AID highlights

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PRIVATE ENTERPRISE: THE KEY TO DEVELOPMENT

Private enterprise generates jobs and stimulates economic growth and diversification. In the Third World, private enterprise is a key to sustained economic development.

Private enterprise works. Economic performance has been strongest in developing countries that have encouraged private entrepreneurship. For example, basically free-market Asian nations such as Taiwan, the Republic of Korea, Hong Kong, and Singapore had growth rates between 5 and 10 percent through the 1970s, meaning income doubled every 7 to 14 years.

By contrast, countries with centrally planned, state-dominated economies have not fared as well. Sri Lanka is an example of a developing country which shifted away from public sector domination of the economy, and prospered from creating a more attractive climate for private enterprise.

Prior to 1977, the Sri Lankan government imposed stiff restrictions on private enterprise. Growth rates averaged around 3 percent. Only 15 percent of the gross domestic product was reinvested in production. Between 1963 and 1973, unemployment shot up from 14 to 24 percent.

In 1977, a new government came into office and lifted the controls and restrictions on the private sector, encouraging foreign and domestic private investment in Sri Lanka's economy. Since then, the economic growth rate has doubled to an annual average of 6 percent. Reinvestment in production reached 30 percent of gross domestic product. Unemployment fell to 11.7 percent.

As mandated by the Foreign Assistance Act of 1961, the U.S. Agency for International Development (AID) carries out programs that stimulate the growth of the private sector in the developing world. Assistance is provided to Third World entrepreneurs by expanding access to credit as well as technical and managerial training. U.S. companies are actively encouraged to play a greater role in development, creating new business opportunities and jobs for Americans while stimulating economic growth in the developing world.

As part of its emphasis on the role of the private sector in development, AID established the Bureau for Private Enterprise in 1981. The Bureau supports Agency-wide efforts to encourage economic growth through indigenous private sectors by providing technical expertise to AID personnel throughout the Third World.

"Nearly all of the countries that have succeeded in their development over the past 30 years have done so on the strength of market-oriented policies and vigorous participation in the international economy. Aid must be complemented by trade and investment."

—President Ronald Reagan

Improving the Policy Climate for Private Sector Development

Often restrictive laws, overregulation, and legislative disincentives to investment handicap the growth of private sectors in the developing world. As a result, the Agency for International Development promotes a more receptive climate for private enterprise through direct policy dialogue with government officials in the Third World.

AID assesses the impact of host country government policies on their private sectors to identify problem areas. It then provides technical advice to governments interested in modifying policies retarding private sector growth. Already, this effort has brought reforms of price controls, tax

