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United Nations

Unleashing Entrepreneurship: Making Business Work for the Poor
Commission on the Private Sector and Development presents new report to the Secretary-General

The Commission on the Private Sector and Development presented its report—**Unleashing Entrepreneurship: Making Business Work for the Poor**—to UN Secretary-General Kofi Annan, calling for targeted policy reforms and other initiatives that would spur growth in the local businesses that are critical to the eradication of poverty in the developing world.

The Commission, co-chaired by Prime Minister Paul Martin of Canada and Ernesto Zedillo,Mexico's former president, was convened by the Secretary-General nine months ago in an effort to identify and address the legal, financial and structural obstacles blocking the expansion of the indigenous private sector in developing nations—especially in the poorest regions and communities in those countries.

As Commission Co-Chairmen Martin and Zedillo note in the foreword to today's report, the Secretary-General challenged them at the outset to answer two basic questions:

"How can the potential of the private sector and entrepreneurship be unleashed in developing countries? And how can the existing private sector be engaged in meeting that challenge?"

Their report, released today, provides answers that draw on the expertise of all 15 Commission members, who include internationally recognized leaders in business, development economics, and government from both the industrialized and developing worlds.The Commission intends to see its recommendations put into practice, unleashing the full economic and social potential of the small and mid-sized businesses employing and serving the world's poor.

"As you know, time is a critical factor in our battle against poverty and in our work to reach the Millennium Development Goals," Secretary-General Annan said here today. "I am therefore heartened that the launch of the report will be followed by a plan of action and a set of initiatives, to be developed further as catalysts for actions on the Commission's main recommendations."

These initiatives, to be announced in coming months, will include projects led by the UN, and others conceived and managed by members of the Commission, the private sector, and international development institutions.

Beyond the multinational: A new emphasis

Harnessing private investment toward the achievement of the Millennium Development Goals is critical, as has been recognized by the Secretary-General's Global Compact, which forged new partnerships for development with major multinational corporations. International development institutions have worked toward increasing direct investment flows into developing countries and improving their foreign trade opportunities.

But relatively little emphasis has been placed to date in international development policy on expert assistance and regulatory reforms aimed at the smaller-scale indigenous enterprises that in most countries are the primary engine of job creation and domestic commerce.

In July 2003, when the Secretary-General first announced the establishment of the Commission, he pointedly noted: "Our experience has shown that a large part of the work for development is about preparing the ground for sufficient private sector activity to provide the jobs and income needed to build a more equitable and prosperous society.Yet the UN has only sporadically tapped the power that can be drawn from engaging the private sector in the work of development."

Several overriding concepts helped shape the Commission's work:

- Strong expansion in sustainable private sector investment is the main driver of accelerated economic growth, essential for reducing poverty and making rapid progress towards the Millennium Development Goals.
- Domestic private initiative and entrepreneurship, particularly within the small and medium enterprise segment and the informal sector, have enormous potential—but they are largely trapped in disabling business environments.
- Governments need to create an enabling environment for a competitive private sector to develop, including strong rule of law and a level playing field for all.
- Private sector players driven by market-based incentives have the demonstrated capacity to contribute to important development goals; multinational companies, in particular, stand to benefit from nurturing and building links with local entrepreneurs and smaller companies.
- To ensure progress towards the Millennium Development Goals, all stakeholders—governments, development institutions, the private sector and civil society—need to collaborate more effectively and expand the use of private sector capabilities.

Prime Minister Martin, who has played a pioneering role in many key international economic development initiatives over the past decade, said: "Visit the tiniest town in the poorest country on market day and you will see this incipient private sector in action.This Commission aims to place the ambitions of these local businesses at the heart of the world's development strategy.

"For Commission co-Chair Ernesto Zedillo, who currently leads the UN Millennium Project's research effort on trade and financial issues and heads the Yale University Center for the Study of Globalization, the challenge is clear: "There cannot be human development without economic growth, and a fundamental ingredient of growth is the private sector."

Understanding the problem, gauging the potential

The Commission did not set out to do basic research, opting instead to integrate the extensive work that has already been carried out by all parts of the development coalition—major development agencies, private foundations, academic institutions, business, civil society and labour organizations—into the framework it presents in the five chapters of the Report. The authors were heavily influenced by the voices of entrepreneurs, expressed through their actions and their responses to wide-ranging surveys conducted to understand what affects their ability to be productive and to grow.

The Report focuses on the domestic private sector in developing nations for three reasons:

First, domestic resources are much larger than actual or potential external resources.Domestic private investment averaged 10–12% of GDP in the 1990s, compared with 7% for domestic public investment and 2–5% for foreign direct investment (FDI).

Second, when informal resources are examined, such as potential land value, the domestic assets that can be tapped are much larger than cumulative FDI or private portfolio flows.

Third, unleashing the domestic resources in an economy —both financial and entrepreneurial—is likely to create a more stable and sustainable pattern of growth.

Four billion people at the bottom of the pyramid

As the report notes, the world's poor are also consumers—consumers who live in high-cost economies. In Mumbai, slum-dwellers in Dharavi pay 10 times more for medicine and more than three times more for water than do middle class people living at the other end of the city on Bhulabhai Desai Road.

