
The Partnership For Business and Development

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One of a series of initiatives of
the U.S. Agency for International Development:

The Democracy Initiative

The Partnership for Business and Development

Family and Development

plus

Toward Strategic Management

The Partnership for Business and Development: An A.I.D. Initiative

Executive Summary

The Agency for International Development is launching a Partnership for Business and Development Initiative to engage American private sector participation in the effort to develop and sustain free-market principles and broad-based economic growth in developing countries. Just as the profit-driven American private sector has proved to be an unequalled engine for human progress and development on the national level, A.I.D. believes it can be a suitable vehicle for helping emerging countries to achieve their economic development objectives. Mutual benefit to the economies of the developing countries and the American economy will be the litmus test for this initiative.

International trade, foreign investment and economic development are intertwined in the global economy of the 1990s. Emerging economies are increasingly preoccupied with efforts to improve their effectiveness as exporters and traders and to attract capital, technology and human resources from industrialized nations. At the same time, many American corporations are increasingly investigating opportunities for trade and investment in emerging economies. The U.S. government also has noted this corporate interest in emerging economies and is looking to find effective mechanisms to support the shared interests of American firms and developing economies.

The Partnership Initiative includes six activities:

- 1. *The Capital Projects Fund:*** A.I.D. will seek legislative authority to create a fund to support developmentally sound capital projects of direct strategic relevance to U.S. trade competitiveness.
- 2. *The Business and Development Network:*** a Washington and field mission-based network to provide advice, information, insight and counsel to American firms seeking to do business in the countries in which A.I.D. operates.
- 3. *The Business Advisory Council:*** already authorized in the Foreign Assistance Act to provide A.I.D. with additional business perspective as the five other activities are implemented.
- 4. *Emerging Sectors in Development:*** pilots in a few select U.S. industries (e.g., environmental products, financial services and telecommunications) that promise extraordinary economic development impacts springing from American private sector investment in the countries where A.I.D. operates.

5. *Competitiveness Through Universities:* engaging the talents of America's best universities and business schools to address the challenges of emerging economy issues affecting American business.

6. *Business Internship Program for Emerging Markets:* assisting the American private sector to develop a cadre of young men and women equipped with the business skills for emerging markets and an understanding of the business cultures in countries where A.I.D. operates.

Introduction

Over the last two years, the world has seen dramatic changes in its economic and political systems. Economic relations among nations are going through significant changes as nations begin to chart new courses to economic prosperity. Emerging and industrialized nations are finding new vigor through international investment, trade and debt management. With a growing acceptance of democratic principles worldwide, there is increasing international consensus that sustainable economic development in emerging countries is the best path for reducing global poverty and increasing the participation and access of all individuals of a society. This sustainable growth is inextricably linked to the strength of the partnership between business and development.

The adoption of market-economy principles on a global scale has brought with it new opportunities and challenges. Through its privatization programs and activities, the Agency for International Development has been in the forefront of creating conditions necessary for sustainable economic growth. Its systemic commitment to private enterprise as a key vehicle to help emerging countries improve their economic performance has laid a solid foundation for the implementation of market-based economic principles. A.I.D. has done this through many mechanisms: strong cooperation with U.S. private sector development organizations, such as the International Executive Service Corps; helping small and medium-sized entrepreneurs in developing countries; and by policy dialogue with governments to persuade them to implement such structural changes as lower taxes, less government red tape, freer exchange rates and market-based interest rates.

As A.I.D. moves into the 1990s, a world with an increasingly integrated and interdependent economy, it will be entering a period of great opportunity and challenge. New opportunities will arise in Eastern Europe, the Middle East, Asia, Africa and Latin America. Major challenges for A.I.D. will be how best to leverage scarce U.S. foreign assistance resources to promote political, social and economic stability in developing countries while simultaneously helping them to achieve broad-based economic growth. It is this challenge that leads A.I.D. to propose its Partnership for Business and Development Initiative. Just as the profit-driven American private sector has proved to be an unequalled engine for human progress and development on the national level, we believe it can be a suitable vehicle for helping developing countries to achieve their objectives.

