
Strategy for Private-Sector Development in Developing Countries: A Case Study of Southeast Asia

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Currently, in the sustainable development of developing countries, the importance of the role of the private sector is being increasingly emphasized. Recognizing this growing consensus on the importance of the private sector in international development, donor countries are introducing diverse measures to increase the effectiveness of the development efforts and participation of the private sector in developing countries. There is thus increasing support for private sector development, including the development of legal and physical infrastructure and improvement of business environments, in the hopes of creating jobs for and increasing the incomes of locals.

The literature on development cooperation defines private sector development (PSD) in diverse ways, depending on the given context and perspective. The 2016 report of the advisory group on investment and development of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation

and Development (OECD) provides a much more specific definition of PSD than has been used in the past. According to the report, PSD is “development cooperation that addresses policies and institutions, market functioning, and enterprise resources in order to improve the investment climate and the productivity capacity of the local private sector, particularly of Small- and Medium-Sized Enterprises (SMEs), in developing countries.”

Despite the growing importance of PSD and effective cooperation with the private sector in international development, the Korean government and NGOs conspicuously lack a coherent and systematic strategy for PSD in developing countries. In this study, therefore, we attempt to address this issue by developing and proposing a national-level PSD strategy, focusing on Southeast Asian countries. As Southeast Asia is now emerging as a key economic and geopolitical player on the world stage, it is particularly important for the Korean government to strengthen Korea’s ties with the private sectors of these countries. Currently, the South Korean government is engaged in development cooperation with six countries in the region—Indonesia, the Philippines, Vietnam, Cambodia, Laos, and Myanmar—all of which are experiencing explosive economic growth and offer significant potential for cooperation with Korea, but have struggling private sectors.

Advanced donor countries worldwide have been supporting PSD in the developing world through diverse financial channels, including loans, credit, and investment, via their own development finance institutions (DFIs). Despite having no DFI of its own, the Japanese government provides similar forms of support via Private Sector Investment Finance (PSIF), which is provided by the Japan

International Cooperation Agency (JICA). The Korean government, too, has recently introduced new PSD programs.

The channels of PSD support can be roughly divided into bilateral donation agencies, bilateral DFIs, and multilateral organizations. The OECD-DAC Creditor Reporting System (CRS) lists only a very limited range of member states' development cooperation programs directly related to PSD. This study thus views PSD in two different ways. In the narrow sense, PSD encompasses banking and financial services, business and other services, and SME development support listed on the CRS' classification of purpose codes. In the broad sense, however, PSD encompasses not only these activities, but also communications, energy, agricultural/fishery/forestry, industrial/mining/construction, trade, and tourism activities that are directly and indirectly related to PSD. From 2012 to 2014, taking the narrow perspective, OECD-DAC member states spent USD 3.874 billion (3.7 percent of the total aid provided as official development assistance (ODA) during those years) on PSD. Taking the broad perspective, they spent USD 15.479 billion (14.6 percent of total ODA) on PSD over that period. Korea, in the meantime, contributed only 0.45 percent of the total ODA to PSD in the narrow sense. Germany far exceeds all other member states in its provision of support for PSD in both the narrow and broad senses.

Since its establishment, the United Kingdom government's Department for International Development (DFID) has regarded PSD as an important area of focus, publishing a core strategy to promote PSD in 2008 and following it up with another strategy in 2011. The DFID conducts research on the roles and functions of corporations, governments of developing countries, and interna-

tional organizations in PSD and designs its strategies and programs accordingly. The DFID finances its PSD support projects via the Challenge Fund. Initially introduced by the UK government in the 1990s to assist in efforts to address domestic issues, the Challenge Fund has since been applied to development cooperation as well. The Commonwealth Development Corporation (CDC) Group was formed in 1948 as a state enterprise and DFI with the central mission of promoting PSD worldwide. Since its establishment, the CDC Group has successfully invested in various projects that went on to exert significant influence on PSD in developing countries. In 2012, the CDC Group narrowed its focus to supporting businesses that create jobs for and increase the incomes of locals in Africa and South Asia. As of 2014, the group operated an investment portfolio totaling GBP 3.4 billion, with investments in 1,331 business projects across 74 countries.

The JICA believes that, by promoting PSD as a way of facilitating the entry of Japanese businesses into emerging markets, both Japan and developing countries can benefit. The PSD support programs of the JICA are oriented mainly toward: (1) developing policies and institutions to improve business environments, (2) promoting trade and investment, (3) enhancing the competitiveness of local businesses, and (4) fostering local economies and industries. The PSIF, one of the JICA's major PSD programs, was re-introduced in 2011 to provide loans and investment for local businesses or joint ventures among local businesses, as well as for Japanese companies capable of contributing to the development of developing countries. The main foci of the PSIF include: (1) the Millennium Development Goals (MDGs) and the reduction of poverty, (2) cli-

mate change, and (3) the development of infrastructure as a means of promoting growth. As of March 31, 2014, the PSIF had provided JPY 1.3 billion in loans and invested JPY 67.3 billion in stock companies.

