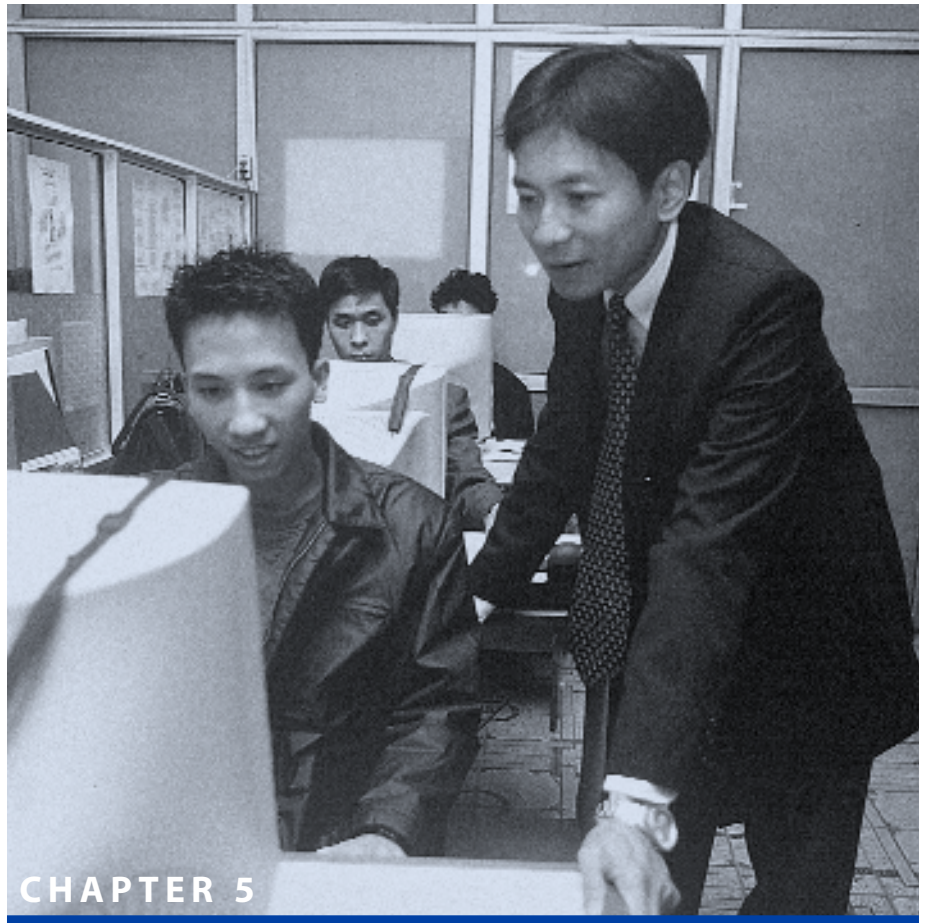


Photo: Chao Deany/UNDP



CHAPTER 5

RECOMMENDED ACTIONS

The Commission believes that the primary responsibility for achieving growth and equitable development lies with developing countries. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. And those conditions—the state of governance, macroeconomic and microeconomic policies, public finances, the financial system and other basic elements of a country’s economic environment—are largely determined by the actions of domestic policymakers. Their challenge is to capitalize on advances in macroeconomic stability and democracy and to launch reforms that would bring about further changes in institutional frameworks to unleash and foster the private sector.

Most of the recommended actions involve more than one of the actors working together. Where governments are implementing policy change, it is often with the direct support and involvement of multilateral development institutions. Where the private sector is taking a more active stance on sustainable development, it is often with civil society raising the profile of this issue. Where governments are implementing regulatory reform, it may be in direct consultation with representatives of the private sector. The individual actions identified here should be seen in the framework of this

FIGURE 5.1 ACTIONS IN THE THREE FOCUS AREAS

	Targeted at public sector players	Targeted at private sector players
Driven by private sector players <ul style="list-style-type: none"> ■ Companies ■ Civil society organizations ■ Foundations 		3. Private sphere: Mobilize capabilities and resources <ul style="list-style-type: none"> ■ Focus private sector capabilities to support entrepreneurs and firms ■ Build ecosystems and linkages ■ Pursue bottom-of-pyramid business
	2. Public-private sphere: Partner and innovate <ul style="list-style-type: none"> ■ Develop broader financing options for entrepreneurs ■ Build leadership and business skills and training ■ Broker public-private partnerships for basic services 	
Driven by public sector players <ul style="list-style-type: none"> ■ Local governments ■ Donor governments ■ Development agencies 	1. Public sphere: Create an enabling environment <ul style="list-style-type: none"> ■ Reform regulations and strengthen rule of law ■ Formalize the economy ■ Engage private sector in the policy process 	

broader cooperation—which is needed even more to reduce poverty.

