



UNLEASHING ENTREPRENEURSHIP



MAKING BUSINESS WORK FOR THE POOR



Commission on the
Private Sector &
Development
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REPORT TO THE SECRETARY-GENERAL
OF THE UNITED NATIONS

UNLEASHING ENTREPRENEURSHIP

MAKING BUSINESS WORK FOR THE POOR

1 March 2004

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United Nations Development Programme
One United Nations Plaza, New York, NY 10017, USA

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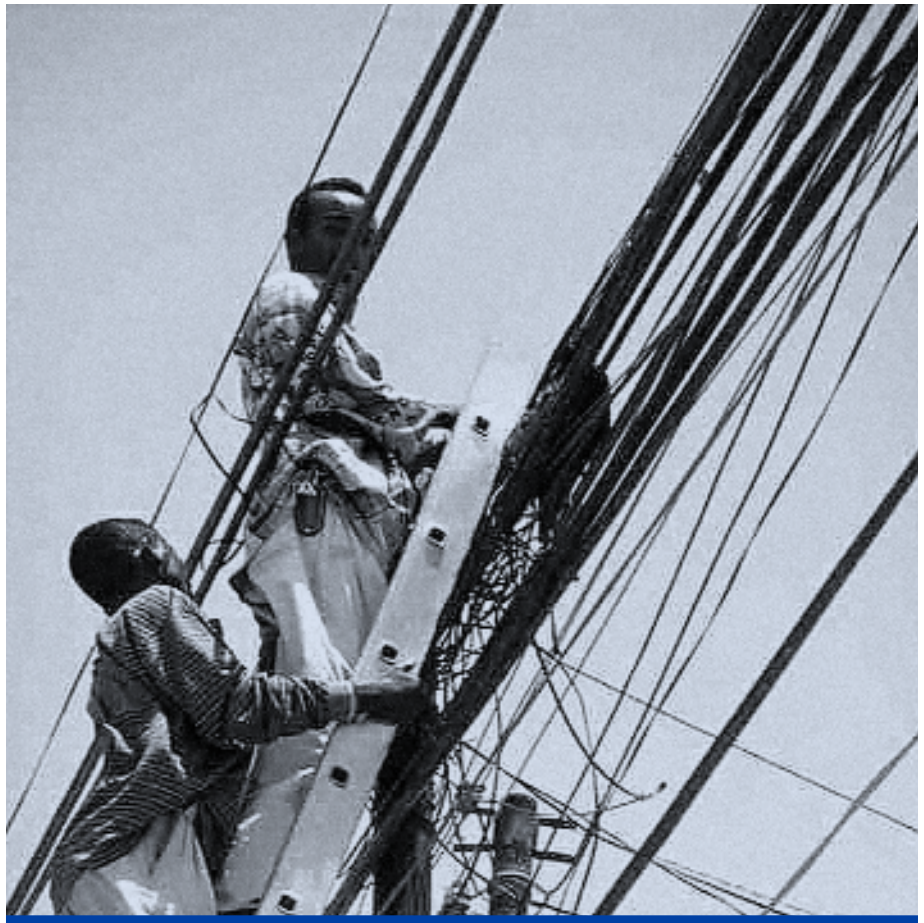
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FOREWORD

Ending poverty, the aspiration of the Millennium Development Goals, is the overriding developmental objective of the 21st century. Despite great progress in the past 50 years, 1.2 billion people—one-fifth of the people on Earth—live on less than US \$1 a day, without access to many of the social services basic to a decent human life. Their plight requires a global response making full use of all the financial, intellectual and organizational resources that we can muster.

It is against this urgent background that Secretary-General Kofi Annan asked us to convene the Commission on the Private Sector and Development to answer two 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? This report is our responses to these questions.

The report offers recommendations on how the major actors—governments, public development institutions, the private sector and civil society organizations—can modify their actions and approaches to significantly enhance the ability of the private sector to advance the development process. The objective of

poverty alleviation leads us to focus on developing businesses that create domestic employment and wealth—by unleashing the capacity of local entrepreneurs.

We set an ambitious time limit for our work, which has been completed in a little more than half a year since our first meeting in June 2003. Our intention was not to carry out basic research. Much work on the subject is already under way, and major development agencies, private foundations and academic institutions are already focusing their energies on the private sector's contributions to development. Instead, our approach has been to understand and assimilate the work already carried out by all parts of the development coalition, including business, civil society and labour organizations, and to integrate that thinking in the framework presented here.

The Commission's work has been heavily influenced by the voices of entrepreneurs, expressed through their actions and through their responses to wide-ranging surveys launched to understand what most affects their ability to be productive and to grow. It is the capacity, drive and innovation of entrepreneurs that increase the impact of a broadly constituted private sector. Entrepreneurship encompasses the actions of small, informal, village-

based individuals as much as it does that of the managers and innovators in multinational corporations and large local companies. It is their voices that we have heard the loudest.