Aside from providing grants, the German government also offers a wide range of financial support, including loans and investment, for PSD as part of its ODA policy. The majority of the German government's equity investment made in the form of ODA is handled by the German Investment Corporation (Deutsche Investitions- und Entwicklungsgesellschaft, DEG). As part of the Federal Ministry of Economic Cooperation and Development (BMZ), the DEG is a DFI, rather than an ODA agency, and was established with the mission of helping German SMEs pioneer new markets in developing and emerging economies. The DEG's main focus is finance, manufacturing, and infrastructure development, with financial support accounting for almost half of the corporation's entire business portfolio. The DEG administers a wide range of programs that support companies, including those that support European businesses investing in developing countries, assist SMEs of developing countries intent upon expanding their innovative business models, conduct feasibility studies on behalf of European SMEs considering making investments in developing countries, and provide market research and analyses.

The Korean government's PSD support programs focus mostly on small-scale projects with annual budgets of less than USD 100,000 each and provide all their support in the form of grants. The Korea International Cooperation Agency (KOICA) is the main governmental agency responsible for handling these ODA grants.

The Ministry of Strategy and Finance (MOSF) also participates in PSD projects through its Knowledge Sharing Program (KSP), which provides experts and training programs and handles only a very limited number and range of project-type interventions.

This report provides a detailed analysis of the private sectors in Vietnam and Myanmar in an effort to assess each country's potential for sustainable economic development and find implications for effective PSD. Our analysis concentrates on two subjects: namely, the current status of the business-centered private sectors and the conditions for PSD in the two countries.

As part of this study, we also conducted an opinion poll of Korean companies operating local subsidiaries in developing countries in order to identify the obstacles these companies encountered when entering these new markets and the types of government support they need. We selected the survey participants using the list of Korean companies with operations in each region around the world that is published and updated bi-annually by the Korea Trade Investment Promotion Agency (KOTRA). A total of 103 companies participated in the survey. The participating companies identified the abundance of raw materials and cheap labor available abroad as the two most important reasons for taking their operations worldwide. Other important factors included the saturation of the Korean market and the need to manage risks by diversifying their export markets. The companies listed the absence of distribution channels and connections, the difficulty of finding skilled workers, and the cumbersome and complex administrative procedures and regulations of other countries as the main problems they experienced in expanding abroad. The difficulty of

financing, the local labor laws, and the lack of market information were also pointed to as obstacles.

The companies also showed an overwhelming preference for financial support or credit from the government as the most effective form of support for their operations abroad. Other forms of support demanded by companies included support for the construction of production or service facilities, training of local workforces, and help with export authorization and certification processes. Our analysis of the factors that lead companies to favor financial assistance and credit from the government revealed that, the more knowledgeable companies were of ODA, the more likely they were to want financial support from the government (almost 160 percent more likely than companies lacking such knowledge). Also, companies seeking to enter developing markets on their own instead of forming partnerships or joint ventures and companies more interested in Vietnam than Myanmar were 570 percent and 710 percent more likely than other companies to prefer financial support from the government, respectively. However, companies that had been involved with ODA support programs were less likely than others to want government support for the construction of local production or service facilities. The smaller the companies and the greater their willingness to enter new markets through the construction of factories or establishment of distributorships, the greater their preference for support for the construction of production or service facilities.

This study presents a framework for the development of PSD strategies for individual nations, and tests that framework by developing PSD strategies for Vietnam and Myanmar. The framework

involves identifying the local needs for PSD, reviewing whether the donor country is in a position to provide the needed support, and finally deciding the specifics of the support strategy.

According to this framework, we propose the following as the main tasks for PSD in Vietnam: (1) enhancing the accessibility of finance, fostering the entrepreneurial spirit, and providing education and training on sustainable management for PSD in the narrow sense; and (2) expanding roads, enhancing the reliability and efficiency of the electricity supply, and providing occupational training for the development of skilled workforces for PSD in the broad sense. Of these tasks, the provision of occupational training and expansion of roads were included in the Korean government's first Country Partnership Strategy (CPS) for Vietnam (2011-2015). Judging from the progress made under the CPS, the expansion of road networks and provision of occupational training were indeed key areas of support in which the Korean government's resources were concentrated. Although support for PSD in the narrow sense in Vietnam may occupy only a small fraction of the Korean government's entire range of ODA projects, it has been a central issue of interest for the KSP. We now need to incorporate the expertise and connections that have been secured through the KSP into the current project.

