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THE OPTIMUM ROLE OF THE PRIVATE SECTOR IN THE AGRICULTURAL DEVELOPMENT OF LDCs

An Investigation
Of the Entrepreneurial and Developmental Dynamics
Of Small Producers Organized Around A Corporate Core

A Study by Business International Corporation
for the
Bureau for Private Enterprise
Agency for International Development

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I

Introduction and Summary

Assumptions

Three assumptions underlie this investigation.

The first assumption is macroeconomic. It assumes that it is important to the soundness of the global economy, and vital to sociopolitical stability, for the Third World to participate to a maximum degree, and in an optimum fashion, in global productivity. An important ingredient of this participation is that the developing countries make a major effort to feed themselves and to strengthen the agricultural sector of their economies.

The second assumption is structural. It is based on historical and current evidence that the private sector is the most dynamic agent of development both in industrial and developing countries, and is therefore the indicated instrument for a policy that sets productivity as a priority.

The third assumption is operational. It posits that in the agricultural sector, on which this investigation is focused, the most efficacious way to obtain desirable results, from an economic and from a developmental viewpoint, is to energize small farmers. This is done most effectively by organizing them around a corporate core that offers them the necessary technology and a personal stake in state-of-the-art production.

A concept paper delineating these three thrusts, The Farmer and the Money Economy: The Role of the Private Sector in the Agricultural Development of LDCs, by Orville L. Freeman and Ruth Karen, won the

Mitchell Prize at The Woodlands Conference on Sustainable Societies in 1982. The concepts developed in that paper were investigated, on site, in 1983/84 on three continents (Africa, Asia and Latin America), in nine countries (Dominican Republic, India, Kenya, Mexico, Philippines, Sudan, Swaziland, Thailand and Turkey). The case histories cover a range of agricultural products from seed corn production to pig raising, and include cash crops and food crops--for family use, for the domestic market, and for the international market.

The companies organizing the investigated enterprises also represent a broad spectrum. They include multinational companies based in the industrial world; host country companies with international dimensions in the form of licensing and/or marketing agreements with multinational firms; joint ventures (including joint ventures with the public sector, domestic or foreign); and purely domestic firms. Companies range in size from very large (Unilever) to very small (The Caribbean Basin Investment Agribusiness Group).

Findings

Major findings of the study include the following:

For Small Farmer-Producers

Participation in ventures organized by and around core companies provides socio-economic opportunity of major dimensions.

For Companies

1. While agribusiness ventures anywhere require a relatively long-term commitment, an undertaking mobilizing small farmer producers around a corporate core can result in a satisfactory return on investment within an acceptable time frame.

2. Hands-on commitment by the core company, and intensive involvement at the managerial level, the technical level and the field supervision level are essential for success.

3. In the marketing aspect of the undertaking, vertical integration works best. In this context, farmer producers with increased incomes deriving from their additional productivity, can themselves constitute a new market.

4. Company relationships with farmer producers are complex, and vital to the venture. In addition to their technological and economic aspects, these relationships include social and cultural dimensions that are indispensable both to ROI and to continuity of operations.

For Host Countries

Recognition of the importance of agriculture to national development must be translated into policies. This includes legislation and regulations that make feasible successful agribusiness undertakings by the private sector. Policy questions that have to be addressed in this context include, but are not limited to, product pricing, taxation, exchange rates, credit, infrastructure and agrarian reform.

For Donor Countries

A commitment must be made at the policy level, the diplomatic level and the bureaucratic level, to encourage coherent, constructive, and dependable host government policies in the agricultural sector, and to support private sector entrepreneurs in agribusiness, both domestic and foreign, with a set of specifically designed services. These include participation in feasibility studies; provision of appropriate insurance; financing for small farmer producers; and the services of appropriate development experts.

Scope of Study

The policy recommendations of this study, contained in Volume I, elaborate on these findings.

The full study includes:

"New Concepts For the Role of Agribusiness in Accelerating Agricultural and Rural Development in Less Developed Countries and the Policy Implications" (Volume II); ten case histories (Volumes III-XII); and an inventory of extant private sector agribusiness undertakings in developing countries (Volume XIII).

The policy recommendations and case histories of Adams International (Thailand), Caribbean Basin Investment Agribusiness Group (Dominican Republic), Charoen Pokphand (Thailand), The Haggar Group (Sudan), Hindustani Lever Ltd. (India), Pinar (Turkey), and San Miguel Corporation (Philippines) are the work of Orville L. Freeman, Chairman, and Ruth Karen, Senior Vice President and Director, Corporate Public Policy, of Business International Corporation.

New Concepts for the Role of Agribusiness in Accelerating Agricultural and Rural Development in Less Developed Countries, and the Policy Implications, and case histories of Booker Agricultural International (Kenya), Del Monte Corporation (Kenya and Mexico) and Vuvulane Irrigated Farms (Swaziland) as well as the Inventory are the work of Dr. Simon Williams, President, and Frances Williams, Vice President, of the Center for Rural Development.

