

Need to boost aid to the private sector

We enjoyed your series on "[Understanding Growth](#)" (March 2006), but a crucial element is missing: stronger support for the private sector. In the past two decades, the international community has focused on infrastructure financing, debt cancellation, and the provision of social services—health care and education in particular. As for the private sector, support by the major bilateral and multilateral funding institutions focused on strengthening the business climate. The approach has been to improve the macroeconomic and institutional environments, reduce the cost of doing business, reform investment codes, and build up infrastructure. While no one can doubt the need for these actions, an increasing number of development partners today acknowledge the importance of channeling more resources, more directly, toward the private sector.

The private sector plays a crucial role in development. Global experience demonstrates that a dynamic local private sector is the basis for fast-growing economies. But the private sector in developing countries needs better access to finance. The solution is for donors to make capital more directly available. Although the international development community has put substantial effort and funds into financial sector development, as well as into small and medium-size enterprises and microfinance, there is still a long way to go. Direct refinancing mechanisms for local private financial institutions have to be further promoted, and new instruments like regional microfinance initiatives, local currency financing, guarantees, and insurance products should be introduced and extended.

The private sector can also be more directly involved in the provision of public goods through public-private partnerships (PPP) that transform private businesses into contractual agents in the implementation of public infrastructure, social services, and environment-related projects (such as the management of national parks and forestry schemes). New methods of PPP financing have become available and deserve support from the international development community, both through financial sector development and direct lending and cofinancing schemes. Aid can and should also be used to increase incentives for businesses to be responsible corporate citizens.

While the private sector is a much-talked-about category of international aid, more resources need to be dedicated to it, including support for new instruments to help private businesses. The time has come for the international community to reassess its assistance to business and make it as vital and structured as its assistance to states.

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