14, 1982 - Day Three

| West Park (Departs) | PRC (Departs) |
|---|---|
| 8:00 am | 8:15 am |
| 8:30 am | 8:45 am |
| 9:00 am | 9:15 am |
| --- | 9:30 pm |
| 9:45 pm | 10:00 pm |
| 10:15 pm | 10:30 pm |
| 10:45 pm | 11:00 pm |

TIME: ____________

DATE: ____________

# TELEX/CABLE FORM

This form should be submitted at the Registration Desk in the Conference Center. Complete all of the following. Please print.

NAME: ____________

ADDRESS: ____________

COUNTRY: ____________

MESSAGE: ____________

SENDER: ____________

HOTEL: ____________ ROOM NUMBER ____________

**CLAIM FOR REIMBURSEMENT FOR EXPENDITURES ON OFFICIAL BUSINESS**

1. DEPARTMENT OR ESTABLISHMENT, BUREAU, DIVISION OR OFFICE

2. VOUCHER NUMBER

3. SCHEDULE NUMBER

*Read the Privacy Act Statement on the back of this form.*

4. CLAIMANT

a. NAME *(Last, first, middle initial)*

b. SOCIAL SECURITY NO.

c. MAILING ADDRESS *(Include ZIP Code)*

d. OFFICE TELEPHONE NUMBER

5. PAID BY

6. EXPENDITURES *(If fare claimed in col. (g) exceeds charge for one person, show in col. (h) the number of additional persons which accompanied the claimant.)*

*Show appropriate code in col. (b):*
A—Local travel
B—Telephone or telegraph, or
C—Other Expenses *(itemized)*

*(Explain expenditures in specific detail.)*

| DATE 19__ (a) | CODE (b) | (c) FROM | (d) TO | MILEAGE RATE ¢ / NO. OF MILES (e) | AMOUNT CLAIMED: MILEAGE (f) | FARE OR TOLL (g) | ADD. PER-SONS (h) | TIPS AND MISCEL-LANEOUS (i) |
|---|---|---|---|---|---|---|---|---|
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| *If additional space is required continue on the back.* | | | SUBTOTALS CARRIED FORWARD FROM THE BACK | | | | | |
| 7. AMOUNT CLAIMED *(Total of cols. (f), (g) and (i).)* $ | | | TOTALS | | | | | |

8. This claim is approved. Long distance telephone calls, if shown, are certified as necessary in the interest of the Government. *(Note: If long distance calls are included, the approving official must have been authorized, in writing, by the head of the department or agency to so certify (31 U.S.C. 680a).)*

*Sign Original Only*

APPROVING OFFICIAL SIGN HERE — DATE

9. This claim is certified correct and proper for payment.

*Sign Original Only*

AUTHORIZED CERTIFYING OFFICER SIGN HERE — DATE

10. I certify that this claim is true and correct to the best of my knowledge and belief and that payment or credit has not been received by me.

*Sign Original Only*

CLAIMANT SIGN HERE — DATE

11. CASH PAYMENT RECEIPT

a. PAYEE *(Signature)*

b. DATE RECEIVED

c. AMOUNT $

12. PAYMENT MADE BY CHECK NO.

*ACCOUNTING CLASSIFICATION*

20

CONFERENCE EVALUATION FORM

AGENCY FOR INTERNATIONAL DEVELOPMENT
LDC EXPERIENCE WITH PRIVATE SECTOR DEVELOPMENT CONFERNCE
OCTOBER 12 - 15, 1982
MC LEAN, VIRGINIA

Dear Participant,

Your answers to the following questions will be greatly appreciated, as well as any additional comments or suggestions that you would like to make.

I. THE CONFERENCE

The objectives of the conference were varied, b one main theme was to prevail--LDC Experience with Private Sector Development: ideas, opportunities, and methods. Through this main theme, objectives were that participants gain a better understanding of the following: 1)The role of Public Policy in Private Sector Development; 2) Private Sector Initiatives in the LDCs; and 3) Private Sector Development Experience in the LDCs.

1. In your estimation, were conference objectives met? YES NO

Comments ______________________________

______________________________

2. What did you expect to get out of this conference? ______________________________

______________________________

______________________________

3. Were your expectations fulfilled? Fully Partially Not at All

Comments ______________________________

______________________________

4. What were the conference strong points? ______________________________

______________________________

______________________________

5. What were the conference weak points? ______________________________

6. Rank the following core sessions that you attended for usefulness and quality:

| Extremely Useful 5 High Quality | Very Useful 4 Good Quality | Useful 3 Mediocre | Of Little Use 2 Questionable Qualtity | No Use 1 Poor Quality |
|---|---|---|---|---|

**DAY ONE** (10/12)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 9:00 p.m. | Roundtable: "The Crisis of Economic Developement and the Role of the Private Sector in the LDCs" | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |

**DAY TWO** (10/13)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 10:30-12:30 | Country Case Study Forum | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 1:30-2:30 | Roundtable: "Encouraging Sound Economic Policies in the LDCs" | Usefulness | 5 | 4 | 3 | 2 | |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 2:45-6:00 | Participant Workshop and Plenary | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |

**DAY THREE** (10/14)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 9:00-10:15 | Plenary Session: "A.I.D.'s Congressional Mandate and the Private Enterprise Development Initiative" | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 10:30-12:00 | Roundtable: "Mission Approaches to the Implementation of A.I.D.'s Private Enterprise Development Initiative" | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 1:30-2:30 | Topical Seminars (Please Indicate the Seminar you Attended--A, B, C, or D) ______ | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2:30-3:30 | Plenary Session: "Ways in which the Constraints to Private Enterprise Development Interact and Opportunities for A.I.D. Programs to Recognize these Interactions" | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 3:45-6:00 | Participant Workshops | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |

DAY FOUR (10/15)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 9:00-11:00 | Participants Plenary Session | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |
| 11:15-12:00 | Response to the Conference Findings | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | | Quality | 5 | 4 | 3 | 2 | 1 |

7. Rank the following supplemental sessions that you attended for usefulness and quality, indicating the sessions you attended:

DAY ONE (10/12)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Presession A ______ | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | Presession B ______ | | | | | | |
| | Presession C ______ | Quality | 5 | 4 | 3 | 2 | 1 |
| | Presession D ______ | | | | | | |

DAY TWO (10/13)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 8:00 p.m. | Roundtable 1 ______ | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | Roundtable 2 ______ | | | | | | |
| | Roundtable 3 ______ | Quality | 5 | 4 | 3 | 2 | 1 |
| | Roundtable 4 ______ | | | | | | |

DAY THREE (10/14)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 8:00 p.m. | Roundtable 1 ______ | Usefulness | 5 | 4 | 3 | 2 | 1 |
| | Roundtable 2 ______ | | | | | | |
| | Roundtable 3 ______ | Quality | 5 | 4 | 3 | 2 | 1 |
| | Roundtable 4 ______ | | | | | | |

8. Which session or sessions were most useful to you and why?

______________________________________________

______________________________________________

______________________________________________

______________________________________________

______________________________________________

______________________________________________

9. Which session or sessions did you find least useful and why?

______________________________________________

______________________________________________

______________________________________________

______________________________________________

______________________________________________

______________________________________________

10. How did you find the various styles of presentation?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Workshops | Excellant | 5 | 4 | 3 | 2 | 1 | Poor |
| Roundtables | | 5 | 4 | 3 | 2 | 1 | |
| Topical Seminars | | 5 | 4 | 3 | 2 | 1 | |
| Plenaries | | 5 | 4 | 3 | 2 | 1 | |
| Formal Presentations/Speeches | | 5 | 4 | 3 | 2 | 1 | |

11. Was the mix of the above styles of presentation about right?
YES NO More of Which?______________________________

______________________________________________

Less of Which?______________________________

______________________________________________

12. Was the mix of participants (ie. Missions, AID/Washington, Host Country Government and Private Sector, Private Industry, International Lending Institutions, Universities, Foundations, and Congressional Staff) about right? YES NO
More of Which?______________________________

______________________________________________

Less of Which?______________________________

______________________________________________

13. Given the constraint of a three day conference to cover such a broad topic, was the conference schedule:

| Much too Heavy | Very Heavy | Adequate | Not very Heavy | Too Light |
|---|---|---|---|---|
| 5 | 4 | 3 | 2 | 1 |

14. Did you try to attend sessions all day and evenings throughout the conference, or were you selective based on conference offerings and your interests?______________________________

______________________________________________

______________________________________________ 26

15. Did you find the filming process obtrusive? YES NO

16. What recommendations would you make for improving future conferences? ____________________

____________________

____________________

____________________

____________________

____________________

17. Would you like to see another conference on this subject?
YES NO ____________________

18. What kind of follow-up would you like to see? ____________________

____________________

____________________

Additional Comments (Please Reference Question Number if Possible)

II. CONFERENCE FACILITIES

This is one of the first conferences we have held where the actual meeting facility is seperate form the place of lodging.

1. Were registration proceedures smooth and effective?
Very — Fair Inadequate

2. Were you aware before the conference that the conference facility and lodging were seperate? YES NO

3. Do you think that this set up in any way hindered the proceedings of the conference? YES NO

4. How satisfactory were the physical facilities at the conference site? Very Fair Inadequate

5. Was the Westpark Hotel comfortable and satisfactory?
Very Fair Inadequate

6. Was transportation adequate and satisfactory:

| | YES | NO | N/A |
|---|---|---|---|
| a. Between Airport and Hotel? | YES | NO | N/A |
| b. Mornings and Evenings between the conference facility and the hotel? | YES | NO | N/A |
| c. At other times during the day throughout the course of the conference? | YES | NO | N/ |

7. Was the conference Information and Message Center useful and adequate? Always 5 4 3 2 1 Rarely

8. Did you find the conference staff readily available to help and answer questions? Always 5 4 3 2 1 Rarely

9. Were the Bookstores useful? Very Fair Inadequate

10. Were typing and reproduction services timely and readily available? Always 5 4 3 2 1 Rarely

11. Were the sponsored functions (opening night cocktail/dinner and closing luncheon) pleasant and of good quality?
Very Fair Inadequate

Additional Comments (Please Reference Question Number if Possible)

Name ____________________

Office or Institution ____________________ 28

# FORMAL PRESENTATIONS

Three formal addresses to the conference will be given during the time we are in session. Anticipating that each of you would like to have a copy of the major speeches, we will be reproducing the texts of these addresses and making them available through the conference bookstore after the presentations have been given. Your daily copy of NEWS BRIEFS, available in the conference reception area, will let you know when copies of these speeches are available. For those of you who will not be able to pick up copies of all of the speeches you want, our receptionist will take your name and we will mail copies to you. You can reach the receptionist on 556-3015 or stop in at the reception desk.

Included in our formal presentations are the following addresses:

## KEYNOTE ADDRESS

"The Reagan Administration's Perception of the Opportunities for Development through Broad Based Private Enterprise Growth"

Jay F. Morris, Deputy Administrator, A.I.D.

## OPENING ADDRESS

"A.I.D.'s Private Enterprise Development Initiative and Its Intended Results"

M. Peter McPherson, Administrator, A.I.D.

## CLOSING ADDRESS

"A View of the Future: What the Success of the Private Sector Initiative Can Yield"

W. Allen Wallis, Under Secretary of State
for Economic Affairs

## CONFERENCE ROUNDTABLES

As your program for the conference has suggested, we have planned a number of roundtables and seminars that address specific topics pertinent to our examination of LDC experience with private sector development. In this section of th4 workbook you will find expanded descriptions of each roundtable and topical seminar offered by the conference.

The roundtable approach we have selected is designed to bring together the experiences of conference participants from different backgrounds on particular topics. In each of the roundtable and topical seminar sessions our moderators will be leading an exchange between discussants which we hope will bring out information and experiences in a way that allows all of us to compare and contrast them. We have also asked our moderators to open the discussion to those of us who make up the audience for a particular session so that by the end of each session everyone will have an opportunity to participate in the discussion.

As you will note, the term "To Be Announced" is used several times in the session descriptions. In some cases this signals that we intend to ask our overseas participants to join specific roundtables, but have not yet had the opportunity to contact them concerning their participation. In other cases, it simply means that a final confirmation call had not come through prior to the printing of this workbook. For program updates, check the daily copy of NEWS BRIEFS which will be available in the conference reception area.

We would like to point out to you that several of the roundtable and topical seminar discussants have written papers or books pertinent to this conference. Quite a few of these documents are available in our conference bookstore.

Finally, may we remind you that on the evening of the 13th and twice on the 14th you need to indicate your preferences during times when several sessions will be held at once. A copy of the session choice form is in the GENERAL INFORMATION section of this workbook. Please indicate your 1st, 2nd, 3rd and 4th preference for the simultaneous sessions and turn your selection form in at the conference reception desk.

## PRESESSION A.

"FREE MARKETS, THE PRIVATE SECTOR AND DEVELOPMENT"

OCTOBER 12, 1982

3:00 P.M.

MODERATOR

JEROME WOLGIN
OFFICE OF POLICY DEVELOPMENT AND PROGRAM REVIEW, A.I.D.

DISCUSSANTS

PETER BITTNER
BUREAU FOR LATIN AMERICA AND
THE CARIBBEAN, A.I.D.

JAN VAN DER VEEN
OFFICE OF POLICY DEVELOPMENT
PROGRAM REVIEW

### SESSION DESCRIPTION

The analytic result of the work done so far has been to emphasize the importance of markets as an institutional basis for economic decision-making. While there are numerous instances of market failures, the overriding generalization from the country studies A.I.D. carried out over the summer is that refusal to allocate resources according to market signals leads to ineffiencies, economic losses, and ultimately, to economic crises.

At the same time, A.I.D., a government agency is searching for ways in which it can encourage the development of market-oriented private enterprise as a vehicle for broadly-based sustainable economic growth. This creates a conundrum. How does a government encourage private enterprise development without interfering in market processes? This question will be the focal point of the session.

## PRESESSION B

"THE ROLE OF POLITICS AND CULTURE: LDC VIEWS OF PRIVATE ENTERPRISE"

OCTOBER 12, 1982

3:00 P.M.

MODERATOR

DAVID STEINBERG
OFFICE OF EVALUATION, A.I.D.

DISCUSSANTS

HAZEL MCFERSON
INDEPENDENT CONSULTANT

RICHARD BLUE
OFFICE OF EVALUATION, A.I.D.

TWIG JOHNSON
OFFICE OF EVALUATION, A.I.D.

SESSION DESCRIPTION

The operations of private enterprise systems are profoundly affected by both the nature of the political and cultural milieu in which they operate, and the perceptions, inchoate and articulated, of the polity towards the bureaucracy, the military, and the political process as a whole.

These factors are often influenced by a complex amalgam of condition that include both historical and contempory events. The role of colonialism has often shaped the nature and the impressions of the private sector, both indigenous and foreign. Ethnicity may be an important aspect of the attitude toward private sector, as may regionalism or religious beliefs. How minorities relate to entrepreneurship has been the subject of much study in the West, less so in developing countries.

Important as well is the issue of policital roles and business. This includes the operation of patron-client relationships and patrimonial systems are sometimes predicated on perceptions that polictical and economic power is finite -- that economics and politics is a zero-sum game. These ideas influence concepts of centralization and decentralization of power, both administrative and economic, and delegation of authority.

The politico-economic role of a single predominant political party system and the military often affect and are affected by the private business sector. This relates to the issue of incentives, both political and economic, and the related issue of corruption, however defined. Important as well is how cultural and religious beliefs affect private savings and investment, and thus development -- a problem raised as early as Max Weber.

The relationships of expatriate staff, foreign investment, and multinational corporations further complicates the funcitoning and evolution and perceptions of the indigenous private sector.

## ROUNDTABLE

"THE CRISIS OF ECONOMIC DEVELOPMENT AND THE ROLE OF THE PRIVATE SECTOR"

OCTOBER 12, 1982

8:30 P.M.

**MODERATOR**

JAY F. MORRIS
DEPUTY ADMINISTRATOR, A.I.D.

**DISCUSSANTS**

CHARLES DALLARA
INTERNATIONAL MONETARY FUND

ANNE KRUEGER
WORLD BANK

AMBASSADOR MICHAEL SAMUELS
CHAMBER OF COMMERCE

*TO BE ANNOUNCED

### SESSION DESCRIPTION

Many developing countries are heavily in debt; their citizens cannot afford basic necessities. Governments which are trying to provide these necessities now find that the recurrent costs of such programs, together with debt service payments, constitute an impossible burden. The situation is compounded by the fact that growth rates in these countries are lower than those of their middle and higher income neighbors; inflation at home and uncertain world interest rates along with unpredictable, yet growing, energy costs tend to deepen the crisis.

Discussants will examine the parameters of the crisis conditions facing the developing countries and the prospects these countries have for improving their economic and social conditions by expanding private enterprise development.

## ROUNDTABLE

"COUNTRY CASE STUDY FORUM - FINDINGS FROM A.I.D.'s EXAMINATION OF MARKET-ORIENTED PRIVATE SECTOR EXPEREINCE IN THAILAND, CAMAROON, MALAWI AND COSTA RICA"

OCTOBER 13, 1982

10:30 A.M.

MODERATOR

RICHARD BLUE
OFFICE OF EVALUATION

DISUCUSSANTS

FOR THAILAND:

FRED SIMMONS
WAYNE DUNLOP
MARY BETH ALLAN
ROBERT YOUNG

FOR CAMAROON:

RINO SCHIAVO-CAMPO
JAMES ROUSH

FOR MALAWI:

JEROME WOLGIN
TIMOTHY MAHONEY
CYNTHIA CLAPP-WINCEK

FOR COSTA RICA:

ROBERT PRATT
EDUARDO TUGENDHAT

SESSION DESCRIPTION

During the past summer, the Office of Evaluation undertook a series of field studies to examine LDC experience with private sector development. Although the focus of the studies was on the evolution of the private sector in each country over the past twenty years, the purpose of the case study exercise centers on the future. AID is interested in understanding the conditions, and policy environments, within which a vigorous private sector can develop and make a positive difference to the development of a country.

Discussants will present the findings of each case study with respect to specific issues and questions. Comparisons between country experiences will be encourages as particular issues arise in the roundtable.

## ROUNDTABLE

"ENCOURAGING SOUND ECONOMIC POLICIES IN THE LDCs"

OCTOBER 13, 1982

1:30 P.M.

**MODERATOR**

FRANK KIMBALL
COUNSELOR TO A.I.D.

**DISCUSSANTS**

SALVATORE SCHIAVO-CHAMPO
OFFICE OF ECONOMIC AFFAIRS, PPC

J.E. PURCELL
GOODYEAR INTERNATIONAL

ELLIOTT BERG
INDEPENDENT CONSULTANT

*TO BE ANNOUNCED

### SESSION DESCRIPTION

The economic policies of the developing countries tend to emody more than an assessment of a country's rational economic policy options. Often, they are statements of economic, political and social philosophy as well as a reflection of the country's historical experience. At times it is easier for the developing countries to talk about policy changes than it is for them to adopt such changes. Foreign assistance donor organizations and private businessmen can sometimes see where changes in the economic policies of the developing countries could prove favorable to these economies, but their advice is not necessarily welcomed.

Discussants will examine the question of whether there are effective and appropriate ways of encouraging the adoption of sound economic policies in the LDCs. Particular attention will be given to approaches for encouraging the LDCs to promote the development of the private sector within their countries.

## ROUNDTABLE

"THE RESULTS OF LDC ECONOMIC POLICY CHANGES"

OCTOBER 13, 1982

10:30 A.M.

MODERATOR

DONALD BROWN
SPECIAL ASSISTANT TO THE ADMINISTRATOR

DISCUSSANTS

THOMAS MORRISON
INTERNATIONAL MONETARY FUND

*TO BE ANNOUNCED

SESSION DESCRIPTION

LDC goverments have, over time, assumed varying degrees of control over their economic processes; the reason why governments intervene in economic processes are complex. Usually government interventions are made with the intent of improving economic conditions; in practice, such interventions are made with the intent of improving economic conditions; in practice, such interventions do not always have their intended effects. In the past two decades, the experience of some developing countries with "free market" strategies for economic development have caught the attention of governments which were employing heavily interventionist policies and led to experiments within these countries with more liberal, market-oriented strategies. The results of change in economic policies and approaches by the developing countries can be instructive for LDCs that still favor heavy government control in their economies.

Discussants will examine the immediate and long-term results of efforts by developing countries to alter their economic strategies and facilitate the development of private enterprise.

## EVENING ROUNDTABLE

"WORKER PARTICIPATION AND OWNERSHIP OF PRIVATE ENTERPRISE"

OCTOBER 13, 1982

8:00 P.M.

MODERATOR

DR. NORMAN BAILEY
NATIONAL SECURITY COUNCIL

DISCUSSANTS

ROBERT YOUNG
SCIENCE AND TECHNOLOGY BUREAU

SUSAN GOLMARK, JOE RECINOS AND ALAN ROTH
DEVELOPMENT ALTERNATIVES INC.

JERRY JENKINS
SEQUOIA INSTITUTE

JOHN SIMMONS
ASSOCIATION FOR WORKPLACE DEMOCRACY

### SESSION DESCRIPTION

Private enterprise approaches to economic development have, at times, been faulted on the grounds that while enterprise owners reap the benefits of productivity, workers may not advance significantly as a result of economic growth. During the past decade ideas and approaches for stimulating worker participation in enterprise managment and worker ownership of firms have been advanced. In the United States, Employee Stock Ownership Plans (ESOPs) appear to offer opportunities to broaden the base of enterprise ownership, increasing the degree to which workers have a stake in the success of their firms and the growth of the economy as a whole. In s- ' of the developing countries, experiments in worker ownership have als been attempted. A.I.D., under contract to Development Associates, Inc. (DAI), has examined worker ownership in Thailand, Costa Rica and Zimbabwe. Working with the Sequoia Institute, A.I.D. has reviewed the legislative and policy issues surrounding experience with worker owned enterprises in the developing countries.

In this roundtable session, the results of these two studies of worker ownership will be presented. Disussants will examine the results of domestic and LDC worker ownership and participation experiments.

## EVENING ROUNDTABLE

"SMALL AND MEDIUM ENTERPRISES IN THE LDCs"

OCTOBER 13, 1982

8:00 P.M.

MODERATOR

MICHAEL FARBMAN
SCIENCE AND TECHNOLOGY BUREAU, A.I.D.

DISCUSSANTS

CARL LIEDHOLM
MICHIGAN STATE UNIVERSITY

EDUARDO TUGENDHAT
ARTHUR D. LITTLE, INC.

MARK FRAZIER
FREE ZONE AUTHORITY

*TO BE ANNOUNCED
[illegible] (Jamaica)
Tom [illegible]

### SESSION DESCRIPTION

Private enterprise in the developing countries, particularly in the rural areas, tends to be relatively small in scale, though increasingly medium scale businesses are emerging in secondary cities in some of the LDCs. In urban areas, small and medium enterprises complement major industry, meeting many of the supply and service needs associated with industrial development and urban environments. Over the years, A.I.D. has accumulated significant experience in working with small and medium scale businesses in the LDCs. Studies of these types of businesses commissioned by A.I.D. indicate that small and medium size firms are a primary source of employment for rural and urban citizens wherever they emerge and are often good investments for local and overseas capital. Continued work in the area of small and medium scale enterprise appears to be an appropriate investment for A.I.D.'s private enterprise development initiative.

Discussants will examine the results of A.I.D. and other efforts to assist small and medium scale enterprises in their development. The roundtable will focus on lessons that can be applied in future programs and projects that focus on small and medium scale businesses.

## EVENING ROUNDTABLE

"THE IMPACT OF PUBLIC POLICIES ON PRIVATE AGRICULTURAL ACTIVITY"

OCTOBER 13, 1982

8:00 P.M.

**MODERATOR**

JOHN ERIKSSON
POLICY DEVEVLOPMENT AND
PROGRAM REVIEW OFFICE, A.I.D.

**DISCUSSANT**

JOHNATHAN TAYLOR
INTERNATIONAL BASIC ECONOMY
CORPORATION

RALPH CUMMINGS JR.
OFFICE OF FOOD AND AGRICULTURE
A.I.D.

GRACE GOODELL
HARVARD INSTITUTE FOR
INTERNATIONAL STUDIES

GERVAIS KAIDO-MOROKA
NATIONAL AGRIUCULTURAL BANK,
IVORY COAST

### SESSION DESCRIPTION

Government policies and regulations affect economic activity on the farm and in agriculturally focused enterprises. At the farm level, controlled prices for farm products can act as an incentive of as disincentive to production, depending on their relationship to the farmer's costs; controlled marketing arrangements can discourage private trade in agricultural commodities. "Free market" policies in the agriculutural area, on the other hand, tend to encourage both farmers and businessmen to concentrate in areas where the returns are highly favorable. Yet, market-oriented policies are often not elected by LDC governments that want to direct the focus of agricultural production or ensure that certain types of agricultural activity, which might be dropped if the subsidies inherent in various policies were eliminated, are undertaken.

Disussants will examine the ways in which governmental policies affect agricultural activity in the developing countries. Experiences with market-oriented policies will be considered for the lessons they provide for LDC governments that today intervene heavily to focus and control farm production and agriculturally oriented businesses.

## ROUNDTABLE

"A.I.D.'S CONGRESSIONAL MANDATE AND THE PRIVATE ENTERPRISE DEVELOPMENT INITIATIVE"

OCTOBER 14, 1982

9:00 A.M.

MODERATOR

M. PETER MCPHERSON
ADMINISTRATOR, A.I.D.

DISCUSSANTS

GEORGE INGRAM
HOUSE FOREIGN AFFAIRS
COMMITTEE

JOEL JOHNSON
SENATE FOREIGN RELATIONS
COMMITTEE

GERRY CONNOLLY
SENATE FOREING RELATIONS
COMMITTEE

JOHN SEWELL
OVERSEAS DEVELOPMENT
COUNCIL

SESSION DESCRIPTION

The "New Directions" legislation calls upon A.I.D. to address itself to the basic needs of the vast majority of poor people in the developing countries. Some of the initial programs mounted to meet the basic needs of the poor in the LDCs cannot be sustained, over the long run, given the projected resources LDC governments will have if their current growth rates pertain in the future. A.I.D.'s current effort to promote the development of private enterprise in the developing countries is seen as an additional mechanism for stimulating economic growth, raising individual incomes and improving the standard of living for all citizens of the LDCs. A.I.D. views the private enterprise development initiative as a positive approach for achieving the "New Directions" objectives, without requiring that LDCs take on financial commitments they cannot fulfill in the absence of continuing and increasingly large inflows of foreign aid.

Discussants will examine the relationship between A.I.D.'s private enterprise development policy and the Agency's legislation as well as the expereinces of countries that have promoted private enterprise development as a means of achieving broad social and economic objectives.

ROUNDTABLE

"MISSION APPROACHES TO THE IMPLEMENTATION OF A.I.D.'S PRIVATE ENTERPRISE INITIATIVE"

OCTOBER 14, 1982

10:30 A.M.

MODERATOR

JOHN BOLTON
ASSISTANT ADMINISTRATOR
BUREAU FOR PROGRAM AND POLICY COORDIANTION, A.I.D.