The study was undertaken for the Bureau for Private Enterprise of the United States Agency for International Development in implementation of its policy to work through the private sector to increase the well-being of people on an equitable basis.

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POLICY RECOMMENDATIONS

The successful agribusiness enterprises in developing countries investigated in this study have four major actors:

1) The small farmer-producer who wants to move from subsistence agriculture into an active role in the market economy, and is ready to transcend traditional constraints to create socio-economic conditions that offer greater opportunities for him and his family.

2) The company--foreign, domestic or joint venture--which envisions the opportunity, takes the risk and transfers the required technology in all facets of the undertaking.

3) The government of the country in which the enterprise is located (referred to as the "host government"), which promulgates the laws and regulations that directly affect the enterprise, and provides and/or supports a range of institutions with which the enterprise necessarily interacts.

4) The industrial country in which the parent company is based, which interacts both with the host government and with the operating enterprise in a number of ways. In this study that industrial country is described as the "donor country", and usually refers either to the US or the UK.

The policy recommendations outlined below address each of the actors separately and have evolved directly from the case histories. However, it is important to recognize that the success of an agribusiness enterprise in a developing country, with success measured in both bottom line and developmental terms, stands in measurable ratio to the degree with which the four actors pursue a coherent policy.

1. The Small Farmer-Producer

For small farmers in the developing world, the traditional goal has been survival. Generally speaking, they have had neither the resources nor recourse to the ingredients required to move beyond that goal. As a result, rural areas in the developing countries have become increasingly impoverished, and farm children, for whom there was no more family land to cultivate, have moved to the cities. There, most of them have become the denizens of socially and politically incendiary slums.

The systematic approach to agricultural development investigated in this study, in which small farmers are organized around a corporate core, regards the farmer as a vital ingredient of the enterprise, as each of the case histories bears out.

A farmer in the Dominican Republic, participating in the melon-growing venture of a core company (Agro Inversiones), spells out in his own telling terms what the system means in his life:

> "I got my own land, under the Dominican Republic's agrarian reform, in 1971. I don't own it, but I have the right to work it for my lifetime and my son has the same right when I die. It can be taken from me, or from him, only if I sell it, or if I let it lie idle. I don't intend to do either.
>
> "Here is my pay-off: From 1971-78, my income was DP10 per tarea (6 tareas=1 acre). From 1978-80, it was DP40 per tarea. In 1981, it was DP90 per tarea. Now, since I have moved mostly into melons, and grow two crops a year for Agro Inversiones, my income is DP160 per tarea. I, my wife, and my two oldest sons do most of the work on the farm. For a few weeks during the harvest season, we hire about 15 people to help.
>
> "What do I do with the extra income? I spend it on my family, on clothes, on fixing up the house, and mainly on education. Two of my children are in high school, and both intend to go on to university. I want both my boys and my girls to have that opportunity."

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2. The Company

The assumption here is that the paramount company goal consists of maximizing profit potential; minimizing risk; and achieving a satisfactory return on investment. The research shows that while some trade-offs come into play in all three elements of the company goal, organizing small farmers around a corporate core achieves a satisfactory bottom line more quickly than any alternative form of production organization. Illustratively, the case history of an agribusiness enterprise in Thailand (pig raising) reports an ROI with three dimensions:

> The first dimension is a financial ROI that begins the very first year of operation. Tactically, the company considers the first five years of each project the developmental phase, after which the training and direct supervisory functions of the company are attenuated.
>
> The second dimension of the company's ROI comes into play at that stage when the company encourages the farmers to manage their own affairs via a Board of Directors made up of selected farmers, with the company assuming an advisory role, compensated by a management contract.
>
> The third dimension, operative throughout both processes, is the company providing inputs such as feed and breeding stock, at a reasonable profit, and doing the processing and marketing--at a reasonable profit.
>
> In the long term, the company sees the college-educated children of these prosperous farmers managing their own family farms, with minimal outside services in either technology or management, but becoming increasingly larger customers for the company's products, and sources of supply for the company's processing and marketing activity.

A US-based company operating in the Dominican Republic, without the integrated structure of the Thai company cited above, also reports a satisfactory ROI the first year, and full recovery of invested capital within three years. It should be noted, however, that both cases involve

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crops with short production periods and, in the case of the Dominican Republic, the special advantage of duty-free access to the US market. For tree crops and other crops with a longer cultivation/production cycle, the calculations for a satisfactory ROI would necessarily involve a different time frame.

