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IFC REPORT SEES GOOD PROSPECTS IN COMING YEAR FOR PRIVATE SECTOR IN MANY DEVELOPING COUNTRIES

Washington, D.C., June 22, 1989....Private enterprises in those developing countries that, over the past decade, have invested considerable resources in infrastructure and industry, diversified their manufacturing sector, and increased their exports have bright prospects for continued growth in the next 18 months. This is the main conclusion of a new report, Prospects for the Private Sector in Developing Countries, issued by the International Finance Corporation (IFC) here today.

IFC is the affiliate of the World Bank whose mandate is to stimulate economic growth in developing countries through the private sector. It fulfills this mandate by making equity and loan investments directly in private enterprises in member countries, by mobilizing other sources of financing, and through the provision of advisory services to governments and corporations. The new publication is the first in a series of IFC annual reports on the business outlook in developing countries.

In presenting the report, Mr. Guy Pfeffermann, Director of IFC's Economics Department, said that while "short-term business prospects for the majority of developing countries should continue to be quite good, business conditions in developing countries as a whole will be somewhat more difficult during the next 18 months than they were in 1988." He explained that this is partly because protectionism is likely to continue to increase and commodity prices, which had favored many businesses in developing countries last year, seem to have stabilized. Mr. Pfeffermann noted that the gradual slowing down of the United States economic

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expansion may lead to a reduction in the demand for the exports of developing countries and lead to keener competition amongst exporters in these countries.

The report also stresses the importance of capital flows to the developing countries. Because of the retrenchment in commercial bank lending, total capital flows are likely to remain relatively low and be dominated by official flows, which do not help private businesses directly. Foreign direct investment has increased again over the past few years, flowing mainly into East Asia and, thanks largely to debt/equity conversion schemes, into Latin America. The suspension of debt/equity operations in several Latin American countries means that foreign investment is unlikely to continue to increase in that region.

Businesses in developing countries also are having a hard time finding adequate local financing, the report says. In high-inflation high-interest countries in particular, medium-term credit is virtually unobtainable. Yet corporations in developing countries need more funds per unit of machinery and equipment than those in the industrialized countries: they need higher inventory levels, often receive payments more slowly, and sometimes have to invest in infrastructure, such as electric power generation. The availability of adequate finance is important also, because private firms in developing countries rely more on credits from banks rather than on retained earnings--either because, as in Korea, business is growing rapidly, or because government policies reduce profitability or favor dividends over retained earnings.

According to the IFC report, a number of developing countries have made great strides in recent years in establishing and invigorating equity markets and these now exist in more than 40 countries. Despite these achievements, the development of capital markets is taking place too slowly, sometimes because of government policies. Slower world economic growth, and continued difficulty in raising term finance, makes urgent the need to accelerate the development of local capital markets.

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