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By

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A PERSPECTIVE ON PRIVATE ENTERPRISE AND DEVELOPMENT AID FOR FORESTRY

By Jan G. LAARMAN*

SUMMARY

Current policy in the U.S. Agency for International Development places major emphasis on private enterprise and competitive markets as the key to economic growth. This guiding policy influences the design and implementation of many of the agency's projects, including those in the forestry sector. Strategies stress economic policy reform and the strengthening of forest-based private enterprises. However, a number of implementation questions must be satisfactorily resolved if this market approach is to succeed.

RESUME

La politique courante de l'Agence pour le Développment International des États-Unis souligne fortement le secteur privé et les marches concurrentiels comme la clef de l'extension économique. Cette politique directrice agit sur la planification et la mise en oeuvre de beaucoup des projets réalisés par l'agence, y compris ceux dans le secteur forestier. Les stratégies insistent sur la réforme de la politique économique et la consolidation des entreprises privées forestières. Pourtant, un certain nombre de questions de la mise en oeuvre doit être résolu de façon satisfaisante pour la réussite de cette politique du marché.

RESUMEN

La politea actual de la Agencia para el Desarrollo Internacional de los Estados Unidos, dá más énfasis a la empresa privada y a los mercados competitivos como claves para el desarrollo económico. Estos lineamientos influyen en el diseño e implementación de muchos de sus proyectos, incluyendo aquellos en el sector forestal. Sus estrategias enfatizan la necesidad de reformar las políticas económicas y el fortalecimiento de las empresas forestales privadas. Sin embargo, una serie de interrogantes en al implementación, deben ser resueltas satisfactoriamente si se espera que este enfoque de mercado sea un éxito.

Introduction

The industrialized countries have maintained a continuous transfer of official development aid to the low-income countries for approximately thirty years. During most of this period the prevailing orthodoxy in aid policy has recommended government planning and controls as the way to achieve economic progress. This has contributed to a comprehensive doctrine of government intervention in a wide array of economic activities.

But critics have argued forcefully that economic planning and government intervention are overemphasized to the extent that they ignore (at best) or interfere with (at worst) the operation of markets. Their thesis is that government intervention is the enemy of market order, and that material progress has been most evident where government intervention has been least evident. They conclude that a vast amount of

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development aid — because it has seriously distorted market incentives — has done more harm than good (Krauss, 1983; Bauer, 1984). The anti-market perspectives of the international donor community have produced a development agenda strong on promoting social reforms, but weak in providing economic growth (Schultz, 1981, esp. Chapter 7).

Lately those who argue in favour of bolstering the market orientation of development aid are taken seriously in many quarters, perhaps nowhere more so than in the U.S. Agency for International Development (USAID). An increasing proportion of USAID's activities is directed towards the building and strengthening of private enterprise (USAID, 1982), including private enterprise in the forestry sector (USAID, 1983). USAID is one of the major bilateral providers of development aid to forestry, including forestry in a large number of Commonwealth countries. Hence its new emphasis on private enterprise, whether one agrees with this emphasis or not, simply cannot be ignored.

This paper briefly describes USAID's guiding policy for private enterprise development. It then examines the implications of this policy for the design and implementation of forestry projects. The concluding section identifies the challenges to be met if the private enterprise approach is to be successful.

USAID and Its Private Enterprise Initiatives

USAID articulates its private enterprise philosophy in two principal documents (USAID, 1982; Hageboeck and Allen, 1982). These documents form the basis for this section's overview of USAID's policies and strategies.

Private enterprise, as defined by USAID, consists of profit-oriented economic units which produce goods and services for markets. Means of production are privately owned. Excluded from the definition of private enterprises are private voluntary organizations (PVOs), publicly-owned cooperatives, and parastatals. While these organizations may conduct commercial operations, they usually tend to respond to motives different from (or in addition to) profits. Thus they are less directly influenced by costs, prices, and other signals of competitive markets.

Donor assistance to encourage private enterprise initiatives attaches considerable importance to reform of economic policies. The chief characteristics of a policy climate favourable to private enterprise include: (1) consistent market-oriented pricing policies; (2) a legal and regulatory framework which protects private property, rewards risk taking, promotes competitive market structures, and enforces valid commercial transactions; (3) political and administrative stability; and (4) reliable public services.

Policy reform efforts rely on discussion and persuasion with key decision-makers in host governments. This discussion is most productive when it is made objective and analytical, not purely ideological. But USAID recognizes that the main constraints to effective economic policies are usually political, not technical.

