

Helping poor countries help themselves

By Jean-Michel Severino

PRIVATE enterprise, it is now generally agreed, is the engine of economic growth and of job creation. Yet direct support for the private sector has remained marginal in international development.

The international community still focuses on public infrastructures, debt cancellation and the provision of social services – healthcare and education in particular. While no one can doubt the need for these actions, there is a need to channel more resources, more directly, toward the private sector in developing countries.

Current support by major donors largely remains indirect, centred on the improvement of the 'business climate'. The approach is to better the macroeconomic and institutional environments, reduce the cost of doing business, reform investment codes, create infrastructures, and so on. But as one researcher puts it: "Aid typically seeks to help domestic governments to help their private sectors to help themselves."

Where governance is weak, the policy challenge is to shorten the chain by offering direct support as well as various financial guarantees.

As borders open up, businesses all over the world are facing new opportunities, and new competitors from overseas. Entrepreneurs in emerging markets need access to professional training, new technology, better analysis and, of course, finance.

Nationwide upgrades of the private sector have become an urgent necessary in countries like Morocco, Tunisia, and Senegal. This involves strengthening professional training, modernising technologies and market analysis capacities, as well as financial structures.

One way to go is the consolidation of financial systems and how they offer credit.

Beyond that, international aid should be used to increase incentives for businesses to be responsible corporate citizens. This can be done by offering them longer-term financing that is more compatible with the rate of renewal of natural resources. Finally, the private sector can also be turned into a direct agent of public policies. One way to do this is through public-private partnerships, which transform private businesses into contractual agents in the implementation of public services. Examples are drinking water supply in Dakar and railway transportation in Cameroon.

Another way is through private businesses acting independently in offering selected public services for practical or commercial purposes. In such cases, states, with the support of development assistance, have an interest in helping these businesses improve and expand their services by subsidizing them. International aid is currently provided to private projects in social housing and professional training in South Africa, as well as to sustainable forestry schemes in Central Africa.

While private businesses are a much talked-about category in international aid, they remain marginal in terms of the resources dedicated to them. 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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