A.I.D.: A Partnership With the Private Sector

A.I.D.'s mission for the 1990s is to administer economic assistance programs that combine the American tradition of international concern and generosity with the active promotion of America's national interests. These interests include assisting developing countries to realize their full national potential through the development and dynamism of free markets, individual initiative and participatory democracies. A.I.D.'s overall objectives are guided by six principles:

- support for free markets and broad-based economic growth;
- concern for individuals and the development of their economic and social well-being;
- support for democracy;
- responsible environmental policies and prudent management of natural resources;
- support for lasting solutions to transnational problems; and,
- humanitarian assistance to those who suffer from natural or man-made disasters.

In launching its Partnership for Business and Development, A.I.D. is focusing on how best to carry out its overall mission. The strengthening of ties with the private sector is one of several supporting strategies and mechanisms to increase the delivery of American ideas, technology, funds and know-how in the 1990s.

Partnership is a meaningful term. It connotes alliances . . . cooperation . . . mutual interests. It is an appropriate term for almost every endeavor A.I.D. undertakes. At present, the Agency is in partnership with educational institutions, private voluntary organizations, other donor nations, international organizations, Congress and the American people in delivering U.S. foreign assistance to developing countries. By proposing a partnership with the private sector, A.I.D. is recognizing the important role this sector can and should play.

The Private Sector: Why a Partnership With A.I.D.

The challenges for the private sector in the 1990s are no different than the challenges A.I.D. faces. Though different in scope and national importance, both have to readjust their strategies to be successful.

America's private sector will face extraordinary challenges competing within an increasingly integrated and interdependent world economy. Most of the strongest American private institutions and firms are not fully prepared to meet global competition in emerging economies. Their natural advantages of technological superiority and capacity for innovation may not be adequately matched by an understanding of emerging markets and grasp of the varied and complex business cultures in the developing nations.

The Agency for International Development, with its 30 years of experience operating sizeable economic missions in more than 80 developing countries, is positioned to form a successful partnership with the American private sector in filling some of the gaps that currently limit American participation in these nations.

As America's international economic assistance agency, A.I.D. has a double stake in the globalization of investment and trade. Investment and trade are good for the emerging economies A.I.D. serves and good for American firms competing in the global marketplace. Sustained prosperity and growth for developing nations are now universally understood to depend upon vigorous international investment and trade in both directions — efficient exports into global markets and efficient imports from worldwide sources. As a development agency, we have a central concern with assisting these nations to improve their competitiveness as domestic producers and global exporters. At the same time, as an economic agency of the U.S. government, we have a fundamental interest in building the import capacity of these countries and in ensuring that qualified and efficient American firms successfully compete for the supply of goods and services that complement and support sustainable growth in these economies. The two goals are mutually reinforcing. The United States and the developing countries are natural partners in the global economic marketplace.

A.I.D.'s Partnership for Business and Development Initiative

The Partnership Initiative includes six activities. These are:

1. Authority to Initiate the Capital Projects Fund
2. The Business and Development Network
3. The Business Advisory Council
4. Emerging Sectors in Development
5. Competitiveness Through Universities
6. Business Internship Program for Emerging Markets

A.I.D. has approached these six activities in a strategic manner: strategic from the point of view of effectively achieving the goals of the Agency's mission statement; strategic in contributing to the nation's competitiveness; and strategic in terms of the long-term sustainable impact that would result from a well-defined partnership with the private sector and academic community.

The six activities are also integrated: integrated in that they incorporate the three key components of a nation's competitive position — human, financial and technological resources; integrated from the perspective that the various activities complement and support each other (e.g., Capital Projects Fund and Emerging Sectors in Development); and integrated in that A.I.D.'s activities will be collaborative with the activities of other U.S. government entities such as the Department of Commerce.

Rationale for Each Activity in the Initiative

1. The Capital Projects Fund

A.I.D. has a long history of involvement in capital projects. The Development Loan Fund, one of the constituent elements when A.I.D. was created in 1961, worked almost exclusively on such projects. During the mid-1970s, criticism (including directive legislation) that A.I.D. was not focusing sufficiently on the basic human needs of client country beneficiaries resulted in a redirection of policy and efforts away from implementing capital projects, except in specially justified circumstances. Capital projects were deemed to be a more appropriate activity for multilateral international development institutions, e.g., the World Bank, and the United States increased its contributions to these organizations to compensate for reduced A.I.D. direct bilateral involvement. As a consequence, A.I.D. reorganized to reduce its capacity to plan and carry out capital projects on a worldwide basis.

