

# Assisting Private Sector Development

## I. Private Sector Development and Poverty Reduction

Former World Bank President Robert S. McNamara delivered a “wake-up call” in a speech in Nairobi in 1973, noting that the fight against poverty must be a priority in international development policy. While destitution and hunger are often triggered by droughts or wars, they are symptoms of deeper structural problems, caused primarily by imbalances in employment opportunities and incomes. To tackle the eradication of poverty as a primary development strategy, the Basic Necessities Strategy was implemented. Its aim was to improve infrastructure in developing countries and provide the poor with productive opportunities in the agricultural and non agricultural sectors. This led to the creation of various development plans, designed to reduce poverty and stimulate economic development.

The development of the private sector is essential for countries seeking to reduce poverty and promote economic growth. If there is any hope of meeting the goal of cutting global poverty and hunger in half by 2015 set by the World Bank, the Asian Development Bank and other international development agencies, huge investments must be made to expand and modernize infrastructure. But governmental agencies alone cannot do this. To meet the expectations, governments of developed countries will be encouraged to double the level of their assistance and the private sector will need to expand investments in developing countries.

The premise behind fighting poverty through private sector development is that business growth creates employment opportunities for poverty stricken populations. The workers then have income to support themselves and their families. Private sector development is the engine behind market growth and

enhanced productivity and it can also provide a mechanism to help meet government objectives and vice versa. It can supply basic services to the poor, including infrastructure, health and sanitation, and education assistance. Any investigation into a country’s economic development will show the key role played by the private sector in poverty alleviation.

## II. The Role Played by the Private Sector in Development

The private sector includes joint stock companies, commercial banks, agricultural partnerships, cooperative enterprises, general partnerships, limited partnerships, sole proprietorships and other enterprises where the state possesses less than 50

### The Millennium Development Goals

In recognition of the enormous challenge of global poverty, the international development community has, since 1990, adopted specific targets for poverty reduction, now known as the Millennium Development Goals (MDGs). These goals, which have been embraced by the World Bank and which provide a focus for its development programs, are:

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria, and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a global partnership for development

percent of the capital. This is analogous to the organizational structure of the public sector, which includes the central government, regional authorities and state run companies. As a vital component of the free market economy, the private sector plays a role equal to that of the public sector by enabling a country to achieve economic growth and poverty reduction targets. The tax receipts generated by the private sector also provide capital resources needed to fund public development projects. This has been the experience in every developed country and has been implemented successfully in several developing countries.

Because the public and private sectors have a symbiotic relationship, governmental policies must not hinder economic growth, and the public sector must create a strong framework to ensure that the benefits of economic development are spread evenly throughout society.

### III. ICDF Strategies and Measures in Assisting Private Sector Development

The ICDF's core philosophy involves sharing Taiwan's economic development experience with friendly countries. It is already helping many countries in the development of their private sectors and public infrastructure.

Assistance plans and strategies for private sector development are based on the needs of friendly countries with attention paid to diplomatic considerations. The ICDF takes into account the following: (1) Providing assistance to reduce poverty and create prosperity in the context of its overall goals (2) Using Taiwan's own experience in economic development to assist others (3) Replicating successful ICDF programs on an ongoing basis and cooperating with international organizations (4) Assessing the developmental potential and difficulties of countries seeking assistance (5) Making sure that cooperative plans can be sustained in the partnering country.

The ICDF then provides assistance based on its human and financial resources. The organization has general development assistance programs and ones tailored for specific countries, divided into policy and substantive strategies. On the policy front, the ICDF helps the governments of other countries create a legal system and commercial environment that facilitate the development of the private sector. Substantive assistance comes in the form of financing plans to create peripheral commercial opportunities, combined with credit guarantees, risk assessment, technical assistance and specialized technical training. These measures, based on comprehensive solutions that utilize the ICDF's capital, technology and information systems, improve a country's investment climate, boost local businesses, and provide incentives for local and international corporations to establish themselves in the region.

### IV. Achievements of ICDF Private Sector Development Programs

The ICDF's investment operations focus on investment and lending, financing and credit guarantees. These strategies help friendly nations carry out public construction projects and private sector development plans. They also enable countries to implement important capacity building programs. Projects raise local incomes by hiring local workers and boost the local economy. Investment operations in the private sector focus primarily on providing capital investment funds. This capital can spark private investment and production activities, creating job opportunities. The ICDF's financing is generally targeted to SMEs. Governments in developing countries, receive the funds and local banks or nongovernmental organizations direct the loans to SMEs.

The ICDF employs various methods for financing private sector development programs. In the Central American region, the ICDF has instituted the "Relending Project for SMEs in Central American

Countries.” This plan is implemented through CABEI, with central banks of the countries receiving the funds. The loans provide capital for upgrading and developing SMEs in strategic industries. In the Eastern Caribbean region, the ICDF cooperates with the National Development Foundation, a NGO, in implementing microcredit projects for four East Caribbean nations. In Haiti, the ICDF implement a similar microcredit program. In Europe, it participates in private sector development projects through the EBRD Financial Intermediary Investment Special Fund, and it is also underwriting the “SME Relending Project” in Belarus. In Africa, the ICDF has implemented loan programs in Burkina Faso, The Gambia and Senegal to assist development of SMEs and agricultural enterprises in an effort to boost economic activity, reduce poverty, and increase employment.

The ICDF also carries out assessments of potential investment projects, and it directly invests in some of those, in cooperation with local governments and NGOs. To encourage Taiwanese companies to invest in developing countries, the ICDF’s Joint Board of Directors and Supervisors approved the use of the organization’s reserves to provide credit guarantees for Taiwanese companies investing overseas. This strategy will enable diplomatic allies to attract foreign investment and technical transfers that will create jobs, raise incomes for citizens, boost national tax revenues and spark private sector development. The ICDF has signed cooperation agreements with six commercial banks to implement this strategy and in 2002 signed a cooperative agreement with the CABEI that is expected to enable Taiwanese companies to obtain financing assistance from 30 cooperating banks in the region. One Taiwan company planning to invest in Swaziland has already won approval to receive credit guarantees, and another four applications are currently being processed.

Technical assistance programs provide another way for promoting development of the private sector in friendly countries. Measures include sending

experts and consultants to technical missions in various countries and providing consultancy and industrial diagnostic services.

The ICDF’s technical assistance project in Central America encourages SME growth and industrial development. This program requires cooperation with the ministries of economics and commerce of each country, and business interest groups such as the Chamber of Commerce. It provides strategic consulting assistance, boosts the function of agencies that promote development in smaller companies, and assists these countries in selecting strategic industries. An example is the “Corporate Synergy Development Project,” in which the ICDF cooperates with Paraguay. The development of a Center – Satellite system has helped Paraguayan SMEs to function as suppliers for larger industries. Another example is the program promoting SME development in Senegal. The food processing industry has been selected to serve as the focal point of development.

Technical assistance not only includes sending consultants to friendly countries, but also features sponsoring or underwriting professional training courses at colleges and universities, industry assistance organizations, economic and trade promotional boards, and employment training centers. Because the ICDF believes that human resources enhancement is pivotal in the development of the private sector, it often invites industrial technicians and government officials to Taiwan for training.

The ICDF also designs regional or country-specific assistance plans – such as the “SME Advisory Projects in Seven Central American Countries” – to promote private sector development. These plans combine investment and lending, technical assistance, and education and training into an integrated program. They provide financing assistance, offer advisory services and invite technical personnel and key individuals to Taiwan for training. The combination of capital and technical assistance creates synergy, ensuring that the objectives are met.