Along with attempting to persuade governments to foster a market-oriented policy environment, other development aid is aimed directly at programmes to assist private enterprises. Objectives are to build management and technical skills needed to run businesses; to strengthen local business associations (*e.g.* trade associations and chambers of commerce); to expand financial institutions and private capital markets; and to encourage feasibility studies for the identification and evaluation of specific investment opportunities. Under each of these broad objectives is a whole array of supporting projects and tasks to be considered, depending on particular circumstances in particular countries.

In carrying out its private enterprise strategy, USAID's stated approach is to use relatively small amounts of funding to act indirectly as educator, demonstrator, and "information broker". Premises for this position are as follows: (1) large amounts of both public and private funds are being invested in the developing countries, but often ineffectively; (2) in many cases effectiveness increases dramatically by changing government policies that interfere with the operation of markets; (3) in other cases effectiveness increases by enhancing an entrepreneur's information and contacts in marketing, finance, and technology choice. Neither policy dialogue nor the enhancement of decision-making information requires large expenditures of capital. Furthermore, USAID contends that small amounts of public funds should facilitate, not displace, capital expenditures otherwise forthcoming from private sources.

Private enterprise is not only the target of development efforts, but also a means of delivering it. That is, USAID seeks to forge public-private partnerships in the provision of its technical assistance, training, and other development aid. The strategy encourages USAID to seek participation from the U.S. private sector to the maximum extent possible.

Implications for the Design of Forestry Projects

How is this guiding doctrine on private enterprise to be translated into specific ideas for the design and implementation of forestry projects? What directions and activities are appropriate for donor aid? These questions have been addressed in considerable detail elsewhere (Laarman and Dutrow, 1984), and this section will only highlight a few of the central concepts.

The subject of economic policy reform in the forestry sector is obviously a delicate one. However, the willingness of USAID to commit funding to a particular sector seems increasingly dependent on policy "conditions" in that sector. Examples of key reform issues in the forestry sector are: (1) getting governments to "privatize" wood-processing plants and other forest-based commercial undertakings presently owned or operated by state agencies or companies; (2) phasing out government-run marketing boards that administer prices and quotas for forest products, including forest products which are imported and exported; (3) encouraging governments to make more creative use of private enterprise and payment-by-results in afforestation and reforestation, *e.g.* through private planting contractors and privately-owned nurseries; (4) aligning forest revenue systems in accordance with principles of market supply and demand; (5) insuring that subsidies and taxes do not distort forestry investments in peculiar and undesirable ways; (6) adapting credit policies to the long payback period characteristic of timber growing; and (7) orienting forestry curricula in the universities and technical schools to include more emphasis on business courses and related training relevant to forest industries.

Policy reform is pursued in a number of ways. The aid donor may choose to send a high-level private sector delegation to confer with its sectoral partner in a particular developing country. This combined private sector team may then take up forestry policy problems with top government policy-makers in the forestry agencies, development ministries, treasury departments, and other pertinent units of government. Specific proposals for policy changes may emerge, and these proposals are assigned to task forces for further research and analysis. The task forces then report their findings to an administrative board (or a specially constituted public-private authority) for review and decision. This formal approach may be replaced by — as needs suggest — a variety of policy review procedures which are less structured.

6

In addition to policy reform, other donor aid is channelled directly for the benefit of private enterprises in the forestry sector. Subjective judgments may limit the clientele to small-scale and medium-scale operations, and indigenous rather than foreign-owned enterprises. These choices are made after constructing sector profiles to appraise problems and prospects.

Relevant opportunities for donor aid include the following examples: (1) workshops and courses on business management, finance, and marketing applied to forest products (including non-timber products); (2) technical support and advice for marketing guides, marketing newsletters, price reporting services, and other market intelligence services; (3) funding of feasibility studies and related pre-investment studies; and (4) funding to promote "matchmaking" for local enterprises needing to sell (or buy) products, services, or technologies to (from) foreign enterprises. Each of these examples supports the larger theme that the prescription for sectoral growth lies with markets and marketing.

Implementation Issues

Aid policy which promotes market approaches to forestry development faces a number of challenges and constraints, some ideological and some technical. The bridge from conceptualization to implementation is long and strewn with obstacles. These obstacles must be explicitly identified if constructive solutions are to follow, and if risks of failure are to be assessed objectively.