The Commission has also attempted to highlight a broad range of 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 we believe needed. One of our 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.

We concluded at the outset that it would not be enough for this Commission to produce a traditional report voicing opinions and urging others to take action. Instead, we

believe that it is critical to develop a set of pilot actions and initiatives that would test the main observations and conclusions of our work—so that their relevance to the real world of development could be demonstrated on the ground. That is why the report ends with an illustrative portfolio of actions that will be developed in greater detail over the next few months—actions that could be implemented on a pilot basis shortly thereafter. Some of them could be driven by the UN system, and some by other partners and stakeholders.

These initiatives are far from enough. We put them out to all of you as indicative of the types of actions that we believe can and should be replicated for the widest possible impact. Nor do we believe that each of them is a perfect model. Country differences require modifying the initiatives—as well as some of our overall recommendations—to fit particular circumstances. Our ideas and conclusions are presented as directional, to elicit reaction and constructive dialogue. The intent is to catalyze a renewed coalition of the major stakeholders—focused more clearly on the challenges outlined here. Such a coalition is essential to unleashing the capacity of the private sector, to achieving the Millennium Development Goals and to alleviating poverty.



Paul Martin
Co-Chair



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Photo: Luc-Anh/UNDP



ACKNOWLEDGEMENTS

The Commission's work would not have been possible without the input and assistance of many individuals and organizations. We are deeply grateful to all those listed here.

A SPECIAL THANKS...

To McKinsey & Company, who provided input and counsel to the Commission and its Secretariat throughout the project. The team of Maria Blair, Michael Monson and Mark Templeton was led by Tilman Ehrbeck, Diana Farrell, Jeremy Oppenheim and Les Silverman.

To Jennifer Barsky, Prabal Chakrabarti and Irene Philippi who also provided vital inputs to the work of the Secretariat.

READERS AND EXPERTS

Our work has been informed by many who have gone before, and a number of them generously gave of their time and expertise to help shape our thinking. These include: Adrian Hodges, International Business Leaders Forum;

Lalita Gupte, Mahdav Kalyan and K. V. Kamath, ICICI Bank; Nandan Nilekani and Sanjay Purohit, Infosys Ltd.; Percy S. Mistry, Oxford International Group; Richard Frank, Bob Graffam, Julio Lastres and Alexander Schwedelheim, Darby Overseas Investments Ltd; Michael Barth, Netherlands Development Finance Company; Nancy Bearg, Enterprise Works; Gary Bond, Noreen Doyle and Michael McCullough, the European Bank for Reconstruction and Development; Cameron Rennie, the World Business Council for Sustainable Development; Enrique Ferraro, Jim Kaddaras and Maria Otero, Accion; Jide Zeitlin, Goldman Sachs; Masood Ahmed, David Stanton and Adrian Wood, the U.K. Department for International Development; Professors Michael Chu, Calestous Juma, Tarun Khanna, George Lodge, Michael E. Porter, Iqbal Qadir and Deborah Spar, Harvard University; Michael Fairbanks, On the Frontier; Craig Wilson, DeltaPearl; Elli Kaplan; Benjamin Krutzinna; Neysan Rassekh; Alex Shakow; George Ivanov; Eleonore Kopera, Business Humanitarian Forum; Barbara Samuels, Samuels Associates; Donald Snodgrass, Development Alternatives, Inc.; Elizabeth Littlefield, CGAP;

Bill Kramer, Water Research Institute; Hugh Locke, Locke Associates; Bill Draper, DraperRichards; Joaquim Boborquez; Maria Cattai Livanos and William Stibravy, the International Chamber of Commerce; Robert Litan, Robert Chernow, The Ewing Marion Kauffman Foundation; Professors John McMillan and Paul Milgrom, Stanford University; Christopher Woodruff, University of California, San Diego; Professor Jonathan Morduch, New York University; Jeb Brugman and Craig Cohon, GlobalLegacy; Bob Fitch, Enterplan; Daniel Zelikow, JP Morgan; Kenny Pegram and Ray Smilor, the Foundation for Enterprise Development; Sunil Sinha, Emerging Market Economics; Roland Dominicé and Jean-Philippe de Schrevel, BlueOrchard; Professor Roger Leeds, Johns Hopkins University; Professor Ted London, the Base of the Pyramid Learning Laboratory at the University of North Carolina; John Richardson and Sevdalina Rukanova, the European Foundations Centre; Kenneth Borghese, John E. Wasielewski, the United States Agency for International Development; S. Aftab Ahmed, Sabine Durier, Mariann Kurtz, Guy Pfeffermann, Harold Rosen, Thomas Schipani, Bernard Sheahan and Udayan Wagle, the International Finance Corporation; Gerard Byam, Cesare Calari, Gerard Caprio,

Arvind Gupta, Jemal-ud-din Kassum, Michael Klein, Khalid Mirza, Francois Nankobogo, Neil Roger, Marilou Uy and Dileep Wagle, the World Bank; Gerald T. West, the Multilateral Investment Guarantee Agency; Jonathan Fiechter and Prakash Loungani, the International Monetary Fund; Karen Decker and Arvind Mathur, the Asian Development Bank; Nancy Boswell, Transparency International; Antonio Vives, the Inter-American Development Bank; and Ric Cameron and Arthur Saper, the Canadian International Development Agency.