Our interest lies in three areas:

1. **In the public sphere**, promoting the reform of laws, regulations and other barriers to growth.
2. **In the public-private sphere**, facilitating cooperation and partnerships between public and private players to enhance access to such key factors as financing, skills and basic services.
3. **In the private sphere**, encouraging the development of business models that can be scaled up and copied and that are commercially sustainable.

The broad range of actions in these three focus areas—necessary for a successful program of private sector development—flow from the analytical framework for unleashing the capacity of domestic entrepreneurs developed in chapters 2 and 3. These actions reinforce and leverage

the contributions of the private sector to development, as outlined in chapter 4.

ACTIONS IN THE PUBLIC SPHERE: CREATE AN ENABLING ENVIRONMENT

Creating an enabling environment involves steps designed to reduce the share of the informal sector in an economy, through reform of the overall enabling environment for the formal economy. These steps should have the effect of both reducing the costs as well as increasing the benefits of formality.

Recommended actions by developing country governments

The Commission believes that developing country governments should undertake the following actions:

Reform regulations and strengthen the rule of law. Developing country governments have to make a strong and unambiguous policy

commitment to sustainable private sector development—and combine that with a genuine commitment to reform the regulatory environment by eliminating artificial and policy-induced constraints to strong economic growth. Everything starts with the tone at the top. There is no reason, for example, for the cost of business registration in low income countries to be many multiples that of similar procedures in OECD countries. We emphasize a pragmatic, end-user perspective that focuses on actual improvements in an entrepreneur's dealings with public institutions or regulations. And as governments develop and enforce more effective formal rules and regulations, they need to understand the importance of private sector ecosystems in creating broader participation in the economy and in illustrating the value of the capacity to govern transactions.

Formalize the economy.

Developing country governments need to focus on creating the conditions to reduce informality

and change the composition of the private sector ecosystem over time. The focus should be on measurable outcomes. Since the composition of the private sector ecosystem in a country is a measure of its development progress (high levels of informality are associated with lower incomes), the objective should be to strive to change this composition in a specific and measurable way. Indicative targets should be set to increase the shares of formal enterprises and smaller enterprises in the economy, monitorable over a five to ten year horizon.

A clear recognition of the informal sector will need to be accompanied by rapid steps to analyze its local characteristics and put in place the measures to improve its access to finance and to support from the formal sector. We need to start by raising awareness and disseminating information about the prevalence of informality—and by diagnosing the problem in a country context. Remedies include reforms of specific government rules and their enforcement.

One area for urgent action is improving the rules and processes for registering and titling land, critical preconditions for financial access based on these assets. Needed here are practical, user-friendly processes to obtain and enforce property rights. As with any public reform process, consultative bodies need to steer reform efforts in a transparent way, involving informal entrepreneurs, cooperatives and civil society organizations.

Engage the private sector in the policy process. Governments need to create a real partnership with representatives of the domestic private sector to implement changes and

ensure that the voice of the private sector includes small and medium enterprises and microenterprises. Government–private sector councils and advisory bodies are being set up. But the difference between notional collaboration and truly effective cooperation can be ensured only by governments and their private sector partners. When new arrangements are put in place, a few high-profile examples of successful cooperation can change the environment from mutual distrust to strategic partnership. Public–private consultative bodies, where public officials and private sector representatives share a voice are another key element. But the full spectrum of private sector players must be at the table, including informal and small entrepreneurs and workers’ organizations.

Recommended actions by developed country governments

Developed country governments are the principal players in creating and maintaining a positive global environment.

Foster a conducive international macroeconomic environment and trade regime.

The Commission believes that developed country governments have to foster a conducive international macroeconomic and policy environment to unleash the full potential of entrepreneurs in developing countries. A robust international economy provides markets for goods from developing country companies. In addition, increasing the flow of development aid and reforming the global trading system to provide fair economic opportunities to producers from developing countries are essential for promoting rapid growth in domestic private investment.

Redirect the operational strategies of multilateral and bilateral development institutions and agencies.

Developed countries are the primary shareholders of the multilateral development banks. They control most of the bilateral aid agencies and ministries active in the developmental arena. In encouraging sustainable private sector development, they need to ensure that the collective actions of these agencies are better coordinated—to improve their efficiency and to reduce the pressures on the administrative capacity of developing country governments. They also need to focus their support for private sector development in developing countries by creating the conditions to reduce informality and change the composition of the private sector ecosystem.