For enterprises such as the Dominican Republic undertaking (melons and vegetables for the US winter market), the policy implications, both financial and operational, are clear:

A. Hands-on commitment and involvement at the managerial level, the technical level and the field supervision level are essential for success. Given these three ingredients, a relatively modest scale of operations can produce a net profit on sales during the first year, and a respectable return on investment, including full recovery of capital, within 2-3 years.

B. This applies even when there is on-site competition for the farmers' output.

C. For export-oriented products it is vital to have a well-defined market plus a market organization, in the case of a bigger company; or a well-structured relationship with food brokers and wholesalers for a smaller company.

D. Transportation is a major cost consideration, and available options have to be analyzed carefully.

E. Financing, even if available locally at subsidized rates, may not be the most desirable form of credit. Given the snarls and obstacles of bureaucratic delays, it may be more cost effective for a company to finance farmers directly.

F. From a sociopolitical point of view, in any operation designed for the long term it is advisable for a company, particularly a foreign company, not to own land. If land holdings are needed for pilot projects or a nuclear estate, the land should be leased. From a sociopolitical perspective, as well as a productive one, the most desirable arrangement is to work with producer farmers who own their own land and work it largely with their own family members.

In the Philippines, a company with integrated operations in a wide range of food products reports an ROI on its seed-corn enterprise that spills over strategically into other aspects of company operations:

Working directly with small farmers represents a range of business opportunities that strengthen vertical integration of company products and/or provide a synergetic horizontal extension of product lines for the domestic market as well as for export.

A carefully structured outreach program that involves technical support in a number of ways, and includes social activities and contributions to community concerns, formulated on the basis of an ongoing dialogue with relevant community groups, has direct bottom line results. It helps to create markets for company products; it serves as an innovative aspect of advertising; it alleviates, or even eliminates, law and order problems for company activities; and it creates a relationship with producers that represents potential for additional profitable activities.

While companies, in their feasibility studies for agribusiness ventures in developing countries, have corporate-specific strategies to determine the suitability of soil, climate, water, transportation and appropriate financing mechanisms, generally useful policy implications emerge from the case histories in the areas of marketing; relationships with farmer-producers; management; and macroeconomic aspects of the enterprise.

<u>In marketing</u>, vertical integration works best.

Thus, in the Philippines, the San Miquel Corporation, with an internally integrated market for its corn-seed enterprise, reports a four-pronged result:

A stable quality supply for its feed operations and its downstream animal products.

A stronger market for its other product lines, with resulting better profitability.

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An increased market share of corn seed (The company's market share in 1983 was 24%, targets are 33% for 1984, 44% for 1985, and 50%-plus thereafter).

A return on investment of 20% on funds employed, which includes amortization of research and development activities.

In Turkey, Pinar, a milk-processing operation based in Izmir on the Aegean coast, developed a range of consumer products with which it successfully penetrated the domestic market nationwide, as well as developing an export market, primarily to the Middle East.

In the Sudan, Haggar Ltd. notes that the pay-back for its tobacco operations is immediate, because it is vertically integrated in the production of blended cigarettes, which the company itself manufactures and sells. In contrast, the pay-back for the company's coffee and tea operations not only takes longer, because of the nature of the crop, but also requires volume and/or processing facilities for added value. The company points out that the highest payoff is obtained when coffee and tea operations are extended to include packaging and retailing.

In company relationships with farmer-producers, farmer loyalty is vital. The secret of success in this relationship is stated succinctly by an executive of Adams International's operation in Thailand:

"You have to deal with the farmer not only as a producer, but as a person."

The multi-facetedness of this process is spelled out by the manager of a major milk processing facility in Turkey, who couches his recommendations in corporate-specific terms which nevertheless are applicable to all agribusiness undertakings in developing countries.

"Our company is aware of the fact that its own success depends not only on the increased population of milch cows it can induce and the higher yield and quality of milk it can help farmers produce. It knows that in Turkey, for small farmers, an economically viable and developmentally desirable farm requires an appropriate mix of livestock and crops, with a balance of food and cash crops. It knows, as well, that achieving this mix and this balance calls for sociopolitical and cultural skills as well as economic organization and technical expertise.

"Current plans call for a broad and diversified production base that would provide a market, and act as a technology transfer agent, for such integrated development.

"What should probably be added to the company's plans is a systematic effort to broaden its existing equity base to include among its shareholders as many farmer cooperatives and individual small farmers as is feasible, given economic realities."

As an operational matter, establishing a satisfactory ongoing relationship with its producers requires that the company offer not only a fair purchasing contract, but an appropriate mix of four additional contributions to the farmer's welfare. These are:

a) Competent, dependable extension services that are responsive to the farmer's needs not only in the product he furnishes the company but in other activities important to the farmer's economic base. This means giving the farmer whatever help the extension agent can in the cultivation of crops or the raising of livestock, that does not represent direct income of immediate sourcing for the company. It is vital, in this context, for the company to encourage a balanced use of land by the farmer, i.e. a division between food crops and cash crops that adequately meets the direct needs both of the company and of the farmer and his family.