DISCUSSANTS

TO BE ANNOUNCED

SESSION DESCRIPTION

The best approach for implementing A.I.D.'s private enterprise development initiative in a particular developing country will, in part, be a function of the current economic policies and conditions of that country. Mission approaches will also be influenced by the history of past foreign assistance, the size and composition of the Mission staff and the Mission's knowledge of and ability to gather information on the private sector in a specific LDC. At the same time, AID anticipates that approaches to the development of programs and projects which promote private enterprise development being tried by some of our Missions can offer instructive and creative guidance for other Missions.

Discussants will examine the approaches their Missions are using to identify how they can support private enterprise development in the LDCs in order to define actions that might be taken or avoided by other Missions.

## TOPICAL SEMINAR

"MEETING THE NEED FOR MANAGMENT AND SKILL TRAINING IN LDC PRIVATE ENTERPRISE"

OCTOBER 14, 1982

1:30 P.M.

MODERATOR

LOU FAORO
SCIENCE AND TECHNOLOGY BUREAU

DISCUSSANTS

CHARLES NEISWENDER
INTERNATIONAL EXECUTIVE SERVICE CORPS

ROBERT CULBERTSON
INDEPENDENT CONSULTANT

ANDREW OERKE
PARTNERSHIP FOR PRODUCTIVITY

*TO BE ANNOUNCED

### SESSION DESCRIPTION

In most of the LDCs, managment skills as well as other basic skills such as carpentry, electronics and machine skills are not in adequate supply. Firms in the developing countries are often held back by these management and work skill gaps. The means by which these skills are acquired, to the extent they are acquired in the developing countries, range from apprenticeship programs that provide on-the-job training to formal courses, up to and including business degrees. Companies approach managment and skill training in somewhat different ways than formal education programs. Of particular note is the tendency for training by a firm to be carried out in the firm; i.e., on-the-job. Over the years, A.I.D., other donors, host governments and private firms have undertaken efforts to upgrade management and work skill gaps in connection with efforts to promote private enterprise growth in the developing countries.

Discussants will consider specific experiences and their results. They will also examine current ideas about the best ways to upgrade the management and work skills in firms in the LDCs.

## TOPICAL SEMINAR

"TECHNOLOGY TRANSFER AND ACCESS FOR LDC PRIVATE ENTERPRISES"

OCTOBER 14, 1982

1:30 P.M.

**MODERATOR**

JOHN ROBINS
SCIENCE AND TECHNOLOGY BUREAU

**DISCUSSANTS**

HARVEY WALLENDER
INDEPENDENT CONSULTANT

JOAN VAN DER VEEN
OFFICE OF POLICY DEVELOPMENT
PROGRAM REVIEW, A.I.D.

### SESSION DESCRIPTION

Private enterprise in the developing countries cannot always elmploy the most appropriate technologies for the types of production and services they provide. Their ability to utilize appropriate, "state-of-the-art" technologies is constrained by their ability to absorb new technological innovations and their ablity to access such technologies. The access issues are often complex; many technologies are closely guarded by the firms which have developed them. Even when new technological innovations can be easily accessed, developing country firms are not always able to identify the ways in which their application would yield benefits. In addition, it has been suggested that the management and internal structure of LDC firms is not always ready to invest the effort required to upgrade technologies. While donor organizations have some experience with these issues, it is relatively limited. U.S. corporations, on the hand, appear to be engaged in the technology transfer process in many situations where they enter into partnership arrangements with LDC enterprises.

Discussants will examine the options available to LDC firms for acquiring and using innovative technologies as well as the capacity of these firms for identifying technology needs and for embarking upon technology development efforts. Ways in which A.I.D.'s innitiative can support such efforts will also be examined.

**TOPICAL SEMINAR**

"CREDIT AND FINANCIAL INSTITUTION DEVELOPMENT IN THE LDCs"

OCTOBER 14, 1982

1:30 P.M.

MODERATOR

EDGAR HARRELL
PRIVATE ENTERPRISE BUREAU, A.I.D.

DISCUSSANTS

PETER HOWELL
CITIBANK

UMBERTO ESTEVE
ARTHUR D. LITTLE, INC.

DAVID GILL
INTERNATIONAL FINANCE CORPORATION

*TO BE ANNOUNCED

SESSION DESCRIPTION

In many of the developing countries financial systems serve only a portion of the individuals and businesses that need their services. In countries which have not adequately developed their banking and investment sector, firms that need loans to begin operations or expand their operations cannot always find sources of capital. In addition, such businesses often find it difficult to secure operating captial that may be needed to maintain an orderly cash flow position. Over the years, A.I.D. has engaged in a variety of approaches for meeting these needs, ranging from efforts to help LDCs develop their financial systems to providing resources that can be relent by local investment organizations to still more direct experiments involving investments in LDC private enterprise. At the World Bank, the International Finance Corporation has acquired extensive experience in concerning the financing LDC business. Through the Overseas Private Investment Corporation and our U.S. Trade and Development Program, the United States has also been involved in efforts to bring establish foreign owned firms in countries that see such partnerships as advantageous to the development of their economies and complementary to the development of their own private sector.

Discussants will examine the range of experience with the development of financial systems for the LDCs and the ability of these systems and other programs to meet the needs of LDC businesses for investment and operating capital.

## TOPICAL SEMINAR

"MARKETING ASSISTANCE FOR LDC FIRMS"

OCTOBER 14, 1982

1:30 P.M.

**MODERATOR**

ROGER MOELLER
PRIVATE ENTERPRISE BUREAU, A.I.D.

**DISCUSSANTS**

MARTIN LEBWITH
INTERNATIONAL MARKETING GROUP

JAMES SOOD
AMERICAN UNIVERSITY

JOHN FOOTE
OVERSEAS PRIVATE INVESTMENT CORPORATION

*TO BE ANNOUNCED

### SESSION DESCRIPTION

Firms in the developing countries that want to export their products do not always have a clear sense of the needs and tastes of their potential customers. Their efforts to market products outside their own countries, as well as inside their country, could at times be more successful if greater care was paid to the packaging and marketing of products and services. In the developed countries it is relatively easy for a firm to secure the services of companies which specialize in problems and opportunities associated with the sale of their clients products. Such services are much harder for LDC firms to access and the types of types fo pre-investment studies carried out for these businesses do not always address marketing issues as fully as might be desirable. Some developing country enterprises have succeeded in finding ways to promote their products effectively inside and beyond their country. Their experiences offer useful lessons for other developing country businesses and for donor organizations that are interested in assisting developing country firms.

Discussants will examine the experiences of firms which have and have not successfully marketed their products as well as the types of assistance that can help ensure that such firms are viable in the markets they seek to penetrate.

# ROUNDTABLE

"WAYS IN WHICH THE CONSTRAINTS TO PRIVATE ENTERPRISE DEVELOPMENT INTERACT AND OPPORTUNITIES FOR A.I.D. PROGRAMS TO RECOGNIZE THESE INTERACTION"

OCTOBER 14, 1982

2:30 P.M.

**MODERATOR**

RICHARD BLUE
OFFICE OF EVALUATION

**DISCUSSANTS**

LOU FAORO
MODERATOR FOR TOPICAL SEMINAR A

JOHN ROBINS
MODERATOR FOR TOPICAL SEMINAR B

EDGAR HARRELL
MODERATOR FOR TOPICAL SEMINAR C

ROGER MOELLER
MODERATOR FOR TOPICAL SEMINAR D

## SESSION DESCRIPTION

In this plenary session, the moderators for the four topical seminars dealing with constraints to private enterprise will examine the ways in which these constraints interact. the relationship between managment training and technology use is one area where it has been suggested that two constraints may interact to restrain technology advances in smaller LDC firms. Marketing, it is suggested, may interact with firm profits and an absence of marketing skills may, over time, weaken the ability of of a firm to perform in a manner which stimulates confidence in potential backers and financiers.

Building on the conclusions reached in the topical seminars, this plenary roundtable will seek to define not only which constraints interact, but also ways in which positive actions can be taken to ensure that the results of such interactions strengthen rather than weaken firms. The ways in which A.I.D. might work with the LDCs to bring such interactions to the attention of firms will be examined as will ideas about how the constraints facing LDC businesses can be addressed in an holistic way.

## EVENING ROUNDTABLE

"LDC TRADE POLICIES AND ECONOMIC DEVELOPMENT"

OCTOBER 14, 1982

8:00 P.M.

MODERATOR

CONSTANTINE MICHALOPOULOS
WORLD BANK

DISCUSSANTS

SID JONES
AMERICAN ENTERPRISE INSTITUTE

AMBASSADOR JOHN W. MIDDENDORF, II
PERMANENT MISSION OF THE
UNITED STATES OF AMERICA TO THE
ORGANIZATION OF AMERICAN STATES (USOAS)

DEMETRIOS PAPAGIORGIOU
WORLD BANK

*TO BE ANNOUNCED

### SESSION DESCRIPTION

Trade policies of developing countries reflect their perception about the best ways in which they might promote their development. Protectionist policies designed to strengthen infant industries and save on foreign exchange have been used by developing as well as now developed countries at various points in their history.

Experience in the last two decades has demonstrated, however, that for a variety of reasons protectionist policies have in practice usually failed to achieve their objectives and in many cases have undermined wider long term development goals. Also, countries with outward looking trade policies have tended to grow faster than countries with high protection. These facts are well understood by policy-makers in most developing countries. Nonetheless, trade restrictions and private market distortions continue to be pervasive in developing countries.

The session will focus on the following issues:

(a) the appropriate strategy for trade liberalization in the light of developing countries' experience;

(b) the impact of particular kinds of incentives extended by developing coutries to the private sector in the context of liberalization efforts; and

(c) the implications of developing countries' liberalization for developed countries' trade and aid policies.

**ROUNDTABLE**

"ACCESSING U.S. BUSINESS SKILLS AND EXPERIENCE FOR A.I.D.'s PRIVATE ENTERPRISE DEVELOPMENT PROGRAM"

OCTOBER 14, 1982

8:00 P.M.

MODERATOR

ELISE DU PONT
ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE

DISCUSSANTS

ANN MICOU
U.S. COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE

*TO BE ANNOUNCED

HOBART GARDINER
INTERNATIONAL EXECUTIVE SERVICE CORPS

*TO BE ANNOUNCED

SESSION DESCRIPTION

Few countries in the world can match the record of the United States in private enterprise development. As a country, we have accumulated a vast store of skills and experience in setting up and operating businesses. The skills our American businessmen possess are skills that LDC businessmen often need to acquire, yet there is not systematic method for transfering this "know-how" to LDC firms. While one might think that such transfers would naturally occur when U.S. businesses operate overseas, this is not necessarily the case. Many of the American firms that are large enough to be involved in overseas businesses are much more sophisticated than the smaller LDC businesses that could benifit from an effort to transfer skills and expereince; the LDC firms that need assistance are often of a scale and type that more closely parallels U.S. firms which operate only in our domestic economy.

Discussants will examine a range of ideas about how LDC firms might access U.S. business skills and experiences. The ways in which this might be done, A.I.D.'s role in such processes, and the incentives to U.S. firms to involve themselves in this type of experience and skill transfer effort will be discussed.

**ROUNDTABLE**

"THE ROLE OF THE PUBLIC SECTOR AND THE PRIVATE SECTOR IN MEETING PUBLIC NEEDS"

OCTOBER 14, 1982

8:00 P.M.

MODERATOR

FRANCIS RUDDY
ASSISTANT ADMINISTRATOR
AFRICA BUREAU

DISCUSSANTS

ROBERT HAWKINS
SEQUOIA INSTITUTE

*TO BE ANNOUNCED

ROBERT MORSUT
GULF AND WESTERN

*TO BE ANNOUNCED

SESSION DESCRIPTION

Many developing countries are engaged in programs designed to meet public needs in a range of areas such as housing, health, transportation and education. In other countries, and over a longer time span, we know that private enterprise has been the vehicle by which such public needs were met. The choice between public sector and private sector appproaches for addressing public needs has many dimensions. When such tasks are in public hands, a centralization of power and decision making tends to accompany the choice. When decisions are centralized, individual initiative is often smothered. Over time, private sector providers may totally disapear, not for fear of competition through regulations and policies that crowd them out. At the same time, we are aware that many LDC governments are financially overextended as a consequence of having taken on tasks that might be done just as well or better in private sector ways.

Discussants will examine the roles of the public sector and the private sector in meeting public needs in the deveoping countries. The implications of these choices will be considered. Opportunities for shifting responsibilities back into the private sector in countries where governments are overextended and ready to consider this option will be discussed.

**EVENING ROUNDTABLE**

"THE ROLE OF PARASTATALS IN LDC MARKET-ORIENTED DEVELOPMENT"

OCTOBER 14, 1982

8:00 P.M.

MODERATOR

ANTOINETTE FORD
ASSISTANT ADMINSTRATOR
NEAR EAST BUREAU

DISCUSSANTS

ARMEANE CHOCKSI
WORLD BANK

MICHAEL CROSSWELL
OFFICE PROGRAM AND POLICY
COORDINATION BUREAU

ROSEMARY WHERRETT
LATIN AMERICAN COUNSULTING

*TO BE ANNOUNCED

SESSION DESCRIPTION

Publically owned corporations are common in the developing countries. These governmental entities can be found in operation in virtually every economic sector of the LDCs. While pulbically owned companies may have been initiated, at times, because government was the only possible investor in major ventures, their presence precludes private sector involvement in particular areas of production and service indefinitely. Even in situtations where governments require that public corporations operate in a "for profit" manner there is a tendency for government to protect these entities from open and competative market processes. The results of such protection are often inefficiencies in the use of resources and lower worker and managment productivity than might be the case for privately owned alternatives. Once public sector corporations have been created, governments often find it difficult to divest themselves of these entities. At the same time there are cases in which goverments have turned publically owned companies over to the private sector or otherwise encouraged the private sector to move into businesses that were once the sole province of government corporations.

Discussants will examine the role of publically owned enterprise in the developing countries as well as the efforts of some coutries to divest themselves of goverment owned businesses. Lessons of experience with parastatals will be considered along with ways in ~~which~~ which A.I.D. can assist countries that wish to divest themselves of their publically owned firms.

## CASE STUDY SESSIONS

At the request of the Administrator, A.I.D.'s Office of Evaluation has undertaken an examination of LDC experience with private sector development. This examination is proceeding in several stages. Our work began with a review of documentary materials which discussed basic concepts and the experiences of LDC businesses; A.I.D.'s past work in support of these businesses; the ways in which U.S. businesses working in the developing countries had stimulated local private enterprise growth, and the assistance to the private sector in LDCs provided by other organizations. After completing our "desk study" of documentary materials, the Office organized four field studies to examine the historical development of the private sector in a range of settings. These studies were carried out in Malawi, Costa Rica, Thailand and the Cameroons. This conference is the third phase of our examination of LDC experience with private sector development. Following the conference, the Office of Evaluation will continue to document pertinent experiences, through additional field studies and documentary studies, as needed, to support A.I.D.'s private enterprise development initiative.

Throughout the conference we will be bringing to your attention the findings of the four field studies carried out this past summer, as well as the syntheses we have attempted to develop using these case studies and other pertinent materials.

On our first working day, we plan a COUNTRY CASE STUDY FORUM in the plenary session room. During this session we will try to summarize the way in which each country our teams examined has undertaken to stimulate the growth of its private sector. Our team members will attempt to answer your questions about the countries they studied and join with you in comparing the results of various policy choices and strategies adopted by these four countries. In addition to presenting the findings of the four case studies, the team members for these studies will join with you in other conference sessions, raising points from the case studies as appropriate.

For your convenience, copies of the Executive Summaries of the four country case studies are included in this workbook. Copies of each of the full reports are available for you in the conference bookstore.

In addition to the Executive Summaries of the case studies, you will find an interpretive essay by Malawi case study team leader, Jerome Wolgin, in your workbook. This essay, which brings together points common to the four case studies is one of two synthesis volumes we have prepared for you. The second synthesis volume, which examines the four case study countries relative to other developing countries and to middle income countries. This second synthesis paper, prepared by David Dunlop of the Office of Evaluation, will be released during the conference. Watch your daily NEWS BRIEFS for information about its arrival in our conference bookstore.

DRAFT

EXECUTIVE SUMMARY

# THE PRIVATE SECTOR AND THE ECONOMIC DEVELOPMENT OF MALAWI

by


Jerome Wolgin, Team Leader
(Bureau for Program and Policy Coordination, AID)

George Honadle
(Consultant, Development Alternatives, Inc.)

Timothy Mahoney
(Bureau for Program and Policy Coordination, AID)

Talbot Penner
(Bureau for Africa, AID)

Cynthia Clapp-Wincek
(Bureau for Program and Policy Coordination, AID)



U.S. Agency for International Development

September 1982

# PREFACE

This study is based on an analysis of pertinent published information on Malawi, and on field research in May-June 1982. If a useful and valid analysis is to emerge from a short in-country stay, it is essential to be able to exploit the insights and accumulated experience of persons thoroughly familiar with the subject matter and with the country itself. Government of Malawi officials, individuals working in the private sector, and the USAID Mission in Lilougwe went well beyond the customary bounds in providing this assistance. If the description and analysis are on the mark, it is largely because of the information and assessment these people shared with us.

The report is in four parts and includes six appendixes. The major theme of the report is the contribution of public policy and external assistance to the development of private activity in all segments of the Malawian economy. Malawi was chosen for its long-standing commitment to market-oriented development. The team concluded that its reputation as a remarkable development success story is well deserved and that many useful lessons can be drawn from the pragmatic approach which the country has adopted to generate economic growth and raise the standard of living of the populace.

## EXECUTIVE SUMMARY

The economic performance of Malawi over the period 1964-1980 has been remarkable. Malawi, at independence, was a poor, small, landlocked economy with few natural resources, a minimal stock of physical and human capital, and a complete dependence on external assistance for the financial resources necessary for its solvency. Despite these obstacles, per capita growth over the period averaged 2.9 percent per year, a rate many times higher than that of other countries facing the same developmental problems.

That growth has occurred because the government has been able to mobilize domestic and foreign resources and use those resources efficiently. Throughout this period, government economic policy has been pragmatic and rational, economizing on scarce resources; encouraging the inflow of foreign capital, technology, and skills; and using the ample supply of unskilled labor both in the monetary economy and in the subsistence economy.

Probably the most important policy choice which Malawi has made was the commitment to keep wages in line with opportunity cost. This had three important effects: (1) it meant scarce capital was used efficiently, thus getting the biggest output increments from a given investment; (2) it meant that profits tended to be high, which led to high rates of domestic saving and reinvestment; and (3) it led to greater equity as the gap between workers in the monetary economy and subsistence farmers was not allowed to increase.

Certainly, the private monetary economy has been the main growth sector in the Malawi economy. This sector is made up in large measure by a small number of relatively large firms which combine transnational and Malawi public holding company ownership. Given the lack of indigenous entrepreneurship, management skills, and capital, the private sector had been dominated

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by foreign and Asian firms. Given the small size of the economy, many of these firms were monopolies. The Government of Malawi wanted to gain Malawian control over its private economy without giving up the necessary foreign capital, management, and technology.

Over the first ten years of independence, Malawi developed three quasi-private, quasi-public holding companies, none of which are directly responsible to the government although all are responsible to the Head of State and Life President, Dr. Hastings Kamuzu Banda. These companies gradually gained control over a large proportion of the private economy. In general, management remained in the hands of the expatriate firms, while profits were divided. Those dividends going to the Malawi public holding companies were reinvested in other ventures. While Malawi control was forced upon the transnationals through various financial levers (converting equity to loans or paying for the purchase out of future profits), it is clear that the result was still largely satisfactory. Profits were high, the political environment was stable, and there were no limitations on repatriation of dividends. Thus, over the first 13 to 15 years of Malawi's history, the system worked well.

By 1977, however, there was increasing evidence that management decisions were being increasingly politicized. Expatriate management was being replaced by local management. It was not so much that the Malawi managers were inexperienced or undertrained (although that was true to some extent) as that Malawians were much more subject to political influence. Thus, from 1977 on, decisions were made in many of the public holding companies and their subsidiaries that were not prudent or economically motivated.

Given the way in which the private sector grew, it was already true that many firms were highly leveraged. The new politicized management built new structures on this weak

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foundation. The rate of credit expansion was particularly high in tobacco estates. In 1978-1981, the international environment turned increasingly hostile, and the export industries, in particular, suffered.

Given Malawi's dependency on international markets, the economy went into a recession. Profits plummeted. Given the highly leveraged structure, more and more firms were unable to pay their debt obligations, and a severe credit crunch resulted.

In the past two years, the Government of Malawi seems to have learned the lesson. Substantial reorganization of the public holding companies is underway, with particular emphasis on a return to less politicized management. Unprofitable firms are going under, and the policy of easy credit is being revised. Problems remain; the international environment remains inimicable to Malawi development, but there is substantial hope that needed reforms will be adopted.

## Lessons Learned

-- Even in a country as relatively immune to nationalist pressures as Malawi, the prospect of an expatriate-dominated private sector was and is unacceptable.

-- Political realities thus led to the development of a partnership between private firms and government whereby day-to-day management was left to the expatriate experts while profits were used by government to further its interests in the private sector.

-- Entrepreneurship is a less important source of private sector vitality than managerial response to market incentives.

-- The basic connection between private sector growth and poverty alleviation is employment; employment generation depends on appropriate prices for capital and labor.

-- Import substitution is appropriate and efficient if it is not linked to special government policies distorting relative prices.

-- Small economies have very high degrees of monopoly and, accordingly, a high degree of government involvement in the economy.

-- Government-owned or -run enterprises can be efficient if they are run with market incentives in mind and if political interference is minimal.

-- Even in the best run economies, political interference in economic affairs will ultimately lead to noneconomically motivated decisions.

-- Any substantial number of such decisions leads to economic crises.

-- The major benefit of expatriate management both in the public and private sectors is not so much to provide scarce skills as to insulate economic managers from political pressures. Thus, "localization" has led to inefficiencies, not because of reduction in skills, but because of the increased politicization of the economy.

-- A small economy like Malawi's is inextricably caught up in the vagaries of the international environment.

-- Malawi's growth, particularly in the early years, was fundamentally dependent on concessional assistance and expatriate skills.

-- The decline in Malawi's terms of trade due to inflation and recession in the OECD countries has at least as much of a negative effect on Malawi's growth as concessional assistance has a positive affect.

-- Development Finance Institutions such as CDC and IFC have had an important beneficial impact on the Malawi economy.

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-- In a labor surplus economy, appropriate prices for labor and capital lead to higher growth and greater equity; wage, interest, and foreign exchange pricing policy are the major determinants of the rate and economic growth.

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EXECUTIVE SUMMARY

DRAFT

# THE TORTOISE WALK: PUBLIC POLICY AND PRIVATE ACTIVITY IN THE ECONOMIC DEVELOPMENT OF CAMEROON

by

Salvatore Schiavo-Campo, Team Leader
(Bureau for Program and Policy Coordination)

James L. Roush, Consultant

Andre Lemelin, Consultant

Michael P. McLindon, Consultant

U.S. Agency for International Development

September 1982

The views and interpretations expressed in this report are those of the authors and should not be attributed to the Agency for International Development.

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## PREFACE AND ACKNOWLEDGMENTS

This study is based on an analysis of pertinent published information on Cameroon, and on field research for a period of about four weeks in June-July 1982. The country visit included stays in Yaounde, Douala, and Buea by the entire team, and in Maroua, Garoua, and Bafoussam by different team members. If a useful and valid analysis is to emerge from a short in-country stay, it is essential to be able to exploit the insights and accumulated experience of persons thoroughly familiar with the subject matter and with the country itself. The first note of thanks--no less sincere for being customary--comes due to the more than 100 individuals interviewed by members of the team. Their names are listed in Appendix A. If the description and analysis that follow are on the mark, it is largely because of the information and assessments these people shared with us.

Others did more than share their views. We appreciate the concrete help and support given by the USAID Mission in Yaounde (especially Program Officer Herb Miller), by the U.S. Consulate in Douala (particularly Consul-General Lois Matteson), and by the administrative staff of the Bureau for Program and Policy Coordination, Office of Evaluation. The first draft of this report benefited from comments by Richard Blue, Cynthia Clapp-Wincek, Tim Mahoney, Tim Mooney, and Judith Tendler, and from the reaction of participants to the July 15 workshop that discussed the initial draft country studies. Charles Stathacos and Georgia Sambunaris provided some research assistance. Ms. Sambunaris also provided, as usual, competent editorial assistance.

This report is in seven parts and ten Appendixes. Despite efforts to keep all inessential material out, the report is of unusual length. We needed, of course, to adequately deal with the major theme--that is, the contribution of public policy, and of external assistance within it, to the development of private activity in all segments of the economy of Cameroon. But we also felt that it would be desirable to have a reasonably comprehensive piece--useful to analysts, investors, and policymakers with little or no prior knowledge of the country--as well as a self-contained analysis obviating the need for consulting a variety of sources. If we have succeeded, much of the relevant information on Cameroon's economic development, public policymaking programs, and successes should be found within these covers.

This report is a joint effort. Although Schiavo-Campo was the principal author, responsible for the organization, conduct, and drafting of the study, all four members of the team were engaged in the formulation of the ideas and progress of the analysis--and all came to share a consensus on the major

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themes and conclusions. Our comparative interests and areas of expertise, however, led to the following division of labor: Schiavo-Campo had primary responsibility for Parts I through V; Roush for Appendix G; Lemelin for Part VI and Appendix I; with McLindon making contributions to Part IV and Appendix G.

# EXECUTIVE SUMMARY

The broad purpose of this study is to evaluate the influence, positive as well as negative, exercised by Government policy on the competitiveness and openness of private markets for resources and for products in Cameroon, and on the ensuing effectiveness of allocation and use of the country's scarce resources on economic growth and on equity. As a subset of this broad purpose, the study examines the degree and form of state intervention in the major economic policy areas, and the contribution of external economic assistance--including U.S. aid--to Cameroon's development in general and to the areas of special importance for private economic activity in particular.

The evaluation concludes that, on balance, public policy and external assistance have helped the development of vigorous private economic activity in most sectors of the economy of Cameroon--within the overriding constraint posed by the imperative of fostering stability and building national cohesion in a society characterized by extreme ethnic pluralism and located in a very troubled area of the world. Whatever criticism may be made of the regime and of the soundness of its policies in different areas, the achievement of building a stable and peaceful nation from very difficult beginnings demands recognition.

Cameroon's economic performance from independence in 1960/1961 to date has been strong as well as steady, with per capita income growing at 2.9 percent per year on average, inflation kept to manageable levels, and a cautious fiscal policy. The country's social indicators, however, still resemble those typical of countries at much lower per capita income levels, and underemployment is a serious and growing problem. Oil revenues, kept under a tight cover of secrecy, are known to be substantial and growing. Largely as a result, the country has the financial leeway to ease the difficulties caused by an unfavorable external economic environment and the problems of transition to middle-income status, without compromising either its economic performance or the national integration objective.

## The Guiding Principles of Policy in Cameroon

Four major themes underlie the formulation of public policy in the country:

-- National cohesion, and the fostering of growth in the lagging regions;

-- Political and social control, through a strongly centralized government structure at the apex of which stands President Ahmadou Ahidjo;

-- Mixed economic control, by which the Government exercises very strong influence in certain areas of the economy but keeps hands off the others; and

-- The "tortoise walk" style of economic management, that is, a very cautious and deliberate approach to administration and planning.

