PRIVATE SECTOR AND DEVELOPMENT

By Christine Saru[1]

The private sector received recognition in the Paris Declaration (2005), the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011) as an active actor in the development discourse, as a source of financial flows, and as a benefactor from an enabling environment for investments at the country level. A significant number of countries now highlight private sector development as a key element of poverty reduction on national development strategies. It is also no doubt that the private sector is a major actor for creating economic activities for people living in poverty. It does so through investment, fair and decent employment, expanding markets, creating innovation and generating sources of revenue for government programs. But not all such investment or innovation has an impact on poverty and growing socio-economic inequalities in many countries experiencing strong economic growth.

Growth in economic activity is essential for creating conditions for people to overcome multiple dimensions of poverty throughout the world. The private sector, often broadly defined, has been seen as the engine for economic growth. Yet the private sector includes a wide variety of actors, from large private enterprises whose primary purpose is to maximize profits for shareholders, to millions of individuals who conduct private economic activities to support themselves and their families. You find that not enough attention has been given by development actors to the nature of different private economic actors and activity, and related policies for improving and sustaining livelihoods of people living in poverty.

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Important to highlight is that declining ODA is what is driving renewed attention to the private sector. ODA in 2011 fell by 2.7% in real terms, breaking 14 years of real growth since 1997 (excluding debt cancellation). However, while welcoming renewed attention to the private sector, it is important to stress that their engagements must be coherent within the overall goals of development effectiveness and the creation of inclusive national development plans- focusing on reducing both poverty and social- economic inequalities. This engagement can only work if their strategies are guided by multi- stakeholder dialogue that includes the views and initiatives of communities of poor, marginalized populations and other social actors such as trade unions at the country level.

Private sector actors can have many legitimate economic motives and incentives to invest. But if they are true partners in development, they must be prepared to collaborate in ways that improve the social and economic rights of poor and marginalized populations. Such initiatives would emphasize the deliberate creation of economic activities for these excluded populations, focus on the economic empowerment of women, create conditions for decent work, and support measures and funds that promote soci0- economic inclusion and social protection.

Despite its growth and recognition, the private sector faces many obstacles in Africa, including inadequate government regulation, restrictive policies, poor infrastructure (particularly in power and transport), severe skills shortages and mismatches between employers' needs and available workers (particularly those just out of school), trade restrictions, tariff and non-tariff barriers to African exports, difficulties in obtaining medium- and long-term finance on affordable terms, and a large informal sector. Also, private sector growth in Africa, where it has occurred, has often been uneven, and exploitation of natural resources – the continent's largest area of growth – has failed to create enough new jobs.

It is no doubt that the future of African economic growth – and the futures of millions of Africans and thousands of African communities – is closely tied to the private sector. But if this is to materialize, public sector still needs to create an environment in which the private sector can thrive and the two must work together to deliver services and opportunities. The private sector can also deliver services to society's most vulnerable people and – if it is properly regulated and responsible – it can help to make society at large well- regulated and responsible. There has been a fundamental change of Africans' thinking in recent years, as governments recognize the centrality of the private sector's role in generating more business. The private sector already generates two-thirds of Africa's investment, three-quarters of its economic output, and nine-tenths of its formal and informal employment.

Granted, a vibrant private sector is both an engine of growth and an agent for development. While government can empower poor people through regulation, funding and providing public goods, private initiative can also provide services and generate much-needed employment. A large and formal private sector can also be a strong advocate for policy reform and a force for good governance, establishing a virtuous circle in which an improving business environment brings private sector growth, which in turn strengthens governance reforms.

But in order for this to happen, a clear framework for their engagement is essential, and now more than ever because Africa is at an important junction. Its economies are growing faster than those of many other regions. They are growing at twice the rate of the 1990s. Following decades-long market-oriented reforms and peace across much of the continent, exports are booming and export markets have become more diversified. Africa has exhibited exceptional resilience since the global financial crisis began in 2008. The continent is enjoying higher savings rates, rising demand and stronger capital markets. Driven by a combination of trade and investment, Foreign Direct Investment (FDI) has increased by a factor of six during the past decade. Increasing flows of private capital to the continent offer real alternatives to Official Development Assistance. With FDI exceeding ODA in Africa, the engagement of the private sector is key for successfully promoting the transition to green growth. There is also an emerging African middle class of several hundred million consumers. Africa's young people are embracing new technologies that provide information, opportunity and connectivity. Private entrepreneurs, many of them young, have emerged as a dynamic force for change, driving innovation and transforming outdated business models.

An opportunity now exists to help Africa to create millions of new, decent (productive, well-paid and secure) private sector jobs in the next decade, which could lead to sustained social and economic development. But for all this to be achieved, and from the point of view of development impacts, the purposes of engaging the private sector whether through aid resources or otherwise, must be clear. It is hard to ignore the increase in aid- funded private sector activities lately, and this remains a major concern because private sector activities sadly have a record of violation of environmental regulations ranging from contamination, pollution to deforestation. On the management side, the private sector (if firms) is accountable to the owners of the business but not to the public. Hence there are fears of corruption in aid activities which might not be transparent and lack full accountability.

Still in line with this, the challenges that lie ahead include the continued lack of transparency: Governments have applied less stringent transparency requirements on the private sector compared to the other actors working in development cooperation. One argument for not requiring full transparency is that companies must be able to protect their commercial secrets, an argument whose validity has been difficult to assess.

In conclusion, granted, private sector is an important contributor to development but in order for their contribution to be have a sustainable impact in development, governments are urged to take steps to strengthen transparency requirements for private sector engagement in development while also strengthening the laws, policies, tax systems, rights, regulations and procedures that govern businesses. This they should do alongside their other crucial mandates of planning infrastructure investments, deepening and expanding their financial and capital markets, strengthening their labor markets, and building the business skills of young people and entrepreneurs; Work to make sure Africans can draw the greatest benefit from their raw material products by ensuring that primary resources are managed sustainably and used efficiently, and that downstream stages of processing and production (in key areas such as extractive industries, forestry and fishing) occur in Africa. They should also invest in technology that can stimulate agricultural businesses.