Typically, with small farmers in developing countries, this balance is tantamount to having no more than one-third to one-half of the farmer's land devoted to the market crop, with the remainder allocated to

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food crops for family consumption or for sale to the local market. An important fringe benefit of this arrangement is that the company-farmer relationship does not result in economic dependencies with explosive sociopolitical overtones.

b) Improving and enhancing, as far as corporate resources permit, the social environment of the farmer and his family. This includes, but is not limited to, sports, health, education, and access to appropriate consumer goods.

c) Acting as a catalyst between the farmer and existing government institutions designed to serve the farmer. In most developing countries, competent bridge-building is required between small farmers and their needs and the bureaucracies intended to serve these needs.

d) Assisting farmers, in locally appropriate ways, to structure and strengthen their own organizations, and organizations involving their families and communities. Hindustani Lever Ltd. (a subsidiary of Unilever), operating in the district of Etah, State of Uttar Pradesh, one of the least developed regions of India, has formulated "Ten Commandments for Rural Development", which, with relevant modifications and alterations, are applicable in any LDC:

1. Establish credibility through honesty and integrity. These qualities have to be seen not only internally but externally as well. They are best conveyed by committed supervisors who are honest, apolitical and corruption-proof, and can earn the respect both of elected officials from the village level up and of appointed civil servants from the district magistrate down.

2. Assure that plans are generated at the grassroots by the farmers themselves. There is an initial hesitation by the farmers to make such plans, but the resistance can be broken down by supervisors who know their business and their communities, and by management trainees who actually live in the villages. Both the supervisors and the management trainees have to establish the kind of relationship with the farmer in which they can say 'no' as well as 'yes' and still retain the respect and trust of the villagers.

3. Set up an effective organizational structure for follow-through. Frequently, government and voluntary agencies have marvelous ideas and brilliant concepts, but no one who is competent or interested enough to follow through.

4. Provide or organize financial support. The need is for on-site banking institutions that operate effectively at the village level.

5. Build a viable communications system, both physical and people-to-people. This includes roads that are accessible throughout the year, and every form of transportation.

6. Upgrade agricultural practices. This involves everything from water management to crop rotation; from seed improvement to livestock care.

7. Introduce animal husbandry, not as a replacement for existing cultivation of food or cash crops, but as a viable secondary occupation for the farm family.

8. Promote appropriate alternative energy resources, such as bio-gas fueled by cow dung.

9. Aid village industries, particularly those relevant to women.

10. Help to build health and educational infrastructure.

<u>In management</u>. For the top management of the enterprise, at least initially, the company, wherever based, must reach for the best: Not the best it can spare, but the best it can muster. This applies to both executive and technical staffing. It is important to recognize that "the best", in this context, has to be defined in a way that exceeds narrow, or even broad-gauged, expertise. At the executive side, the top manager must not only know his product and his market, but must be sensitive to people in their social and cultural context. On the technical side, crop knowledge and people knowledge are pragmatically intertwined and equally important. The history of agribusiness companies in developing countries is replete with problems, and outright failures, created by executives with unquestionable technical and managerial expertise who

failed to relate effectively to the people in the undertaking's host country environment.

When the company is a foreign company, it is also advisable to work as assiduously as feasible toward the goal of replacing foreign management with local management. Systematic and thoughtful recruiting and training programs designed to achieve this goal are a major ingredient in the success of the enterprise over the long term.

For all companies, whether foreign or domestic, people contact works best when it is closest to the peer level. For example, one company discovered that for its hands-on extension services to farmer-producers, a team of local graduates from agricultural institutions did not work out. What did work was a system of recruiting extension agents from the farm families themselves and giving these best and brightest farmers the technical and administrative training they needed to become effective and respected extension agents.

At a more senior level of peer relationship, companies have found that local R&D is conducted most effectively when host-country technical and professional people--and indeed more adventurous and experiment-minded farmers--are involved in the process as soon as feasible.

In the macroeconomic area, a successful agribusiness enterprise produces visible economic and social results that penetrate the community both horizontally and vertically in measurable developmental terms. This enhances the image of the private sector in general and, where applicable, multinational corporations in particular; and validates both in their role as important engines of growth. In most developing countries, such image enhancement is important. In some, it is crucial.

Another macroeconomic consideration is the fact that successful agribusiness enterprises involving small farmers in the developing countries substantially raise the purchasing power of these small farmers and their families. There are today approximately 1 billion small farmers in the developing world. If, by way of the simplest of calculations, the income of these farmers were raised by only US$100 per year, the stimulative effect on the global economy would be staggering, with multiplier effects not only for agricultural output, but for manufactured goods and services as well, both in the developing countries and in the industrialized world.