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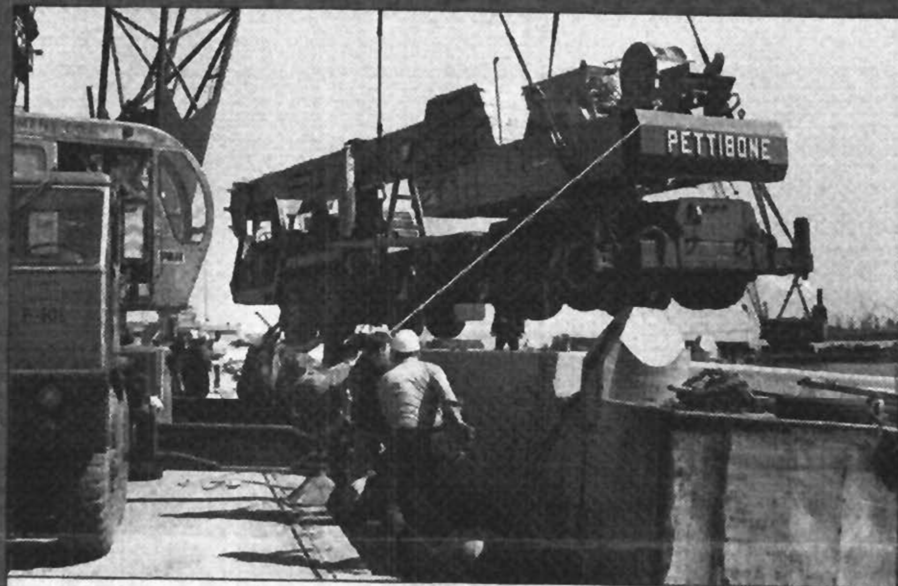
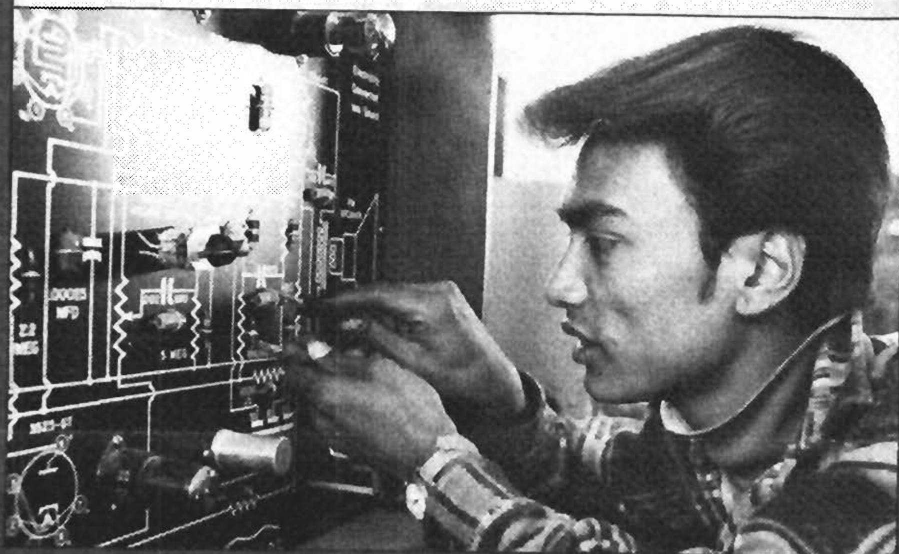
policies, investment incentives, and regulations in more than a dozen countries.

A very important aspect of AID's technical advice on economic policy involves helping Third World governments return state-owned businesses to the private sector. Government-owned corporations are commonplace in the Third World. They engage in a wide range of activities from commodities marketing to the production of consumer products. Frequently they are inefficient, crowding potential entrepreneurs from the market and causing a drain on the government's budget. Some cost the government more to administer than they generate in foreign exchange from exports. AID has successfully helped governments "privatize" such monopolies. The government of Bangladesh divested its fertilizer industry and the government of Mali privatized its cereal grain marketing and transport with assistance from AID. Consultations are currently under way with a number of Latin American and African governments considering similar moves with their state-owned enterprises.

Policy dialogue also offers solutions to credit scarcity in the Third World. This includes promoting realistic interest rates in developing countries and strengthening capital and financial market institutions to generate an indigenous capital pool.



Economic growth and development in the Third World has a direct impact here at home. Developing countries are a significant market for U.S. products.



Access to Credit: A Foundation for Private Enterprise

Credit for job-generating small- and medium-sized enterprises is in short supply in many Third World countries. AID attacks the problem of scarce credit for small- and medium-sized enterprises through direct loans and co-financing. A Private Sector Revolving Fund, created by Congress in 1983, has made $60 million in loans available at or near market interest rates for small- and medium-sized businesses in the Third World. The loans are often made available as part of co-financing arrangements with private lenders, attracting private capital to development-oriented projects.

Loans are also made to developing country financial institutions which provide capital for development-oriented private enterprise. For example, the Kenya Commercial Bank created a $5 million capital pool for private agribusiness through a $2.5 million loan from AID which attracted a matching amount of local capital. Eighteen loans to private firms from this fund are generating 350 full-time jobs to date.

A Role for American Business

Now more than ever, U.S. business is finding new opportunities for investment in the developing world. And Third World nations are increasingly receptive to U.S. business.

U.S. companies can participate in Third World economic growth through AID's Feasibility Studies Cost Sharing Program. Entrepreneurs interested in launching a business venture in a developing nation can receive a "refundable grant" of up to $50,000 toward the cost of determining if a project is commercially viable. If the project proves unfeasible, the grant is forgiven. If it proves viable, AID may consider participating in the venture as part of a co-financing arrangement.

