

Steps that could serve to encourage private foreign investment in the less-developed countries might include:

1. The establishment of a climate which will attract private savings and investments. This includes reasonable price and exchange stability, an avoidance of arbitrary interference by government in business decisions, and a recognition of contractual and property rights. This is a fundamental requirement and unless an attractive climate is established, many of the other steps mentioned below will not be fully effective in attracting private resources into the development effort.
2. Tax incentives for private investment in the less-developed countries. Such incentives could originate in either the more-developed or less-developed countries. It is important that the tax policies of a less and a more developed country not cancel each other out. Basically, income derived from underdeveloped countries should not be taxed at all by more-developed countries. In any event, tax policies of the more-developed countries should offer encouragement to their nationals for investment made in less-developed countries by way of the allowance of credits, or deductions in determining tax liabilities to the developed country.
3. Investment guarantees. These would work primarily to reduce the greater risks of investment in the less-developed countries. As discussed previously, risks would remain, but not to such a great degree that potential private investors would be deterred. The objective is to find a means of making the excessive risks of the LDC environment more manageable.
4. Management contracts. Since resources and managerial personnel are limited, companies inevitably will employ them in situations where the long-term yields are expected to be in the best interests of the company. Accordingly, management contracts, under which a firm is "hired" by a government to set up an enterprise in a less-developed country, are not attractive to many companies and in many industries. Too much emphasis--and too much hope for results--should therefore not be placed on this form of private participation in LDC undertakings. Nevertheless, where suitable and acceptable, management contracts can be a means for getting know-how and technology into less-developed countries where there are strong reasons mitigating against direct investment.