3. The Host Country

Almost without exception, political leaders in host countries today recognize the importance of agricultural development. Indeed, agriculture is, and always has been, the key to economic development. No country in human history, with the exception of a few merchant or military city states, has ever prospered and built a sound economy without a solid agricultural base.

The problem is that, while the recognition of this is prevalent, most host countries are at least baffled, and more often overwhelmed, by the magnitude, the complexity and the political problems involved in carrying forward an effective, sustained program of agricultural development. There is no doubt that sound agricultural policies are difficult to develop and carry out. The time span required to put into place an appropriate land/people balance; to make available credit and necessary inputs to the grower; and to construct storage, processing and marketing capacity, is longer than the usual time span of a political officeholder. In addition, carrying out a sound, meaningful agricultural policy calls for changes which, by their very nature, shake up traditional social and management patterns, with the result that changes are fiercely resisted. This is true in industrialized as well as in developing countries, as even current EEC and US policies demonstrate.

The problems host countries need to address most urgently fall into ten categories:

1) <u>Food Policies That Have An Urban Bias</u>. Food policies with a

persistent urban bias may have short-term political payoff, but are clearly counterproductive in the long pull. They slight agricultural producers, undercut production, and motivate mass population movements from country to city, creating in the process the socially explosive slums that bedevil almost every host country.

The clearest manifestation of this urban bias is price policy, with governments using a range of price-setting mechanisms to keep producer prices low, sometimes even below cost. An illustrative example, with counterparts in every host country, is the support price of cotton in Turkey. That price was set at T£70 (in 1983) when the market price was T£150.

2) Agricultural Taxation. In most host countries, the bias against farmer-producers manifest in pricing policies is equally prevalent in taxation policies. Agricultural output is taxed at too high a rate, a policy that extends even to such measures, clearly counterproductive from a macroeconomic viewpoint, as levying substantial taxes on agricultural exports and on imports required for optimum output in the agribusiness sector.

3) Exchange Rates and Exchange Rate Controls. In many host countries, exchange rates that overvalue the local currency are maintained, often for image concerns that have no realistic economic base. These currency value distortions are particularly harmful to farmers producing for export.

A recent example of a reasonable policy in this area, leading to productive results, was a policy implemented by the Dominican Republic, which introduced a multi-tier exchange rate, with the most realistic rate available to exporters of non-traditional products, specifically including agricultural products.

4) Restrictions on Internal Food Movement. Some host countries actually have laws and/or regulations that restrict domestic movement of food crops, mainly for political reasons. In many, indeed in most of the host countries, internal food movement is effectively restricted, and to a considerable extent prevented, by inadequate infrastructure and transportation, as well as by inadequate and quite often non-existent storage facilities.

5) Credit Availability. While most host countries make an effort to provide agricultural credit, with widely varying degrees of resource allocation and administrative competence, none of the host countries in the study has yet managed to get anywhere near enough credit to the small farmers who constitute the backbone of the agricultural sector. Indeed, the case histories indicate that, with rare exceptions, it is only when private sector companies, foreign or domestic, supply supervised credit themselves or act as catalysts and/or mediators between farmer-producers and host country financial institutions, that small farmers actually get the financial assistance which, in theory, has been designed for them.

6) Redistribution of Land. Evidence around the world has demonstrated that the family farm, with a land holding adequate to apply modern technology effectively, is the most productive size. The incentive that results when the producer benefits directly from his efforts cannot be duplicated by large holdings whether they are privately held, communal, cooperative, or state-owned. Results from the factory-size organization of state farms and large collectives in the USSR are dramatic demonstrations of how not to organize agriculture. A system whereby the producer on the soil benefits directly from his

efforts is the single most important element in increasing productivity. In most places in the world, this means producer ownership; and it requires egalitarian land policies, adequately supported by the government. Adequate support, in this context, can be defined as a network of physical and social infrastructures that make possible economically rewarding farm production, and provide enough social services to induce farm families to resist the lure of the cities.

A demonstrative example of successful agrarian reform and its results is the effort made by the Dominican Republic in the Azua Valley. The reform, allocating land to family farmers, was complimented by a web of infrastructure services, including irrigation, electrification, farm-to-market roads, effective credit institutions, health and education facilities, and help with housing. The result was a 300% rise in per capita income in less than a decade.

7) Expropriation or Nationalization of Food Industries. A number of host countries have pursued such policies, with results that range from paralysis to disaster. Every case history in this study showed that competitive government enterprises required 2-5 times the resources that companies employed, and took at least twice, and in some instances three and four times as long, to achieve comparable results.

