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Creating an enabling environment for private sector development in Sub-Saharan Africa

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What are the challenges for private sector development in Sub-Saharan Africa?



- low productivity => low incomes
- widespread informality
- little upward mobility of small firms, a „missing middle“
- weak interfirm linkages, little specialization, short value chains, FDI/ large enterprises delinked from indigenous SMEs
- lack of innovation capabilities and export competitiveness ...

... PSD reforms need to tackle these deficits

Different concepts of „enabling environments“, different assumptions



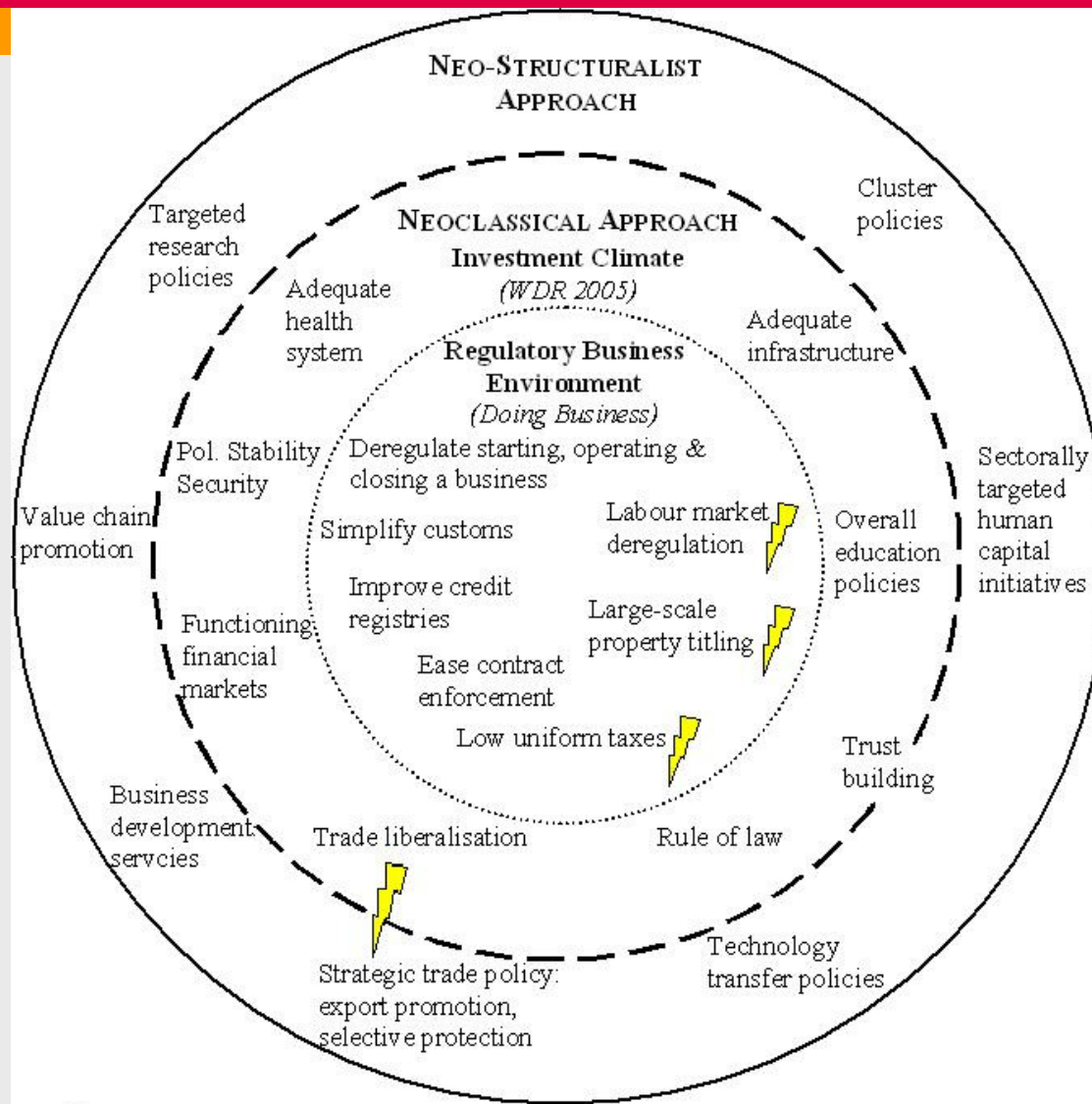
Neoclassical approach: Assumes that most factor markets work reasonably well without government intervention if basic institutions are in place (property rights, competition, contract enforcement)