Untie aid. Developed country governments are also the main source of technical assistance funds used by multilateral development institutions to support policy and institutional reform in developing countries. Although some flexibility has been introduced in recent years, the major elements of these funds are tied. This can create unnecessary complications in how effectively funds can be deployed and can affect the quality of the advisory work that they support. Moreover, the bulk of the funds are provided to governments rather than more directly to the final recipients. Changes in the administrative rules controlling these funds would permit more effective use and delivery of technical assistance to stimulate private sector development.

Recommended actions by multilateral development institutions

The Monterrey Consensus explicitly acknowledged the role of private business in development. It touched on the need for improving the functioning and efficiency of global and bilateral development agencies. It recognized the limited absorptive capacity of many developing countries and the stretched administrative capability to deal with overlapping activities of development institutions. The Consensus Document thus encourages a fair degree of specialization and partnership in the development community to improve the overall impact of various forms of development assistance.

Apply the Monterrey recommendation of specialization and partnerships to private sector development activities. Many institutions are engaged in efforts to support the development of financial markets, provide business development services to small companies, advise on the enabling environment, improve corporate governance and enhance the focus on sustainability. While the choice of “supplier” is important to recipient countries, it is clear to us that these overlapping activities are counterproductive and need to be urgently addressed.

Address informality in developing countries. Some pioneering work is underway to map the structure of the informal sector, and a global effort to expand the coverage of this work is likely to yield significant benefits. A partnership to accelerate the pace of such work in Latin

America has just been arranged by the Inter-American Development Bank in collaboration with the Institute for Leadership and Democracy of Peru. There is also great scope for facilitating linkages among multinational corporations and small and medium enterprises, given the importance of private sector ecosystems and the benefits from private-private partnerships.

ACTIONS IN THE PUBLIC-PRIVATE SPHERE: PARTNER AND INNOVATE

The Commission believes that all stakeholders need to make concerted efforts in finance, skills and public-private partnerships for the delivery of basic services. In each of these critical areas, developing country governments and private players need to develop viable partnership models that leverage their respective strengths. Various civil society organizations can add valuable skills and insights to such partnerships. Building sustainable partnerships requires sophisticated skills to assess competing interests and negotiate pragmatic agreements.

Multilateral development institutions can be neutral conveners and moderators. To be effective intermediaries they must build the skills to create partnerships that make economic sense for private players while being manageable for developing country public agencies. Different players may initiate and lead a partnership at different times. What matters most is that all parties approach partnerships with realistic expectations of each party’s interests and capabilities. The Commission sees a distinct need for further

innovation in this area to develop truly sustainable partnership models for developing countries.

Facilitate access to broader financing options. We envision continuing development of domestic financial markets coupled with skill-building for regulators and private financial institutions. We see great promise in facilitating the South-South transfer of expertise between financial institutions and public regulators. Broad alliances for microfinance, as part of the United Nations International Year of Microcredit 2005, and for small and medium enterprise lending could develop financially sustainable models. Innovative schemes are also needed to transform financial flows from the many diasporas into long-term productive investment in their home countries.

Assist skill and knowledge development. Skill-building activities could range from programs for top public and private leadership to training microentrepreneurs to joint efforts with public authorities and unions to improve workforce skills. The Commission envisions larger alliances with business and trade schools, public-private collaboration in professional education and training, and mentoring programs for entrepreneurs—all leveraging peers, expatriates and those in the diaspora. We see a large opportunity for organizational infrastructures that network private resources worldwide with aspiring entrepreneurs in developing countries. This includes formal programs of multinational companies to make their human resources and know-how available to developing country entrepreneurs.

Make possible sustainable delivery of basic services, particularly energy and water. The Commission sees the

need to develop innovative models for partnerships of governmental service providers, multinational companies and local companies. The sustainable delivery of basic services depends on effective partnerships and other forms of public-private cooperation, which has proven to be difficult. Still to be developed are the sophisticated skills to implement lasting partnerships, where all players' incentives are well balanced and proper governance is in place. We see 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. Effective brokering can make more transactions feasible because it can overcome the barriers that would otherwise impede action. We plan to follow up with public and private entities in this area to see how existing institutional capacity can be supplemented—and how poor people can be empowered to build businesses directly.

ACTIONS IN THE PRIVATE SPHERE: MOBILIZE CAPABILITIES AND RESOURCES

The Commission believes that the private sector, particularly large local companies and multinational corporations, should contribute to accelerated economic development and to poverty alleviation.