Nevertheless, A.I.D. continues to have the legislative and executive authorities needed to implement capital projects. The program in Egypt, for example, includes capital projects for power, telecommunications, sewer and water system construction, among others. It is also becoming very clear that inadequate capital infrastructure is a serious constraint to economic development, particularly for the dynamic private sectors of many developing countries.

Thus, it is timely for A.I.D. to make a new commitment — complete with Congressional backing — to capital projects. In doing so, A.I.D. will be able to draw upon its previous experience and take advantage of the lessons it has learned over the years about how to assure sustainability and developmental impact.

A.I.D.'s strategic goal with this activity is to engage and encourage the American private sector to participate competitively in these infrastructure projects, which ultimately will generate trade benefits for the United States.

2. The Business and Development Network

Economic liberalization, particularly of investment and trade regimes, has been a staple in the structural adjustment programs of most economic assistance donors for the past half-dozen years. It also has been a hallmark of A.I.D. policy dialogue. Still, it is clear that this push for change is an insufficient condition to generate trade and investment growth in developing countries. Desired levels of North-South trade are not occurring; consumers and producers on both sides of the trade equation suffer because of the inefficiency of the system. Still, "Trade, not aid" continues to be the plea of many developing countries.

The requirement to link the capabilities of developing country entrepreneurs to the production of goods desired by consumers in developed countries, and the resultant market this creates for goods and services, including capital goods,

technology and intellectual property, in developing countries are well appreciated. By creating sustainable employment opportunities and discretionary income, the system creates an ability for individuals to exert their economic freedom in the selection and fulfillment of basic human needs. Global economic interdependence also is weakened by the reluctance of entrepreneurs to invest their capital, technology and human resources in developing country production processes.

A.I.D. proposes to overcome investment constraints by creating a high-quality, one-stop business service to match U.S. and developing country entrepreneurs in ventures that are profitable to both, as well as to the consuming public. The program will involve direct participation from both A.I.D./Washington and the field. This activity as well as all of the partnership activities will work in harmony with other economic arms of the U.S. government. Close collaboration with the Department of Commerce, for example, will result in a comprehensive approach to satisfying the needs of businesses seeking advice because collaboration will result in focused, effective, non-overlapping government support.

3. The Business Advisory Council

This activity is geared toward ensuring that all other partnership activities are well managed, focused and effective. By engaging U.S. business, the Agency taps a valuable source of expertise to improve our effectiveness in achieving a development-results track record. This engagement should also create opportunities for the U.S. private sector that will sharpen its competitive edge. We propose the establishment of mechanisms at two levels: at the Agency-wide level in Washington and at the mission level.

In Washington, the Administrator plans to appoint an A.I.D. Business Advisory Council. The council would consist of 12 Chief Executive Officers from a cross-section of American industry. It would also include nationally recognized academic experts on U.S. competitiveness.

A major function of the council would be to conduct an annual review of A.I.D.'s contribution to U.S. competitiveness and make recommendations to the Administrator regarding the progress of the Agency in (1) managing the Partnership Initiative and (2) assessing progress in enhancing U.S. competitiveness through mission portfolios.

The field reviews should provide for involvement of the local American business community (e.g., through periodic meetings between mission and local American Chamber of Commerce leadership). Some tasking would involve the short-term assignment of professional colleagues of council members to A.I.D. to help build a meaningful partnership between business and A.I.D.

4. Emerging Sectors in Development

This proposal would use existing A.I.D. authorities to the fullest to identify and support developmentally sound trade and investment pilot projects in target industries. High-growth, high-margin sectors such as telecommunications, environmental products, architectural and engineering services, and financial services, are targeted. This activity would also involve university research, private research and development, and government feasibility studies through the provision of seed grants, guaranties and other financing. This effort would be closely coordinated with the Capital Projects Fund.

5. Competitiveness Through Universities

A.I.D.'s goal is to assist the movement in U.S. universities toward internationalization by developing partnerships between academic institutions in the United States and in developing countries.