## External Economic Policies

Owing to the absence of restrictions on international payments and currency exchange for current transactions, the problems associated in many countries with exchange restrictions and overvaluation are absent from Cameroon. By contrast, commercial policy, while less restrictive than in many other developing countries, has fostered serious inefficiencies and lack of competitiveness in many sectors. Effective protection rates are often quite high and, along with export duties, have produced a net anti-export bias. One hopes that the Government will consider, as part of the transition to a more diversified economy, a turning away from its inward-looking commercial policy.

## Internal Economic Policies

Neither the government nor parastatal organizations generally engage in direct public production in Cameroon. The government does, however, hold equity in a number of major enterprises, primarily through its National Investment Corporation (SNI). By and large, SNI is an efficient and well-managed entity, which has facilitated private investment and has successfully insisted on the explicit provision of open subsidies in cases when the Government has wanted it to invest in a project for other than commercial profitability reasons.

In keeping with the mixed economic control theme, government influence on prices is the determining factor in the case of the major agricultural export crops, and weak to nonexistent elsewhere. There is a nominal price control system, but it is largely unenforced and thus inoperative. The impact of price controls is probably felt only in the major cities of Yaounde and Douala, and then only by firms benefiting from Government concessions. Private sector development has thus been relatively unhampered by Government intervention in the area of prices.

The diagnosis is quite different in the case of industrial policy. An elaborate system of overgenerous tariff and fiscal incentives, awarded on a case-by-case basis and generally favoring large firms, has tended to hamper the growth of a dynamic private sector, and has worked against smaller enterprises and the development of Cameroonian private initiative. The import-substituting industrialization fostered through the combination of import restrictions, tax concessions and other Investment Code incentives, and the partial actualization of the ensuing monopoly power granted the (largely foreign) firms has resulted in substantial subsidization of those activities at the expense of local entrepreneurship and the public at large. However, in this as in all other areas of public policy in Cameroon, the "tortoise walk" approach has intervened to limit the damage done to economic efficiency: in particular, the Government has not yielded to the temptation to push import-substitution in activities other than "last-touch" value added, once that early stage had become exhausted.

Financial policies have been conditioned largely by the limitation to domestic monetary autonomy entailed by the pegging of the currency to the French franc. The banking system and formal financial market developed very slowly until the early 1970s, and somewhat faster in recent years. Government controls on interest rates have caused some liquidity problems, but do not seem to have had a serious adverse effect on the mobilization of internal financial resources--partly because the interest rate ceilings are not much lower than probable market-clearing rates, and partly owing to the existence in Cameroon of a vibrant and effective network of informal credit institutions.

Agricultural policy has, again, been a mixture of strong government intervention and of laissez-faire attitudes. The dominant source of agricultural output is smallholder farming, with the traditional peasant sector accounting for over 90 percent of production and employing 2.3 million people. Through the National Produce Marketing Board (ONCPB) the Government significantly influences the behavior and performance of export agriculture, and establishes producer prices for coffee, cocoa, cotton, peanuts, and palm kernels. These are now much closer to world prices than they were until recently, owing to the fall in world prices accompanied by an increase in producer prices internally. The surpluses generated through the administered price system have been largely returned to agriculture in indirect forms, but partly also used to contribute to the general national budget.

Policy toward food crops has generally been one of benign neglect--with neither much help nor significant hindrance from the Government. The result has so far been generally favorable, and Cameroon has been basically self-sufficient in food. This is, however, unlikely to continue to be the case unless serious attention is given to the need for assisting private smallholders to raise agricultural yields and for improving rural life to slow down outmigration to the towns. This appears to be the Government's intention.

## The Role of AID

Foreign economic assistance in general continues to be an important source of import capacity, although it is increasingly overshadowed by the country's oil revenues. U.S. aid has always been small in quantitative terms--although it has increased in recent years--but qualitatively significant. Of the three large U.S.-assisted projects, one is addressed to improving the production prospects of small private farmers in northern Cameroon, and the other two promise to be instrumental in the improvement of the country's basic education and training facilities, one of the areas of sharpest relevance for the long-term needs of private production and management. It would nevertheless be helpful in the years to come to design U.S. aid more explicitly to support those elements of the country's economic policy that are particularly conducive to efficiency and economic growth. While the Government of Cameroon is among the most independent-minded in the developing world, it is also open-minded and willing to listen to a persuasive economic policy argument presented as part of discussions concerning the most effective use of U.S assistance.

## SODECOTON: A Case Study

In light of the well-known problems and inefficiencies associated with parastatal enterprises in many developing countries, the team considered it useful to complement the above discussion of the influence of policy on the private sector with a case study of a parastatal organization that has helped--rather than hindered--the development of private economic activity. This is the case of the Corporation for the Development of Cotton (SODECOTON), which the team found to be run on an efficient and private-sector-like manner, and which has functioned to provide new economic opportunities to small farmers without destroying their entrepreneurial potential and individual economic incentive.

## Conclusions and Lessons Learned

Aside from the many specific conclusions relating to each of the policy areas examined and their impact on the development of private markets and economic efficiency in Cameroon, two major lessons stand out. The first is that public policy measures have generally benefited some private interests at the expense of other private interests. Thus, a meaningful assessment of the impact of policy on the development of the private sector as a whole requires a balancing of the several private interests that are affected by policy in different ways. That assessment must not neglect consideration of the existence and role of "informal" economic activity as an alternative outlet for private enterprise when the formal channels are restricted. As mentioned at the outset, our evaluation is that public policy in Cameroon, on balance, has worked to facilitate the development of private markets and the exercise of private economic activity.

The second major lesson is that a cautious approach to economic change--the "tortoise walk" of our title--can be a perfectly viable economic development strategy. Contrary to the earlier conventional wisdom concerning growth in developing countries, large structural change compressed in a short period of time may be neither necessary nor sufficient for development: the Cameroon experience shows that much can be accomplished by relatively small economic improvements on a sustained basis over a long period of time.

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EXECUTIVE SUMMARY

# COSTA RICA PRIVATE SECTOR STUDY

by

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U.S. Agency for International Development

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## PREFACE

The team was asked to evaluate the effects which public policy and donor interventions have had on the private sector and on economic and social development in Costa Rica since 1960. Costa Rica was proposed for inclusion in this four-country study because of its positive record vis a vis the private sector and significant economic and social progress during the period. The fact that Costa Rica is currently faced with a severe economic crisis which has halted its enviable growth pattern and threatens the validity of its cherished aspiration for upward mobility and elimination of poverty is purely coincidental. But the state of crisis added meaning to the task and led the team to explore the extent to which public policies and behavior of the private sector may have contributed to or, conversely, delayed the onset of crisis. Many less developed countries, extremely vulnerable to economic trends emanating from the industrial countries, are currently in trouble. However, Costa Rica appears to be worse off than most, at least financially. It was important to learn why. Our report includes a number of answers which most observers acknowledge as significant. Although we may not have discovered anything new, we hope that this presentation of our findings will be helpful to those striving to put Costa Rica back on course and to policy makers facing similar decision in other places.

The team concluded that public policies accelerated and enriched economic and social progress in the wake of general prosperity fueled by positive external economic factors during 1960-1975, neglected to prepare for the advent of adverse external conditions thereafter and then failed to make essential, albeit difficult, adjustments as the pace of economic deterioration accelerated from 1978 to 1982. The private sector performed rationally all through the period, responding predictably to market and policy signals. Public policy, on the other hand, appears progressively irrational, having made a difficult situation worse. Donor agencies' record is mixed--major suport for infrastructure with clear positive results, major support for agricultural and industrial credit with little positive policy effect and support for social programs with positive results but at excessive cost.

These conclusions and the analyses upon which they are based were derived from information from many sources, both published and informal. We are extremely grateful to the many persons who shared their time and knowledge with us, whose names are recorded in Appendix E. Special recognition must be given, however, to a few persons whose assistance was most crucial to completion of our task. Tim Mahoney, PPC/E had the unenviable job of explaining the assignment to us at the outset, over and over again until we finally understood it. Clarence Zuvekas, LAC/DP provided valuable information in Washington before and after the field work. Eduardo Lizano, Ernesto Rohrmoser and Juan Manuel Villasuso gave us extremely helpful insights into the twenty year economic history under study and, at the USAID, Bill Phelps, Bastiaan Schouten, Dan Chai and John Curry shared their extensive knowledge and interpretation of events with us. The USAID also shared two of their secretaries with us, Mercedes Sciamsnelli and Beverly Roper, who typed many drafts of manuscripts under very tight time constraints and arranged numerous appointments, all with great skill and good humor.

## SUMMARY

Costa Rica is in a state of economic crisis characterized most dramatically by a huge foreign debt which the country is unable to service. The current situation is also marked by a stagnant economy, rampant inflation, growing unemployment, and rapid depreciation of the currency. A synopsis of the crisis and its underlying causal factors are summarized in the figure on the next page.

Paradoxically, Costa Rica is a country that has shown remarkable progress in the last 20 years, achieving growth with equity. Given Costa Rica's good agricultural resource base, a homogeneous and well educated population, political stability and a long standing democratic tradition, a firmly established free enterprise system, a large middle class, and a more even distribution of income than in most LDCs, no one would have predicted the present outcome even as recently as five years ago when the country was enjoying an extraordinary coffee bonanza. Yet, serious structural problems were already underminning the future. When negative external factors coalesced in 1978-1980 to confront Costa Rica with falling export prices, higher import prices, rising interest rates, and adverse political conditions in Central America, the structural defects such as government deficit spending, an unresponsive nationalized banking system, and a protected industrial sector aggravated the situation to precipitate a crisis.

Since 1963, Costa Rica's economic devélopment strategy has emphasized industrialization based on import substitution and participation in the Central American Common Market (CACM) while somewhat neglecting the traditional export-oriented agriculture sector. This strategy sought to attract private investment in industry by providing protective tariffs, tax incentives, tariff exemptions for materials and equipment, and

# Synopsis of The Costa Rican Crisis

**Principal factors contributing to present crisis**

- Deterioration of terms of trade
- Inflation and high interest rates (trading partners of Costa Rica)
- Excess liquidity of the international financial system (large petro-dollar deposits to recirculate)
- Fiscal deficit spending

External

- Expansionary monetary policies--overvaluation of currency
- Periodic reversal of basic economic policies
- Political instability
- Poor resource allocation
- Capital-intensive investment
- Continued fiscal deficits
- Increased external dependence
- Export disincentives
- Disincentives to savings and capital formation

Internal

- Import substitution policies
- Bureaucratized banking system
- Subsidies to capital

External / Internal: Temporary Current

Import substitution policies / Bureaucratized banking system / Subsidies to capital: Structural

Temporary Current / Structural: Crisis

a stable exchange rate. Donors, including USAID, provided extensive support in the implementation of this strategy by providing industrial credit, contributing to manpower development, and assisting with infrastructural development and regional integration. However, in spite of the relative success of the industrialization strategy pursued, Costa Rica's economy remained highly vulnerable to the terms of its non-CACM trade.

The industrialization strategy, complemented by continued if uneven growth in agricultural exports, was successful in fueling rapid economic expansion during the 1960s and 1970s. Real Gross Domestic Product increased an average of 6.1 percent per year between 1960 and 1978. Annual growth in the industrial sector averaged 9 percent between 1960 and 1968. 7.4 percent between 1968 and 1973 and 8.4 percent between 1973 and 1978, indicating a very positive performance in this sector. This growth was based almost entirely on opportunities in the local and regional markets.

The positive macroeconomic performance ignores some more disquieting aspects of this trend, including: the continued dependence on the export of a few traditional commodities whose prices have deteriorated in recent years; the establishment of a relatively capital-intensive industry because of incentives to capital, and steadily growing payroll levies; the development of relatively inefficient industries due to the protective policy framework; the near exhaustion of import substitution opportunities; the emphasis on industry at the expense, at least in part, of agriculture; the heavy reliance on borrowed (often foreign) funds for investment capital as a result of Government financial policies; and policies signaling a bias against exports principally through an overvalued exchange rate.

Another distressing characteristic of the economic picture has been the failure of the nationalized banking system to attract internal savings and provide adequate financial intermediation. While an increasing proportion of credit has been channelled to the public sector, private firms have suffered from poor service and inadequate financing such that they have increasingly had to look towards external sources of credit.

These negative trends have now culminated in a situation where a relatively inefficient and highly indebted industrial sector is forced to look for new export opportunities in the face of diminishing local and regional markets as well as sluggish markets in North America and Europe. Industrial and overall economic growth has virtually come to a halt. Not only is industry not in a position to turn to exports without first going through a painful shake-down period, but the necessary policy and support framework is not in place.

The other major element of public policy (besides industrialization/regional integration) has been the emphasis on equity and improvement of quality of life for low- and middle-income Costa Ricans. The implementation of this policy has brought major public investments in education, health, social welfare assistance, social security, and public services. It has also involved the establishment of price controls and subsidies for essential needs such as basic foods, public services, fuel, and selected other goods and services. Another major component has been the establishment of minimum wages with heavy payroll taxes to help pay for the social programs. Rapidly increasing public sector employment should also be seen as a part of this policy orientation.

The Government's equity-oriented policies have clearly had important results as measured by very positive performance of social indicators such as education and health, as well as by the development of a physical infrastructure to benefit all Costa Ricans. The average citizen is relatively well educated and protected with health, welfare, and social security systems.[1] Furthermore, middle income groups have been major beneficiaries of the growth experienced during the past years. However it should be noted that the lowest income group has not improved its share of income nor has there been any significant redistribution of income during this period. Furthermore, Costa Rica entered the 1960s with a comparatively favorable pattern of income distribution that in part can be attributed to a relatively balanced distribution of land in the Central Plateau where most of the population is located, and the large number of small-scale business establishments present in the economy. This had been Costa Rica's unique heritage in the region, and successive governments of different political persuasions have done a good job at preserving and enhancing social equity.

Despite the positive results, the Government's social progress has come at a very high cost. A large bureaucracy (employing one out of five Costa Ricans in the labor force) has evolved to administer the programs. Moreover, a growing proportion of resources is dedicated to paying for public employees while benefits reaching the public decrease. Public administration has generally been inefficient. Because the cost of social programs has increased very rapidly, it exceeded the Government's revenues, particularly in years when traditional export earnings were down. This has had two consequences: (1) increased public borrowing in local capital markets, which in turn has squeezed out private sector borrowing (see Table 2); and (2) increased Government borrowing abroad, resulting in an unmanageable foreign debt.

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[1]Although the extent of coverage provided by these systems is high relative to many other LDCs, it does not approximate the protection provided in the United States and most other industrial countries; unemployment compensation is especially noteworthy in this regard.

The Government realizes that it is faced with a crisis of major proportions. Its strategy for recovery appears to be based on increased support for private sector initiatives and export development, while continuing to meet social welfare objectives.

From the perspective of the private sector, recovery and future growth will be facilitated by the following positive factors: an existing and underutilized industrial base (albeit somewhat inefficient); significant agricultural and agro-industrial potential; a skilled, competitive, productive labor force and strong management resources (largely the result of social policies in education and health); a favorable geographic position that provides easy access to U.S. and Latin American markets; and an increased recognition of the need to export.

The principal constraints confronting the private sector include the acute shortage of foreign exchange, compounded by a confusing and unstable multiple exchange rate system; a severe credit squeeze (local and external), aggravated by a cumbersome and ineffective nationalized banking system; many industries that are noncompetitive in world markets; the limited technical and production management know-how for streamlining industry; the unfamiliarity with marketing know-how for penetrating foreign markets; an inadequate policy and programmatic support framework for exporting; and, the cost of maintaining the social programs and the bloated public sector payroll. Furthermore, the country's extremely heavy debt service burden will seriously constrain economic recovery over the medium term.

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EXECUTIVE SUMMARY

# Thailand: An Economy In Transition

by

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EXECUTIVE SUMMARY

## Thailand: An Economy in Transition

Beginning in the 1950s Thailand underwent a major transformation from a largely agricultural LDC to a country possessing a much more complex economy - one which is moving rapidly toward middle income status. Thailand is now in another period of rapid change and transition.

Thailand's economic progress, which has rested essentially on the development of the private sector, has entailed fundamental changes in many Thai institutions, private and public. Now the much larger and complex economy which resulted from the efforts of the past twenty years is, in turn, making demands on the revealing inadequacies in many economic and political institutions. Most of these institutions are changing - with varying degrees of rapidity - to respond to the evolving requirements and circumstances. The continuation of Thailand's rapid rate of economic growth will substantially depend upon how well its economic institutions complete the transition in which they are now engaged.

### Background

Since 1960 Thailand has built an enviable record of economic development. Despite a relatively rapid rate of population growth, real per capita GDP grew at an average rate of nearly five percent between 1960 and 1980. This growth was accompanied by substantial diversification, both from agriculture into manufacturing and within the agriculture sector from rice into several additional cash - and export - crops such as corn, cassava, sugar, pineapples, etc. This twenty-year period witnessed a decline in the agriculture sector's contribution to GDP from approximately 40 percent of the total to 26 percent. The decline in agriculture was accompanied by an increase in the contribution of the industrial sector (manufacturing, mining, construction and electricity/water supply) from 19 to 28 percent of GDP. A vigorous and expanding agriculture largely generated the domestic savings needed for industrial expansion, at the same time that it provided a domestic market for industrial products and absorbed the surplus labor resulting from rapid population growth.

In its first national development plan (1961-66) the RTG took the position that "increased output will be most readily secured through the spontaneous efforts of individual citizens .... rather that through the government itself entering directly into the field of production". It went on to state, "The keynote of the pubblic development program is, therefore, the encouragement of economic growth in the private sector". While the government had experimented with the use of state enterprises prior to this time it had found them generally inefficient and frequently an outright burden on the national budget. Consequently it adopted policies essentially precluding any further use of state enterprises as vehicles of national development.

Thailand's basic committment to the private sector as the focus of national development has been retained with little change since 1960, despite relatiely frequent and occasionally violent changes of government. Thailand has maintained an essentially open, competitive economy operating under a free market price system with negligible controls over international currency transactions. The only significant departure - other than the limited use of state enterprises - was an effort following the energy crisis and the ensuing worldwide inflation beginning in 1974 to insulate the economy through the use of price and other controls. Those controls were subsequently largely dismantled and the country returned to its historic posture of depending largely on free markets to establish prices and allocate resources.

However, while the basic RTG posture toward private sector development has been largely consistent and the overall investment climate has been favorable, the formulation and application of specific policies and statutes has sometimes been counterproductive. Traditional suspicion of the private sector by the bureaucracy, out of date tax and regulatory legislation, inconsistent administration, corruption, etc. have served to limit somewhat the impact of the basic committment to private sector development.

The principal government institution engaged in the promotion of private sector investment has been the Board of Investment (BOI). Established in 1958 (after an unsuccessful earlier effort) the Board acquired a full-time staff in 1965. It has offered a series of incentives to private investors - both domestic and foreign - including tax exemption and tariff protection. During the 1960s and 1970s the principal emphasis was placed on the promotion of import substitution enterprises. Gradual recognition that BOI policies were tending to create protected industries that were capital-intensive and frequently unable to compete in international markets, prompted the government in the late 1970s to shift the primary emphasis from import substitution to export promotion.

In the 1950s and through the 1960s the Thai government placed a high priority on the development and expansion of education and training institutions. With AID and IBRD help a major effort was made to improve vocational education programs. Partly as a result of these activities the Thai economy did not experience any serious manpower limitations during the last twenty years. Nonetheless, there have been shortages in some technical fields and there is general agreement that there is a serious need for more trained and experienced managers.

## Principal Areas of Transition

### Financial Institutions

The impressive record of economic growth built in Thailand over the past twenty years or so was largely accomplished through domestic savings and investment. However, the commercial banking system which constitutes the largest single element of the financial structure was primarily focussed on financing domestic and international commercial activities during much of this period and was not oriented toward supporting the development of industrial enterprises. The commercial banking community was composed mostly of foreign companies before Thai firms began to dominate the sector in the 1950s. Historically the banks have been family owned and controlled with credit and policy decisions made by one or two family members.

In light of these circumstances it is not surprising that much of the private sector capital formation which took place was based on non-formal financial sources - i.e., family, relatives, friends, etc. The Bank of Thailand estimates that during the first plan period (1961-66) non-formal sources financed more than half of the private sector capital formation. The changes which were taking place in financial institutions, however, are reflected in the fact that the central bank also estimates that by the fourth plan period (1977-81) only ten percent of the private capital formation was based on non-formal sources.

As suggested by these figures, Thailand's financial institutions have grown and changed substantially over the past twenty years. They are, nonetheless, currently in a period of significant transition. While the commercial banks are still controlled by family groups their growth in size has required the increased utilization of professional managers. (Between 1970 and 1979 the assets of commercial banks jumped from 41 billion baht to 259 billion baht, a more than six-fold increase.) Along with this growth in professional management has come a less personalized approach to decision-making although, as yet, very little real decentralization of decisions from top management has taken place.

Substantial variation in bank lending practices points up the evolution that is taking place. Lending is still, for the most part, short-term in nature and is dominated by loans to the trade and other service sectors. Generally, loans must be backed with collateral - predominantly land. There are very few term loans, and overdrafts are frequently used for medium and long-term projects. Working capital loans are very difficult to obtain at all. However, some banks are beginning to depart from traditional practices. While loans for equipment and factories are generally not made for longer than five years, and often shorter, loan payments may be keyed to the borrower's ability to pay and/or to the project's pay-out potential. Some banks are prepared routinely to roll-over loans at the end of the prescribed term. Some banks are now making working capital loans for relatively short periods but with the potential for roll-over. Overdrafts are the more common method of obtaining working capital and with the potential of annual extensions, overdrafts can become, in effect, a permanent line of credit.

Practices regarding collateral requirements are also changing. As stated earlier Thai banks have traditionally required full collateral - preferably in the form of land - for all loans. However, while banks will still not accept inventory, accounts receivable and other current assets as collateral, some will now accept equipment and company and personal guarantees in place of land. Similarly one major bank has progressed from making loans equal to 60 percent of the value of collateral pledged to lending 300 percent of collateral value if the project is judged to be sound. The increasing use of feasibility studies is making such practices possible.

The evolution of equity capital institutions in Thailand has been particularly limited, and non-formal sources have, therefore, been of particular importance in this area. In 1959 the RTG established the Industrial Finance Corporation of Thailand as a development bank. While its largest shareholder, with 13 percent of the shares, is the government-owned Krung Thai Bank, it is operated as a private institution and is expected to earn a profit. While the IFC/T is permitted to take equity positions it has done so on only a limited basis and has not played a major role in equity markets.

The most important attempt by the government to enlarge institutional sources of equity capital was the establishment of the Securities Exchange of Thailand, which opened in 1975. (An earlier effort begun in 1962 had not proved successful and was liquidated in 1979.) After a very active period of about three years, trade on the exchange subsequently declined substantially. The Exchange has not yet become an effective mechanism for raising equity capital and has had a limited role even as a trading forum. A number of factors have limited its effectiveness - inadequate legal framework, application of tax laws in a manner which tends to penalize firms with open records, absence of an established tradition for trading company shares, etc.

Thus, despite the existence of a range of financial institutions, overall they fall short of meeting the requirements of a burgeoning industrial sector. Evidence suggests that banks are becoming less family oriented and more institutionalized in their lending practices. There are also indications that the approach to the use of collateral is becoming more flexible. Nonetheless, much of the improvement is of benefit primarily to larger, more established customers. Interviews with businessmen, particularly outside Bangkok, revealed that small business must still depend largely on family and friends for equity capital and find it extremely difficult to obtain adequate working capital at reasonable rates of interest.

In sum then, the financial institutions in Thailand have evolved substantially over the past twenty years or so, but they are still poised between the simpler economic world of the 1950s and the demands of the complex industrial economy of the 1980s and 1990s. Unless they can complete the necessary transition they may become constraints to Thailand's further development.

## From Overseas Chinese to Sino Thais

One of the greatest sources of dynamism in the Thai economy has been the sizable Chinese minority which migrated to Thailand beginning as early as the thirteenth century. The Chinese formed a commercial community that for much of Thai history was distinct and separate from Thai society. Indeed, most of the overseas Chinese held citizenship other than Thai until relatively recently. During earlier eras the

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educated Thais were content to leave commercial activities to the Chineseand to focus their own aspirations on government service and political control.

Beginning in the 1930s and extending into the 1950s the Thai government took steps to restrict the activities of aliens, i.e., Chinese, and at the same time adopted policies directed toward assimilation of the Chinese minority into the Thai society. Over time, intermarriage, attendance at Thai schools, use of Thai names, adoption of the Thai language and the acceptance of Thai citizenship has resulted in substantial assimilation of ethnic Chinese into Thai society.

Since the 1950s Thai bureaucratic and political leaders have formed a working relationship with Chinese businessmen. In some cases senior Thai military officers or government officials have been placed on boards of Chinese businesses. In this manner they share the economic benefits of private corporations and the companies benefit from having spokesmen in hgh places. Beyond this, however, as the private sector has become more complex, a business management class has grown up which attracts educated Thais in a way the traditional Chinese trading activities could not. Similarly, ethnic Chinese have increasingly moved into government service so that it is no longer the almost exclusive province of Thais. (As anyone who has worked in Thailand knows, even earlier there were many senior Thai officials who had a Chinese parent or grandparent. The civil service was, nonetheless, essentially Thai.)

Despite the degree of assimilation which has already taken place, the business community is still largely ethnic Chinese in makeup. The wealthand power which has been accumulated by Chinese business and banking institutions will for some time remain the core of Thai private sector development.

Thus the transition from Chinese to Sino-Thai is far from complete, but most of the forces seem to be moving in the direction of greater assimilation. The Thai economy - and Thai society more generally - will benefit from a continuation of this trend.

## Employment and Unemployment

Thailand's population has almost doubled since 1960 - increasing from 26 million to 50 million - and the labor force has grown from approximately 16 million to 24 million. During much of the period since 1960 unemployment rates remained impressively low. Even granted the difficulty of establishing reliable estimates in a less developed economy such as Thailand's, the rates of unemployment (2.1 percent rural and 3.5 percent urban) were favorable and were below those of other countries in the region in 1975.

While manufacturing employment almost doubled between 1960 and 1978 it still represented only 7 percent of the total employed, while agriculture occupied 74 percent.

Thailand's ability to absorb a rapidly expanding labor force has been due to several factors. The most important of these is the fact that between 1960 and 1980 land under cultivation in Thailand increased by 4 percent per year and this expansion was accompanied by the creation ofsubstantial employment. The vigorous growth of the economy as a whole during most of the period was another factor, with manufacturing, commerce and services sectors making major contributions.

However, by the middle of the 1970s there were indications that Thailand was beginning to experience a deterioration in employment. The data on employment, unemployment, and underemployment are somewhat ambiguous. However, the differences between peak season and low season employment have been increasing, suggesting to some a growing amount of underemployment. In addition, the levels of actual unemployment are also increasing. Of particular importance, perhaps, is the fact that the RTG Department of Labor has predicted a substantial increase in unemployment for persons who have received a technical education or training at higher levels.

