

**Committee of Donor Agencies for Small Enterprise Development  
International Conference on Reforming the Business Environment  
29 November to 1 December 2005, Cairo**

**Conference Outcomes**

**Incorporating comments made during the final conference plenary**

**Final version**

For three days in November and December 2005, some 300 people representing 29 donor agencies from field and headquarter structures, as well as representatives of developing country governments and the private sector came to Cairo to discuss ways to reform the business environment. To our knowledge, this is the first broad based multi-donor conference to consider this issue. As a result, we considered a wide range of issues affecting the assessment and reform of the business environment.

The conference considered three stages in the lifecycle of reform programmes: (a) assessing the business environment and designing reforms; (b) the tools, techniques and frameworks that can be used to successfully implement reform programmes; and (c) ways to measure the impact of reforms and to monitor programmes. More than 65 presenters and panellists participated in the programme and 56 papers were presented. These papers described business environment reform experiences from all regions of the world; some focused on reform programmes at the local level conducted with local government authorities and local business membership organizations. Others examined the link between business environments, the informal economy, value chains and gender. Reform programmes – dealing with taxation, regulatory best practice, contract law, land administration and labour law – at both national and local levels were discussed. Throughout these discussions we tried to ensure that donor agencies learned from the perspectives of developing country governments and the private sector.

### **General key messages**

We have been able to reach a number of general agreements on business environment quite quickly. While it is easy to agree on generalities, we have tried to agree on specific messages wherever possible. These messages are informal and unofficial recommendations for donor agencies engaged in providing support for business environment reforms in developing countries.

- 1 We recognise that reforming the business environment is one of the most important areas in the global development agenda for donors and governments. While there is a need for more evidence in the long-term, we think that donor agencies would do well to include business environment reform in their efforts to promote private sector development, economic growth, equity and poverty reduction.
- 2 Business environment reform is a multidisciplinary field of work requiring a wide range of competencies, programme partners, processes, tools and techniques. Private sector must be an active player in the business environment reforms (as it was written before we differentiate PSD programs and governance programs. In case of BE reforms they should not be such difference, but rather be one program of reforms with the private sector involved). Business environment reform can occur at regional, national and sub-national levels and is the responsibility of developing country governments, the private sector and civil society; these actors should own and manage reform processes, donor agencies can only support and enhance their initiative.

- 3 While reforms often focus on policies, laws, regulations and their enforcement mechanisms, success and sustainability in reform always comes down to cultural and attitudinal change, including a reform-oriented mindset. This is a key ingredient.
- 4 Donor agencies can promote the creation of better business environments by supporting the transformation systems away from those based on personal contacts and patronage to those that are based on rules.
- 5 While it is recognised that governments play a key role in managing and reforming the business environment, donor agencies should continue to be open and committed to working with the private sector (at local, national and international levels) and encouraging their public sector partners to do this as well.
- 6 Business environment reform is a political process. Donor agencies cannot ignore this. While technical solutions have their place and can add-value to the quality and speed of reform efforts, a key determinant to the desire for and success of reform is political will and political leadership.
- 7 While much has been done in recent years with regard to assessing the business environment – and more should be done – greater attention needs to be given to helping governments and local agencies design solutions. Donor agencies need to broaden their repertoire in the ways they can support reform of the business environment.
- 8 As donor agencies we should emphasise the importance of implementation – this includes a commitment to the competencies and capacities of donors and their partners to make reforms work.
- 9 While much can be learned from international experience, business environment reforms work best when they are designed according to the specific national (and sub-national) contexts (e.g., local cultures, institutions, as well as the political, economic and social context).
- 10 Recognising local actors (private, public and civil) and building their capacity to participate in business environment reform is critical for successful and sustainable reforms.
- 11 Donor agencies should share responsibility for reforms they support. The donor funding should support the reforms which utilize the international best practice and develop the most efficient and realistic solutions. To ensure that donor agencies need to invest in building the competencies of their own staff at field and headquarter levels to support business environment reforms.
- 12 Impact assessment should be given more emphasis and should be included in business environment reform programmes from the beginning.
- 13 Effective regulation and competition policy regimes are key components of a good business environment for businesses of all sizes.

## **Key messages on the hot topics**

The seven hot topics of the conference were considered throughout the 24 breakout sessions and four plenary sessions. There is still much to be learned in each of these topics, but we have achieved a greater clarity on a number of the challenges donors face within these topics.

### **1 *Relevance of enterprise size***

- 1.1 Is this really an issue a debate can solve? Clearly it is not. Enterprise size *is* an important dimension to business environment reform. Small enterprises (whether they are called mini, micro, small or medium) do experience the business environment differently than large firms. There seems to be agreement on this.
- 1.2 However, the concern is with possible reform measures that are used to respond to this situation. There is great concern that size-based policy and legal instruments can work against the interests of both small and large enterprises. (Indeed, we do not wish to overlook

or disregard the importance of large enterprises.) There are many unintentional consequences from reform efforts that aim to support the small business sector.

- 1.3 It is important to adopt a systemic approach to private sector development and the creation of better business environments, which includes an understanding of the dynamics of enterprise size and the dynamics of value chains.
- 1.4 We recognise that a disproportionate amount of women-owned enterprises are small enterprises. Thus, there are gender-based barriers to small enterprise growth that need to be addressed when reforming the business environment.
- 1.5 More needs to be done to understand the profile of the private sector, incorporating better data on the size distribution of firms.
- 1.6 Small enterprises suffer more from the hostile business environment, while a better business environment benefits the entire private sector – small and large businesses.