8) Political Patronage and Bureaucratic Ineptness. Where government is involved in providing or supporting services to small farmers, it is desirable to make farmer productivity, not political patronage, the yardstick. In the Philippines, for example, where the KKK (Kilusang Kabuhayan at Kaunlaran or National Livelihood Program), is generally assessed as being both imaginative and sound in the design of its

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programs, the implementation of these programs is hampered by the fact that too much of the KKK's money still goes to feudal leaders in the countryside and their political allies, instead of being channeled to the small producing farmer. If small farmers were supported more effectively, desirable economic and political results could be achieved. Farmer income and community standing would increase, and the political leadership, now very hierarchical in the rural areas, would have to listen more attentively to its constituents.

An illustration of obstructive bureaucratic ineptness occurs in India, where the effectiveness of a comprehensive set of services the government offers its rural population is marred by bureaucratic corruption and by paperwork which is too incomprehensible and too cumbersome for villagers to understand and deal with. At present, the paperwork required for villagers to obtain any government service is daunting to a point where the overwhelming majority of the rural population simply has no way of obtaining the service to which it is entitled.

9) Private Sector Involvement. If host governments want to attract and support private sector activity in agriculture, domestic or foreign, the host country government will have to make clear its commitment to agriculture, and its determination to implement policies it has proclaimed, and to honor promises it has made. This includes, but is not limited to, access to foreign currency; admittance of necessary expatriates; prompt approval of necessary imports, and, as noted above, the development of needed infrastructure. Perhaps most important, it requires a commitment not only in the political and governmental institutions at the top, but in provinces and localities as

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well. Concurrently, the political leadership at all levels must lead the way in building public understanding and support of this commitment to the country's agricultural base.

10. Relations with Multinational Corporations. Most governments' relations with multinational corporations in the agribusiness sector, whose technology, organization, processing and marketing expertise can make a major impact, have several special aspects of complexity. A blueprint for mutual understanding and successful collaboration is limned below.

a) Profitability and Responsibility. Both multinational corporations (MNCs) and developing countries must recognize the dual, fundamental facts that a) private companies are (and by their structure must be) motivated to make a profit on their operations and investments, and that b) host governments are (and naturally must be) concerned about the development of their countries. Each side should clearly recognize the legitimate interests of the other. The essential point is that governments must allow MNCs to make and remit a reasonable profit, while MNCs must acknowledge and fulfill the full range of their economic and social development responsibilities to the host countries. Further, it should be recognized by both sides that contributions to the progress of a developing country can be made in many forms, both economic and non-economic (e.g. training and educating people), and that all forms of contribution applicable to each investment should be given full recognition.

b) Information and Reporting Procedures. Access to certain kinds of information is often a key point of contention between MNCs and developing countries. On the one hand, governments often feel that MNCs

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are "secretive" and do not fully reveal their activities and practices. On the other, companies are sensitive about proprietary information getting into the wrong hands--for example, commercial competitors or social adversaries. If developing countries wish MNCs to reveal sensitive information to tax and other government regulatory authorities, they must be able to guard against the misuse of that information.

c) Technology. Technology in the broadest sense--including material, managerial, marketing, organizational and other skills, as well as advanced technical information such as secret know-how--is at the heart of the problem differentiating developed from developing countries. Developed countries should, in the overall context of seeking to assist and aid countries working hard to improve themselves, address this problem and seek to facilitate the transfer of technology. However, MNCs which are private properties cannot and should not be expected to give away skills and knowledge that may have taken years (if not decades) as well as great expense, to develop. Nor is it reasonable that a country should expect to get something for nothing. Reasonable payments for technological contributions by MNCs to developing countries should be expected. If the technology is continuously updated by injections of fresh advances, these too should be compensated. However, payments should cease after a number of years where new injections do not occur.

d) Employment and Labor. Countries should clearly outline and communicate their manpower objectives and expectations to MNCs, and MNCs should do their best to fulfill those objectives. Where appropriate, free union activity should be permitted, but MNCs should not be picked out as targets for demands not made of local companies. MNCs should pay going wage rates as a minimum; on the other hand, if they do more than the minimum, either in terms of direct pay or of other benefits and fringes (e.g. housing, schooling, lunch programs), the effect of such costs on the MNC's local operations should be taken into account by the host government.

e) Consumer Protection. Minimum international health and safety standards should be worked out, and a standardized international labeling system introduced. Any prohibitions or restrictions in process or product imposed by home countries should be revealed to host countries.

f) Competition and Market Structure. Countries and MNCs should work out export and purchasing policies at the time investments are made, and they should clearly establish the length of time that such policies (and any restrictions on them) are to be in effect.

g) Transfer Pricing. Transfer pricing is a difficult and extremely complex area of international business. At the outset, two things should be honestly recognized: first, by the host country, that the subject cannot be dealt with by simplistic slogans or formulas; and second, by the MNC, that there have in fact been cases of serious abuse of pricing policies.