The principal source of new jobs in the Thai economy for the past twenty years has been an expanding agriculture, but there is general agreement that this expansion has largely reached the limits of land available for cultivation. With this employment shock absorber gone, or at least its effectiveness reduced, and a general feeling that the Thai economy cannot realistically be expected to continue its previously high rates of growth in a more hostile international economic environment, Thailand may be facing an era of increased unemployment and underemployment that will test the economic - and political - institutions the Thais have evolved.

## Role of the Public Sector

Reference was made earlier to the fact that the impact of the Thai Government's committment to development through private initiative has been vitiated somewhat because of inconsistent policies and poor administration by government departments.

One of the most persistent problems as seen by the private sector has been the application of tax and other regulations. The tax code applying to manufacturing enterprises is approximately thirty years old and was designed for an industrial sector which was much less complex than that of today. It is limited in extent and consequently inherently ambiguous. Rulings of the Revenue Service are not publicized and are tested only in the regular courts, since no specialized tax court exists. The situation is further complicated by the fact that under Thai law tax rulings are applied retroactively under some circumstances. All these factors create considerable uncertainty among private businessmen and impair relations with the government. Similar problems arise with the application of other rules and regulations controlling the location and operations of industrial establishments.

In fact, the government is well aware of most of the problems which mar its relations with the private sector. The difficulties growing out of the out-dated tax code and its application have been the focus of

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endless exchanges. The government recognizes the need for an updated tax code and has committed itself to the creation of a new court to deal with the specialized problems of tax litigation. Both steps, however, will take time to carry out.

The underlying issue which is pointed up by the differences between the government and business community over taxes and regulations is the nature and quality of their overall relationship and the adequacy of communication between the two.

As indicated earlier the traditional attitude of the bureaucracy toward the private sector has been one of suspicion and varying degrees of mistrust. This attitude resulted in part from the historic ethnic differences between the public and private sectors. The government generally saw little need to consult with the business community and usually was prepared to promulgate laws and regulations affecting the business community without discussing or reviewing them in advance. However, this traditional approach on the part of the bureaucracy has changed substantially over the past twenty years and is still in relatively rapid transition.

The growth of the economy has been accompanied by the development of a large number of trade and other private associations. Perhaps the most significant are the Board of Trade of Thailand, the Association of Thai Industries and the Thai Bankers Association. These, and other groups based on specific industries or commodities, are playing an icreasing role in influencing government decisions. Representatives from these

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organizations have participated on committees which drafted elements of the five-year plan documents and they sit on a number of government boards such as the Board of Investment. It has become increasingly common for persons from the business community to be appointed to ministerial level positions in the government. The most recent steptaken by the government was the creation of a new Joint Commission of Government and Private Sectors for Solving Economic Problems. The Prime Minister serves as chairman.

Many sources of friction remain between the government and the business community - and indeed there will always be areas of difference as the government fulfills its role of balancing competing interests in the society. Also, the traditional attitudes on both sides cannot be changed quickly. Nonetheless, relations between the public and private sectors appear to be moving toward a more effective basis for collaboration and problem solving than has existed in the past.

### Poverty and Equity

Thai planning objectives have consistently included an emphasis on the importance of reducing poverty and on the equitable distribution of the benefits of development. The first plan document included the following paragraph:

> The primary objective of the National Economic Development Plan is to raise the standard of living of the people of Thailand. The achievement of this objective requires that there should be

an increase in the total per capita output of goods and services, and that this increased output should be equitably distributed so that to the extent possible, all citizens and not merely a priveleged few benefit from it.

In general, compared with most LDCs, Thailand has done well in this regard. According to IBRD analyses the overall incidence of poverty has been reduced from about 57 pecent in the early 1960s to about 31 percent by the mid 1970s. Bank studies also indicate that income distribution also improved with the percent of income going to the top 5 percent of households falling from 22 percent to 14 percent and the portion going to the bottom 40 percent rising from 15 percent to 19 percent of the total.

However, the picture is probably not as clear as these data would seem to indicate. While there is general agreement that the incidence of poverty has indeed declined, there is less unanimity regarding the matter of distribution. A draft ILO study suggests that improvements in rural areas have not been as great as suggested by the IBRD analysis and that distribution may even have worsened in recent years.

Certainly, as with all governments, statements of general philosophy regarding the distribution of benefits must still be expressed in specific policies which are sometimes contradictory. For example, assessing the RTG concern for development in rural areas must also take into account the fact that the government has for years applied a rice export tax which has reduced the price paid the farmer in the interest of

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protecting the urban consumer. Similarly, the promulgation of a minimum wage was intended to benefit low wage earners but may possibly have had a negative impact on employment. The encouragement of investment in rural areas has generally been offset by economic and other incentives which have tended to favor investment in capital-intensive industries in the Bangkok area. There is a concensus among most observers that overall the Thai economic structure is still heavily weighted toward benefitting Bangkok and the central plains and the transition to a wider distributionof investment throughout the country is still largely in the future.

This is not intended to detract from the enormous strides the Thais have made in economic development, poverty alleviation and, compared with most LDCs, even in distribution of benefits. It is only to point out that much remains to be accomplished.

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# THE PRIVATE SECTOR, THE PUBLIC SECTOR, AND DONOR ASSISTANCE IN ECONOMIC DEVELOPMENT: AN INTERPRETIVE ESSAY

by

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The views and interpretations expressed in this essay are those of the author and should not be attributed to the Agency for International Development.

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# I. THE VARIETIES OF ECONOMIC EXPERIENCE

## A. Study Purpose

This paper is intended to provide to the Agency for International Development a retrospective view of the ways in which the public policy of host countries coupled with the actions of donors have led to the growth of a vital private enterprise economy in less developed countries, and how that private enterprise economy has affected the overall level of development and, in particular, the quality of life of the people of those countries.

Of necessity, our review could not be both broad and deep. Accordingly, we have concentrated our efforts on examining the recent (20-year) development history of four countries--Malawi, Cameroon, Thailand, and Costa Rica--which we believe are representative of the broad but limited range of countries which have dramatically improved the standard of living of their people. In order to provide a broader context, we will draw, from time to time, on other cases and on the existing literature.

We have consciously decided to examine success rather than failure. In part, this decision was taken because we felt that it was more important to learn what works than what does not work; in part, because we believe that there are many more roads to success than there are to failure; and in part because the paths to success are more subtle and more interesting than the paths to failure.

Representing success, the countries we have chosen to study are in a sense unique, since in large measure the economic history of Third World countries in the last two decades has not been a happy one. Nowhere has failure been more endemic than in sub-Saharan Africa, and thus the experience of

Malawi and Cameroon are particularly unusual. According to the World Bank, the median rate of growth of real per capita income among sub-Saharan African countries between 1960 and 1979 was 0.7 percent. The rate of growth of per capita income for Malawi and Cameroon was 2.9 percent and 2.5 percent, respectively.

Malawi's growth has been, perhaps, the most remarkable of all. To be small, poor, and landlocked are almost insurmountable hurdles for a new country to overcome. Worldwide, the average rate of growth for economies with this set of characteristics was 1/2 percent per year for the period 1960 to 1979. Malawi's growth record of almost 3 percent, despite these obstacles, despite having no natural resources beside relatively good though not abundant agricultural land, and despite an almost total dearth of physical and human capital at independence is a success story of the first magnitude.

Cameroon's record has been less spectacular, but nevertheless noteworthy. Surrounded by the Marxist regime in Congo-Brazzaville; the ethnic turmoil and violence in Nigeria; the untrammeled spending in Gabon; the maniacal regimes, until recently, in the Central African Republic and Equatorial Guinea; and the chaos in Chad, Cameroon remains an island of calm in a tempestuous sea. Progress may have been more tortoise-paced, but it has been steady and peaceful.

Costa Rica's growth experience between 1960 and 1979 was average for a country of its income level, 3.4 percent per capita. That growth, however, has taken place in a peaceful democracy, proud of the fact that it has more teachers than soldiers, in an area of the world in which peace and democracy have historically been rare. Costa Rica's development has been accompanied by a substantial improvement in the quality of life of its people (life expectancy has risen from 62 to 70 years; infant mortality has been reduced from 80 per 1000 population to 28; the literacy rate is 90 percent; food availability is 114 percent of average requirements).

The rate of growth of per capita income in Thailand has been the fastest of all--4.6 percent between 1960 and 1979. This growth has been associated with a steady reduction in poverty, improvement in an already relatively equitable distribution of income, and stability in an area of the world beset by war and insurrection.

The story of these four countries' economic and political success form the core of this study. What follows is an attempt to blend these stories into a coherent and unified whole. We will probably raise more questions than we answer, but we hope that the result will be to challenge the reader's preconceptions, stimulate curiosity, and sustain interest.

## B. The Process of Development

It is easy to describe the mechanics of economic growth. GDP, gross domestic product, the total sum of goods and services produced in the economy, is a function of the amount of inputs available. These inputs are primarily land, labor and capital. All things being equal, the more input the more output. Of course, all things are never equal, and the level of output also depends fundamentally on the way in which inputs are used--the efficiency of input use and the level of technology, (production information) available. Output then is a function of the level of inputs, the level of technology, and the efficiency of resource use.

In any given country, land is fixed. While in all less developed countries (LDCs), the labor supply is growing, increases in welfare imply increases in output per head, that is, increases in labor productivity. Thus economic growth is a function of increases in the capital stock, improvements in the productivity of that capital stock (i.e., technical change), and increases in the efficient utilization of those new investments. A simple measure of the latter concept is the Incremental-Capital Output Ratio (ICOR) which measures the ratio of changes in capital to changes in output. The larger that ratio, the more new capital it takes to generate a given increase in output and consequently, the less efficiently is capital being utilized. Table 1 presents comparative data on the rate of growth of capital stock and the ICOR. As expected, the growth success of the four countries we are studying is reflected in their ability to increase the capital stock rapidly, and the efficiency with which that capital is used.

Table 1. The Growth of Investment and ICORS, 1960-1979, Selected Countries

| | Investment Growth (annual percentage change) | ICOR (changes in gross capital/change in gross Output) |
|---|---|---|
| Malawi | 9.0 | 3.8 |
| Cameroon | 8.6 | 4.4 |
| Thailand | 11.9 | 3.0 |
| Costa Rica | 7.6 | 3.9 |
| 36 Low-Income Countries | 6.7 | 5.1 |
| 60 Middle-Income Countries (excluding major oil exporters) | 6.7 | 4.3 |

Source: Calculated from IBRD, World Development Report.

But how were these countries able to mobilize investments and use them efficiently? Do their growth histories reveal any pattern that will enable us to develop general rules for growth and prosperity? Let us examine the macroeconomic data to see if these questions can be answered.

## 1. Initial Structure

In 1960, these countries were at radically different levels of development from each other (see Table 2). Malawi was clearly among the poorest countries in the world. Over 90 percent of its population was engaged in agriculture, domestic savings were negative, and life expectancy a mere 37 years. Cameroon and Thailand were already in the group of countries beginning the transition to middle-income status.[1] While GDP per capita was 40 percent higher in Cameroon than in Thailand, all other indicators (secondary school enrollment, life expectancy, share of labor force in agriculture) show Thailand had a much firmer basis for its subsequent growth. Costa Rica was already an upper-income country, with almost half of its labor force engaged in non-agricultural pursuits, and a life expectancy not very much lower than that of the developed countries. Moreover, except for the relatively high level of social indicators in Thailand, each of these countries was below the mean level of performance (in terms of social indicators) for its income group. In 1960, there was no reason to believe that Malawi, Cameroon, Thailand, and Costa Rica would be development success stories.

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[1]For the purpose of this study, LDCs are divided into three groups: low income, middle income, and upper income, with per capita income cut-offs (in 1979 dollars) of $375 and $1,035 between the lower- and middle- and upper-income groups, respectively.

## Table 2. Initial Economic Structure, 1960

| | Malawi | Mean Low Income[1] (34 countries) | Cameroon | Thailand | Mean Middle Income[2] (28 countries) | Costa Rica | Mean Upper Income[3] (32 countries) |
|---|---|---|---|---|---|---|---|
| Population (millions) | 3.3 | 12.1 | 5.5 | 27.2 | 8.4 | 1.2 | 12.5 |
| GDP/Capita (1979$) | 116 | 171 | 350 | 251 | 376 | 964 | 957 |
| GDP (billions 1979$) | 0.38 | 2.06 | 1.93 | 6.83 | 3.17 | 1.16 | 11.96 |
| Share of GDP in | | | | | | | |
| Public Consumption | 16 | 11 | 10 | 10 | 11 | 10 | 11 |
| Gross Investment | 10 | 10 | 15 | 16 | 18 | 18 | 20 |
| Exports | 21 | 14 | 29 | 17 | 23 | 21 | 28 |
| Gross Domestic Savings | -4 | 8 | 14 | 14 | 15 | 13 | 17 |
| Agriculture | 58 | 52 | 35 | 40 | 33 | 26 | 22 |
| Manufacturing | 6 | 9 | 8 | 13 | 13 | 14 | 18 |
| Primary Products as % of Total Exports | 98 | 94 | 96 | 98 | 94 | 95 | 84 |
| Share of Labor in | | | | | | | |
| Agriculture | 92 | 79 | 87 | 84 | 67 | 51 | 46 |
| Industry | 3 | 8 | 5 | 4 | 12 | 19 | 22 |
| Life Expectancy | 37 | 41 | 37 | 51 | 45 | 62 | 66 |
| Secondary Enrollment | 1 | 6 | 2 | 13 | 10 | 21 | 23 |

[1]Countries with per capita incomes below $375 in 1979.
[2]Countries with per capita incomes between $375 and $1,035 in 1979.
[3]Countries with per capita incomes above $1,035 in 1979.

## 2. Structural Change

The pattern of structural change in the economies of the four countries of our sample is compared to the mean patterns of structural change of LDCs as a whole in Table 3. The most interesting result evident from this table is that the patterns of structural change are similar even when the growth experience is different. Thus, between 1960 and 1980, the share of agriculture in GDP and agricultural labor force in total labor force declined for economies with fast and slow rates of growth. Similarly, the role of international trade, the importance of the service sector, the share of GDP devoted to public consumption, and the share of manufactured products in total exports rose for our country sample (with the exception of Cameroon) and for LDCs as a whole--low, middle and upper income.

The similarities are much more striking than the differences. It is only in the area of investment and savings that the performance of our sample differs markedly from the general performance of LDCs. For Thailand, Malawi, and Cameroon, the investment rate is both substantially higher than average and has increased faster than average. Only in Costa Rica, with its average growth performance, has investment behavior not been striking. Equally interesting, except for Costa Rica, all of these countries have substantially increased their domestic savings rates (see Table 4). However, in all these tables, one variable looms larger than all the others--the ratio of foreign savings to GDP, i.e., the degree to which external capital is being used to stimulate economic growth. In Malawi, foreign savings are 60 percent higher (as a percent of GDP) than for low-income countries as a whole; for Cameroon, four times as high; for Thailand twice as high; and for Costa Rica, four times as high. There is, of course, a real chicken-egg question here--

Table 3. Structural Change, 1960-1980
(changes in percentage shares)

| | Malawi | Mean Low Income[1] | Cameroon | Thailand | Mean Middle Income[2] | Costa Rica | Mean Upper Income[3] |
|---|---|---|---|---|---|---|---|
| Agriculture/GDP | -25.9 | -26.9 | -8.9 | -35.0 | -19.4 | -26.9 | -41.8 |
| Manufacturing/GDP | +100.0 | 0 | 18.5 | +46.2 | +35.4 | +35.7 | +57.8 |
| Ag. Labor Force/Labor Force | -6.5 | -12.9 | -4.5 | -8.3 | -14.9 | -41.1 | -34.8 |
| Ind. Labor Force/Labor Force | +66.7 | +37.5 | +40.0 | +125.0 | +57.4 | +21.2 | +25.9 |
| Man. Exports/Exports | NA | +83.3 | 0 | +1150.0 | +125.0 | +480.0 | +115.8 |
| Exp-Import/GDP | +3.5 | +43.3 | -9.9 | +47.2 | +22.9 | +46.7 | +21.5 |
| Public Consumption/GDP | [illegible] | +9.1 | +40.6 | +20.0 | +36.4 | +80.0 | +42.7 |
| Services/GDP | +19.4 | +11.4 | -21.4 | +12.2 | +6.2 | +1.9 | -3.4 |
| Labor in Services/Labor Force | +80.0 | +46.2 | +25.0 | +16.7 | +37.5 | +56.7 | +35.9 |
| Memo Item<br>Growth GDP/Capita | 2.9 | 1.8 | 2.5 | 4.6 | 2.[illegible] | 3.4 | 4.1 |

[1] Countries with per capita incomes below $375 in 1979.
[2] Countries with per capita incomes between $375 and $1,035 in 1979.
[3] Countries with per capita incomes above $1,035 in 1979.

Table 4. Saving and Investment Behavior, 1960-1980
(Percentage)

| | Malawi | Low-Income Countries | Cameroon | Thailand | Middle-Income Countries | Costa Rica | Upper-Income Countries |
|---|---|---|---|---|---|---|---|
| 1960 | | | | | | | |
| Dom. Sav./GDP (1960) | 4 | 8 | 14 | 14 | 15 | 13 | 17 |
| For. Sav./GDP (1960) | 14 | 4 | 1 | 2 | 5 | 5 | 3 |
| Investment/GDP (1960) | 10 | 12 | 15 | 16 | 20 | 18 | 20 |
| 1980 | | | | | | | |
| Dom. Sav./GDP | 13 | 15 | 10 | 21 | 17 | 13 | 24 |
| For. Sav./GDP | 16 | 9 | 15 | 7 | 4 | 12 | 3 |
| Investment/GDP | 29 | 24 | 25 | 28 | 21 | 25 | 27 |



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is good economic performance caused by large capital inflows or are large capital inflows caused by good economic performance? (It should also be noted that such economic disasters as Chad, Upper Volta, the Congo, Somalia, Benin, Mauritania, and Madagascar also have high rates of foreign capital inflows.) A breakdown of these foreign flows by type shows that in Malawi, concessional assistance is predominant, while in Thailand, Cameroon, and Costa Rica, concessional and nonconcessional flows are equally important.

We have seen a partial answer to our question. Increasing the rate of investment may depend very heavily on having access to foreign capital, either through concessional assistance or commercial borrowing.

But how does a country increase the productivity of its investment? How do culture, politics, public policy, donor activities, and the international economy interact to affect resource mobilization and resource use? How does a country get access to foreign capital? Answering these questions, the "how" questions of resource mobilization and resource use, is fundamental to understanding the process of economic development. The answers are complex and elusive. Let us begin with a closer examination of the nature of the private sector.

## II. UP WITH THE PRIVATE SECTOR, BUT WHICH PRIVATE SECTOR?

### A. Search for an Organizing Principle

One of the most dramatic findings of the four country studies is the existence of an enormous range of enterprises flourishing in the developing countries, including parastatals, public finance corporations, transnational giants, family-owned

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firms, and "micro" firms, as well as any number of hybrid forms. A few quick examples will illustrate this point. In the area of financial intermediaries, the various studies discuss:

-- Development banks and finance companies, such as COFISA in Costa Rica, INDEBANK and MDC in Malawi, BCD in Cameroon, and IFCT in Thailand. These are institutions owned and operated by a mixture of international donor institutions, LDC governments and government entities, and private banks.

-- Commercial banks which are either privately owned (as in Thailand and Cameroon), completely nationalized (as in Costa Rica), or owned by a combination of public entities and private firms (as in Malawi).

-- Informal private credit institutions such as the pia huey in Thailand or the tontines in Cameroon.

In general, all of these types of enterprises, large and small, formal and informal, public and private, domestic and foreign, will be present in the same economy, providing highly differentiated goods and services to different clienteles.

With so many types of organizations, the distinction between the public and private sectors becomes very tenuous. Does the private sector include Press Holdings Ltd., the Malawi Conglomerate which is owned by the Life President, Dr. Banda, in trust for the people of Malawi? Does it include IFCT in Thailand, a development bank with shareholders representing the Government of Thailand and of several donor nations, as well as the World Bank and several privately owned firms? Does it include those firms partially owned and subsidized by SNI, Cameroon's National Investment Corporation? Does it include the Commercial Bank of Malawi, owned jointly by two Malawi parastatals, Press Holdings, and the Bank of America? Surely excluded from the "private" sector are the nationalized banking system in Costa Rica (Case 1), the government-owned sugar factories in Thailand, and the primary school system in Cameroon.

At its simplest, the notion "private sector" means what it says, i.e., those firms which are privately, as opposed to publicly, owned. By such a definition, it is simple to categorize most enterprises in LDCs; however, difficulties arise in the case of hybrid firms, those firms owned by both public and private interests. Does "private" mean majority ownership by private interests, controlling ownership by private interest, or complete ownership by private interests? Or, perhaps, the notion of ownership is not the only variable which is important in distinguishing between "private" sector entities and public sector ones.

Another dimension along which enterprises might be classified is the degree to which they are market oriented, the degree to which making profits is essential to the success of the firm. Thus, privately owned enterprises such as PVOs, trade associations, religious organizations, etc., would fall into the non-market-oriented group, while most others would be classified as market-oriented. Similarly, most publicly owned enterprises (public schools, ministries of works, some parastatals) are not market-oriented, although others are.

This two-dimensional classification scheme is illustrated below, along with some examples found in the four country studies. It is clear that those firms in the upper right-hand box of the diagram below are clearly private enterprises. Do the enterprises in this category have more in common with those in the box below them (privately owned, non-profit-making firms) or those in the boxes to their left (publicly owned, but profit-making enterprises)? By almost every economic category, in particular in terms of efficiency of resource allocation

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## Case 1: A Nationalized Banking System: SBN (Costa Rica)

The financial sector of Costa Rica is dominated by Sistema Boncario Nacional (SBN), the nationalized banking system, made up of four separate banks, each of which concentrates to some extent in different sectors of the economy. Two independent studies over a ten year period have characterized SBN as slow, excessively conservative, inefficient in its lending policies, and unable to generate local savings. Thus while COFISA, a private development bank, was growing rapidly during the boom years of the Costa Rican economy, SBN's total loan volume grew slowly, and in some instances declined in real terms. This process was aggravated by the "freezing" of a significant proportion (perhaps up to 50 percent) of delinquent loans which were almost always automatically reextended without a new disbursement of funds. The failure to generate internal savings meant that by 1980, 27 percent of all credit in the economy had been raised from external sources. The failures of the SNB are in large measure a causal factor in the sudden downturn in Costa Rica's economic fortunes since 1979.

No commercial bank, no profit-oriented firm could have survived the inefficient practices of the past. The lack of competition allowed SNB to slog on--a dinosaur living in the age of mammals.

and resource use, market-oriented firms are more alike than privately owned firms. Consequently, this study will investigate the behavior of all market-oriented firms, whether they are publicly or privately owned. These market-oriented firms make up the "private sector" in this study.

| | Publicly Owned | Hybrid | Privately Owned |
|---|---|---|---|
| Market Oriented | Electric Power Commission in Malawi<br><br>SODECOTON in Cameroon | Commercial Bank in Malawi<br>IFCT in Thailand | Micro Firms<br>Private Banks in Thailand<br>Medium Enterprise in Costa Rica |
| Non-market Oriented | National Banks in Costa Rica<br><br>State Enterprise in Thailand | | Mission Schools in Malawi<br>Chamber of Commerce in Thailand |

B. A Taxonomy of Enterprise Types

Having defined what is meant by "private sector," it is useful to distinguish among the various types of private sector entities. We will briefly examine three private sector enterprise types--the proprietal firm, the entrepreneurial firm, and the managerial firm.

1. Proprietal Firms: Profit-Maximizing, Owner-Operated Enterprises

The private sector landscape, in almost all LDCs, is dotted with proprietal firms--peasant farms and "micro" enterprises--producing a wide variety of goods and services (Case 2). From the coffee farmer in Costa Rica, to the money lender in Thailand or the tailor in Cameroon, these proprietal firms are marked by small size, the importance of family labor, the low level of capital employed, and the limited demands made on the owners' managerial ability and technological expertise.

For the most part, proprietal firms supply small local markets with valued goods and services; they tend to be labor intensive with low levels of labor productivity. Thus, in Nigeria, entrepreneurial firms may produce only 5 percent of manufacturing output, but employ 90 percent of the labor force in the manufacturing sector. More broadly, while proprietal firms, be they farms, industrial firms, or service enterprises, may produce a small share of total GNP in any LDC, they do provide a livelihood for the majority of the people.

These firms represent the prototype of the competitive firm, responding to market incentives, economizing on scarce resources, with free market entry and exit. Because the technology is simple (in industrial and service establishments), or because land markets are rudimentary (for agricultural enterprises), there is little scope for expansion of individual firms. The industrial sector (e.g., tailoring) may expand or contract in response to market forces, but rarely do individual proprietal firms expand.

## 2. Entrepreneurial Firms

The economic history of the West, particularly of Britain and the United States, is dominated by the entrepreneurial firm, the owner-operated firm rapidly expanding in response to a new technology or a new market opportunity. The Industrial Revolution is thought of in terms of men such as Richard

## Case 2. The Proprietal Firm: Malawi Tailors

Tailors in Malawi are representative of the micro or dwarf firms which are a prevalent feature throughout the Third World. Tailors, generally men, own their own machines, tailor cloth bought by their customers, and rent space from small shops in both urban and rural areas. The entire capital costs are tied up in their treadle-powered sewing machines; overhead is limited to $6-$12 rental fees; supplies, to thread and replacement of needles.

There is a substantial, though indirect body of evidence, that indicates that despite increases in income (and thus changes in tastes), despite expansion of the medium-size modern garment manufacturer, and despite a government tariff policy that puts duty on imported cloth which is not processed by a modern garment firm, the number of tailors in Malawi has steadily grown to around 25,000, one for every 240 people. (In urban Lilongwe, based on a tabulation at city council, licenses indicate the ratio is one for every 150 people). In any case there are probably 10 tailors for every employee in the formal garment industry.

Because these firms are labor-intensive, and because the opportunity cost of labor is very low in Malawi, tailors can produce clothes at a lower cost than the medium-scale garment industry, even with a tariff policy that penalizes them 30 percent. Contrast this with a developed country where labor costs are very high, and hand-tailoring is a luxury for the rich rather a necessity for the poor.

Arkwright, Eli Whitney, and James Watt. The entrepreneurial firm has thus been considered to be the backbone of industrialization and modernization--the institution which converts savings into new, risky, and productive ventures--the engine of growth.

In fact, however, as Gerschenkron points out, (Case 3), the latecomers to the Industrial Revolution depended less on the entrepreneurial firm than on the large managerial firm (see below), usually developed through a partnership of government and private interest, the outstanding example being the Zaibatsu of Japan. The role of the entrepreneurial firm today in the Third World depends on historical circumstances. For instance, in Malawi, there are virtually no indigenous entrepreneurial firms; in Cameroon, there are a small number; in Thailand, entrepreneurial firms are largely owned by the Chinese minority; in Costa Rica, indigenous entrepreneurial firms dominate the economy. One of the key problems facing donors working in the private sector is developing the assistance package needed to transform a proprietal firm into an entrepreneurial firm (Case 4). However, even without an entrepreneurial class, even without the entrepreneurial firm, the private sector can be dynamic and the focus of growth, owing to the third type of private enterprises--the managerial firm.