This study posits increasing efficiency and strengthening competitiveness as the long-term objectives of the Korean government's support for PSD in Vietnam, and defines the goals of projects for enhancing the accessibility of finance, improving road and power infrastructure, fostering the entrepreneurial spirit and sustainable management education, and providing education and training for

skilled workforces accordingly.

Considering that the main obstacle to PSD in Vietnam is the limited availability of capital, we prioritize enhancing the accessibility of finance as the first and foremost task of promoting PSD in Vietnam. SMEs in Vietnam struggle to find the financial resources they need due to their inability to put up collateral, the complexity of the loan process, and the country's high interest rates. The lack of information on available financial opportunities and the inability of these businesses to comply with all requirements of the loan process also serve to hold Vietnamese SMEs back from securing the capital they need. It is therefore important to provide these SMEs with appropriate financial education and training. At the same time, we should not neglect the need to ensure sustainable development through the provision of financial services. This requires eco-friendly finance and the improvement of minorities' access to finance. The Sustainable Development Goals (SDGs) require us to innovate the conventional finance system and adopt eco-friendly, sustainable finance, as well as to increase the availability of financial resources for women, the undereducated, and other minorities. In addition, it is equally as important to develop the financial infrastructure as it is to enhance the competency of financial consumers by providing them with appropriate education and training. For minorities, education and training is crucial to enhancing their access to finance.

Public-private partnership (PPP) is emerging as a useful type of arrangement for developing infrastructure, including roads, in Vietnam. This trend is in response to the growing need to finance the large-scale infrastructure development projects that are on the

rise in Vietnam more efficiently than can be done with either funding from the Vietnamese government or ODA alone. While PPP projects are important in and of themselves, it is also necessary to support these projects effectively by ensuring the transparency of government procurement activities and enhancing the capabilities of all parties involved.

We also conducted a comprehensive analysis of the needs and conditions for PSD in Myanmar. The main tasks facing PSD in Myanmar include: (1) the introduction of business laws, policies, and institutions and the development of financial infrastructure for PSD in the narrow sense; and (2) the provision of occupational training, roads, electricity, and information and communications services for PSD in the broad sense. Beginning with the second CPS, Myanmar has been included on the Korean government's list of core partner countries, and Korean policymakers are currently working to develop a CPS for Myanmar. According to a preliminary study on the prospective fields of development in Myanmar, there is growing demand for support for the development of transportation networks, energy infrastructure, public administration, and local communities. The Korean government is in a particularly good position to provide effective aid for the development of transportation and energy infrastructure in the country. Although Korea lags behind other OECD-DAC member states in terms of contributions to PSD in Myanmar in the narrow sense, such as the introduction of necessary laws, institutions, policies, and financial infrastructure, it has invested more in the development of communications in Myanmar than it has in any other developing country. It has also provided support for occupational training on par with

other developing countries. As the KSP for Myanmar was launched relatively recently, researchers and policy experts are striving to develop projects that actually cater to Myanmar's needs rather than launch projects on diverse themes or topics.

The decades-long military dictatorship in Myanmar, during which supra-legal administrative orders and instructions weakened the rule of law, has made it impossible for a private sector to emerge and grow in the country. Myanmar faces a severe lack of institutional and physical infrastructure. In this study, we thus propose the development of the basis for PSD as the long-term objective of the Korean government's support for PSD in Myanmar, and recommend the establishment of a coherent legal system; reform of institutions, policies, and organizations; development of financial infrastructure; construction of physical infrastructure, including roads, power facilities, and information and communications facilities; and occupational training and education as the specific tasks facing PSD in the country. Especially, we prioritize the establishment of laws and institutions to promote the efficient regulation of the market as the first and foremost task of PSD in Myanmar.

We cannot stress enough the importance of building and enhancing the capability of the Myanmar government to manage and support private-sector enterprises. In other words, what PSD in Myanmar requires most urgently is the strengthening of the public sector. Although there is significant need for consulting and capability enhancement with respect to the establishment of an integrated system for regulating businesses and the market in Myanmar, the KSP has not yet sufficiently addressed this issue. The experts of the KSP should therefore actively consider participating in the

creation of institutional frameworks for businesses in Myanmar as a means of facilitating Korean businesses' investment in the country and gain a proper understanding of the local laws and partnership resources.

With its ambitious plan to develop its digital and mobile communications infrastructure, without first developing its wired communications infrastructure, the Myanmar government is actively legislating policies and projects related to information and communications. The Korean government has already supported the establishment of e-government services in Myanmar via the Economic Development Cooperation Fund (EDCF) and has also participated, along with its Chinese counterpart, in the Asian Development Bank (ADB)'s technological cooperation project for creating an e-government master plan for Myanmar. In this regard, the Korean government should take advantage of its superiority in information and communications technology and expand the targets of its PSD support to include not only public administration and e-government but also the urgently needed resources for PSD, such as financial and fintech infrastructure and microgrids to support the power supply.