A reasonable transfer price for a product imported into a developing country for further use in an MNC operation in that country will cover the full costs (including R&D and engineering costs)involved in making and shipping that product, plus a fair profit on the imported product. The transfer price should not include any other "hidden" forms of return to the MNC, such as special services rendered by parent company specialists that are not reimbursed (or not permitted to be reimbursed),

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by the government or central bank of the host country subsidiary. Companies are sometimes tempted to take out returns for their investments via the transfer price when they are not permitted to charge what they consider reasonable royalties, service fees, trademark fees, and the like. It is the interrelationship of all these factors--affecting both local subsidiary and parent company profits--that makes transfer pricing such a complex area. The only reasonable way to approach this problem is through openness and honesty on both sides: through recognition that constructive economic activity is entitled to a profit for its efforts, but that, at the same time, considerations of simple humanity and relative ability to pay must temper specific expectations of return.

h) The Economic Role of Women. Both host countries and MNCs must address attentively, constructively, and immediately, the economic role of women, particularly in agriculture. Women do 78% of the farmwork in developing countries, including production, processing and marketing. Though results and needs vary from region to region and from culture to culture, some elements of the effects of technology transfer on women are constant. Technology--and especially the operation of large machinery--is traditionally seen as work for men. In agriculture, this leaves women both with a greater workload in hand-done tasks (some of which they will pass on to children), and also with a loss of prestige or pride of place in the community.

At the same time, women throughout the developing world are interested in domestic technology, and in crop processing and storage technology that will lighten their workload. Host countries and MNCs need to include women in the planning stages of development strategy, particularly in the agricultural sector, thereby enhancing family solidarity and offering greater possibilities for the long-term success of the family farm.

MNCs must remember that dealing with farmer-producers involves women as well as men and, in one way or another, the entire farm family.

An Evolutionary Process

A description of the evolution of host government thinking vis-a-vis agribusiness, with clear policy implications, is offered by a senior private sector executive in Thailand who earlier served in the public sector at the Cabinet level. He said:

> "Initially, the Thai government pursued what was essentially a welfare policy vis-a-vis the farmer. It treated the farmer as a backward child, poor and uneducated, and provided him with handouts in the form of free seed, subsidized fertilizer and support prices. But it offered neither the full package of know-how and services nor the motivation to make him self-supporting.
>
> "In addition, the government's attitude toward the private sector in agriculture was that the private sector would exploit the farmer and was therefore not to be trusted. This attitude is beginning to change as the government realizes that it cannot create meaningful rural development alone. At this stage, the government is thinking in terms of cooperation from the private sector in rural development, and has long-term intentions of encouraging private sector activity in agribusiness, with the government gradually pulling out.
>
> "A conceptual difference remains between the government and the private sector of what rural development is and means. The government is still inclined to think of rural development as helping poor farmers in subsistence areas, while the private sector thinks of rural development as creating and supporting motivated farmers to cultivate products that meet market criteria.
>
> "Conceptually, what is needed on the government side is the recognition that any country, in order to industrialize successfully, must have a strong agricultural base. Sound development is not possible by leapfrogging the agricultural component. A sound

agricultural base raises farmer income which, in turn, increases demand for consumer industries; and that, in turn, creates the need and market for heavy industry. All industrialized countries, and all successful developing countries, have followed this pattern.

"In this process, governments must remember that the private sector company is not a development agency, but it is an agent--a very dynamic agent--in the development process."

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4. The Donor Country

Donor countries--if they are prepared to formulate the appropriate long-term policies, commit the indicated financial resources, and follow through with the required implementation at both the diplomatic and the administrative levels--can play a major positive role. They can exercise an important influence in guiding host countries toward formulating appropriate polices and implementing sound practices, thereby laying the foundation for sustainable economic and social development.

They can also furnish practical support and concrete incentives to private sector risk-takers, domestic and foreign, who are prepared to put on the line their expertise, their technology, and their shareholders' money, to launch agricultural ventures that can make a meaningful contribution to the goal of meaningful development.

At the policy level, donor countries must impress the governments of host countries with the imperative of making a clear commitment to the importance of the agricultural sector, its growth and expansion. This commitment must include specific undertakings to set product price levels that will stimulate the acceptance of new and, in many cases, untried technology and cultivation methods by small growers.

As a political issue (clearly not an easy one to confront), this means that host governments must be persuaded to formulate and support an adequate agricultural policy rather than a cheap food policy. There is no doubt that this will require wisdom, insight, and political courage from host country leaders, who will need the staunchest possible support from donor nations.

This support must be expressed and delivered not only in donor country capitals but, on an articulate and consistent basis, in the host countries. Donor country diplomatic posts, starting at the ambassadorial level, need to understand that providing this support is a high-priority item on their overall diplomatic mandate.

