

Developing Private Enterprises: Measures and Issues

Ram Babu Nepal

Developing private enterprise is vital for economic growth, generation of employment and to ensure the supply of goods and services and to alleviate poverty. Revenue generated from private enterprises can be used to provide public goods which vital to improve standards of living. The following measures are critical to support the development of public enterprises:

- (a) Creating an enabling environment - It implies the creation of an environment where entrepreneurs irrespective of their financial and social status are encouraged or feel comfortable to invest their capital in business activities and to do business themselves. It is about making entrepreneurs to feel, realize and harness their potentials. Government support to promote products in international market encourages investors. Domestic and global macro-environment is critical to promote private sector. There is a direct and strong relationship between the quality of the business environment and the long-term national economic performance, including the pace of poverty alleviation. Creating an enabling environment encompasses steps and measures that reduce the share of informal sector in an economy by encouraging moving to formal economy. Government has the key role in creating such environment. The major elements to be addressed in creating such environment are reforming regulations that govern business sector (property rights, taxation, regulation of business, banking and finance etc.), promoting rule of law, formalizing the economy and encouraging private sector in policy making processes. It demands strong institutions that support business enterprises. Rule of law implies that government decisions are made according to a set of written laws and rules followed by every citizen irrespective of their status. Predictability of public policies, peace and political stability, transparency and accountability and sound macro-economic policies are key elements of the domestic macro-environment. An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. Open exchange of goods, capital and information and the transfer of technology, experience and information stimulate the growth of private sector. The foundations for growth in the private sector start with a well-functioning global macro business environment involving a dynamic global economy that provides markets, as well as adequate trade rules that enable competitive process to market opportunities. Liberal industrial policy and supporting act to the implementation of policy encourages the technology transfer and foreign direct investment.
- (b) Creating a good investment climate - Investment underpins growth by bringing more inputs to the production process. The investment climate is the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Such climate is critical: (a) higher productivity by providing opportunities and incentives to develop,

adapt, and adopt better ways of doing things, (b) to fight against poverty, and (c) to enhance quality of life of people. Investment climate is largely affected by the costs, risks and competition and the government policies and procedures. A good investment climate encourages firms and farms, both small and large to invest, create jobs, and increase productivity. Employees, entrepreneurs, consumers and general public are benefited from such climate. The main elements of a good investment climate are as follows:

- **Stability and security** - These are threshold requirements. No investor wishes to invest in an unstable and unsecured environment. Stability is about providing predictable policy and regulatory environment in which investor are assured of the future of their investment. Security is about the protection of properties, people and reducing the cost of doing business.
- **Regulation and taxation** - Business has to comply with the regulations set by government (local, provincial or central). Sound regulation supports preventing market failures that inhibit productive investment and reconciles the interests of firms with wider social goals. Sound taxation contributes generating the revenues that can be applied to finance the delivery of public goods and services which improves the investment climate and also meets broader social objectives. Legal and administrative conditions and provisions to be complied with are critical for entrepreneurs because it consumes resources and impact profitability. Reducing over-regulation and red tape, improving competition policy, cross border business and tax laws are the matters to be considered to encourage investment. It is critical to assess whether the regulations promotes transparency and accountability, any provisions of rewards and punishments are proportionate to each other, ensures consistency among various provisions and effectively targets the issues to be addressed.
- **Infrastructure (financial, physical and social)** - The quality, accessibility and affordability of infrastructures are one of the major determinants of growth and development. Financial infrastructure implies banking, insurance and financial services. These services provide support in managing and mobilizing finance which is critical in business. Physical infrastructure (transport and communication networks and power) connects businesses to customers and suppliers and helps take the advantages of modern technologies, to access market and promote efficiency in production. It makes significant impact on cost which is a key element of competitiveness. Socio-cultural values also affect private businesses. Developing countries are facing the problem of attracting of qualified people in private sector for a number of reasons including job security, social values, and underdevelopment of corporate culture and prospects of career progression. These issues need to be addressed carefully to promote business activities and the interest of human resources.

- Workers and labor markets - Availability of skilled workers and organized labor market directly impact the development of business activities. Potential investor are always concerned with quality and availability labor force, the rate of compensation and the terms and conditions of services. These elements are critical for the success of business and profitability. Technology is changing fast. Labor should be trained and developed to keep pace with the changed technology. Businesses that fail to realize the need of change tend to loose opportunities to grow. Improvement in the investment environment from the perspective of labor management requires attention mainly on: (a) fostering a skilled workforce, (b) crafting labor market interventions to benefit all workers, and (c) helping labor to cope with technological changes. Support to education and training to enhance skill makes job potentials wider and encourages businesses to adopt new technologies. Labor regulations are usually focused more on the interests of workers considering their vulnerability. Over-emphasis on the rights of labor may force entrepreneurs to look more towards informal workforce that lack statutory protection. Government policy should consider ways to maintain reasonable balance between the vulnerability of labor force and business interests.
3. Lower the cost of investment and reduce risks - Incentive to investment also depends on the cost involved in making the investment productive or beneficial. High cost caused by various factors such as inadequate and underdeveloped infrastructure, corruption, criminal activities, legal and regulatory requirements and excessive red tape reduces profit, discourages investment and creates disincentive to business firms. Risks ate the integral element of businesses. Entrepreneurs are normally prepared to take risks that may be caused by the responses from customers and competitors. But other risks caused by policy uncertainty, macroeconomic instability and arbitrary regulations and administrative procedures create disincentive to potential investors. Such risks should be minimized or even eliminated to encourage investment.
 4. Improve the access to knowledge resource - Modern economy is turning to be knowledge economy. Ownership of ideas has become increasingly important than the ownership of capital. Knowledge to efficiently combine the factors of production to produce goods and services is considered the fourth factor of production. Knowledge resource is comprised of data, information and knowledge. Modern business must have sufficient data and information not only about own product but also human and non-human elements that affect business prospects. Technological innovations and the shift towards knowledge-based economies recognize that the investment in human capital is a prerequisite for sustained economic growth and central to start-up, growth and productivity of firms. Small and medium scale enterprises in developing countries are seriously constrained by the access to knowledge resources for modernizing their product and enhancing their responsiveness. Easy access to knowledge resources would be a great help to make business businesses more competitive.

5. Developing and maintaining business management capacity - Developing the capacity of people, organizations and society is a central and crosscutting element of all development efforts. Business management has become more critical and challenging than before for some obvious reasons i.e., trade liberalization, globalization and the development of technology. The capacity of management must be built and constantly updated to improve the private sector's ability to overcome constraints, to adopt the changes in business environment and new technologies, to promote innovation and to expand entrepreneurial skills.
6. Providing direct support to firms - Small scale business enterprises need direct support at the initial stage of business set-up. Entrepreneurs may lack market information, business management skills and the understanding of business environment, extending support at initial stage. Direct support to entrepreneurs who lack sufficient resources to invest on these matters can help them to integrate to business community and to boost their confidence.
7. Promoting public and private sector dialogue - Dialogue between public and private sector can support a great extent in promoting professional cooperation, reducing any misgivings and promoting complementarities for the overall development. An effective consultative mechanism can help promote and sustain public-private partnerships to maintain a reasonable balance between social and development goals with commercial interests.

Development requires positive support of all partners. Private enterprises can bring substantial and lasting changes in national economy. Therefore, government, donors, financial institutions should work closely to find the ways that encourages entrepreneurs.

Source : Khojtalasonline.com - 15th March. 07