## 3. The Managerial Firm

Most modern economies are dominated by large corporate firms, which separate ownership from management and institutionalize decision-making. This is certainly true of most LDCs, where the managerial firms may be locally owned (Case 5), owned by foreign interests, owned by a combination of foreign interests and the government (Case 6), or publicly owned (Case 7).

### Case 3. A Gerschenkron Model of Economic History

The evolutionary model of development works particularly well when applied to the economic histories of the first countries to undergo the industrial revolution--particularly Britain and the U.S. However, the economic historian, Alexander Gerschenkron, noted that the pattern of economic development changed in a predictable way as latecomers to economic growth--Germany, Russia, and Japan--began to undergo their own entry into the industrial age.

For a number of sensible economic reasons, the size and thrust of development changed--economic units became larger and tended to dominate the economy. A partnership arose between the government and large industrial and commercial firms which did not mirror the more laissez-faire attitudes of the earlier industrial nations. In terms of our study, the latecomers skipped over the entrepreneurial stage, and large-scale managerial industries were developed by government and a few large-scale firms.

Today's LDCs often find themselves in a position to choose one of two paths--an evolutionary path echoing that of Britian, or a revolutionary, big-push path like that of Germany (Japan seemed to have done both at the same time--the small scale labor-intensive textile industry being largely entrepreneurial, while the large-scale steel, shipbuilding, and railroad industries growing with close government involvement). For small countries, the big push strategy is not available; markets are too small. Nevertheless, the availability of expatriate capital and skills allows the country to jump over the whole stage of developing indigenous entrepreneurial talent. Certainly this is what has happened in Malawi and Cameroon. For larger countries like India and Nigeria, the big-push option is available, but given the weaknesses of government administration, the result is frequently unsatisfactory.

## Case 4. Entrepreneurism at the Brink: The Lorena Stove in the Philippines

The Lorena Stove is a stove designed to economize on wood consumption. It turns out to be most efficient when substituted for natural gas or when used on a large scale as in restaurants. As part of a Peace Corps project, Lorena stoves were built by mathematics teachers at a university in the Philippines. While the teachers demonstrated little interest, a janitor at the university saw the possibility of introducing the Lorena stove into the restaurant business (there are over 100,000 cafes and restaurants in the Philippines).

Together with his sons, the janitor went into business producing Lorena stoves and marketing them to restaurants near and far. (To date, they have sold 30 stoves including one to a large, modern inn 150 km from their home.) There is no doubt that the idea is a sound, profitable one. (The stoves, which last three years, pay for themselves in fuel savings within two months.)

However, the stove cannot be patented. If the entrepreneur is to be able to meet what could be a very large market demand he needs to build a factory, obtain credit, develop a sales network, keep accounts, etc. The janitor had the creative idea--taking the new technology to the restaurant trade. But does he have the organizational and managerial skills necessary to create a managerial organization able to meet market demand?

## Case 5: Transformation of Entrepreneurial Firms into Managerial Firms: The Overseas Chinese in Thailand

Perhaps the most salient feature of the business community in Thailand has been the central role played by Overseas Chinese. The Chinese have a long and somewhat checkered history in Thailand. By 1857, there were already an estimated 1.5 million Chinese living there and in the ensuing century, the number has more than doubled. As of 1965, 70 percent of ethnic Chinese were engaged in commerce, and an additional 16 percent in industry. With the rapid development of the Thai economy, the larger Chinese trading organizations have evolved into industrial and banking conglomerates.

There is a considerable degree of concentration in the banking industry with the share of the five largest banks making up almost 80 percent of total assets. In 1980, nine of the 16 Thai commercial banks had fewer than ten major shareholders controlling 50 percent of the shares. Historically, the banks have been family-owned and operated, as have been the large businesses. Bank loans were made more on the basis of family and kinship ties than on objective criteria. (Nevertheless, loans were not made if repayment was in question) Thus, for most of the recent past, the financial and commercial sectors of Thailand have been controlled by large family-owned (and largely Chinese) conglomerates. Recently, rapid growth has necessitated organizational changes, and in more and more of these organizations, operational control is passing on to managerial types, as the owners become more separated from day-to-day operations.

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## Case 6. The Managerial Firm: David Whitehead (Malawi), Ltd.

David Whitehead, Ltd., an old established English textile firm (later bought out by an aggressive trans-national, Lonrho, Ltd.), opened a textile mill in Malawi in 1967, designed to serve the market with 100 percent cotton cloth. David Whitehead used its own assets to finance 51 percent of the original investment, and borrowed from the Malawi Development Corporation (MDC) and the Commonwealth Development Corporation (CDC) for the balance. MDC is a government finance corporation established to provide equity and loan finance to new firms. Shortly after start-up, CDC sold its holdings to Press (Holdings) Ltd., a Malawi private holding company, owned entirely by Malawi's President Banda in trust for the people of Malawi.

Whitehead's growth has paralled that of Malawi. The original plant consumed 3,000 bales of locally produced cotton, and in four years increased to 12,000 bales. initial production was of drills and denim. Poplin was added in 1968 and dress prints in 1972. In 1977, a major expansion, financed partly by the International Finance Corporation (IFC) of the World Bank group, was undertaken. By 1977, consumption of cotton had expanded to 24 million bales, almost the entire domestic crop. A new expansion is planned, costing $20 million to develop a poly-cotton capability. This new expansion will again be financed in part by IFC (25 percent). Employment--800 at the start--is projected to increase to 3,350 once the new plant is built.

Because of Malawi's land-locked position, transport costs are high and the import-substituting industry receives natural protection. Despite this protection, despite the fact that it has something of a monopoly position, and despite the fact that it is partly owned by Press Holdings, David Whitehead has been an efficient, profit-making enterprise. Its growth has been linked to increased demand (fueled by Malawi's general economic growth), low wages which tend to keep costs competitive with imports, and excellent management, provided by Lonrho, Ltd.

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## Case 7: A Successful Government Marketing Authority: ADMARC

<u>ADMARC</u>, the Agricultural Development and Marketing Corporation of Malawi was established in 1971 as a successor to the Farmers Marketing Board. ADMARC is a parastatal ("statutory body" in Malawese) with primary responsibility for marketing agricultural inputs to, and outputs from, the smallholder sector. The most important of ADMARC's marketing function involves the purchase and export of dark fire-cured tobacco, of which Malawi is the world's leading exporter (about 30 percent of world trade). Largely because of this market domination, ADMARC has acted so as to restrict domestic output in order to keep world prices high. Consequently, prices to producers were never allowed to reflect world prices, thus discouraging output. It is not clear whether this policy maximized export revenues; it certainly acted to augment the trading margins of ADMARC, which between 1972 and 1977 averaged K16 million (U.S. $18.5 million).

By the end of 1980, ADMARC had fixed assets of K39 million, current assets of K12 million, investments in subsidiary firms of K29 million, and loans of K143 million, for a total net worth of K223 million. By the end of 1980, ADMARC owned 19 estates, had investments in 27 agro-industrial firms, and had provided loans to 34 other companies. In 1978, ADMARC was earning 15.4 percent profits on its equity, had 11.9 percent annual growth of assets, was saving five times what it was investing (thus providing needed resources to the private sector), had a debt-equity ratio of 0.2, and a current ratio of 5.0. By every conventional financial measure, ADMARC was a dramatic success.

While there may be little difference in behavior between the entrepreneurial and the managerial firms, the difference in organization and style imply difference in constraints. For instance, entrepreneurial skills--mobilizing capital, perceiving bold new opportunities, and taking daring risks--are different from managerial skills--organizing, calculating the benefits from different management choices, and managing cash balances with a sharp pencil. The critical managerial decision is expansion; the critical entrepreneurial decision is establishment. Generally, given its existing resources, managerial firms have an easier time obtaining capital than entrepreneurial firms. In any case, donor programs aimed at entrepreneurial firms may not be effective in removing constraints inhibiting the growth of managerial firms, and vice versa. The question which donors must always ask themselves is which private sector do they wish to promote.

C. <u>Private Sector Vitality</u>

A taxonomy of organization types tells us little about the determinants of birth, growth, decay, and death of these organizations, nor of the ways in which these organizations interact to form an economy, nor of the way in which the economy (and the various enterprises which make it up) grows or stagnates, nor of its response to changing exogenous variables.

What follows is a set of observations on the ingredients necessary for a healthy, vital economy.

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## 1. The Variety and Co-Existence of Organizational Forms

In all of these economies, from the simplest to the most complex, the variety of forms productive units take is remarkable. In Malawi, for example, an economy barely the size of an American city of 100,000, (e.g., Bridgeport, Connecticut), one can find smallholders, plantations, and medium sized farms; village beerbrewers and Carlsburg Brewery, Ltd.; tailors operating on a store porch; garment manufacturers with 100 employees; and the giant David Whitehead textile mill, employing over 2,000 workers, owned in part by a British transnational firm, a Malawi Government parastatal, and a large holding company owned by the president in trust for the Malawi people. Malawi parastatals take all forms, from the more typical Electric Power Commission and Blantye Water Board, to the marketing and investment giant, ADMARC. Similarly, the large, managerial firms are, in general, neither privately owned, nor publicly owned, but a hybrid of the two. Education is largely a province of the government, but there are many private training schools and much training is done on the job. Credit is provided by the commercial banks (themselves owned by both public and private interests), by building societies, by an insurance company, by small moneylenders, and by the borrower's cousin. In short, wherever a supportive environment exists, some economic life form will fill it.

## 2. An Enterprise Will Survive Longer If It Is Adaptable to Changing Environmental Conditions

No matter how dominant an enterprise, its survival depends on its flexibility. Like the dinosaurs, economic organizations that are highly specialized or highly rigid will die out when economic conditions change. Flexibility will be more likely if the economy is complex and large. In such a case, there are many ecological niches available, and a downturn in an industry's fortunes need not have a substantial adverse effect on the rest of an economy.

1. Corollary 1: Diversification will enhance the prospects of survival.

2. Corollary 2: An economy is often healthier when the inefficient enterprises are allowed to disappear.

The success of the entire economy is not linked directly to the success of its individual components. Inefficient firms, like Thai State Enterprises (Case 8) or Spearhead in Malawi (Case 9), should be allowed to die when they prove to be inefficient. The resources which they waste can be more effectively utilized by more successful enterprises.

For an economy, diversification and flexibility are the basis for survival. Any economy that, through policy or circumstance, finds its activities concentrated in one sector can be devastated by an unfavorable change in the economic climate. Malawi, with its dependence on tobacco, tea, and sugar, and Cameroon and Costa Rica, with their dependence on coffee, are in grave danger of being held completely hostage to the decline in world commodity prices.

Equally important, an economy must be able to learn from its past mistakes, to understand when a particular opportunity has been foreclosed (import substitution in Costa Rican textiles, for example), and to turn away from practices that have been shown to be ineffective. For example, while the government of Thailand was unable to divest itself of its state enterprise, it shied away from undertaking new activities, and as result, the state enterprise sector shrunk as a percentage

## Case 8. An Alternative to Divestiture: State Industry in Thailand

In its first Development Plan, published in 1960, the government of Thailand states:

> It is believed that in Thailand increased output will be most rapidly secured through the spontaneous efforts of individual citizens, fostered and assisted by Government, rather than through Government itself entering directly into the field of production.

Nevertheless, by 1960, the government of Thailand owned between 60 and 100 enterprises. According to a 1959 IBRD report: "In practice, all of the state industries, except the monopolies, has proved unprofitable by commercial standards." In 1965, USAID provided a consultant to advise Government on how to divest itself of some of these enterprises. In practice, due to opposition from bureaucratic, political, and labor groups, little divestiture occurred. However, since public firms were inefficient, the private firms grew while the public firms stagnated. Gradually, the state enterprises became a less important actor in the economic scene. Today, their only importance is in the funds they drain from the public treasury, sinecures for the feeble, the aging, the moribund, but the, as yet, unburied.

If Thailand was unable to divest itself of its State Industries, it avoided deep trouble by allowing nonpublic firms to compete. Thus, given the inefficiencies of its state-run firms, private firms were able to grow and dominate the market. In small economies, where market size is too small to allow more than one firm in many sectors, this alternative is not viable.

## Case 9. Allowing the Inefficient Enterprise to Disappear: Spearhead Ltd. (Malawi)

In 1968, the Malawi Young Pioneers (a youth group with paramilitary and political overtones) undertook responsibility for running a petrol station in a remote corner of Malawi when no private operator could be found. This first venture into commercial activities was followed by others as a means for fulfilling the objectives of the organization to train young people in modern methods of agriculture and husbandry. By 1978, Spearhead Enterprises, Ltd., the commercial arm of the Young Pioneers, owned 20 tobacco estates (over 100,000 acres), a tea estate, a coffee estate, a cattle ranch and dairy, a garment factory, an air charter business, an entertainment center, a large transport fleet, a commercial garage, and numerous properties.

All of these operations were funded by the dubious procedure of bank overdraft under Treasury guarantee. Owing to questions of the legality of this mode of operation, Spearhead Enterprises was incorporated in 1978, and Treasury guarantees were withdrawn. Because of the lack of equity capital, the increasing politicization of management, a decline in tobacco prices, and some poor investment decisions made on the basis of prestige rather than profit, financial problems became acute. Finally, the life President, Dr. Banda, sole trustee and owner of the firm, decided that Spearhead should be treated according to the normal practices of the commercial world, and on April 11, 1980, Spearhead was placed in receivership. The receiver, Price Waterhouse, is trying to sell off potentially profitable operations; the rest will be allowed to close down.

of the total--a decision which many other countries failed to take. When management problems threatened the survival of Malawi's public holding companies--Press, ADMARC, and MDC--management was replaced. When several publicly-owned firms in Malawi proved unprofitable, they were closed and their assets sold.

## 3. The Principle of the "Tortoise Walk"

Because economic survival requires flexibility, adaptability, and diversification, prudence suggests an incrementalist approach to development--an avoidance of large-scale projects intended to make a large impact on growth. These high-risk, high-gain, activities are too vulnerable to a capricious environment. Far better, to take small steps, to go slow, to avoid the pitfalls.

It should be noted that incrementalism is no guarantee of success. Costa Rica is faced with bankruptcy because of a series of incremental steps that increased its dependence on the international capital market, and increased its debt repayments, until, with world recession and inflation, the slow build-up of debt broke the camel's back. In this case, it was the increased dependence on international borrowing, in a time when credit was becoming increasingly expensive, that brought Costa Rica to the brink of disaster.

## 4. Linkages Among Enterprises

Symbiosis is one key to economic progress (Case 10). The more linkages there are among various enterprises, and the more symbiotic are these linkages, then the greater the chance that

## Case 10 Symbiosis--The Parastatal and the Smallholder: SODECTON (Cameroon)

SODECOTON, the Societe de Development de Coton au Cameroon, was established in 1954 as a parastatal to take over operation of the French parastatal CFDT. SODECOTON, owned 70 percent by the Government of Cameroon and 30 percent by CFDT, is a vertically integrated organization producing, marketing, and ginning seed cotton. CFDT acts as SODECOTON's marketing agent and has a technical assistance contract providing key personnel. In fact, SODECOTON is one of the least "Cameroonized" of the large parastatals, with about 75 expatriates, accounting for more than one-third of total labor costs.

During the early years of cotton growing in Cameroon, output growth was generally associated with increase in acreage and yields remained low. The Sahelian drought brought pressure to increase food production and cotton acreage began to decline during the early 1970s although world cotton prices were favorable. SODECOTON then embarked on a program of increasing yields by intensifying production using applied research results of the French cotton research instituted in Cameroon (IRCT).

The CFDT-SOCECOTON system is based on 140,000 planters each cultivating, on the average, less than half a hectare. The system is based on tight supervision of farmers (the French word is "encardrement," which is the term for officering in the military). With a force of 800 Cameroonian "moniteurs" (one for every 175 farmers), SODECOTON distributes seed, fertilizer, chemicals, and farm equipment on credit. SODECOTON then purchases all the cotton after subtracting the costs of inputs.

Betwen 1969 and 1970 (a good year) and 1980 and 1981, hectares planted to cotton declined from 108,194 to 65,044, while output decreased from 91,346 tonnes to 84,344 tonnes. Yields increased by 53 percent over this period. SODECOTON is praised from all quarters, including the World Bank, for its managerial competence. It would not be too far from the truth to say that in the North (the Sahelian region of Cameroon) SODECOTON works, while not much else does. Equally important is the slow development of a local capacity to take on some of SODECOTON's functions. For example, SODECOTON has started setting up pre-cooperative village groupings which will gradually take over SODECOTON's seed cotton purchasing operations. As a result, peasants are developing the skills to effectively manage cash cropping, marketing, input management and credit. It should be noted, however, that this development is the result of thirty-years of activity.

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growth of any one enterprise will lead to growth, not decay of others. (Of course, the converse is true. The more interdependent an economy, the more vulnerable it is to unfavorable events in any one sector).

As an example, when Sears, Roebuck began development of its retail chains in Peru, it actively established linkage with local producers of every ilk--small and medium sized firms, micro-firms, and skilled craftsmen. As Sears grew, the share of its merchandise produced locally also grew. The phenomenon is illustrated over and over again--in the sugar industry in Thailand, linking smallholders and factories; with Cameroon garment manufacturers processing local cloth which, in turn, is made from smallholder cotton. The links may also be between public activity in education or infrastructure development and the ability of private firms to produce more cheaply and at lower risk.

Of course, parasitism is also possible. In Costa Rica increasingly large budget deficits led to government's starving the private sector of credit. In Malawi, ADMARC generated large trading margins by not passing onto producers increases in international prices, particularly in groundnuts and cotton. In East Africa, Lonrho wanted to begin the production of Chibuku beer (a local product made in the villages). After it captured the market by using penetration pricing, it ensured its market position (following a rise in prices to reflect its real costs) by sending thugs into the villages to break up the beer-making equipment of the women brewers.

## 5. Different Growth Stages Will Lead to Different Configurations of Production Organization

At the early stages of growth, when labor is plentiful and capital scarce, when markets are small and the possibilities for large scale production are limited, the small, proprietal firm will be ubiquitous and efficient. As growth progresses and new opportunities emerge, some of the more successful proprietal firms will accumulate capital, and expand production--particularly in the nonmanufacturing sectors of trade, transport, and finance. (Since proprietal manufacturing is limited to skilled artisan work, success is generally linked to the owner's skills which are not easily expanded.) In some instances these firms become entrepreneurial, they grow into new areas, diversify and expand, until they become too large to be managed as they were in the past and they emerge as managerial firms.

## 6. Conclusions

As we have seen, an economy is a set of productive organizations. Some of these organizations are constrained by market forces while others are not. Among economic organizations, there exists a variety of linkages--competitive, symbiotic, and parasitic. The soundness of the economy is linked to the soundness of its economic organizations; however, new economic enterprises are constantly being born, others are expanding, some contracting, and some failing completely.

This constant flux is regulated by the working of the market which determines success by making profits. When profits are large, firms expand; when they are small or negative, firms contract; where there are continual losses, firms fail. Profits, in turn, are determined by the efficiency of the firm in converting inputs into outputs ([illegible] efficiency), and the value the society places on those outputs (allocative efficiency). Thus, the market is constantly weeding out the inefficient, and promoting the efficient.

In general, an open and competitive market system operates to insure economic vitality; to allocate resources efficiently; to respond to changes in tastes, technologies, or resource availabilities; and to reward individual creativity. Of course, such a system does not work when firms are insulated from its strictures, or when markets are not open and competitive.

The next section discusses the role of markets in development and the limitations of purely market-determined strategies.

## III. UP WITH MARKETS, BUT HOW FAR?

Economists since Adam Smith have asserted that the working of the market is not merely a positive principle--the principle by which economic activity can be understood--but a normative one, a mechanism which leads to an optimum, an efficient allocation of productive resources. This very neat, very eighteenth century, very mechanistic view of the economic world has remained a fundament of economic theory for two centuries. However, the theoretical model is based on some very stringent assumptions. How does the market work (or not work) in a world where those assumptions do not apply? Let us examine the way in which factors of production--labor and capital--are allocated and augmented in the four countries we have studied.

### A. Capital Markets

The function of financial institutions is to channel savings from one segment of the economy to investors in another segment. The price of credit (the interest rate) is the variable which equates the opportunities for investment with the availability of savings. In an efficient economy, the interest rate will equate the rate at which current production can be transformed into future production (the rate of return on an investment) with the rate at which consumers are willing to forgo current consumption in favor of future consumption. Thus, if an investor expects to earn 20 percent on his investment, and a saver is willing to give up consumption today for 20 percent more consumption tomorrow, financial markets work so as to channel the savings to the investor.

It is frequently asserted that two problems plague credit markets in LDCs: (1) a lack of savings due to low incomes, and (2) an excessively high cost of administering credit owing to high-risk and small size of loans. In fact, however, evidence seems to show that: (1) the market, through small-scale, informal mechanisms, can provide small loans to prospective investors in an efficient manner, and that (2) savings are available when the return is sufficiently high. (There is, for example, a very high level of own investment in family farms, family businesses, and in human capital investment.)

While large-scale, formal credit systems provide the bulk of the credit for the managerial firms, the entrepreneurial and proprietal firms are unable to depend on the formal system for their credit needs. Given the small size of their loans, their lack of collateral, the problems with record-keeping, the costs of servicing these loans with highly trained expensive personnel is prohibitive (even where government interest rate ceilings do not act to restrict these loans). Accordingly, the informal credit network, widely spread throughout the rural and urban-informal sectors, has grown up to fill the gap (Case 11).

There are two important aspects to credit markets--mobilizing savings and allocating loanable funds to their most profitable uses. Similary, there are two important attributes

## Case 11. Informal Credit in Cameroon

There are, in Cameroon, two categories of informal savings institutions--those which charge interest and those which do not. Those savings systems, called "tontines," are voluntary organizations made up of from 10 to 30 members, who made contributions varying between $10 and $200 per month. Sometimes funds are hoarded; sometimes they are placed in a bank. In those "tontines" without interest rates, proceeds are allocated by a random drawing to one member at a time (although other arrangements, such as one based on need, are possible). Where interest rates are regularly charged, a member may borrow from the "tontine" if he has the guarantee of one or more members. Interest rates are usually very high (between 30 and 60 percent), and the maximum loan term is usually one year.

Loans are used both for investments and for purchase of consumer durables. Frequently, loans are used for celebrations such as weddings or as insurance to pay for hospitalization, or to pay tuition. Most artisans and a number of small enterprises rely on tontines to finance their activities. Most urban artisans and, according to hearsay, a majority of government employees, are members of such associations. One important advantage of linking credit functions with the social purposes of the association is the personal relationship existing among members. This allows for intangibles such as trustworthiness, honesty, and hard work to be used as collateral for loans--which is rarely the case when dealing with a commercial bank or other formal financial intermediary.

A further note: An AID project with a PVO in Malawi, the MUSCO project, has as one of its goals the creation of an institution in Malawi similar to the Cameroonian tontine.

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of well-functioning capital markets: (1) a set of institutions that provide capital of various types--short term and long term, equity and debt--to investors of differing industries and size; (2) a set of policies that encourage the efficient operation of these markets.

1. Institutions

In almost every LDC one finds the following types of financial institutions:

-- Central Bank
-- Commerial Banks
-- Development Bank
-- Finance Corporation
-- Agricultural Bank
-- Savings and Loan

The participation of government in these institutions varies. All central banks are government owned and operated, although the degree of independence that they possess varies. In Cameroon and Thailand, the commercial banks are private, in Malawi they are hybrid, and in Costa Rica they are governmental. Most savings and loan institutions are private. The development banks in Malawi and Thailand are joint ventures of the government and the donor community; COFISA in Costa Rica is private, while the BCD in Cameroon is wholly publicly owned. The nationalized banks in Costa Rica are clearly failures, while the private financial institutions in that country seem to perform quite well, given the constraints of economic policy. Of interest, however, is the relatively effective performance of IFCT in Thailand and INDEBANK and MDC in Malawi, organizations with governmental ownership, but run along market

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lines, again underlining the market vs. nonmarket distinction as being critical to success.

Despite the relative effectiveness of most financial institutions in our study, the inability of the formal credit sector to provide credit to small and medium enterprises (SMEs) may be a problem area. However, in most of our countries, particularly Cameroon and Thailand, it is not the lack of credit that constrains SME development, but lack of managerial and technical expertise. We will return to this issue later.

## 2. Financial Policies

### The Mobilization of Savings

The idea that low-income countries cannot generate savings has no empirical basis. Indeed, low-income and middle-income developing countries as a whole had a higher rate of savings in 1979 than did the industrial market economies. Some of this savings is generated by government, other from households, but the bulk is provided by private firms from their retained earnings. High levels of profit thus generate future capital as well as providing a demand for that capital.

In Malawi, improving fiscal management moved the government from a position of net borrower to one of net saver; high profits in the managerial sector and in the smallholder cash economy provided substantial savings, accruing both to expatriate firms and to government parastatals. These profits were largely reinvested. In Thailand and Cameroon, the same situation pertained. Fiscal probity, coupled with positive real interest rates and high levels of profit, generated savings for the managerial firms.

Only in Costa Rica, where a combination of administered interest rates, budget deficits, and an overvalued currency led to capital flight, were government policies detrimental to domestic capital formation.

Allocating Capital

As long as interest rates are allowed to serve as the price of credit, and as long as the market signals represented by profitability reflect national as well as private interest, the market allocates capital efficiently (Case 12). When, as in Costa Rica, credit is rationed, or when prices are distorted through tariff and non-tariff policies to favor import-substitutions over exports (as in Costa Rica and Thailand), then decentralized investment decisions no longer allocate capital efficiently. While to some extent, all four economies have manipulated prices through tariff protection, only in the case of Costa Rica was the policy so pronounced, consistent, and continuous as to substantially distort the pattern of investment.

B. Management and Skills Training

The development of human capital, the acquisition of the skills necessary for economic development, is a very complex one. In general, governments have provided the institutions for general education--literacy and numeracy. Private, market-oriented institutions become more important at higher levels of training, where skills are more specialized and where there is a shorter gestation period, a quicker connection between the investment and the return.

## Case 12. Aboveboard Subsidies: Cameroon's SNI

Cameroon's principal public agency for equity participation in private enterprise is the National Investment Corporation (SNI).

SNI was established in 1964 as a fully state-owned company to promote development in industry, agriculture, and trade. Its objectives are to mobilize national savings; to make or finance project studies; to finance investments through equity participation, loans, or guarantees; and to manage the direct investments of the state and of the public institutions. As of June 1981, SNI's portfolio was valued at about $63 million in participations and $40 million in loans. SNI has a competent staff, many with graduate school training from the United States. The GURC guarantees borrowing by SNI; the subsidy element is thus embodied in the lower interest rate.

SNI has mostly channeled funds into large-scale Government-promoted projects; support to small-scale enterprise has been minimal. In principle, SNI participation is governed by efficiency and commercial profitability criteria--either current or anticipated after an initial transitional period. SNI insists that it is interested in protecting the financial integrity of the institution. However, in practice, SNI has participated in a number of commercially unprofitable ventures. Occasionally, the GURC pushes SNI to invest in a particular company for other than commercial profitability reasons. In these cases, SNI management says that it explains to the GURC the costs of such investment and requests a specific subsidy schedule to cover its anticipated losses. This has the considerable advantage that subsidies are explicit rather than hidden--and thus much more carefully granted.