## **2 *Role of the private sector***

- 2.1 There is strong agreement that the private sector is a critical partner in business environment reform. However, there are a number of challenges, debates and difficulties donor agencies face when it comes to engaging the private sector.
- 2.2 Small enterprises and their organizations have a role to play in business environment reform, but they require specific development programmes to support them in these efforts, avoiding the dangers of donor dependency and minimising the risks of market distortion. Thus, representation and capacity are critical issues for this sector.
- 2.3 Involving the private sector in the process of legal and regulatory reform from the very beginning is crucial for quality and sustainability of the reform process.

## **3 *Public-private dialogue***

- 3.1 Everyone agrees this is important. It promotes social inclusion in the business environment. Public-private dialogue is important for identifying reform priorities, monitoring progress, and sustaining reform processes.
- 3.2 It is important to work with existing actors and structures first, before creating new structures. Local champions play an important role in forging and facilitating new opportunities for dialogue.
- 3.3 We need to invest in supporting business representative organizations and to enhancing their participation in dialogue. It is particularly important for donor agencies to help small and informal enterprises find a “voice” in the processes that support public-private dialogue.
- 3.4 It is recognised that dialogue can take both formal and informal forms. What is important is the quality of this dialogue, which is affected by the timeframes, processes and representation for dialogue. It is important for dialogue to be linked to specific reform agendas.
- 3.5 Donors can facilitate public-private dialogue by providing some finance for the dialogue process (meetings, etc.), but should not drive the process; they should promote good practices and approaches, but should not make business membership organizations dependent on their financial support.

## **4 *Build a demand for reform***

- 4.1 There is strong agreement that donor agencies should respond to a domestic demand for reform. The role of donor agencies is to add-value to reform processes through technical assistance, training and other forms of skills transfer, information and experience sharing.
- 4.2 However, what should donor agencies do when there is not a strong demand for reform? Some people have said that nothing should be done in these situations. However, others suggest that there are ways to appropriately stimulate domestic debate on these issues that will lead to a greater demand for change. International, regional and national assessments

that benchmark business environments and monitor change help to do this. So too does stronger support for public-private dialogue.

## **5 *Informal economy and the business environment***

- 5.1 It is important to recognise, understand and assess the costs of compliance for enterprises in the legal and regulatory framework – this includes the costs of remaining informal and the costs of formalisation.
- 5.2 There are a number of opportunities to reform laws and regulations in the fields of tax and labour to bring informal enterprises into the formal system. These reforms have a developmental thrust and should maximise the long-term benefits of compliance and formalisation.
- 5.3 Large and small enterprises operate in the informal economy. Indeed, there are many large firms that benefit from this involvement. Most large firms are formally registered and have all permissions to run their business in the formal way. However, unfriendly regulations can entice large firms to hide a part of their business transactions outside the formal regulatory requirements.
- 5.4 We have learned more about the barriers of informality, but the dynamics of informality are less understood.
- 5.5 Access to information, skills and finance is vital to the process of formalization and reducing poverty.

## **6 *Local (sub-national) business environment reform***

- 6.1 Donor agencies should invest more in supporting business environment reforms at the sub-national level.
- 6.2 The reform of local business environments is a necessary systematic response to increasing decentralized governance. There are local layers of policies, laws and regulations that should be addressed, and there are local layers of decision-making that should be engaged. Local democratic political process is a main driver for reform.
- 6.3 Local governments can exert significant pressure for reform on the national political process, and vice versa.

## **7 *Donor collaboration***

- 7.1 National donor coordination is an important first-step in improving the traction that is necessary for donors to support business environment reform.
- 7.2 However, other steps are required. The next step is the collaboration of donor efforts. Donor agencies need to implement commitments made, including in the Paris Declaration on Aid Effectiveness, to work more closely together. This can be a difficult process requiring time and leadership.
- 7.3 Developing country governments can work with the donor community to support, enhance and, where necessary, lead coordination and collaboration efforts.

## Topics we want to know more about

The conference covered a wide range of issues, but it has become clear that there are a handful of topics that we need to know more about. These are topics the donor committee could examine more closely through future research, the production of information products and the hosting of conferences and seminars.

- 1 Improving donor practices: principles that inform our work, guides that give us direction, tools that we can use, training that improve our competencies and effectiveness. All of this should also be shared with our programme partners (i.e., developing country governments, the private sector, and civil society)
- 2 Improving the ways donors can work together
- 3 The links between business environment reform, economic growth and poverty reduction, including pro-poor growth and gender issues
- 4 Informality: How business environment reforms can reduce informality and improve the opportunities for pro-poor growth; better statistics on the informal economy, particularly on informal enterprises and informal workers
- 5 Small business taxation: How to reform tax systems so that they broaden the tax base across the private sector, while improving the benefits and support for small business
- 6 Regulatory best practice: How to tailor Regulatory Impact Assessment (RIA) systems to the specific resource and institutional conditions of developing countries
- 7 Improving local business environments and improving sub-national competitiveness
- 8 Business environments and value chains: How can reform of the business environment improve value chain performance.
- 9 Promoting a level playing field for business and poverty alleviation through well designed competition policies
- 10 Responses to globalisation: How business environment reforms contribute to better trade facilitation, the promotion of fair trade (i.e., the global business environment), and international competitiveness
- 11 Understanding the political economy of reform: What this means to donor practice and achieving development outcomes
- 11 How to work with the drivers of change
- 12 Evaluating and monitoring business environment reform programmes, and designing indicators and frameworks that can measure the impact of change in the business environment
- 13 Governance and institutional reform – this should include ways donor agencies can support good governance and the reduction of corruption
- 14 Supporting business environment reform in post-conflict countries
- 15 Ways to raise awareness (and demand) for reform, including the use of the media and social marketing strategies
- 16 Greater synthesis of business environment assessment tools and methods – helping donor agencies to make better use of what exists at the moment