A similar feasibility study effort by

the Trade and Development Program led to $500 million in U.S. exports resulting from newly generated business opportunities in developing countries.

Licensing and co-production arrangements between U.S. and Third World firms also expand the private sector in the developing world. AID's Market and Technology Access Program links up compatible U.S. and Third World companies producing everything from computer software to pharmaceuticals. These agreements can lead to long-term business relationships.

Technical and managerial training helps entrepreneurs in developing countries compete in world markets. AID sponsors training and advisory efforts by the International Executive Service Corps, the Young Presidents' Organization, and the Industry Council for Development, three private organizations of U.S. business executives offering practical counsel to Third World entrepreneurs. AID also helps create management training institutes in the developing world.

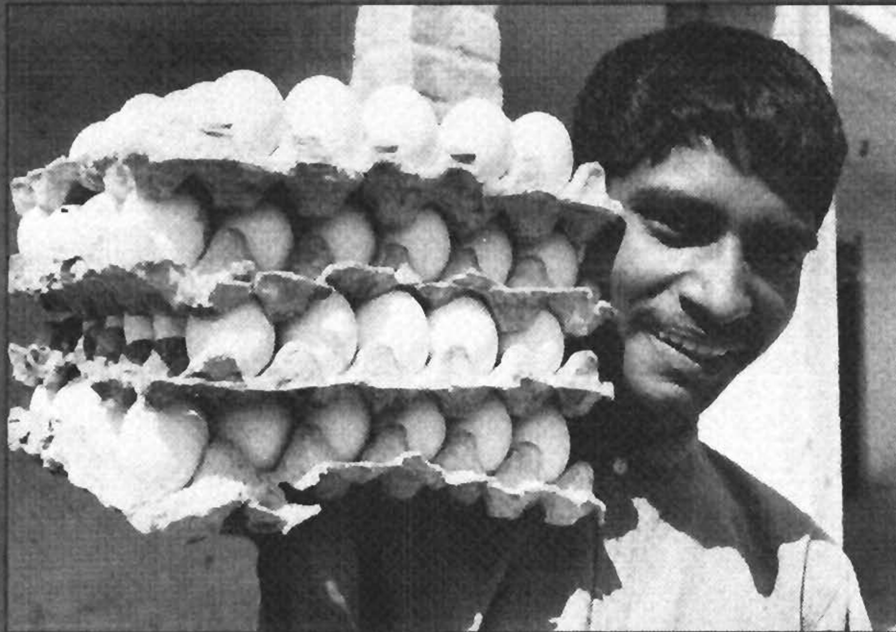
U.S. companies have generously volunteered their expertise to help fledgling companies in the Third World. The AID-funded Project Sustain, for example, supports a voluntary effort by major U.S. food processors offering training to private food processing firms in developing countries. The effort, offered gratis by the American companies, brings advanced packaging, quality control, and strategic planning skills to Third World entrepreneurs. Already, experts have visited Panama, Guyana, Bolivia, El Salvador, and Sri Lanka.

Growth Abroad Means Growth at Home

Economic growth and development in the Third World has a direct impact here at home.

Developing countries are a significant market for U.S. products. They purchase 40 percent of U.S. exports. This growing market purchases more U.S. products than all the nations of Western Europe combined, and 4 times more than Japan. Six percent, or 1.2 million U.S. manufacturing jobs are dependent on exports to the developing world. Between 1975 and 1982, the value of U.S. exports to developing countries rose nearly 11.5 percent per year, faster than exports to industrialized countries.

"Free market forces provide the most stable bedrock for economic development and democracy." —AID Administrator M. Peter McPherson



Americans depend on developing countries as a source of raw materials and commodities. Developing countries supplied nearly 45 percent of these imports last year including a significant share of such strategic minerals as bauxite, tin, cobalt, and tungsten. These imports are vital to national security and to U.S. industry.

Foreign economic assistance means direct business opportunities for American companies and jobs for their employees. Up to 70 percent of U.S. bilateral economic assistance funds ultimately are spent on goods and services provided by U.S. suppliers. Over the past 12 years, more than 5,000 manufacturers and suppliers in the United States received AID-supported orders, totaling more than $9 billion in sales.