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A number of points should be made.

1. A stock of literate, numerate workers is fundamental to economic success (studies show that the social rate of return to primary education in LDCs averages 24 percent).

2. There are very different training needs among the different enterprise types described above. For example, proprietal firms may need simple bookkeeping; entrepreneurial firms, a variety of technical and financial skills; managerial firms specialized skills and MBA-type training.

3. Key skill shortages can be addressed through the importation of expatriates, although this is costly. (For a long while it has been too expensive to import any but the highest level of management; recent increases in international mobility has made it possible for middle management, artisans, and skilled workers to become temporary migrants.)

4. On-the-job training is important; the more specific the skill and the less likely the trainee is to be bid away by another company, the more willing are private firms to train their own personnel.

5. Training in many countries tends to be conducted in public or parastatal institutions. There seems to be room for the development of more private educational and training enterprises in LDCs.

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## C. The Dangers of Ignoring Market Information

In general, market-oriented firms respond to market signals. If those signals are distorted the firms will be led into production of the wrong goods by the wrong methods. Thus, government fixing of sugar prices in Thailand, coupled with a controlled international sugar market has led to substantial excess capacity in the Thai sugar industry. Excess protection coupled with an over-valued exchange rate has led to the growth of inefficient import-substituting industries in Costa Rica. Taken to its extreme, a policy of ignoring market signals--for example, an exchange rate that is out of line by a factor of ten, as in Ghana--can lead to unmitigated disaster, and a complete breakdown of the formal market economy (Case 13).

In Ghana, two economies arose, an official economy where goods and services were bought and sold at official prices, and a parallel, black market economy where goods and services were sold at a price reflecting their opportunity cost. Since the official market generally undervalued goods, a rationing process developed which led to generalized corruption, since rationed goods could be resold on the black market at enormous profits. Few economies have experienced the total breakdown that Ghana has, but even the generally market-oriented economies we have been studying here have not avoided the temptation to ignore the strictures of the marketplace and, as a consequence, have recently found themselves in great difficulty.

The Costa Rican economy grew in an environment in which market signals and allocations were consistently ignored. Protective tariffs, low interest rates, high rates of domestic inflation, and an overvalued domestic currency all acted together to favor import-substitution over export promotion and foreign borrowing over domestic savings. The impact of these policies had been cloaked by a coffee boom, but when commodity

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## Case 13. Killing the Golden Goose: Cocoa in Ghana

In the past 15 years, Ghana has seen a dramatic and steady decline in cocoa production, from a peak of 566,000 metric tons in 1965 to 249,000 metric tons in 1979. Ghana's share of world production has shrunk from one-third in the 1950s and 1960s to one-sixth in 1979; from the world's leading cocoa producer, Ghana has fallen to third place. The basic reason for this depressing performance is the tax, both explicit and implicit placed on cocoa producers. Between 1963 and 1974, the price index for consumer goods rose to 22 times its initial value; food prices rose at about the same rate and the price of cocoa in neighboring countries rose by 36 times its initial value. In contrast, the cocoa price to producers is only six times what it was in 1963. Two predictable responses occurred--farmers neglected their cocoa trees and began expanding into food crops; and a considerable amount of cocoa has been smuggled into neighboring countries. Thus, the economy suffers from a foreign exchange shortage while its most important resource--cocoa trees--lies neglected.

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prices began to decline, the underlying weakness of the entire system became obvious. By the beginning of 1982, Costa Rica had an immense debt (over $4 billion, or about $2,000 per capita), excess installed capacity, significant capital exports and little foreign equity, and a public service that employs 20 percent of the labor force (Case 14).

Thailand's recent difficulties have not been as severe as Costa Rica's, although they have necessitated a large structural adjustment program with the World Bank and an Extended Fund Facility (EFF) from the IMF. The increase in oil prices in 1973 and the associated turmoil in the international economy presented serious problems for the Thai economy--both in terms of the balance of payments and domestic inflation. At this point, it appears that the government chose to try to insulate the economy from the inflationary effects of the oil price hike, to proceed with new social projects, and to continue its import substitution policy. Energy prices were sharply out of line, and by 1979, energy consumption was growing twice as fast as GDP. As a consequence, the government began to run substantial deficits in its budget as well as in the balance of payments, and was forced to resort to heavy borrowing. By 1980, inflation reached 25 percent, and the system of price controls, introduced to mitigate inflation, were increasingly out of line. These structural problems became obvious as a result of a downturn in export prices. However, in 1979, energy prices were allowed to rise to reflect their real cost. The structural adjustment agreements with the World Bank look toward rationalizing the price systems in agricultural, energy, and trade policy, and shifting tax policies away from favoring capital-intensive industry. With these reforms and the influx of IMF and World Bank assistance, Thailand should be able to straighten out its affairs.

Malawi's recent problems come not from distorting current prices as from misestimating future prices, particularly those

## Case 14. COFISA--A Success Becomes a Failure

COFISA (Costa Rican Industrial Financing Corporation) was instituted in 1963 with the assistance of a $5 million AID loan. COFISA was created as a private development finance company to help meet the capital requirements of the private industrial sector. By 1968, COFISA had established itself as a successful lending institution, granting a total of 333 loans of both fixed investment and working capital, for a total of $6.9 million.

COFISA secured a second $5 million AID loan in 1969. By 1980, the company had increased commercial financing to $69.7 million, establishing itself as a commercial (retail) financing company. However, COFISA was never able to generate local savings to finance its lending program, and was forced to depend almost entirely on international commercial bank credit (By 1980, it had borrowed from over 70 different international banking institutions). A 1978, AID financial study showed COFISA to be a healthy lending institution with "good management and consistent profitability." It was recommended that AID permit COFISA's debt-equity ratio to rise to 10:1.

The onset of Costa Rica's financial crisis affected COFISA as heavily as any institution in Costa Rica. By mid-1981, COFISA's borrower delinquency and default rate was on the increase, and new lending had dropped, and was limited almost exclusively to short-term uses. In July, 1981, the Supreme Court of Costa Rica decided that it was legal for debtors to service or pay-off their dollar-denominated debts in grossly inflated colones (Costa Rica's currency). The result was a loss equal to almost twice the corporation's stock value. As a result of an Arthur D. Little study, COFISA has been working out debt rescheduling with its creditors.

Thus, despite excellent management and a history of success, COFISA found itself hostage to Costa Rica's macroeconomic policies. In particular, an overvalued currency led to the flight of domestic capital and a consequent dependence on foreign borrowing. That same borrowing on an economy wide scale led to massive debt and a continuously weakening colone. It was a formula for disaster. COFISA's management was as incapable of stopping the ensuing flood as King Canute was of stopping the tide.

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of tobacco. Because of the close link between the government and the commercial banking system, the latter was pushed into concentrating its loans in a dramatic expansion of tobacco acreage without normal collateral (because of land tenure arrangements in Malawi). When tobacco prices fell, and manage-ment turned out to be ineffectual, the banks found themselves with a substantial amount of bad debt. The contraction of domestic credit, an overly ambitious development program, and a continual erosion in the terms of trade has led to two years of no-growth.

D. <u>Why Do Governments Intervene If Markets Work?</u>

In the natural world, an omnipotent God creates the uni-verse in such a way that the laws of natural selection remain inviolate. When the dinosaurs fall prey to the ice age or the snail darter to the developers, he refuses to intervene. The natural law is the only standard that applies; life forms either adapt to their environment or die.

The <u>deus ex machina</u> of the economic world, the government, is not typically content to stay in heaven. He is consistently interfering with the market--fixing certain prices, distorting others, applying taxes and subsidies with equal abandon, and creating institutions that are not responsive to market forces. The result, as we've discussed above, is freque tly chaotic. Firms that can't stand the heat are insulated from the sun. Others are allowed to grow in a hothouse, incapable of with-standing the regions of their natural habitat. Despite all the evidence that interfering with markets can be disastrous, laissez-faire market systems are almost nonexistent.

A basic question that needs to be answered is why does the government consistently intervene with the workings of the market? A number of possible answers suggest themselves:

- Sometimes markets don't work
- Governments don't believe markets work
- There are more important goals than economic efficiency

These three motives--market failures, ideological predispositions, and noneconomic objectives explain a large number of government interferences in the market.

1. Market Failures

The economic literature contains a widely accepted set of instances where markets do not work so as to allocate resources efficiently. Markets only work when the underlying assumptions on which they are based are fulfilled. There are, for example, a spectrum of goods known as public goods, which, for a variety of reasons, are better produced by organizations (usually government) which are not profit-oriented. These include, inter alia, defense, administration of justice, a lighthouse, public health, a portion of education, certain types of infrastructure, etc. The exact list of public goods may be open to discussion, but not the fact that public goods may be open to discussion, but the fact that public goods cannot be provided efficiently by the market.

There are other types of market failures as well. Not all markets are free and open, and the existence of a true monopoly--a firm with substantial control over the production of a product and its substitutes--will lead to inefficiencies. Thus, monopolies are either regulated or owned and run by public authorities.

There are, in addition, external effects of production and consumption which the market can't deal with. An example is the problem of common resources such as fisheries. Each individual fisherman has as his goal maximizing his catch given his costs. Unless they can agree on a method for maintaining the resource, decentralized decisions could lead to overfishing, and decreased profits for all fishermen.

Another area where markets fail is with respect to time horizons. Few firms have the luxury to wait 80 years for a teak tree to grow. Consequently, activities with extremely long gestation periods are better undertaken by a public authority with a long time horizon (Case 15).

Most important, markets do not necessarily lead to equity, however measured. This problem is so central to an understanding of the reasons for government intervention, that we need to discuss it in great detail.

a. Markets and Equity

It should not be surprising that the market system in itself is no assurance of equity. Indeed, the lesson of the market system is that the strong survive and the weak perish--which may make great sense for impersonal organizations, but is clearly offensive when applied to individuals. Nevertheless, the market rewards individuals impersonally on the basis of the quantity and scarcity of the assets (be they physical or human) they possess and the efficiency with which these assets are employed. If the distribution of assets is unequal, then the distribution of incomes will be unequal (Case 16).

In LDCs, where a large portion of the population earns its income from agriculture, the distribution of land ownership is a prime determinant of the distribution of income. If land is

## Case 15. Time Horizons, Economic Commons, and the Market: The Thai Furniture Industry

The Thai wood furniture industry is an example of a putting-out type of organization that was prevalent just prior to the industrial revolution. Carvers at the village level, produce furniture at piecework rates for larger firms which then market the furniture around the world.

A major constraint to expansion of the industry is the virtual depletion of teak forests in Thailand although some teak has been smuggled in from Burma. Since forests are not privately owned, there is no incentive to hoard or self-regulate the cutting of trees. Even were forests private, however, the 80 years needed for a tree to grow to maturity would mitigate against teak planting.

Thus, a Thai parastatal, the Forest Industry Organization was developed to regulate deforestation and plant new trees. The FIO has clearly been much more successful at the latter task than the former. Laws regulating the harvesting of trees are honored in the breach. Nevertheless, an unregulated industry has destroyed the resource on which it is based.

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## Case 16. The Concept of Equity

The whole question of equity can get buried in unhelpful semantic discussions. We are clearly not advocating equality in the Vonnegut sense (in a short story, Kurt Vonnegut describes a society in which equality is mandated by forcing individuals with a superior genetic inheritance to wear millstones around their necks, thus handicapping them in the same way horses are handicapped in a race). Equity, as defined here, must mean equality of opportunity, in a very broad sense.

Thus, how broad is access to education? This need not mean equal educational opportunities for all students. There will undoubtedly be differences between rich and poor, urban and rural. Rather, equity means that the poor, as a group, or a given ethnic or regional group are not excluded from the opportunity to go to school, even if the country can only afford to educate 60 percent of its school-age population. Similarly, equity in land distribution need not mean that every farmer has two acres of land, but rather that large numbers of the rural population are not excluded from land-owning when large tracts of underutilized land are available.

Equity, as defined here, is less concerned with income at the top than income at the bottom. Absolute notions such as standard of living are of greater interest than relativist ones such as the ratio of income of the top 10 percent to the bottom 40 percent. All of this is vague and somewhat unsatisfactory. Nevertheless, in practice, it is not difficult to determine that growth in Korea has been equitable while growth in Brazil has not been.

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primarily owned by large landholders while peasants are forced into small infertile plots, wage labor, share cropping, or tenancy, incomes will tend to be very unequal. This is the case in much of Latin America, parts of India, and in a few other scattered areas of the world. In each of our four countries, land is distributed reasonably equitably (peasants have access to sufficient land to maintain themselves and earn a small cash income) and, consequently, rapid growth has meant an increase in the incomes of the people at the bottom.

Since skills are a scarce resource in most LDCs, they tend to be very handsomely remunerated if markets are allowed to function. Thus, in Malawi, where civil service salaries reflect opportunity costs, employees at the top of the wage scale are earning twenty times the salary of those at the bottom of the scale. (A casual glance at the GS wage schedule will indicate that in the United States the ratio is closer to four to one). Therefore, providing access to skills is not only fair, but it allows the society to expand its quantity of scarce inputs, while narrowing the wage differential between skilled and unskilled workers.

Finally, a wage policy that resists increases in wages above a market-clearing price leads to greater efficiency, equity, and saving rates. High wages lead to unemployment and a greater differential between urban and rural incomes. Market-clearing wages in labor surplus economies spread the benefits of modern sector employment more widely and keep urbanization from occurring too quickly.

For the most part, Thailand, Costa Rica, Malawi, and Cameroon demonstrate this same case forcefully. In all four countries, land is reasonably widely distributed, access to education is fair and broad, and wage rates reflect the opportunity cost of labor. Consequently, at least for the three countries for which we have data (Malawi, Thailand, and Costa Rica), income distribution compares favorably with other countries of the same region and income level, particularly for the bottom 40 percent (Case 17).

## 2. Ideology

All four of the countries which we have examined are predisposed in favor of the market system. Nonprofit oriented enterprises are the exception rather than the rule. Governments in these countries tend to look toward market signals to allocate resources. Most prices are market determined. This perception of the world is not typical in LDCs. For a number of reasons, which we need not go into now, LDC governments tend to distrust decentralized market systems. This inherent distrust has become an image, a filter which distorts the perceptions of those looking through it.

Once an ideology becomes prevalent in an organization, all information is filtered through it. Those pieces of data which are in conformity with the ideology are allowed to pass through and reinforce the image; conflicting information tends to be discarded. Thus, an ideological view of the world tends to be self-reinforcing. In time, if the ideology does not allow the real state of events to be observed, it becomes increasingly disfunctional, and more and more messages are received which indicate the vulnerability of this image. Eventually, the weight of evidence is so great that the image cracks, and a new one is built, based on all the new information. Ideologies consistently distort perceptions of reality, and thus lead to bad decisions. Ideologies are the antithesis of pragmatism. The four countries we have examined have been, in general, pragmatic--searching for what works and discarding what doesn't work. More often, governments reject the pragmatic for the doctrinaire.

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## Case 17. Equity and Growth

Simon Kuznets, in a seminal article, noted that European economic history suggests that at the early stages of development, income distribution worsens as growth proceeds, bottoms at some level of income, and then improves. Most cross-sectional studies of contemporary economies confirm Kuznets' observation, now elevated in economics to a "Kuznets curve." However, a recent AID study, looking at the limited time series evidence available for LDCs, suggests that the Kuznets curve does not hold for half of the countries studied.

An examination of World Bank data reveals the following norms:

Average Income Share Going to Bottom 40 Percent of Population

| | | Africa and Asia | Latin Near East | America | Average |
|---|---|---|---|---|---|
| Low Income $380 per capita | 15.6 | 18.8 (4) | -- (2) | 16.7 | (6) |
| Middle Income $380-$1390 | | 13.9 (3) | 11.4 (1) | 7.2 (2) | 10.1 (6) |
| Upper Income $1390 | (1) | 16.9 | -- (6) | 11.1 (7) | 11.9 |
| Average | 15.1 (8) | 16.3 (3) | 10.1 (8) | 13.2 (19) | |

Two general observations seem clear: (1) on a cross-sectional basis the Kuznets curve seems to be validated; (2) income distribution in Latin America is generally worse than anywhere else. There are income distribution figures for three of the countries we have been studying. Looking at the share of income going to the bottom 40 percent, we find that for Malawi that share is 21.5 perent; for Thailand, 17.0 percent; and for Costa Rica, 12.0 percent--all values greater than the mean for their income level and region.

Given the outstanding growth performance of these four countries, the share of income going to the bottom 40 percent would have had to decrease by 42 percent for Malawi, 58 percent for Thailand, and 47 percent for Costa Rica, in order for the poor not to benefit from this growth. Such disparities in income distribution are unlikely, and it is highly probable that real incomes of the poor have grown substantially between 1960 and 1979; however, given the absence of time series data, the actual changes are not calculable.

Ideologies not only affect the way in which the ideologue views the world, but also the way in which the world views the ideologue. For example, Malawi is widely believed to be a capitalist country, yet the government has effectively nationalized or obtained a large ownership share of most large-scale enterprises in the country. Both the transnational firms and the government are satisfied with this "partnership" arrangement. Such an arrangement would be acceptable in Zimbabwe--private foreign investment coupled with government participation. But in Zimbabwe it would be called "socialism" and the rhetoric, if not the substance, would probably scare off potential investors.

## 3. Markets and Politics

Ultimately economic objectives are not the most important considerations faced by the political leadership. For most politicians, the top item on the agenda is to stay in power. This objective is closely followed by a set of subobjectives intended to insure the survival and vitality of the nation-state both with respect to foreign enemies and internal political threats. Adam Smith himself had occasion to say, "Defense is more important than opulence." One may rephrase this dictum for today's developing countries as "national integration is more important than maximum efficiency."

For the newly independent, uncertain, heterogeneous states of Africa, nothing is more important than forging political unity and respect for the new political institutions. To achieve this goal requires insuring relatively equal regional and ethnic development. Even in the older states of Latin America and Asia, centrifugal forces coupled with a tradition of violent changes in government, are prevalent and political stability is the paramount objective.

To be sure, political stability is linked in some rather complicated ways to economic progress. A failure to provide demonstrable economic progress in an era of rising expectations is destabilizing. However, so is rapid growth from which certain populations are excluded. Growth does not need to be equal, it needs to be perceived as "equitable." People need to feel that they will be able to better their lot, that the fruits of growth are not being denied them on the basis of group affiliation. In particular, people need to perceive the possibility of progress. Exclusion of an ethnic group or a region or a class will lead to great political tension.

Thus, governments frequently make decisions to interfere with market outcomes in order to achieve some political objective. One common example is the need to distribute economic activity more broadly geographically, counter to the normal market tendency to foster geographic concentration of investments. For example, Cameroon, Malawi, and Thailand all have policies to encourage private investment in the poorer regions of the country.

As in any polity, decisions are often taken which benefit a particular, powerful group rather than the nation as a whole. Since urban workers are more politically powerful than peasant farmers, LDCs frequently distort markets by subsidizing the urban proletariat (high wages, food subsidies, subsidized housing, etc.), despite the unfortunate effects of such a policy set on rural income and on the growth of slums and urban squalor.

Finally, politicians, like the rest of us, are strong believers in Keynes' epigram, "In the long run, we are all dead." Consequently, many decisions are taken to achieve short-run goals, even when long-run prospects are thereby threatened. Thus, a short-run policy to finance fiscal or balance of payments deficits is undertaken, even if the long-run debt burden increased thereby becomes unmanageable.

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Thus far, our examination of the private sector in economic development has led us to the following conclusions:

1. There is a wide variety of economic organizations that act as productive units in LDCs.

2. A distinction between market-oriented and nonmarket-oriented enterprises is more meaningful than between private and public.

3. Markets are, in general, efficient mechanisms for allocating resources, and failure to heed market signals can lead to economic crises.

4. Nevertheless, governments frequently distort or ignore market signals, either because of ideology, market failure, or supercedent political reasons.

5. When public intervention corrects or offsets market imperfections it can improve economic efficiency and growth; when public intervention worsens market imperfections or creates new uses, it tends to impair the functioning of the economy for the benefit of most people.

It seems that our study must turn to the place where the first economists started the relationship between politics and economics--political economy.

# IV. THE POLITICAL ECONOMY OF DEVELOPMENT

## A. Political Systems

Historically, liberal democracy and laissez-faire market economic systems have tended to go hand-in-hand. The pluralism of the market reflects the pluralism of democracy. However, despite the clear sympathetic resonances between the two systems, a democratic political process is neither a necessary nor sufficient condition for the existence of a market system. Of the four countries we studied, Costa Rica is the only one that can be labeled a democracy, and by almost any measure, Costa Rica's democratic heritage is one of the strongest and oldest in the world. Yet of all the countries we studied, Costa Rica has moved away from market solutions more fundamentally than any of the others. This is not to say that the government is more pervasive in Costa Rica than elsewhere, only that the particular political choices made, distorted market signals in one vital area--the relationship between domestic and foreign prices--and thus distorted the resource allocation process throughout the economy.

Conversely, the political regimes in Cameroon and Malawi (Case 18) are authoritarian, with power concentrated in the hands of one man. Despite a very centralized political structure, and the pervasiveness of government influence throughout the economy, both countries have generally followed market-oriented policies, and have countermanded the dictates of the market only where market failure was obvious, and the resultant centralized allocations were not pervasive enough to distort economic allocations throughout the economy. Small inefficiencies are acceptable for political reasons, it is the large inefficiencies that must be avoided.

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## Case 18: The Benevolent Autocrat: Ahidjo and Banda

The political strengths of Malawi's life President, Hasting Kamuzu Banda, and Cameroon's President, Ahmadow Ahidjo, are very similar, not only to each other, but also to other autocrats past and present such as Ataturk of Turkey, and Prime Minister Lee of Singapore. Both Banda and Ahidjo stand at the pinacle of power-(Banda has four ministerial portfolios in addition to the Presidency) and both intervene in decisions large and small. Both have expressed a coherent political philosophy, and both have consistently pursued their goals despite internal and external opposition.

Ahidjo's Cameroon is made up of over one hundred diverse ethnic groups with two distinct colonial heritages and three religious backgrounds. Therefore, the primary objective had to be the creation of a nation-state and the forging of loyalties to the nation-state. Ahidjo's task was not less than legitimizing the very existence of Cameroon. The political strategy for achieving that goal was to spread development evenly (especially among ethnic and regional groupings), promote order and discipline, extend political control to the economic sphere (when necessary), and to move slowly when major decisions were being made (the "Tortoise Walk").

Malawi was a much more homogeneous society. Its major problem was development in a region that was suffering from the conflict of nationalist and colonial ideologies. Southern Africa, after all, has been the major battlefield of decolonization in Africa. Banda's response was to reject ideological posturing, and to put Malawi's development before vague anti-imperialist ideologies. He has said that he would deal with the devil to further the interests of his people. In many eyes, he has done just that. Not only are the pariah embassies of South Africa, Taiwan and Israel welcome in Malawi, but he has felt no compunction in using expatriate capital, skills and technology when he felt they were necessary to economic development.

Neither Ahidjo nor Banda have an ideological commitment to the market or private enterprise. Their economies are mixed in almost every sense. Where market solutions conform to their purposes, they let markets work; where market solutions might be politically unacceptable, then markets are put aside, and centralized decisions are made. Since markets more often work then not, their economies are largely market-oriented, but out of pragmatism not ideology. The results could offend the market purist, but they generally work.

If democracy doesn't necessarily lead to the legitimacy of market systems, neither does it imply constant political interference in economic decisions. Indeed, one of the strengths of the democratic system is its ability to transform itself from one set of belief systems, or ideologies, to another. Sri Lanka and Jamaica, like Costa Rica, are representative of democracies which have paid great attention to equity and to the welfare of the people at the bottom. In both Sri Lanka and Jamaica, this equity orientation was accompanied by a socialist ideology which led to a number of unfortunate economic decisions. In both of these countries, despite violence and civil disorder, the democratic system was strong enough to change the fundamental direction of the economy, to replace doctrinaire socialist elites with a more pragmatic market orientation, and, hopefully, to move back from the brink of disaster.

Similarly, autocracy without both benevolence and wisdom, is a formula for disaster. The various authoritarian regimes in Ghana, Zaire, Guatemala, and Bolivia, for example, have combined the power to make unsound decisions, with the ruthlessness to make inequitable decisions, with a fundamental ignorance of the relationship between the decisions they make and the likely outcome of those decisions. Sometimes, of course, ignorance and malevolence work at cross-purposes. More often, the result is disastrous.

Consequently, it seems that the type of political system is not a good predictor of the success of economic decision-making. If substance is not predictive, perhaps style is.

## B. Political Style

If political systems do not determine political behavior, then they are not useful guides for distinguishing between

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polities. Are there other, more useful measures? We will discuss three such distinguishing features: image, confidence, and authority, and group them under the category of political style. It is this set of characteristics which explain the success of the disparate regimes in Malawi, Cameroon, Thailand, and Costa Rica in promoting economic development.

1. <u>Image Strength</u>

We have already discussed the question of the effect of ideology on economic decisionmaking. The variable being considered here is the strength of the leadership image--the degree to which ideological beliefs are held so strongly that new information is screened or rejected. Thus, a strong "image" means a strong ideology and vice versa. Ideology, of whatever stripe, is the enemy of pragmatism, and pragmatism is the key factor in effective policymaking. To a large extent, all four of the countries we studied were pragmatic in their approach to public policy.

2. <u>Confidence</u>

Too often, new, emerging LDC governments lack the confidence to shed ideology, nationalist images, and historical grievances, which limit the ability of the government to take the actions necessary for success. These four governments have the confidence to limit the pace of localization to the development of local skills. Few governments are willing to shed their nationalist credentials and do business with the "devil itself" if necessary. Few governments are able to accept certain Western, cultural attributes as vital to economic development.

Gustav Jahoda once did a study of racial attitudes in Ghana. He learned that the attitudes of Ghanaians toward Europeans took one of three forms:

1. A complete acceptance of everything white as successful (because they were seen as representing a different level of humanity given the magical tools they had)

2. A rejection of everything white (accompanied by self-loathing and deep feelings of inferiority)

3. An ability to synthesize what is valuable in European culture with what is valuable in traditional culture.

In general, these views were correlated with education--the poorly educated being in the first group, the partially educated in the second, and the fully educated in the third group. Nations, like individuals, have a set of attitudes ranging from awe to xenophobia to maturity. For all of our countries, confidence is a hallmark of leadership style, and goes hand-in-hand with a weak ideology in forming pragmatic responses.

3. <u>Authority</u>

Governments may pursue the right policies, but they will be ineffective if they do not possess the authority to mobilize citizen action in support of development. Weak governments, where tax evasion, corruption, and bureaucratic incompetence are pervasive are not likely to be effective in implementing their policies. Strong governments require an efficient and competent bureaucracy as well as a political mobilization system that can translate moral suasion into citizen action (Case 19).

Of course, authority and performance go hand-in-hand. If the government is able to deliver on its promises, it is more likely to be able to generate public support. When a government's writ ends at the capital city limits, it is not surprising that policies are not implemented.

