

## **Africa Overview Paper**

### **Donor support for business environment reform in Africa: A review of key issues.**

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#### **EXECUTIVE SUMMARY**

This paper provides an overview of the most important issues that shape the African business environment and identifies the main challenges and emerging lessons for reform initiatives in the region.

The core argument is simple: More effective donor practices for business environment reform require donors to engage much more closely and intensively with businesses operating in Africa. Institutions and instruments should be created to enable governments, the private sector and development agencies to work together in principled, evidence-led ways in order to make real improvements to the day-to-day working environment for businesses.

The main themes are:

1. Take the long view. Sustained growth requires a favourable business environment to be in place over several decades. Patience and long-term commitment are needed. This may appear obvious, but in the past, mostly for internal reasons, donors have often taken too short a view, leading to their exit from projects before the conditions for self-sustainability are established.
2. After several decades of decline, the economic outlook for Africa is improving. This presents an opportunity for donors to help reinforce positive business environment trends. Donors need to encourage countries not to squander their rapidly growing resources, but rather to use them in ways that establish the preconditions for sustained growth and a more equitable distribution of development benefits.
3. Get incentives right, both for governments and for businesses. Opportunities for productive quick fixes are rare and generally have very modest results. Given the opportunity and enough time, people will generally find ways of improving their own circumstances provided that they are not unnecessarily obstructed by rent-seekers or diverted by perverse incentives to channel their own energies into rent-seeking.
4. However, incentives for change are not always purely material, and there is still a lot of work to be done to persuade African governments and publics that business climate reforms are really necessary for Africa's development.
5. To improve the quality of donor practice on business environment reform, donors should support efforts to reduce corruption and raise the quality of governance. Donors should be aware the ODA can in itself create opportunities for corruption, and should work to reduce these. Efforts to improve the efficiency of donor practice should also include better donor coordination and more support for realistic steps towards regional integration. Lowering the barriers to intra-African trade is one of the most important of these steps
6. Reducing regulatory costs and improving regulatory efficiency remain the most practical and effective means of encouraging enterprise development. New arguments for old approaches – such as active industrial policy and donor-subsidised business development services - should be very carefully assessed in light of past experience and the capacity of African governments to implement them
7. The shortage of high-quality data about the outcomes of business environment interventions make it difficult to design and evaluate programmes effectively and to bring about systematic improvements. Closer engagement with businesspeople working in Africa is necessary to ensure that the indicators donors use are the ones that really matter to business.