Narrow concept: The ‚**regulatory business environment**‘, focus on bureaucratic burdens and property rights problems (Doing Business indicators)

Broad concept: ‚**Investment climate**‘ = RBE plus infrastructure, health, education, financial market etc.

Neo-structuralist approach: Assumes that market failure is pervasive and calls for more active public role, e.g. targeted enterprise support programmes

Neoclassical and neo-structuralist approaches



Different approaches to informality



	Neoclassical approach	Neo-structuralist approach
Concept of informal economy	<p>Defined by lack of formal registration</p> <p>Many vibrant <u>opportunity</u> entrepreneurs with viable business ideas.</p>	<p>Defined by multiple deficiencies (skills, capital, time constraints) and lack of absorptive capacity of modern economy</p> <p>Mostly <u>necessity</u> entrepreneurs with no long-term business plans, confined to simple activities with low entry barriers, oversupply and low returns. Run business to survive in absence of employment opportunities.</p>
Main policy implications	<p>Provide property rights, reduce bureaucratic entry cost and provide incentives for legalization.</p>	<p>Targeted policies for upgrading, e.g. providing management and technical training, support cooperatives, build linkages with formal enterprises, direct public purchases to informal sector organizations.</p> <p>Legalization may be helpful, but is not decisive.</p>

How important is the regulatory business environment in SSA?



RBE approach highlights key role of

- **easing business registration and acquisition of licenses**
- **property titling**
- **simplification of labour regulations ...**

... and questions need for / effectiveness of special public support programmes.

=> Empirical test for SSA:

- 1) Are RBE reforms successful?**
- 2) Are special public support schemes successful?**



1. Easing business registration / acquisition of licenses

- saves businesses substantial amount of money and time
- but no evidence of enterprise upgrading.

2. Property titling

- encourages investment, makes transactions easier,
- but has not significantly improved access to credit
- and sometimes resulted in anti-poor concentration processes.



3. Simplification of labour regulations

- evident cases of over-regulation (barriers to labour mobility, reduces wage flexibility) but
- few African enterprises perceive this as growth constraint
- no evidence that labour market flexibilization triggers employment and productivity growth
- Shortage of skilled labour more binding than over-regulation.

Summing up, reforms are positive, esp. deregulation of entry. But unlikely to remove most binding constraints. No evidence of significant upgrading & increased competitiveness.

=> Assumptions about growth potential of micro and small firms, „automatic“ increase of international competitiveness unrealistic.

Are special support programmes successful ?

Findings for SSA



Well known deficits (often bureaucratic delivery, low outreach, high costs, rent-seeking) ...

... but also some **success stories** (with limited outreach) in export promotion, entrepreneurship development, linkage building, MSTQ, etc.

⇒ **combine investment climate reforms and special support programmes (e.g. liberalized FDI regimes plus incentives for supplier development)**

⇒ **apply strict principles to special support programmes.**

Some principles for public support programmes



- Don't just assume market failure – check whether market-based solutions may be viable
- Improve accountability of public agencies
- Separate funding from service delivery, measure performance, and link funding to performance
- Create competition among service providers
- Involve private sector in programme design and implementation
- make co-financing compulsory
- design upscaling / outreach strategies
- define exit strategy.