CONSULTATIONS

The Commission Secretariat conducted four formal consultations with international labour representatives; European foundations, academics, and Canadian civil society organizations. Our thanks to the hosts of these consultations, including the International Labour Organization and the European Foundations Centre, as well as to participants of these consultations, who included: Bob Kyloh, workers' relations branch, the International Labour Organization; Raul Requena, Union Network International; Wendy Caird, Public Services International; Carla Coletti, the International Metalworkers' Federation; Esther Busser, the International Confederation of Free Trade Unions; Sándor Köles, the Carpathian Foundation;

Matthieu Vanhove, Cera Holding; William White, the Charles Stewart Mott Foundation; Dario Disegni, Compagnia di San Paolo; Charles Buchanan, the Luso-American Foundation; Michael Brophy, Help for All Trust; Luc Tayart de Borms, the King Baudouin Foundation; Michel Bourges Maunary, the Madariaga European Foundation; Raymond Georis and Alexandre Kirchberger, the Network of European Foundations for Innovative Cooperation; Ineke Derkzen, the Rabobank Foundation; John Mroz, the EastWest Institute; Charles Maynes, the Eurasia Foundation; John Wyn Owen, the Nuffield Trust; David Dollar, the World Bank; Michael Klein, the World Bank Group; Raymond Fisman, Columbia University; Florencio Lopez-de-Silanes, Yale University; Nazeer Aziz Ladhani, the Aga Khan Foundation; Gerry Barr, the Canadian Council for International Co-operation; John Watson of Cooperative for Assistance and Relief Everywhere (CARE) Canada; Patricia McCullagh, Ric Cameron and Arthur Saper, the Canadian International Development Agency; Michel Chaurrette, the Canadian Centre for International Studies and Cooperation; Pam Foster, the Halifax Initiative; Molly Kane, Inter Pares; Robert Letendre, the Canadian Catholic Organization for Development and Peace; Mark Fried and Rieky Stuart, OXFAM Canada; Roy Culpeper, the

North-South Institute; and Kathy Vandergrift, World Vision Canada.

UNITED NATIONS

Many within the extended UN family gave generously of their time and expertise, including Michael Henriques and Stephen Pursey at the International Labour Organization; Wilfried Luetkenhorst and his team at the United Nations Industrial Development Organization; Georg Kell and his team, Global Compact; and Antti Piispanen, Lorraine Ruffing, Karl Sauvant and the team at the United Nations Conference on Trade and Development. Our thanks also to John McArthur and his team of the Millennium Project; and colleagues in the United Nations Development Programme (UNDP): Zéphirin Diabré, Associate Administrator; Bruce Jenks of the Bureau of Resources and Strategic Partnerships, who provided the over-all UNDP guidance to the project; Sanjay Gandhi, Connie Gratil, Sirkka Korpela and Casper Sonesson, also of the Bureau of Resources and Strategic Partnerships; Kalman Mizsei of the Bureau for Europe and CIS; Shoji Nishimoto of the Bureau for Development Policy; Hafiz Pasha of the Bureau for Asia and the Pacific; the staff of the Office of the Administrator, particularly

Gilbert Houngbo, Lauren Canning, Alan J. Lee and Mark Suzman; Djibril Diallo, Victor Arango, Carmen Higa, Hyacinth Morgan and William Orme in the Communications Office of the Administrator; Christina Barrineau, Normand Lauzon and Peter Kooi of the United Nations Capital Development Fund; and Bibi Amina Khan and Golda Kruss who provided assistance to the Commission Secretariat.

EDITING, DESIGN AND PRODUCTION

Last but not least, we thank wholeheartedly those who have helped us with the editing, production and translation, working under very tight deadlines: Bruce Ross-Larson and Meta de Coquereumont, Elizabeth McCrocklin, Thomas Roncoli and Christopher Trott of Communications Development, Inc.; Julia Dudnik-Ptasznik of Colonial Communications; Michel Coclet; Edward Ranney Carta of EurOz Technologies; Thomas Barbush and the team at Moore Wallace-Hoehstetter Printing; Kaika Clubwala of A.K. Office Supplies and Elizabeth Scott Andrews, Naeem Arastu, Sokhna Diouf, Françoise Gerber, Rajeswary Iruthayanathan, Maureen Lynch and Jeremy Owens of UNDP.