The non-profit sector, particularly U.S. universities, can contribute as significantly as U.S. corporations to the long-term competitiveness of the United States in the world of the 1990s. The broad, historic engagement of U.S. centers of intellectual excellence with the world at large has positioned them well if a sustained effort is made. The influence of American scientists on the disciplines, the role of English as a universal language of intellectuals and scientists, and the continuing innovation pursued by U.S. institutions all create favorable conditions. But universities of other countries can now see the opportunities created by the U.S. precedent. The global playing field will be a crowded one, so U.S. institutions will not be able to rest on past glory.

For A.I.D., the health and vigor of U.S. universities are of great importance as well. To respond to new challenges, A.I.D. needs new ideas and technologies. As the core cadre of scientists and technologists in A.I.D. declines, the need for strong, healthy linkages with the university sector grows. But the need is not simply for linkages between A.I.D. and U.S. universities. They, in turn, need to be linked with U.S. corporations active in developing countries. And over the long term, strong support for the development process will come from linkages between U.S. universities and counterpart institutions in developing countries. The transfer of technical knowledge essential for development, both in terms of hardware as well as training key developing country nationals, is a multiyear process where A.I.D. can best facilitate the process. A.I.D. has extensive experience in this regard in the agricultural sector. It is now time to extend that comprehensive effort to other sectors: natural resources and the environment, health and family planning, enterprise management and the management of increasingly free-enterprise economies. The universe of U.S. universities, already embarked on increasing internationalization, can work more closely with A.I.D.

No longer can A.I.D. afford exclusive, entitlement-style relations with U.S. universities. We need to create processes that are inclusive and competitive, able to adapt to rapidly changing times and requirements, and to grow with the dynamic change occurring in the developing countries. A.I.D. will focus on two mechanisms for this activity:

(A) Creation of the Center for University Cooperation in Development. This center will serve to build, promote and strengthen mutually beneficial development cooperation and partnerships among A.I.D., U.S. institutions of higher education and their counterpart institutions in developing countries.

(B) Creation of ties between schools of business and management in the United States and in developing countries. These linkages will be permissible within the center described in Proposal A but may be desirable on a broader scale than developed in the center. The linkages could involve students, faculty and research projects.

6. Business Internship Program for Emerging Markets

The goal of this activity is to assist in improving and sustaining American global competitiveness by fostering the development of a group of highly trained business professionals versed in emerging-markets business skills and by providing in-country linkages and mechanisms for identifying potential investment and trade opportunities in those countries.

Education and training are decisive in creating and sustaining national competitive advantage. With productivity and innovation as two key determinants of success, the quality of a nation's human resources must steadily rise if its economy is to grow.

For the last decade, Japanese, German and other foreign nationals have been upgrading their skills by working and studying in the United States. Many of these students have been government-sponsored, including those from developing countries supported by programs funded by U.S. government agencies (e.g., A.I.D.'s Participant Training Program). The end result has been a competitive advantage for these countries because their students have a much better understanding of our country than our students do of theirs. There are few reciprocal programs existing today for U.S. students to have a working understanding of emerging economies or even established economies.

The A.I.D. proposal consists of a one-year International Business Work-Study Program designed to expose MBA students to countries A.I.D. assists and the global characteristics of business and competition. This would be between the first and second year of the MBA program. Managed by the mission director and private sector officer and supported by the local American Chamber of Commerce, the students would work on assignments relevant to the A.I.D. mission's program. Assignments could be in a local, American-based company or in a recipient country firm. Purposeful A.I.D. projects focused on analyzing market niches, mixed credits, privatization, financial markets, joint ventures, etc. might be structured to help the student meet course credit requirements toward a degree in international business. Other benefits include:

- Strengthening the international, hands-on experience and skills of MBA and communications students and improving the American university graduate curriculum in business;

- Setting up an in-country network with students who studied in the United States in the Participant Training Program;
- Building good will within local businesses for American business practices and democratic ideals with an expectation of expanding professional contacts; and,
- Understanding macro- and micro-business enterprises in emerging economies from diverse perspectives.

Conclusion

The Partnership for Business and Development Initiative is based on the belief that the private sector has a significant role to play in helping to create and sustain free-market principles, democracy and broad-based economic growth in developing countries.

A.I.D., with its years of operating experience in more than 80 countries, and the private sector, with its human, financial and technological resources, could collaboratively leverage the U.S. government's scarce foreign assistance funds to quicken the pace of economic prosperity in developing countries while at the same time improving American competitiveness in an increasingly complex and interdependent global economy.