These opportunities extend to minority- and women-owned businesses as well. Under the recently passed Gray Amendment, AID seeks to target up to 10 percent of its product and service procurement to businesses operated by minorities and women. Out of a potential pool of $900 million in contracts, this means opportunities for $90 million worth of AID-related business within the minority community.

Economic development and private sector expansion in the Third World means greater economic opportunity for Americans. By expanding the economic base of developing countries, new export opportunities are created for American products. This helps to prevent economic downturns, the effects of which inevitably spill over into the U.S. economy as well. At the height of the worldwide recession, 300,000 U.S. jobs were lost due to a dropoff of exports to Latin America. U.S. private direct investment in the developing world totals about 25 percent of all U.S. direct investment abroad. Economic stability, and the political stability that it brings, helps make these investments more secure.

Encouraging private enterprise and economic growth in the developing world is a no-lose proposition. It provides long-term solutions to nagging problems like food self-sufficiency and unemployment. And it develops expertise and management skills needed in building the strong, sound institutions upon which modern society depends. ■

Facts About the Private Sector, Aid, and Trade

- Developing countries purchase 40 percent of U.S. exports, or more than all the nations of Western Europe combined. They purchase 4 times as many U.S. products as Japan.
- Six percent, or 1.2 million U.S. manufacturing jobs are dependent on exports to the developing world.
- Americans depend on developing countries as a source of raw materials and commodities. Developing countries supplied nearly 45 percent of these imports last year, including significant percentages of strategic minerals like bauxite, tin, cobalt, and tungsten.
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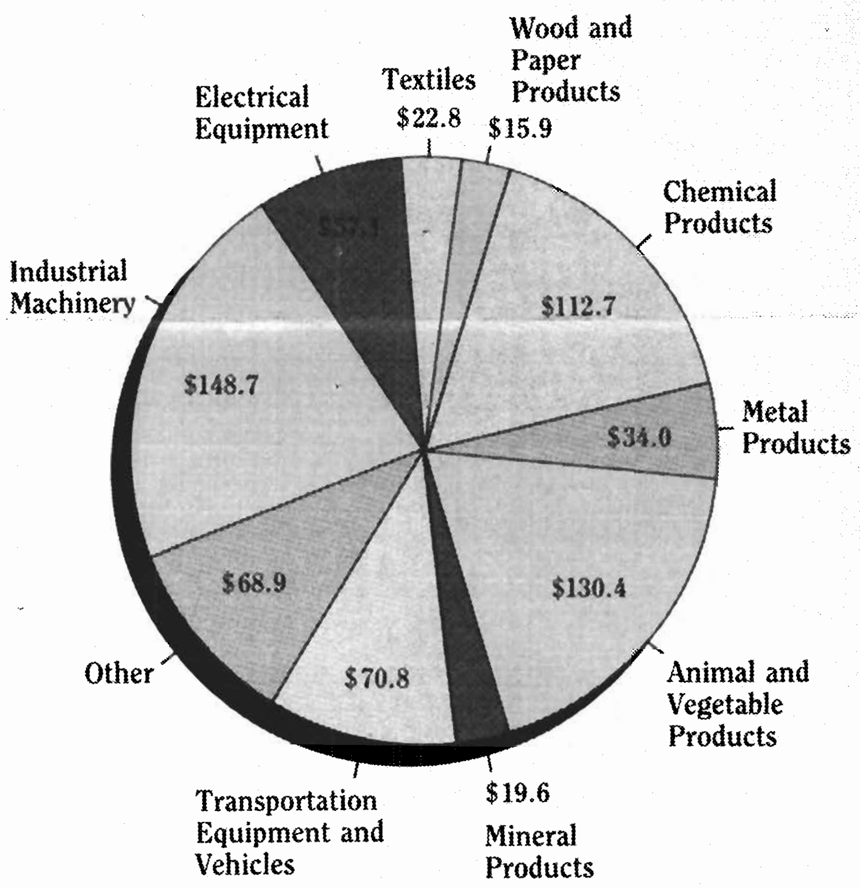
Estimated AID-financed purchases from the U.S. private sector during Fiscal Year 1983.

(In Millions of Dollars)



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