Recommended actions by the private sector

The required actions for the private sector are as laid out in chapter 4:

Channel private initiative into development efforts. We believe that the private sector has tremendous

potential to contribute to development through its knowledge, expertise, resources and relationships. Unleashing this potential will require increasing the visibility of the broad range of private contributions (illustrated in chapter 4) that remain disparate and unnoted—and establishing an infrastructure to channel these contributions effectively. This could be accomplished through a new private focal point organization that would match private know-how, services and resources with the needs for such services in developing countries, primarily by the private sector but also by governmental agencies.

Develop linkages with multinational and large domestic companies to nurture smaller companies. Linkages between different types of firms in developing countries provide an effective channel for local companies to gain access to markets, financing, skills and know-how. There is an urgent need for multinational corporations to integrate better with local small and medium enterprises and to strengthen links with the domestic ecosystem, such as those between microenterprise distributors and large domestic companies. Many parties need to work together for this to happen, and the range of activities to make the links durable includes information, know-how and hands-on support.

Pursue business opportunities in bottom-of-the-pyramid markets. Recognizing the needs of bottom-of-the-pyramid markets and creating innovative solutions to meet these needs are vital actions required from the private sector, both domestic and international. Efforts should be driven mainly by the incentives of

expanding markets and new business opportunities. The interplay in domestic ecosystems is likely to result in parallel changes in the economic behaviour of all those along the chain, from informal operators through small and medium enterprises and their financiers. This is important in empowering the poor. There could also be great value in creating a scorecard for multinationals and other large firms to measure their success in creating profitable markets for poor consumers.

Set standards. The private sector needs to make a genuine commitment to sustainable development—with a sharp focus on corporate governance and transparency. We have highlighted successful companies that have shifted the development debate within their economies and created a political consensus that eases the way for governments to facilitate the expansion and growth of a vibrant private sector. Such a shift will occur when pioneering managements realize the value of leading from the front, being responsive to social development needs and setting new standards that demonstrate the value of sustainability. Many large companies in developing countries today are also multinational in the sense that their business operations are no longer limited to their country of origin. Still, they do play a different role within their home economies—and are seen differently from multinationals in the traditional sense of the term. Where such high-profile local companies exist, they too will need to understand the broader framework of their operations and work actively to create the new consensus that we

propose. Many of the sustainability initiatives discussed in this report tend to involve large multinationals. But similar initiatives or offshoots of global initiatives involving the local private sector could be very effective in redefining the roles of different stakeholders in the development process.

Recommended actions by civil society and labour organizations

The Commission believes that civil society and labour organizations have to continue as critical observers of the development agenda—and as facilitators and supporters of innovative approaches for meeting the Millennium Development Goals and improving the quality of life for poor people. Civil society organizations have a major part in a robust global alliance that builds on the strengths of each key player to meet the Goals.

Increase accountability in the system. This is a core part of the work of civil society organizations, as is their leadership in pushing forward the concept of sustainable development. This work should be strengthened.

Develop new partnerships and relationships to achieve common objectives. Numerous civil society organizations are also acting in direct partnership with the private sector to combine the management skills and financial capacity of private companies with their own know-how and contacts in bottom-of-the-pyramid markets. This can facilitate the kind of private sector–civil society organization collaboration that builds microcredit programmes

on a commercial and sustainable basis. Civil society organizations are closest to the bottom of the pyramid. They also are often proxies for experimenting with new technologies for solving problems. And they, too, will need to measure their success in facilitating innovative private–private partnerships to address economic and social policy objectives.

LOOKING FORWARD

Recognizing the size and complexity of the challenge, the Commission concludes that it is necessary to channel private capabilities and resources into unleashing the private sector in developing countries. We believe that the energies and opportunities remain untapped because the needs in developing countries have not been appropriately matched with resources and interests around the globe. Our proposed programme of action is thus designed to catalyze the strong private response that is the main objective of our work.

To promote progress, the Commission recommends that the United Nations sponsor the tracking of private sector development. An annual progress report would maintain the prominence of the Commission's overall recommendations and ensure the 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 the support of a number of Commission members and development institutions.

As the main actors begin to work together towards common goals, a significant change will be required in the structure of economic and political interactions in many developing countries. Today's fractured and confrontational relationships will need to be gradually replaced by collaborative partnerships in which each player's actions are influenced and modified by larger challenges and by the capabilities of others.

To catalyze this process, the Commission is assembling a first set 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. These first actions are intended to stimulate a collaborative response from potential partners who read this report. Our message to all of you is: join us.

In the coming months we will be launching initiatives and consulting with the readers of this report to draw them into the undertaking. We invite the broad range of stakeholders identified in this report to heed our call and to work rapidly to convert initial ideas to specific business plans that can be launched within the coming six months. Only if we can generate an urgent sense of following up on our initial work can we hope to unleash the trapped entrepreneurial energy of the poor as a force for private sector growth.