Among the principal implementation issues are the following: (1) aid agencies and the donor governments which they represent should expect to be criticized as naive and unrealistic for lecturing the governments of the developing countries on the virtues of capitalism and free markets; (2) the question of "policy reform" is easily perceived as external interference in internal politics; (3) the emphasis on markets is problematic for forestry, since the sector is replete with extra-market goods and services; (4) policies of aid agencies to strengthen forestry enterprises in the developing countries may conflict with private interests in their home countries; and (5) the focus on private enterprise may be falsely interpreted as antithetical to the principles of social forestry. Each of these concerns will be addressed in turn, but very briefly.

A focus on capitalism and competitive markets is vulnerable on purely ideological grounds. Critics argue that deep-seated cultural and historical factors make the private enterprise approach — often identified with mainly Western values — irrelevant in a substantial number of low-income countries. Yet perceptible changes have been forthcoming from otherwise improbable quarters. The most dramatic example is the private enterprise flavour of economic reforms in China. The Chinese reforms illustrate that ideology — when viewed as political economy — is malleable and adaptive, not rigid and monolithic. Moreover, conservative economists are quick to cite economic growth in countries of the Pacific Rim (*e.g.* Hong Kong, Republic of Korea, Taiwan, Singapore, and Peninsular Malaysia) when asked for evidence that capitalism is not a naive notion for developing countries.

The intent of an aid agency to foster sectoral "policy reform" can be faulted as an unwanted intrusion into domestic decision-making. Resentment by government officials must be expected when an external team recommends changes in forestry policies, programmes, and legislation to allow markets to operate more freely. The obvious strategy for the aid agency is to direct its assistance measures to technical and analytical tasks which support policy education and techniques of conflict resolution, avoiding the dispensation of policy advice *per se*. But even with the most tactful of approaches, policy analysis as a focus for donor aid is inherently a high-risk undertaking leading to uncertain political consequences.

Water, wildlife habitat, and microclimate control exemplify forest-based goods and services very rarely exchanged in markets. Additionally, in many low-income countries, property rights over forestlands are ruled by customary rights of usage and other institutions not yet ready for privatization. Economists looking for choice illustrations of market failures because of externalities, public goods, and intangible values often need look no further than the forestry sector. Thus the private enterprise approach — as a deliberate aid strategy for forestry — is necessarily confined to marketable commodities.

To environmentalists who question this emphasis, the aid agency must respond with a programme that makes private profit serve the needs of national conservation. Examples are private businesses for reforestation, fuelwood production, game ranching, and wood-saving technologies (*e.g.* preservation treatment, thin-kerf sawmills, *etc.*). Numerous other examples arise in specific contexts where the goals of environmentalists coincide with those of profit-making enterprises. Moreover environmentalists must be steered to the many case studies around the world where commercial interests are often the leading proponents of plans and policies to rationalize forest uses and protect remaining forestlands. Wood-processing enterprises which must have a supply of raw material into the future are frequently in the vanguard of efforts to eliminate illegal logging, spontaneous forest colonization, and other threats to their stability.

One frequently overlooked impediment to the private enterprise strategy in development aid is conflict of interest in the donor's home country. For example, privately-financed forest products associations in the U.S. are intent upon expanding exports to the Caribbean Basin, China, and elsewhere. Not only the U.S. private sector, but also agencies of its federal government (*e.g.* the U.S. Foreign Agricultural Service) aggressively promote wood products exports. Yet a likely objective of USAID's development aid for forestry — stressing the role of private initiatives — is to evaluate possibilities for import substitution of these same products. This potential conflict illustrates the need to search carefully for client groups in the donor country which can be considered likely allies (not opponents) of the assistance measures. Hence in addition to its trade associations which promote wood products exports, the U.S. has others whose interests are wood products imports, including imports of tropical hardwoods.

A final issue is the place occupied by social forestry (or community forestry). It has taken many years and much effort for the world's forestry development circles to accept these terms and their implications. Now USAID attempts to convince opinion-makers that the appropriate development institutions are private, not social. Is this an inconsistency? Does the support for private enterprise imply a trickle-down theory which disregards village-level approaches?

These questions are best answered in the context of aid strategies which regard the small land-owning farmer as epitomizing the "private entrepreneur." In this view the marketplace determines the fate not only of industrial forestry, but also of farm forestry. Thus the aid strategy (if properly conceived) attaches little importance to enterprise scale and formal delineation of sectors, and much importance to basic principles of economic growth. The most fundamental of these is that private persons who pursue their own good also promote the social good and build the wealth of nations, in any number of practical cases. Adam Smith has found friends at USAID.

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