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