TABLE OF CONTENTS

COMMISSION MEMBERS	
FOREWORD	i
ACKNOWLEDGEMENTS	iii
HIGHLIGHTS	1
CHAPTER 1. WHY THE PRIVATE SECTOR IS SO IMPORTANT IN ALLEVIATING POVERTY	5
Deep poverty remains intractable	6
The private sector is important for the poor—and often is the poor	7
Who are all the entrepreneurs?	8
A focus on the domestic private sector	9
CHAPTER 2. CONSTRAINTS ON THE PRIVATE SECTOR IN DEVELOPING COUNTRIES	11
Widespread informality for microenterprises	12
Few competitive small and medium size enterprises	13
Lack of competitive pressure on large companies	14
Foundations for entrepreneurship—not yet in place	14
Three pillars of entrepreneurship—too often missing	17
CHAPTER 3. UNLEASHING THE POTENTIAL OF THE PRIVATE SECTOR	21
Building the foundations	23
Erecting the pillars	24
CHAPTER 4. ENGAGING THE PRIVATE SECTOR IN DEVELOPMENT	29
Serving markets at the bottom of the pyramid	30
Forming ecosystems and building networks	30
Fostering public-private partnerships for sustainable development	33
Improving corporate governance	34
Advancing responsible business practices and corporate social responsibility standards	34
CHAPTER 5. RECOMMENDED ACTIONS	37
Actions in the public sphere: create an enabling environment	38
Actions in the public-private sphere: partner and innovate	40
Actions in the private sphere: mobilize capabilities and resources	41
Looking forward	42
BIBLIOGRAPHIC NOTE	43
BIBLIOGRAPHY	45

BOXES

Box 1.1 The Millennium Development Goals	7
Box 3.1 Costa Rica's private sector—unleashed	27
Box 4.1 Resources under the radar screen for private sector development	30
Box 4.2 Showing what's possible at the bottom of the pyramid	32

FIGURES

Figure 1.1 More investment—more growth	7
Figure 1.2 Four billion people at the bottom of the pyramid	8
Figure 2.1 Informality thrives in poorer countries	12
Figure 2.2 Small and medium enterprises become more important and informality less important as countries become wealthier	13
Figure 2.3 Foundations for the private sector and pillars of entrepreneurship	15
Figure 2.4 Enterprises in low income countries face many more burdens when registering	17
Figure 3.1 Strengthening the effectiveness of traditional private sector development activities	22
Figure 4.1 Private sector contributions to private sector development	30
Figure 5.1 Actions in the three focus areas	38

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HIGHLIGHTS

The Commission believes that any approach to private sector development—and the policy and action recommendations that accompany it—should be grounded in the realization that the savings, investment and innovation that lead to development are undertaken largely by private individuals, corporations and communities.

The private sector can alleviate poverty by contributing to economic growth, job creation and poor people's incomes. It can also empower poor people by providing a broad range of products and services at lower prices.

Small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship. But in many poor countries, small and medium enterprises are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.

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.

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 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 broader cooperation—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.

ACTIONS IN THE PUBLIC SPHERE: CREATE AN ENABLING ENVIRONMENT

Creating an enabling environment involves steps to reduce the share of the informal sector in an economy, through reform of the overall enabling environment for the formal economy.

For developing country governments

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.

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.

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.

For developed country governments

Foster a conducive international macroeconomic environment and trade regime. 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.

In encouraging sustainable private sector development developed countries 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.

Untie aid. Changes in the administrative rules controlling tied funds would permit more effective use and delivery of technical assistance to stimulate private sector development.

For multilateral development institutions

Apply the Monterrey recommendation of specialization and partnership to private sector development activities. The extent of overlapping activities is counterproductive and needs 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.

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.

Facilitate access to broader financing options. We envision continuing development of domestic financial markets coupled with skill-building for regulators and private financial institutions.

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.

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.

ACTIONS IN THE PRIVATE SPHERE: MOBILIZE CAPABILITIES AND RESOURCES

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

For the private sector

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.

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.

Pursue business opportunities in bottom-of-pyramid markets. Recognizing the needs of bottom-of-the-pyramid markets (the 4 billion people who are earning less than \$1,500 a year) and creating innovative solutions to meet these needs are other vital actions required from the private sector, both domestic and international.

Set standards. The private sector needs to make a genuine commitment to sustainable development—with a sharp focus on corporate governance and transparency.

For 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.

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. Civil society organizations are closest to the base of the pyramid. They also are often proxies for experimenting with new technologies for solving problems.

LOOKING FORWARD

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 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.