



IN BRIEF...

Development of the Private Sector

Developing the private sector can provide one way to reduce poverty – if poor people share the increase in resources that is generated. It is the enterprise of people that creates economic growth. Therefore developing the private sector can contribute to economic growth by promoting a sound business climate. The goal, and the great challenge, is that all people should be able to enjoy a good standard of living without overexploiting the world's resources or degrading the environment.

Shoe cleaners, fruit salesmen, cycle repairmen, seamstresses It is the many small enterprises and the small farms that provide a livelihood for the majority of the poor people in Sida's partner countries. However, even if development cooperation can do a great deal to improve conditions for small businessmen and farmers, this will not be enough in the long term. New ways of making livelihoods and new job opportunities must be created through economic growth.

Economic growth is essential for reducing poverty and improving the quality of life of poor people. However, poverty reduction is not a given consequence of economic growth. To ensure that the gains from an expanding economy benefit the poor section of the population, the political determination must exist to spread the resources. There should also be a structure in which the private sector and the government sector supplement each other.

Recent research shows that the countries that have succeeded in creating long-term economic growth

are those that also invest in better health care, education, security, peace, democracy etc.

One of the greatest challenges of our time is to create a reasonable standard of living for all people in the world without ruining the environment for future generations.

One direct link between economic growth and poverty is that those people who are now living on the margin – unemployed or working in small businesses and small farms – are able to get a job or the opportunity to expand and develop their businesses.

The private sector – with enterprises, cooperatives and all types of business activities that are privately owned – is the motor of economic growth, and this motor is fuelled by the enterprise and initiatives of people.

Many factors interact in an economy that is favourable for business. Some examples:

- Stable political conditions: peace, democracy, freedom of speech, a free press etc.
- A sound macroeconomy with a convertible currency, low inflation etc.

- Advantageous trade agreements
- An effective finance market that can generate capital for enterprises.
- Clear rules that make it easy to start and run enterprises
- Legislation that protects the right to ownership, property, means of production etc.
- Good roads and other forms of infrastructure.
- Strong organisations that can represent entrepreneurs, for example chambers of commerce and trade councils.
- Well educated people.

Sida's contributions for private sector development concern all these fields – from the overall level where it can be a question of international agreements, to the micro level where contributions are targeted directly at the enterprises.

It is often the poor who are affected most severely by lawlessness, high rates of inflation, poor roads, corruption or other shortcomings in the business climate. Likewise, the poor benefit when the shortcomings are remedied.

Sida cooperates with a large number of Swedish, international and local enterprises, organisations, institutions and authorities. In the long term the partners in cooperation in the developing countries should achieve a level of independence and proficiency that makes development cooperation superfluous. Then the foundation will have been laid for

future relations on a commercial basis between trade and industry in the partner countries and in Sweden. Accordingly, development cooperation is a long-term investment of mutual interest to both parties, as every sound business transaction.

In a global context Sida's resources are limited. To promote development, Sida's contributions must be selected with care and be made in fields where they generate additional value. Before Sida becomes engaged in a project, an environmental analysis is made. Another important aspect is that the contributions should lead to greater equality between women and men. The examples below have been selected to provide an idea of the diversity and breadth of Sida's cooperation.

Reform

The role of the state is changing in many countries. Important responsibilities, for example for electricity supplies and road maintenance, are being increasingly outsourced to private enterprises and organisations. Sida can provide support to countries that wish to instigate processes of change of this type.

Finance markets

Reliable banks, clear rules for trading in securities etc, are important components in an efficient market economy. Sida therefore supports the establishment of effective finance markets in some developing countries with capital and the transfer of know-how by Swedish consultants.

Trade

Open trade contributes to economic growth and to improving the living standards of poor people. Foreign trade provides export income and an inflow of new ideas, new technology and knowledge. Enterprises are forced to become competitive. The quality of goods and services is enhanced. Sida works in various ways to support the aspiration of developing countries to be integrated in the global economy and world trade.

Infrastructure

Good infrastructure has a positive effect on the entire economy and contributes substantially to poverty reduction. Sida has supported the development of good roads, railways, electricity supply systems, power stations, telecommunications etc. in the partner countries for many years. The focus of the support has varied over the years and now concentrates above all on energy and transport.

Microfinance

Microfinance is a generic term for different methods of giving poor people access to financial services. More than 20 years' experience of microfinance around the world shows that people who are poor and have a low standard of education are in fact reliable borrowers who invest wisely and are willing to save if given the opportunity.

Sida's vision is the gradual integration of the microfinance sector with the formal finance sector where it would be subject to the supervision of the financial supervisory authorities.

Development of small businesses

The need of new enterprises that can contribute to economic growth is extremely great in most developing countries and there is an enormous potential.

Sida is participating in financing the development programme *Start and Improve Your Business*. The programme is being administered by the ILO and implemented by local consultants and trade organisations. Hitherto, some 100 000 small business have been given practical training in ways in which they can develop and run a successful enterprise. The training material has been translated into 25 languages.

Development of local production for export

In Uganda and Tanzania Sida is supporting a concept for increasing exports of ecologically cultivated crops, for example coffee, tea, cotton, cocoa, sesame seeds and vanilla. EPOPA (Export Promotion of Organic Products from Africa) focuses above all on small farmers in the poorest parts of

the countries. The products are sold through EPOPA's agents directly to markets in the Western World at a higher price than traditionally cultivated food. This increases the incomes of the small farmers while EPOPA contributes to the development of agriculture and the private sector.

Growth for reduced poverty

The aim of Sida's support for private sector development is to contribute to economic growth that benefits the poor. This type of growth should

- contribute to increasing the influence and participation of poor people in the economy
- generate resources for society and lead to greater productivity, employment and larger revenues
- distribute the increase in resources in a way that improves the living conditions of the poor.

Read more

The document *Challenges to Sida's Support to Private Sector Development – Making Markets Work for the Poor* provides a more exhaustive presentation of development cooperation in the private sector.

See: <http://www.sida.se/Sida/jsp/polopoly.jsp?d=3009>

Halving poverty in the world by 2015 is the greatest challenge of our time. It requires cooperation and perseverance. The partner countries are responsible for their development. Sida channels resources and develops knowledge and skills. This makes the world a richer place.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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