## C. Exogenous Variables

If leadership style factors (image, confidence, and authority) are the primary determinants of political behavior, contextual factors help set the goals of political behavior. These contextual variables, the cultural, geographical, and historical heritage, are vitally important. In Cameroon, cultural diversity made national cohesion a vital goal. In Thailand, the external threat of Communist subversion has made development of the Northeast a vital factor. In Malawi, dependence on South Africa as a provider of goods and a market for labor, meant the necessity for a pragmatic foreign policy, and a resistance to doctrinaire nationalism. A homogeneous population and a democratic heritage led Costa Rica to follow a policy emphasizing equity and social programs.

## D. Conclusions

Ultimately, political choices center about the way in which economic growth is to occur and the distribution of that growth among competing uses. In sharply heterogeneous societies, either with respect to class, region, or ethnicity,

## Case 19: The Art of Political Mobilization: The Malawi Congress Party

One of the most effective institutions for mobilizing local level activity is the political party. In a one-party state, the party often rivals the government as both an administrative arm at the local level, and as a channel of communication between the people and its leaders. The Malawi Congress Party (MCP), together with the women's and youth organizations is an extremely effective instrument for consolidating Dr. Banda's political power.

The party has three primary functions-- 1) it mobilizes local resources behind self-help projects, political rallies and consciousness raising sessions, (2) it acts as an informal pressure device to insure political conformity, suppressing political opposition and resistance to government policy; and (3) it channels grievances to the leadership, where, if possible, they are responded to and addressed.

The effect is striking. There are 1,000,000 taxpayers in Malawi, most paying a head tax of $5 per year. Price controls are enforced in rural areas. Most develoment projects in education and water have a local self-help component built in. National campaigns to plant trees or tend one's garden are successful. Grievances are responded to against individual politicians or unfair allocations. (A corrupt politician in the Northern Region was beaten by his constituents. This expression of displeasure led to his being removed from his post.) The virtues of hard work, discipline, loyalty, and obedience are widely accepted. All this prevails without breaking the joyful spirit that imbues most Malawians.

equity considerations are paramount. Any country in which groups of people are excluded from access to the benefits of growth is likely to exhibit political tensions which may undermine political stability. Thailand and Cameroon are examples of countries in which regional and ethnic equity form a major goal of public policy.

In Malawi and Costa Rica, the populations are more homogeneous. Malawi's endemic and widespread poverty led to concentration on growth rather than its distribution. Costa Rica's advanced income level and broad middle class led to concentration on considerations of interpersonal (not intergroup) equity. For all four countries, growth was also a major goal.

In all of these countries governments took actions which were counter to market principles--either to further regional integration as in Cameroon, to increase the participation of the indigenous people as in Thailand, to control an economy dominated by expatriate firms as in Malawi, or because of the political power of import substituting industrialists as in Costa Rica. Sometimes these policies were effective, often they were not.

In order to control the direction the economy took, governments developed institutions to regulate, plan, and participate directly in the production process. In Thailand and Costa Rica, these state enterprises were almost always inefficient. However, in Malawi and Cameroon, the opposite was the case. By most measures, parastatals in Malawi and Cameroon were efficient, promoted growth, and allowed the government to ensure that growth followed the desired path. The difference between the two sets of countries seems to be the degree to which the parastatal was forced to face the music of the marketplace. On the basis of our study, there is no evidence that market-oriented parastatals perform any worse than private organizations.

However, the greater the degree of government involvement in the economy, the greater the danger of government participation in enterprise decision-making. In both Malawi and Cameroon, parastatals are largely managed by expatriates. In Costa Rica and Thailand this is not the case. When Malawi moved to localize management, parastatal performance declined precipitously, not so much because Malawian managers were incapable, as because they were more beholden to the political system for their positions. Consequently, decisions were taken for political rather than economic reasons, and the result was near disaster. It is another example of Malawi's flexibility and pragmatism that this trend was reversed and new management put in place. This danger of politicization (which the political leadership sees as an opportunity) plagues parastatals in all economies.

In fact, in every society, economic decisions tend to be subordinated to politics. The more direct involvement by the government in the economy, the more likely is it that this tendency will be translated into a capability, and the capability into action. It is less the politicization of economic choices that is dangerous, than the substitution of particular benefits over the general benefit or the immediate good over the longer term good. Where the government is responsive to the national welfare, and where it is not constrained by a strong ideology, political interference is likely to be less harmful. Thus in Malawi and Cameroon, the coherent political visions of Ahidjo and Banda have led to government actions which were measured and rational.

## V. THE NATION STATE IN THE WORLD ECONOMY

For these four countries, as for the vast majority of LDCs, the international economic climate puts limits on the shape and pace of their growth. Two areas are particularly important - trade and capital markets. Being relatively small and largely underdeveloped, the countries of the Third World, with a few exceptions such as India, must rely on imports of key commodities which they do not produce themselves (Case 20). These commodities include raw materials such as fuels and metals and capital goods, produced primarily in the developed world. Without these imports, growth cannot proceed. In order to obtain the imports, hard currencies must be acquired, either through exports or through the flow of capital. Let us look at each of these possibilities in turn.

## A. <u>International Trade</u>

For most LDCs, trade is a vital part of the economy. The four countries studied here export, on average, about 25 percent of what they produce. Despite progress in manufactured exports, agricultural products remain the most important export commodities in all of them. The value of this trade depends on their ability to produce exports in quantity, and the strength of the market for primary products in the developed world. In the last decade, the two oil price shocks of 1973 and 1979 have substantially destabilized the international economy.

In the first place, the prices of oil increased by a factor of ten over the last nine years. Since petroleum products are connected to all sectors of production, a secondary effect was to accelerate price increases everywhere. As the developed world slowed down its own economic growth to fight inflation, a recession ensued, and the world found itself beset by both a rise in prices and a decline in aggregate demand.

For the LDCs, the impact has been devastating. World Inflation has raised the prices of their imports. Recession,

## Case 20. An Increasingly Interdependent World

Between 1960 and 1979, World Trade grew at an annual rate of 6 ½ percent, while world production was growing at only 4 ½ percent. As a consequence, 72 percent of the countries for which we have data show exports as a larger percentage of GDP in 1979 than they were in 1960. Moreover, an increasing proportion of exports from the Third World are in manufactures rather than primary products.

In 1970, the current account deficit of oil-importing developing countries was $18.5 billion; by 1980 it had tripled to $58 billion. Over the same period, total LDC debt had risen from $50 billion to $294 billion. In 1978, there were 13 countries, ranging from Upper Volta to Bangladesh to Yugoslavia, which were earning very substantial amounts of foreign exchange from worker's remittances.

As a result, an increase in interest rates in the United States has a profound effect on the economy of many LDCs. Conversely, a weakening in oil prices which reduces foreign exchange earnings in Mexico can have a substantial effect on financial markets in the United States. The two oil shocks of 1974 and 1979 caused large inflows of cash into the oil exporting countries, some of which was spent on increased imports, but most of which was recycled in world financial markets. That cash was then lent in large quantities to the LDCs to help pay for the oil. Since then, the pigeons have been coming home to roost as more and more LDCs find themselves with debts they can no longer service. The world has become very small and very interdependent. This has great advantages, as the specialization of labor is extended, but it also means that the LDCs are increasingly vulnerable to events in the industrial world over which they have no control.

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by decreasing demand, has lowered the price of their exports. The result has been a serious downturn in their terms of trade--the quantity of imports they can buy for a given quantity of exports. There are no good estimates of the terms of trade losses faced by the LDCs as a whole, but declining terms of trade have had substantial adverse impacts on Malawi, Thailand, and Costa Rica. For each 4 percent decline in the terms of trade, real GDP declined by 1 percent (assuming exports and imports are 25 percent of GDP). In a given year, a 12 percent inflation rate for imports coupled with a 15 percent decline in the average price of exports would mean a 6 percent decline in real GDP. President Reagan's statement that the most important thing the United States can do for the Third World is get its own economy on track is profoundly true.

Not only do world recession and inflation lead to slower growth in the LDCs, but they create pressure for greater protectionism in the U.S. and elsewhere. The U.S. sugar quotas, imposed earlier this year, threatened to reduce the value of sugar exports from LDCs (Case 21). Malawi, and Thailand are sugar exporters, and Malawi, in particular, feels it may be hurt by the new U.S. policy. While estimates of the quantitative impact of sugar quotas vary, there is little doubt that the loss of export earnings in Malawi offsets in large measure the $8 million in U.S. concessional assistance.

Perhaps the most important policy decision LDCs take are in the area of trade and industrialization (Case 22). Policies which favor inefficient patterns of import substitution, particularly through the use of quantitative restrictions and overvalued exchange rates have led to substantial inefficiencies. However, dependence on traditional exports, especially when the range of commodities is narrow, has not, in general, been successful in the long run. The fall in the tobacco price in Malawi, rice prices in Thailand, and coffee prices in Costa Rica have precipitated financial crises in all these countries.

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## Case 21: The World Sugar Market

There are currently three world sugar markets--The EEC, the United States, and the rest of the world. Prices in the first two markets, due to restrictions on entry, are higher than in the third market, perhaps double the price. Those exporters with access to the U.S. and EEC markets earn considerably more than those with more limited access.

Recently the United States restricted entry to a greater extent than previously, as well as increasing import duties. The restriction probably counteracted the increased duty, making the U.S. market as lucrative as previously. But the restriction in imports threw a great deal more sugar into the third market, thus depressing the price even further. The quantitative impact of this policy is not known and will vary from country to country. It is probably not large enough to dwarf concessional assistance flows, but represents a significant counter-balance to them.

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## Case 22. Export Promotion vs. Import Substitution: The False Dichotomy

For years, economic policy in LDCs has been cast in terms of the choice between export promotion and import substitution. Raoul Prebisch, writing in the 1950s, suggested that for a number of reasons, the prices of primary products would tend to decline secularly over time vis-a-vis the price of manufactured goods. Consequently, LDCs would face a continually declining terms of trade. Prebisch, writing as chief planner in the UN Economic Commission for Latin America (ECLA) was very influential. His dual policy prescription of import substitution and regional economic integration formed the basis of economic ideology of Latin America.

But the argument is incorrectly stated. The question is not import substitution vs. export promotion, but rather what type of import substitution and what type of export promotion. The growth of a manufacturing industry is vital for development (Manufacturing grew at an annual rate of 6.7 percent in Malawi, 5.2 percent in Cameroon, 11.5 percent in Thailand and 8.8 percent in the Costa Rica between 1970 and 1979). Manufacturing output is either exported or sold on the domestic market; i.e., either exported or used as substitutes for imports.

In the early stages of development, there are many industries in which efficient import substitution is possible. In Malawi, the range is greater due to the natural protection of inland transport costs. However, since manufacturing tends to grow faster than overall income, import substituting possibilities tend to erode. This is certainly the case in Costa Rica textile industry, while it is not yet the case in Malawi. It is when the easy import substituting possibilities are no longer available that important choices must be made--continue import substitution by protecting industries, attempt to increase the amount of processing in primary exports, or move to develop exports of manufactured goods. It is the last choice which requires the most skill and offers the most promise.

In Sri Lanka, dependence on tea, rubber and coconut prices, led to a situation in which terms of trade losses between 1960 and 1980 amounted to 38 percent of 1960 GDP. As a result, consumption per capita in Sri Lanka in 1980 was 11 percent lower than it was in 1960.

The most successful LDCs have been those that have been able to develop non-traditional export industries. Between 1970 and 1979, total LDC exports grew at 5.2 percent while manufactured exports grew at 14.0 percent. The proportion of manufactured exports to total exports in Brazil grew from 8 percent in 1965 to 49 percent in 1981. Of course, it has been the middle income countries, the gang of four (Taiwan, Hong Kong, Singapore, and Korea), and Brazil, in which manufactured export growth has been pronounced. However, Thailand, Costa Rica, Cameroon, and even Malawi have prospects for increasing their nontraditional exports. To a large extent, future prospects for LDC non-traditional exports depend on access to industrial country markets. When a world recession threatens, the typical response is to restrict access rather than expand it.

B. Capital Flows

A second result of the oil shocks of the 1970s was to flood financial markets with petro-dollars. Banks were searching for borrowers. For most of the 1970s, real interest rates were low given the high rates of inflation. The result was massive borrowing by the oil importing LDCs. Table 5 illustrates the dramatic changes in international capital flows over the last two decades.

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Table 5. Composition of Real Net Capital Flows to LDCs, 1960-62 and 1978-80 (billions of 1978 dollars)

| | 1960-1962 | 1970-1980 |
|---|---|---|
| Official Development Assistance | 14.75 | 25.84 |
| Other Official Nonconcessional | 1.75 | 9.88 |
| Private, Nonconcessional | 8.50 | 40.28 |
| Direct Investment | 5.00 | 10.64 |
| Export Credits | 1.75 | 9.88 |
| Financial Flows | 1.75 | 19.76 |
| Total | 25.00 | 76.00 |

Source: OECD

The tripling of capital flows into the LDCs has helped to offset the effects of the decline in the terms of trade, as well as the effects of bad economic policy. However, the increased borrowing in commercial markets at interest rates exceeding 15 percent, is only tenable in a time of inflation. If export prices fall (as they have for most primary producers), the real resource cost of debt service rises, and the ability to import decreases. The result is slow or no growth. Consequently, there was a rapid rise in IMF financing arrangements which went from 420.6 million SDRs in 1977 to 3,381.8 million SDRs in 1980, and an increase in the pressure for debt rescheduling, of which Costa Rica is only one instance.

## C. Concessional Assistance and the Role of Donors

The role of capital flows from the developed to the less developed world cannot be overstated. In 1978-80, 25 billion dollars of capital, roughly $3 per capita, was provided on concessional terms to the countries of the Third World. In Malawi, an extreme case, concessional assistance, mainly from the United Kingdom, financed one third of all investment as well as one third of all imports. Without this volume of assistance, GDP per capita in Malawi would be roughly one-third less than it is today. While donors tend to concentrate on projects and technology change, the macroeconomic effects of capital flows of this magnitude are very important.

### 1. Donor Interventions in Capital Markets

In three of the countries we looked at, donors have helped to create investment finance institutions. The history of these intermediary institutions is mixed. INDEBANK in Malawi has been a substantial success; COFISA in Costa Rica, a measured success hindered by bad macroeconomic policy; and IFCT in Thailand, a vital and imaginative component of the credit market (Case 23). The counterpart institution in Cameroon, BCD,

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## Case 23. The Development Bank: INDEBANK and IFCT

The Investment and Development Bank of Malawi (INDEBANK) is a private development bank established by IFC, The Commonwealth Development Corporation (CDC), and the Dutch and German counterparts to the organization. Small, even by Malawi standards, its influence is much greater than the size of its portfolio, which in 1980 consisted of equity participation in 17 corporations and secured loans to 36 separate firms. INDEBANK's influence stems from its excellent management cadre--mainly British, German, and Dutch managers. The present general manager, originally seconded from CDC, has just been appointed head of troubled ADMARC, while the original general manager was recently asked to be acting general manager of Press (Holdings) Ltd., until a new manager could be found.

The Industrial Finance Corporation of Thailand (IFCT) is a development bank, established in 1959. Its owners are the Thai Government and donors such as IFC, the Asian Development Bank, the German Finance Company, and the Japanese Import-Export Bank. IFCT makes loans of medium maturity to medium-scale industry. IFCT has subsidiaries which participate in capital leasing activities, and in 1975 it set up the Mutual Fund, Ltd. to try to channel private savings directly into productive enterprise. The IFT has been active in developing an underwriting industry, and it manages the billion baht Capital Market Development Fund designed to inject more capital into Thailand's stock exchange.

Less conservative than commercial banks, development banks are designed to take risks on the basis of expected future returns (collateral is not necessary). Thus, they are a source of finance for new ventures rather than expansion for old ones, and therefore aid the entrepreneurial firm.

which has had little donor involvement, seems to suffer from management problems and be somewhat less effective in getting credit to where it is needed. It has apparently been the donor's expertise more than its credit, that has been responsible for success.

In a well-functioning economy, credit gets channelled to where it is most productive. This is partly a function of good policy (let the market work) and strong institutions. However, as we've seen, informal credit institutions are particularly effective in most countries in meeting credit needs for borrowers at the lower end of the spectrum. If policy is correct and institutions working, then capital provided by donors to a credit institution is no different from capital provided to the Central Bank or to the Government. Increasing the flow of resources increases the amount of savings which increases the amount of credit.

Thus, the contribution of donor assistance for specific credit interventions would appear to lie in these areas: to help develop institutions, reform policy, or improve management. The financial assistance is less important than the other changes. The success of donor programs in capital markets is basically due to the high level of management skills provided.

Direct involvement in a particular firm can be successful. In most instances, the objective of donor assistance is to lower the risk by broadening the participation. After all, loans are available to financially sound investment prospects. Direct investment or loans by international financial institutions to firms in Malawi have, in general, been successful.

An examination of a successful international finance company, CDC (see Case 24) indicates that a donor agency such as USAID is not the appropriate place for the financing of private enterprise development. Rather, there are good reasons for the

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## Case 24. The Commonwealth Development Corporation (CDC)

CDC is the British parastatal devoted to promoting private enterprise in the Third World (originally the Commonwealth). CDC was established with no funds, but with a writ to borrow from the British exchequer, at rates somewhat below market rates. These funds were then reinvested or loaned to companies and financial institutions throughout the Third World. Working like a commercial firm, CDC tries to borrow low and lend high enough to assure a profit and an expansion of its portfolio which is currently about one billion dollars.

CDC is active in all four of the countries we have investigated, but its range of activities in Malawi is broader than elsewhere. CDC has had an interest in INDEBANK, in the sugar industry, in David Whitehead textiles, in the National Seed Company, in Standard Tobacco Packers, in Malawi Hotels, in the Blantyre Water Board (a parastatal) in Mandala Ltd. (a rubber plantation), in the Electricity Supply Commission (another parastatal), and in smallholders of tobacco, sugar, tea and coffee.

Technical assistance is provided by the British AID agency (ODA) with whom they cooperate, and frequently personnel are seconded from one to the other. CDC's representative in Malawi is on the board of 23 corporations, both public and private sector, and has management responsibilities for a number of these enterprises.

It is not serendipitous that the British, like almost all donors separate their aid agency from their private enterprise development financial institutions. There are a number of compelling reasons for this separation:

1. The need to deal with profit-making institutions on commercial terms. Thus it is inappropriate to provide concessional assistance to private firms, to require aid-like documentation, or to commit them to tied procurement.
2. The need to disassociate donor governments from management decisions in private firms. It is appropriate for CDC, an autononous parastatal, to be represented on the board of 23 Malawi companies; it would not be appropriate for a USAID Mission director.
3. The need for the finance company to have control over reflows without requiring treasury authority for new borrowings.
4. The need to be able to borrow from private sources if desirable
5. The need to be separated from foreign policy interests.

creation of a separate, autonomous agency which can lend at market rates, control its reflows, borrow from public and private sources, participate directly in management of LDC firms, be freed from bureaucratic procedures designed to protect the taxpayer, and to be isolated from foreign policy interests.

## 2. Donor Intervention in Skills and Management Training

Donor interventions in education, at whatever level, raise the stock of human capital, increase productivity and profitability, and increase equity. However, the labor market is as segmented as the private sector. MBA training is only useful in staffing large managerial enterprises. Providing simple training in accounting and inventory control will aid the proprietal end of the spectrum. Similarly, somewhat more sophisticated training in the area of production techniques, basic management and cost accounting will be of use to the entrepreneurs.

In Thailand with a long history of U.S. influence, training degree students in the U.S. has had a profound influence on the basic outlook of key managers in the economy and must have had an impact on public policy. In Malawi, over the 1963-1969 period, the Peace Corps made up 70 percent of the secondary school staff.

There are no general rules relative to skills training. Skills of all kinds are in scarce supply (different scarcities in different countries). Investments in training frequently have high payoffs, but each project must be examined on its own merits. The benefits of training and education are broader than their effects on labor markets. Changing values, broadening perception, developing an analytical approach, are all impacts which can have a widespread effect on behavior and policy-formation. If such changes are desired, it requires a long-term, consistent, and substantial program in particular institutions or sectors. USAID's agricultural education and research programs in India, the influence of Harvard Business School in Indonesia, and the University of Chicago in Chile are all examples of successful, long-term, consistent training policies.

### 3. Donor Intervention and the Provision of Information

We generally lacked information on donor interventions in the area of information. However, almost all the country studies point out the need for specific technical assistance in a broad range of organizations, particularly in financial intermediaries. Technical assistance of this sort has two functions --(1) it provides detailed and specific help in areas where such specialized knowledge is unavailable; and (2) it helps insulate indigenous managers from political pressures.

One area of special promise is promotion of non-traditional exports. In a reasonable policy environment, there are undoubtably manufacturing industries in which low income countries had a comparative advantage. The need to improve the efficiency of production techniques and to develop export markets remains the main constraint. Technical assistance in these areas is not often available locally, and returns to such information could be very large.

## VI. CONCLUSIONS

The four private sector evaluations undertaken by AID in Malawi, Cameroon, Thailand, and Costa Rica contain a great deal of information on the process of economic development, the role of private enterprise production activities in that process, the importance of free and competitive markets, and the possibilities of donor intervention to affect the speed and direction of economic development.

These studies have revealed that the "private sector" is a grouping that includes a wide variety of organizations and enterprises differing in degree of private ownership, in degree of indigenous participation, in size, and in organization. Not surprisingly, these "private" enterprises have much in common with each other, and much that is particular to the enterprise type. Consequently, public policies and donor interventions may have beneficial effects on one type of enterprise and harmful effects on other types. The issue then becomes, not "Up with the Private Sector," but "Which Private Sector?"

Secondly, the studies clearly point out that free and competitive markets are efficient institutions for allocating resources. In certain areas, particularly with respect to the prices of foreign exchange, labor, agricultural commodities, and credit, interfering with market signals can lead to profound misallocations of resources, with dire effect on output and incomes.

Nevertheless, governments frequently intervene in the working of markets--setting or controlling prices, imposing quantitative restrictions, subsidizing some activities and taxing others. In some cases, these interventions are consonant with economic theory which identifies numerous areas of market failure. At other times, goals other than economic efficiency are predominant in the government's political

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agenda. Sometimes, ideology or ignorance takes precedence over common sense.

In all of these countries, economic policy and economic ideology seemed unconnected to the existing political system. Moreover, success was frequently the result of pragmatism, caution, and flexibility rather than the dogmatic adherence to a political or economic philosophy. In general, these countries followed policies that worked, and were able to change or withdraw from policies that failed.

Three of the four countries found themselves tested by a downturn in their economic fortunes in 1979. In Malawi, Costa Rica, and Thailand, mistaken policy choices of varying severity combined with a deteriorating international environment to create an economic crisis. In Costa Rica, the crisis threatens bankruptcy. In Thailand and Malawi, internal policy changes combined with substantial international assistance may avert disaster. In any case, the deteriorating international economy suggests the need to review policies that have worked in the past.

Donors wishing to encourage private sector growth find themselves in an anomalous situation. In the first place, market solutions imply that the only way to encourage private sector activity where it is lacking, given free and competitive markets, is by means of a subsidy. Does this undermine the very private sector we are trying to support? Second, any direct involvement with particular enterprises or institutions requires actions which a government body such as AID must be cautious about undertaking directly (here the model of a separate financial institution is intriguing). Third, interventions need to be chosen to address constraints, and in most countries we know precious little about the constraints inhibiting the growth of proprietal, entreprenerial, and managerial firms. Fourth, interventions need to be targetted to that segment of the private sector we are interested in supporting.

Despite these caveats, there is little doubt that the private sector of most economies is the focal point of development. As a donor, our role should be in facilitating the expression of the creative energies within the private sector by working with host governments on ways to both provide needed help (infrastructure, human capital, credit institutions), and reduce unneeded hindrances to market activities. Frequently this means helping governments get out of the way, an unaccustomed role for a government agency.

# PARTICIPANT WORKSHOPS

During the conference we have set aside time for two participant workshops. These workshops provide the time and a structure in which to reflect on the conference sessions. The workshops are also designed to assist participants in reaching conclusions concerning the ways in which the information provided by the conference can be applied by the LDCs, by A.I.D. and by others who are interested in assisting the LDCs to promote the development of their private enterprises and markets.

The workshop leaders for these sessions are listed below. A handout that indicates your workshop assignment will be available at the conference registration desk on the morning of October 13th. Everyone who has been invited to participate in the conference in any way has been assigned to a workshop group. We have used this process to ensure that all conference participants know which workshop group to join if they are at the conference during one of these sessions.

On the following pages the scope of each of the participant workshops is explained. In addition to the workshop descriptions, this section of your workbook contains two documents you may find useful as you attend your workshop sessions. The first is a status report on private sector projects in A.I.D. The second is a synopsis of the activities undertaken by our Private Enterprise Bureau over the past year.

## WORKSHOP CHAIRMEN

John Wilhelm, AFR/DP

Peter Bittner, LAC/DR

Kieth Brown, NE/TR

Robert Pratt, ASIA/PD

Lanie Elliott, FVA

Jan van der Veen, PPC

Antonio Gayoso, IO

## PARTICIPANT WORKSHOP 1: POLICIES

2:45 p.m., October 13

During the sessions preceding this participant workshop the conference will have brought to your attention the ways in which policy choices, regulations, laws and development strategies in the LDCs influence markets and private enterprises. Through the case study forum at 10:30 a.m. participants will have been exposed to the way in which the private sector has developed in four countries that made somewhat different choices about this sector of the economy. The roundtable at 1:30, led by Mr. Kimball, will have examined the question of how external parties can assist developing countries in examining the results of their policy choices and in adopting sound economic policies. During the participant workshop on policies, we will meet in small groups to review the case information and A.I.D.'s policy statements about the role A.I.D. might play in assisting LDCs in adopting market-oriented policies and strategies. The participant workshop on policies will also allow individuals whose experiences have not been discussed in earlier sessions a chance to share their knowledge with their colleagues in the participant workshop.

To provide a structure for this workshop, workshop chairmen will be provided with a set of questions which we would like the participants in each workshop to consider and address. Copies of these issue oriented questions will be provided to you at the start of the workshop.

At 4:45, as you close your participant workshop session, you are asked to return to the plenary room for an exchange with the other small participant workshop groups. John Bolton, the Assistant Administrator, Bureau for Program and Policy Coordination will moderate this session. Your workshop chairman will be expected to convey the findings of your workshop group. Mr. Bolton will begin by posing some of the session questions you addressed to your workshop chairmen; later, he will open the session for comments and views from the general audience.

## PARTICIPANT WORKSHOP 2: PROGRAMS & PROJECTS

3:45 p.m., October 14

The second participant workshop during the conference, participants are asked to meet in small groups to:

- Consider the ideas and experiences with programs and projects that foster the development of private enterprise and markets in the developing countries which have been exposed in previous conference sessions, and

- Determine the most appropriate ways for A.I.D. to proceed with its private sector initiative, recognizing the need to consider LDC policies toward the private sector as well as program and project actions and the particular strengths and limitations of A.I.D. when defining practical implementation steps.

In this workshop, as in the participant workshop on the 13th, workshop chairmen and participants will be provided with a set of issue-oriented questions before the session begins. And, once again, session participants will be asked to use a portion of their time in the participant workshop addressing these questions.

The plenary session resulting from this workshop will take place at 9:00 a.m., October 15. The respondents to this plenary session will be members of the A.I.D. senior staff. Richard Blue of the Office of Evaluation will serve as the moderator during the plenary, ensuring that each of the workshop chairmen has an opportunity to present the conclusion reached by the small group he represents.