At the implementation level, ambassadors, and the directors of donor country aid programs, should be directed to make contact at the highest level with the government of the host country in which they serve, beginning with the Chief of State and including all appropriate Ministers as well as other relevant government institutions. The thrust of this effort should not be to exercise pressure in the usual sense, but to convey unmistakably the support of the donor government for an active agricultural policy directed at the small farmer and implemented by the private sector.

For the US specifically, it would be important to strengthen the staff of the AID director in the host country by assigning, at the highest possible level, a representative of the Bureau for Private Enterprise, with competence for and insight into private sector approaches and operations.

To host countries prepared to follow the policies described above, donor countries should offer the maximum assistance feasible in constructing the infrastructure networks, both physical and social, that will provide optimum conditions for agricultural growth through the instrument of small farmer-producers acting in a private sector context.

To the private sector--local or multinational--donor countries can provide a number of practical services that will help to reduce the considerable and inevitable risk inherent in all agricultural enterprises: risks exacerbated in developing countries.

Specifically, donor countries can:

1) Finance or participate in the financing of feasibility studies.

2) Provide appropriate insurance or reinsurance.

3) Supply financing for small farmer-producers in the form of supervised credit. This financing can be channeled through existing host government financial institutions where these are competent and capable of reaching the small farmer. Where this is not the case, supervised credit can be channeled through the private sector company, local or multinational, that works directly with small farmer-producers and whose own interest in the farmers' economic performance dovetails with that of the institution or organization that supplies the financing.

4) Offer the services of development experts with a sound grasp of economic realities and hands-on experience in working with institutions, communities and families in developing countries. Such experts could help companies--especially, of course, foreign companies--to address some of the sensitive cultural, social and sociopolitical issues that inevitably arise when traditional practices and methods are altered to achieve maximum production. These development experts could, where indicated, help build farmer organizations that would facilitate company negotiations and, where advisable, work with intermediate institutions to achieve a harmonious integration of the goals of the private sector company, the small farmer-producer, and the host country.

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These experts could be furnished by donor countries either to the company or to the host country on a reimbursable basis.

On-Site Suggestions

Case histories in this study yielded policy recommendations from on-site sources that concretize the general recommendations outlined and provide some specific additions.

From Thailand:

"In the past, US policy has channeled AID funds only to governments and to the military. The new emphasis on the private sector, and direct bilateral contact between the private sector of the US and Thailand, with government encouragement and support, is likely to bring a positive dynamic to the entire aid process. The allocation of USAID resources to bringing together the private sector of the donor country with the appropriate partner in the recipient country will undoubtedly have more immediate and direct results than channeling funds to government organizations and institutions, where demonstrable development results may or may not be achieved."

From the Sudan:

"Three positive action-points seem plausible:

1) To find, or create, mechanisms that will channel funds as expeditiously and inexpensively as possible to "bush planters" for the production of cash crops to supplement their food crops and raise their living standard.

2) To devise ways in which a portion of counterpart funds (which will amount to the equivalent of $100 million in 1984), can be channeled to the private sector.

3) Using whatever policy-making leverage the US government has to persuade the Government of Sudan that encouraging private investment in agribusiness would be an effective method to make use of Sudan's comparative advantage of arable land to raise the living standards of its people and to contribute meaningfully to adjusting the presently lopsided balance of payments."

From Turkey:

"First, the donor country can exercise its persuasive powers to move the Turkish government toward a policy of letting the private sector do what it does efficiently and effectively while concentrating public sector attention on infrastructure undertakings, economic and social, that are beyond the private sector's competence or resources.

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"Donor countires should provide scholarships for junior and middle management, not only in the public sector, but in the private sector as well.

"Some USAID funds could be allocated specifically for the importation of high-yield cattle and of frozen semen from the US."

From the Philippines:

"Donor country funds should be channeled, at least in part, through the private sector in the agribusiness area. Such funds could be earmarked, for example, for appropriate research and development as well as a range of other private sector activies in agribusiness designed to make small farmers optimally productive and increase their earning capabilities and purchasing capacity. An example of how such donor country funds could be used in innovative ways is the creation of a pilot project in which the private sector would support a group of farmers organized as a cooperative or association by guaranteeing financing, providing technology and monitoring the farmers' activities for a profit and loss orientation."

For the US specifically, a final policy recommendation manifests an additional dimension relating to the vital role of the US as leader of the free world. That dimension was limned in a recent editorial of Financier: The Journal of Private Sector Policy:

"At a time when the world has grown bitter and skeptical about US leadership, agriculture could be the way for this country to reclaim the moral high ground it occupied not so many years ago, when it devoted its vast unharmed industrial power to rebuilding the world after World War II. In those helping, confident years, the US exemplified leadership, in a moral as well as a material way.

"It has the stuff to do it again--to meet a great and growing material need, to feed the starving, to kindle hope, to regain confidence."