"Fully four billion people in the world—those who earn less than US$1,500 a year—make up these 'bottom of the pyramid' markets," said Commission member C.K. Prahalad.The quality of goods that those at the bottom of the pyramid purchase is substandard —whether food,water or financial services.Often, an informal private sector fills the gaps with goods of higher prices and varying quality. It serves an important need, for informal economies sustain the majority of poor families in many countries.Yet the advantages of economies of scale and scope are missing from the lives of people at the base of the pyramid.

Enterprises in high income countries face fewer burdens when registering

The approach to resolving these issues is simple and the experience well demonstrated—what it requires is the will to implement change.The basic steps to such an approach involve adopting best practices for business registration, for change of ownership and closures and for transaction governance. Illustrative action programmes cited in the Report include:

- Kiosks and one-stop shops that simplify business and title registration make registration more efficient and greater transparency minimizes corruption at all levels. In Tanzania the Business Registration and Licensing Agency reduced the time to register a business from 90 days to approximately three. In India electronic title registration in the state of Andhra Pradesh reduced the process from 7–15 days to a matter of a few hours.
- Single business permits enable governments to consolidate registering businesses so that entrepreneurs need secure only one permit to own and operate a business, rather than different ones at each level of government (local, regional and national). In Kenya the single business permit reduced the costs to small enterprises and increased government revenues by 30–40%.

The Report highlights a broad range of other good practices that show how the capabilities of the private sector can best be harnessed for the cause of development and poverty alleviation.The cases include successful approaches that originate with the traditional development players, such as the multilateral development institutions and bilateral aid agencies. But more often they include lesser known but innovative approaches implemented by the private sector—both by companies and civil society organizations.

Those approaches rely on market mechanisms and private sector incentives and thus lend themselves much more to the replicability and scalability that the Commission believes is needed. One of the Commission's key observations is the lack of knowledge about best practices and the great need for more sustained research and analysis of what works and what doesn't.

The Report challenges Governments to act as facilitators of private sector development and avoid actions that impede it. It says Governments and intergovernmental agencies can facilitate private sector development only by fostering properly functioning competitive markets.

The Commission argues strongly that governments in developing nations should:

- Provide conducive operating and investment environments in which all private enterprise (domestic, foreign, politically connected or otherwise) can flourish without fear or favour.This involves an overall social context that is politically stable and predictable, with appropriate competition rules and effective enforcement and sound macroeconomic fundamentals, including a fiscal policy conducive to the development of the formal private sector and adequate to the financing of the required human and physical infrastructure.

- Establish properly functioning legal and judicial systems for protecting property rights and resolving contractual disputes—systems seen to operate credibly and efficiently when judged by international (not national) standards.
- Facilitate the movement of private capital of all kinds, not just foreign direct investment, through the progressive development of national capital markets and their links to regional and global capital markets. Liberalization of financial capital flows requires great prudence, however. A sound financial system with good regulations and enforcement is required before proceeding to full liberalization.
- Influence national, regional and global risk perceptions favourably through better information dissemination in real time (rather than simply through marketing of investment opportunities) and encourage government behaviour that excites and supports rather than discourages investors, whether domestic or foreign.
- Target subsidies and tax incentives where clearly needed to address market imperfections, and move away from broader reliance on measures that may be politically attractive in the short run but are counterproductive for sound private sector development in the long run.
- Provide or enable the private provision of essential infrastructure (power,water, communications, transport) through public-private partnerships, innovative regulatory models and other means to ensure that private enterprises are not put at a competitive disadvantage.

Actions in the three focus areas

The Commission is committed to putting its recommendations into practice.The Commission believes that the energies and opportunities that exist have often been untapped because the needs in developing countries have not been appropriately matched with resources and interests around the globe.The Commission's proposed programme of actions is thus designed to catalyze the strong private response that is the main objective of its work.

To promote progress, the Commission asks the United Nations to sponsor the tracking of private sector development progress. An annual progress report would maintain the prominence of the Commission's overall recommendations and ensure that there would be a commitment to addressing the many issues identified here.The report would offer an opportunity to celebrate progress and expose obstacles to private sector development. It would be prepared with input from international development institutions and the support of a number of Commission members and their organizations.

The Commission sees a clear need to create additional capacity to help overcome market dysfunctions and information asymmetries, provide hands-on operational support, fill knowledge gaps and act as neutral intermediary between competing interests.The Commission envisions being able to bring to bear focused expertise, to get results and to empower poor people to build businesses directly.To achieve the Commission's objectives will require a significant change in the structure of economic and political interactions in many developing countries.Today's fractured and confrontational relationships will need to be replaced by collaborative partnerships in which each player's actions are influenced and modified by larger challenges and by the capabilities of others.

UNDP's Administrator Mark Malloch Brown said here today:"Our focus now is on a very un-commission-like second phase where we will be launching a series of actionable initiatives to facilitate transformations in individual countries and to provide the tools for governments and the private sector to supplement available resources and begin rapidly implementing a programme of change.The Commission invites the broad range of stakeholders identified in this report to heed our call and to work rapidly to convert these ideas into specific business plans that can then be launched in the coming six months.

"Our message is: *Join us*. Only if we can generate an urgent sense of following up on our initial work can we hope to unleash the entrepreneurial energy of the poor as a force for growth."

The full text of the Report is available on: http://www.undp.org/cpsd/