To facilitate the presentations of the participant workshops on the 15th, the conference staff will make available flip chart paper and markers in the reception area. As needed, the conference staff will also make Xeroxing services available to the workshop groups. There will be two typewriters in the conference reception area should your workgroup need access to such machines.

Despite these caveats, there is little doubt that the private sector of most economies is the focal point of development. As a donor, our role should be in facilitating the expression of the creative energies within the private sector by working with host governments on ways to both provide needed help (infrastructure, human capital, credit institutions), and reduce unneeded hindrances to market activities. Frequently this means helping governments get out of the way, an unaccustomed role for a government agency.

# AN ASSESSMENT OF PRIVATE SECTOR PROJECTS

by

Sandra Malone
PPC/E

Attached for your information is an assessment of the key characteristics of the Agency's private sector projects. The project list, developed by PPC and PRE, is tentative, but reflects the basic orientation of the current private sector initiative. Projects planned for FY 83 and 84 are included, however, many have yet to be approved and in some cases are only in the formative stage. Funding estimates were taken from the FY 84 budget request to OMB.

The assessment of the projects includes an identification of key characteristics, as well as the principal areas of focus. Determination of these features were based on interviews with appropriate bureau officials and a review of project documentation and ABS submissions. Characteristics of projects which have not reached the design stage are in most cases tentative.

A total of 99 projects is included in this assessment. The Bureau breakdown is as follows:

- Africa 22
- Asia 14
- Near East 2
- Latin America 45
- S&T 9
- PVC 7

The number of Near East projects is not representative of the Bureau's private sector activities, but is due to the exclusion of ESF projects from the list.

Attachments are as follows:

- Appendix A - Current List of Agency Private Sector Portfolio by Bureau
- Appendix B - Frequency of Key Characteristics as Area of Focus
- Appendix C - Distribution of Project Characteristics

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# Current List of Agency Private Sector Portfolio

APPENDIX A

| Basic Information | | | | Status | | | Key Characteristics | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AFRICA Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Manpower Development: Management | Manpower Development: Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
| Cameroon | 631-0023 | 10,355 | N. Cameroon Seed Multiplication II | | | X | | X | | | X | | | X* | X | | |
| | 631-0044 | 1,298 | Credit Union Development (PVO) | | | X | | | X* | X | | | | | | X | Research |
| Ghana | 641-0108 | 1,372 | Opportunities Industrial Center (PVO) | | | X | | | X | | | X* | | | | | |
| Kenya | 615-0208 | 1,000 | Small Business Development (OPG) | | | X | | | X* | | X | | | | | | |
| | 615-0184 | 200 | Increase Employment Income & Productivity | | | X | | | X* | | | | | | | | |
| | 615-0220 | 10,000 | Agriculture Enterprise Development | X | | | | | X | | X | X* | | | | | |
| Lesotho | 632-0217 | 320 | Opportunities Industrial Center (OPG) | | | | | | X | | X | X* | | | | | |
| Liberia | 669-0163 | 1,944 | Nimba Co Rural Technology (PVO) | | | X | | X* | X | X | X | | | | | | |
| | 669-0168 | 2,216 | Opportunities Industrial Center (OPG) | | | | | | | | | | | X* | | | |
| Malawi | 612-0214 | 1,000 | Indigenous Private Sector | X | | | | | X* | X | | | | | | | |
| Mali | 688-0230 | 790 | Small and Medium Ag Enterprises | X | | | | | X* | X | X | | | | | | |
| Niger | 683-0243 | 2,000 | Farm Implements Manufacturing | X | | | X* | | | X | X | X | | | | | |
| Rwanda | 696-0119 | 645 | Cooperative Training Center | | | X | | | X | X | X* | | | | | | |
| | 696-0121 | 1,895 | Private Enterprise Development | X | | | | | | | | | | | | | Activities Undetermined |
| Sierra Leone | 636-0112 | 202 | Cooperative Credit Society (CUNA) | | | X | | | X* | | X | | | | | | |
| | 636-0168 | 124 | OICI Vocational Training I | | | X | | | X | | X | X* | | | | | |
| | 636-0169 | 679 | OICI Vocational Training II | | | X | | | X | | X | X* | | | | | |

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# Current List of Agency Private Sector Portfolio

| AFRICA (Cont.) | Basic Information | | | Status | | | Key Characteristics | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Manpower Development: Management | Manpower Development: Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
| Togo | 693-0220 | 809 | Credit Union Development (PVO) | | | X | | | X* | | X | | | | | | |
| Uganda | 617-0104 | 11,500 | Production of Agriculture Inputs | X | | | X | | | X* | | | | | | | |
| Upper Volta | 686-0246 | 650 | Small Economic Activity Development II | | | X | | X | X | X* | X | X | X | X | | | |
| Sahel Regional | 625-0621 | 15,140 | OMVS Integrated Development | | X | | X | | X | | X | X | | X | | X | Research |
| Africa Regional | 698-0438 | 4,100 | Private Entrepreneurship Promotion | X | | | X | X | X | | X* | X | X | | X | X | Research |

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# Current List of Agency Private Sector Portfolio

| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | Status: ABS or CP Narrative | Status: Approved PID | Status: Approved PP | Key Characteristics: Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Manpower Development: Management | Manpower Development: Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASIA** — Basic Information | | | | | | | | | | | | | | | | | |
| Bangladesh | 388-0024 | 52,300 | Fertilizer Distribution Improvement | | | X | X | X | X | | X | | | X* | | | |
| | 388-0037 | 2,770 | Rural Finance | | X | | X | X | X | X* | X | | | | | | |
| | 388-0042 | 3,000 | Rural Industries | | | X | X | X | | X | X | | X | | | X* | Research |
| | 388-0060 | 10,000 | Fertilizer Distribution Improvement II | | X | | X* | | X | X | | | | X | | | |
| Indonesia | 497-0329 | 4,500 | Private Sector Development | | X | | X | X | X | | X | | X | | X* | X | |
| | 497-0331 | 5,000 | Central Java Private Enterprise | | X | | X | | X* | X | X | | | | | X | |
| | 497-0341 | 6,000 | Local Credit Institutions | X | | | | | X* | X | X | | | | | | |
| | 497-0345 | 3,000 | Private Sector Management Training | X | | | | X | X | | X* | | | | | | |
| Philippines | 492-0359 | 28,000 | Small and Medium Enterprise Development | | X | | X | | X* | X | X | | | | | | |
| Sri Lanka | 383-0082 | 4,000 | Private Enterprise Promotion | | | X | | | | | X | | X* | | | | |
| | 383-0087 | 9,200 | Private Enterprise Support | | X | | X | X | | | X | | X* | | | | |
| Thailand | 483-0329 | 6,100 | Private Investment in Development | | X | | X | | X | X* | X | | X | | X | X | Research |
| Regional | 498-0265 | 2,250 | Extension of Small Scale Agr.-Equipment | | | | | X* | | | | | | | | X | Research |
| | 498-0275 | 1,415 | Non-Farm Enterprise Development | | X | | | | X* | | | | | | | X | Research |

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# Current List of Agency Private Sector Portfolio

| LATIN AMERICA | Basic Information | | | Status | | | Key Characteristics | | | | Manpower Development | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Management | Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
| Bolivia | 511-0568 | 500 | Private Sector Health Care Systems | X | | | | X | X | | X | | | | | | |
| | 511-0572 | 500 | Agro Industry Development | X | | | | | X | X | | | X | | X | | |
| Costa Rica | 515-0187 | 10,000 | Private Sector Export Credit | | | X | | | | X* | | | | | | | |
| | 515-0178 | 1,750 | Coop Banking Service & Credit | X | | | | | X | X* | | | | | | | |
| | 515-0193 | 8,000 | Private Sector Productivity | | | X | | | X | X* | | | | | | | |
| Dominican Republic | 515-0150 | 7,058 | Small Industry | | | X | X | X* | X | X* | X | | | | | | |
| | 515-0154 | 398 | Small Business Promotion (OPG) | | | | | | X | X* | X | | | | | | |
| | 517-0171 | 11,900 | Private Enterprise Sector Development | X | | | | | X | X* | X | | X | X | | | |
| | 518-0019 | 2,200 | Entrepreneurship for Small Enterprise Dev. | X | | | X | | X | X | X | | | | | | |
| | 518-0027 | 2,300 | Trade & Productivity Development | X | | | | X | X | X | X | | | | X | | |
| | 518-0035 | 500 | Graduate Management Training | X | | | | | X | | X | | | X* | | | |
| El Salvador | 519-0229 | 1,925 | Small Producer Development | | | X | | | X | X* | X | | | | | | |
| | 519-0284 | 450 | Agricultural Cooperative Development (OPG) | X | | | | | X* | | X | | | | | | |
| | 519-0286 | 1,475 | Private Sector Organization & Planning | | | X | | X | X* | | X | | | | | | |
| Guatemala | 520-0245 | 445 | Rural Enterprise Development | | | X | X | X | | X* | | | X | | | X | Research |
| | 520-0294 | 200 | Private Sector Development Initiatives Fund | | | X | | | X* | | X | | X | | | | |
| Haiti | 521-0083 | 1,450 | Small Farmer Marketing | | | X | | X | X | X | X | X | | X* | | | |
| | 521-0121 | 1,200 | Strengthening Rural Credit Services II | | | X | X | | X | X* | X | X | X | X | | | |

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# Current List of Agency Private Sector Portfolio

LATIN AMERICA (CONT)

| Basic Information | | | | Status | | | Key Characteristics | | | | | | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Manpower Development | | | | | | |
| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Management | Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
| Haiti | 521-0161 | 2,000 | Haitian Development Corporation II | X | | | | | X | X* | X | | | | | | |
| | 521-0162 | 1,000 | Development Finance Corporation | | | X | X | X | X | X* | X | | X | X | X | | |
| Honduras | 522-0157 | 3,200 | Rural Technologies | | | X | X | X* | X | X | X | X | X | | | | |
| | 522-0198 | 500 | Private Sector Development Fund (OPG) | X | | | | | X | X | X | X | X | | X | | |
| | 522-0205 | 5,000 | Small Business Financeria | X | | | | | X | X* | | | | | | | |
| | 522-0219 | 2,000 | Private Sector Employment Related Training | X | | | | | X* | | X | X | | | | | |
| Jamaica | 532-0079 | 1,000 | Technical Consultations & Training | | | X | X | | X | | | | X* | | X | | |
| | 532-0081 | 10,600 | Agribusiness Development | | | X | | X | X | X* | X | | X | | X | | |
| | 532-0088 | 12,600 | Small Scale Manufacturing Assistance | | X | | X | | X | X* | | | | | | | |
| | 532-0091 | 10,000 | Private Sector Investment Fund | X | | | | | X | X* | X | | X | | X | | |
| Panama | 525-0222 | 7,400 | Rural Cooperative Marketing | | X | | | | X | X* | X | | X | | | | |
| | 525-0225 | 160 | Entrepreneurial Development (OPG) | | | X | | | X* | | X | | | | | | |
| | 525-0233 | 1,600 | Private Enterprise Training | X | | | | X | | | X* | | | | | | |
| | 525-0239 | 1,025 | CBI National Investment Council | X | | | | | X* | | X | | | | | | |
| | 525-0240 | 3,325 | Small Business Credit | X | | | X | | X | X* | | | | | | | |
| Peru | 527-0241 | 10,000 | Urban Small Business | | | X | X | | X | X* | | | | | | | |

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# Current List of Agency Private Sector Portfolio

LATIN AMERICA(CONT)

| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | Status: ABS or CP Narrative | Status: Approved PID | Status: Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Manpower Development: Management | Manpower Development: Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Peru | 527-0255 | 2,000 | Development of Ag Service Cooperatives | X | | | | X | X* | X | X | | | | X | | |
| | 527-0263 | 3,200 | Non-Traditional Export Promotion | X | | | | X | X* | X | X | | X | | X | | |
| | 527-0262 | 1,000 | Private Sector Training Initiative (OPG) | X | | | | X | X | | X | X* | | | | | |
| Caribbean Regional | 538-0035 | | Credit Union Development | | | X | | | X* | X | X | | | | | | |
| | 538-0071 | | InterIsland Shipping & Marketing | X | | | | X | X | | X | | | X* | | | |
| | 538-0085 | 8,000 | Agricultural Enterprise Development | X | | | | X | X | X* | | | | | | | |
| | 538-0086 | 8,000 | Agribusiness Expansion II | X | | | | X | X | X* | | | | | | | |
| | 538-0088 | 11,000 | Private Sector Industrial Infrastructure | X | | | | X | X | X | | | X | X* | | | |
| ROCAP | 596-0101 | 500 | INCAE Management Development | | | X | | | X* | | X | | | | | | |
| | 598-0109 | 15,000 | Export Promotion Fund | | | X | | | | X* | | | | | | | |
| LAC Regional | 598-0619 | 11,000 | Private Sector Initiatives | | | X | | | X | | | | X | | | | |

# Current List of Agency Private Sector Portfolio

NEAR EAST

| Basic Information | | | | Status | | | Key Characteristics | | | | | | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Manpower Development | | | | | | |
| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Management | Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | |
| Morocco | 608-0147 | 236 | Industry/Commercial Job Trn for Women | | | | | | | | X | X* | | | | | |
| Regional | 298-0050 | 700 | Regional Private Enterprise Activities | X | | | X | X | X | | X | X | X | X | X | | |

*FOCUS

# Current List of Agency Private Sector Portfolio

FVA/PVC

| Basic Information | | | | Status | | | Key Characteristics | | | | | | | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Manpower Development | | | | | | |
| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | ABS or CP Narrative | Approved PID | Approved PP | Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Management | Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
| FVA/PVC | | | | | | | | | | | | | | | | | |
| | 938-0161 | 616 | Agriculture Cooperative Development Intl | | | X | X | | X* | | | | X | | | | |
| | 932-0004 | 850 | Cooperative League of USA | | | X | X | | X* | X | | | X | | | | |
| | 932-0002 | 983 | Credit Union National Association | | | X | X | | X* | | X | | X | | | | |
| | 938-0131 | 175 | Institute for International Development | | | X | | | X* | X | X | | | | | | |
| | 938-0145 | 626 | Technoserve, Inc. | | | X | | | X* | | X | | | | | | |
| | 938-015[illegible] | 70 | Volunteers in Technical Assistence | | | | | | X* | | | | | | | X | Information Service |
| | 938-0184 | 388 | Opportunities Industrialization Centers Intl. | | | | | | X | | | X* | | | | | |

*FOCUS

# Current List of Agency Private Sector Portfolio

| Country | Project Number | Funding Estimate FY 82–84 (in $000) | Project Title | Status: ABS or CP Narrative | Status: Approved PID | Status: Approved PP | Key Characteristics: Policy Reform | Technology Transfer/Access | Institutional Development | Credit | Manpower Development: Management | Manpower Development: Vocational | Pre-Investment Promotion Services | Infrastructure | U.S. Business Involvement | Other | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| S&T | 931-0203 | 1,156 | Seed Program and Industry Development | | | X | | X | X* | | | X | | | X | X | Research |
| | 931-0786 | 1,970 | Food Grain Storage and Marketing | | | X | | X | X* | | | X | | | | | |
| | 931-1323 | 1,110 | Storage and Processing of Fruits & Vegetables | | | X | | | X* | | | X | | | | X | Studies |
| | 931-1071 | 16,500 | A.T. International | | | X | | | X* | | | | | | | | |
| | 931-1090 | 900 | Small Enterprise Approaches to Development | | | X | | | | | | | | | | X* | Research |
| | 931-1121 | 320 | Commercial Seed Industry | | | X | | X* | X | | X | X | | | | | |
| | 931-1190 | 450 | Alternative Rural Development Strategies | | | X | X | | X* | | | | | | | | |
| | 936-4053 | 1,000 | Enterprise . Mkt and Tech Access | | X | | | X* | X | | X | | X | | X | | |
| | 936-5315 | 1,150 | Rural Savings and Credit | | | X | X | X | X* | X | | | X | | | | |

*FOCUS

APPENDIX B

## FREQUENCY OF KEY CHARACTERISTICS AS AREA OF FOCUS

| KEY CHARACTERISTICS | FREQUENCY DISTRIBUTION | | | | | | | RELATIVE FREQUENCY |
|---|---|---|---|---|---|---|---|---|
| | AFR | ASIA | NE | LA | S&T | PVC | TOTAL | |
| Policy Reform | 1 | 1 | - | - | - | - | 2 | 2% |
| Technology Transfer/Access | 1 | 1 | - | 2 | 2 | - | 6 | 6% |
| Institutional Development | 7 | 4 | - | 10 | 6 | 6 | 33 | 33% |
| Credit | 2 | 2 | - | 21 | - | - | 25 | 25% |
| Management Training | 2 | 1 | - | 1 | - | - | 4 | 4% |
| Vocational Training | 5 | - | 1 | 1 | - | 1 | 8 | 8% |
| Pre-Investment Promotion Services | - | 2 | - | 1 | - | - | 3 | 3% |
| Infrastructure | 2 | 1 | - | 4 | - | - | 7 | 7% |
| U.S. Business Involvement | - | 1 | - | - | - | - | 1 | 1% |
| Research | - | 1 | - | - | 1 | - | 2 | 2% |
| Focus Undetermined | 2 | - | 1* | 6* | - | - | 9 | 9% |
| TOTAL | 22 | 14 | 2 | 45 | 9 | 7 | 99 | 100% |

*One regional project. Utilization to be determined by Missions.

## DISTRIBUTION OF PROJECT CHARACTERISTICS BY BUREAU

(Percentage of projects in each Bureau with any noted characteristics)

| KEY CHARACTERISTICS | AFR | ASIA | LA | NE | S&T | PVC | AGENCY |
|---|---|---|---|---|---|---|---|
| Policy Reform | 18% | 64% | 22% | 50% | 22% | 43% | 29% |
| Technology Transfer/Access | 18% | 50% | 37% | 50% | 56% | - | 34% |
| Institutional Development | 77% | 71% | 91% | 50% | 89% | 100% | 85% |
| Credit | 36% | 50% | 69% | - | 11% | 43% | 51% |
| Management Training | 68% | 79% | 67% | 100% | 22% | 43% | 64% |
| Vocational Training | 41% | - | 13% | 100% | 44% | 14% | 22% |
| Pre-Investment Promotion | 9% | 36% | 33% | 50% | 22% | 43% | 28% |
| Infrastructure | 18% | 14% | 15% | 50% | - | - | 14% |
| U.S. Business Involvement | 9% | 14% | 20% | 50% | 11% | - | 15% |
| Research/Other | 14% | 43% | 2% | 50% | 33% | 14% | 15% |

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

AID General Notice
September 9, 1982
PRE/PI
Issue Date: 9-21-82

Subject: Private Sector Initiative

During the past months PRE has initiated at an accelerated pace its program and project strategy utilizing innovative mechanisms for education of and assistance to USAID Missions and regional bureaus in their effort to implement the Private Enterprise initiative. Attached for your information and potential use is a summary of activities initiated to date by the Bureau.

This notice is to stimulate the thought process needed to integrate the philosophy of encouraging private business investment as a means of achieving development assistance objectives.

We would be pleased to respond to inquiries concerning activities which may be appropriate and of interest within the context of particular country conditions, strategy, and limited resources.

Attachment
Bureau for Private Enterprise
Summary of Activities

DISTRIBUTION:
AID List H, Position 5
AID List B-1, Position 10

# Bureau for Private Enterprise
## Summary of Activities

This outlines the Bureau's (Offices of Policy and Investment) principal areas of activity for FY 1982. Following is a brief summary of these activities:

1. Provide technical expertise to address critical institutional deficiencies in (a) management and vocational manpower training; (b) entrepreneurial skills development; (c) capital market mechanisms; and (d) climate for investment problems:

National Academy of Sciences (NAS): Teams are traveling to selected target countries (Ivory Coast, Kenya, Sri Lanka, Indonesia, and Thailand) to develop and undertake training programs to address specific, mid-level management problems.

Young President's Organization (YPO): Will provide a series of short term (e.g., one to two day) seminars, lectures, and round table discussions as well as hands-on problem solving related to entrepreneurial activities/businesses in several target countries.

Business International (BI): Will develop selected country-specific information on laws, regulations, and policies affecting private investment (Sri Lanka, Ivory Coast, Zimbabwe, Haiti, Jamaica).

International Executive Service Corps (IESC): Provides PRE and USAID Mission access to U.S. business executives to assist private LDC enterprises in solving specific management and technical problems.

Capital Markets Development: PRE funds advisors to assist in analyzing the deficiencies in and making recommendations on how to improve the functioning of the capital market system. The Bureau participates in the actual structuring of the assistance and implementation of the recommendations. PRE has (1) provided a stock exchange specialist to Sri Lanka, (2) merchant banking expertise in Jamaica, and (3) venture capital experts in Peru. Others under consideration include (1) a diverstiture strategy development specialist and (2) an investment law analyst, and (3) a review of the legal and regulating environment for investment in related countries.

Capital Market Institution Analysis: PRE has contracted with a leading expert in capital market systems to undertake an analysis of the roles of various institutions in such a system. This will be used as an educational tool for AID officals in country missions involved in capital market development.

Center for Entrepreneurial Management (CEM): In cooperation with the Pakistan Alliance of Young Entrepreneurs, CEM will conduct a two day seminar in that country directed toward entrepreneurs organizing and initiating their own businesses.

Vocational/Management Training Programs: PRE is evaluating assistance to; (1) a short term, high impact management training program consisting of six one month modules over a three year period and designed for mid-level business managers in Thailand, and (2) a vocational training institute sponsored and financed by private businesses in Peru and designed to upgrade skills required with curriculum agreed upon by employers.

2. Develop new ties with prestigious U.S. business associations, seeking their assistance in implementing our initiatives:

Conference Board: (1) Inventory of non-business related activities of U.S. companies in our targeted countries to determine how we might access these activities in our own efforts; (2) roundtable discussion with medical directors of selected U.S. companies with foreign investments to determine potential for private enterprise role in health care delivery systems; and (3) a "senior fellows" program in which high level executives/government officials from target countries are brought to the U.S. and have plant visits and meetings with senior U.S. business executives in sectors of importance to their respective countries.

3. Finance innovative private for-profit projects;

Peru: Capitalize the first Peruvian leasing company which will provide agricultural equipment, small manufacturing machinery and construction related material/equipment with a focus on small and medium sized agribusiness.

Kenya: Establish agribusiness fund in commerical bank for on-lending to small and medium-sized agribusinesses and establish an institutional credit evaluation capability and a Business Advisory Service to provide assistance to businesses financed in operational problems.

Indonesia: Capitalize leasing company which will focus on providing equipment to agriculturally related and agribusiness activities.

Thailand: Establish agribusiness fund in local commercial bank to provide loans, through extensive branch banking network, to small and medium sized agribusiness activities outside of Bangkok.

Selected Countries: Provide funds to Women's World Bank, a venture capital firm, which will provide risk capital to women entrepreneurs in developing countries through locally established affiliates.

Feasibility Studies: The next round of project financing will probably emphasize direct loans to business enterprises owned substantially by host country private businessmen. As required and prior to proceeding with such projects, the Bureau will provide financing to partially cover (up to 50.1, never to exceed $50,000) feasibility study costs. The first such feasibility analysis, currently under review, is for a 150-head dairy farm in Pakistan which will provide milk and dairy products to the market in Karachi. A substantial percentage of the initial capitalization of the project will be in the form of equity from private Pakistan sources.

4. Investment identification, pacakaging and promotion related activities are being undertaken:

International Congress of New Enterprises (ICONE): Tentatively scheduled for Jamaica in mid-1983, ICONE will bring together U.S. and Caribbean businessmen interested in developing joint venture business relationships; Latin America and Caribbean Bureau will provide partial financing in conjunction with PRE.

Caribbean Basin Initiative (CBI): Jointly with OPIC, we are implementing a comprehensive information and investment promotion program for the Basin with emphasis on agribusiness, and small and medium sized manufacturing industries using various media services, including BUSNET.

United Nations Industrial Development Organization (UNIDO): (1) Provide support to UNIDO's program of training investment promotion officers from selected LDCs by participating in the cost of establishing an Eastern Caribbean office to house such staff; and (2) undertake an entrepreneurial exchange program in which successful entrepreneurs from one LDC will travel to a second LDC to provide assistance to entrepreneurs in starting businesses or solving problems related to their respective enterprises.

Fund for Multinational Management Education (FMME): Will conduct workshops in six Latin American countries (co-sponsored with AID's Latin American and Caribbean Bureau) designed to bring together U.S. and local businessmen interested in joint venture relationships in the agribusiness sector.

International Institute for Environment and Development (IIED): Provide partial financing for workshops in renewable energy in selected LDCs intended to promote private for-profit initiatives in that sector.

First Washington Associates: Will use substantial banking and EX-IM background to provide specific recommendations on mechanisms to implement the Productive Credit Guarantee Program, (FAA Section 222) competitive capital equipment financing, and the use of local currency generated by commodity import programs and PL 480 for private enterprise development financing.

IQCs -- Agribusiness and Financial Services: PRE will contract outstanding finance and agribusiness expertise to assist in the evaluation of specific project/business financing proposed.

5. Send reconnaissance missions, made up of experts in key areas which PRE has identified as critical aspects of an environment for business investment, including; (1) capital market institutions and development, (2) export promotion, (3) vocational/management training needs for employment, (4) small and medium sized enterprise development and financing, (5) agribusiness development, and (6) laws, regulations and policies as related to the climate for investment.

To date, such missions have been sent to:

- Indonesia
- Thailand
- Sri Lanka
- Kenya
- Ivory Coast
- Egypt
- Pakistan
- Haiti

U.S. business executives who have participated in these missions include:

- Joel Goldher, Executive Director, Mfg. Studies Board, National Academy of Sciences

- Ronald Katz, Gaston Snow & Ely Bartlett

- Len Jordan, International Agribusiness consultant

- George Ferris, Chairman, Ferris and Company.

- William Ragan, Vice President, Becton-Dickenson (medical equipment)

- Charles Haar, Harvard University.

- Jonathan Taylor, President, IBEC

- William A. Fischer, University of North Carolina, School of Management

- Paul Juygelen, Consultant on Development.

- Alex Tomlinson, President National Planning Association;

- Dan Klingenberg, Vice President, Agribusiness, Chase Manhattan

- Ann Rennie, Africa Specialist, Chase Manhattan

- Philip Palmedo, Chairman, Energy Development International;

- Dr. Ben Mittman, Director, Computer Center, Northwestern University.

- Henry Terrel, Chief, International Bank Section, Federal Reserve Board

- P. M. Mathews, Senior Advisor, Capital Markets

- Thomas Flattery, Vice President, Manufacturers Hanover.

- Gregory Wolfe, President, Florida International University

- Richard Crisler, Director Transamerica Associates, Ltd.

- Ernest Falk, Northwest Horticulture Council

- Gordon Hunt, Director, Marketing Services, OPIC.

- Bill Mott, President, Agland Investment Services

- Danial Dunham, Director, International National Center for Research in Vocational Education

- Phillips Perera, President, Philips Perera & Co. (investment banking)

- Emile Karson, Managing General Partner, International Technology Holdings.