

Levelling the playing field: The role of government in enabling pro-poor businesses to thrive

'The power of the private sector is rapidly expanding at the expense of government. Businesses, from the largest to the smallest, have a critical part to play in ending the scandal of poverty. Enterprise is the ladder out of poverty for most people. People living in poverty need the private sector to thrive.'

Christian Aid's corporate strategy, *Partnership for Change*

Introduction

The business enabling environment (BEE) determines how the private sector operates, in both the developing and the developed world. This paper provides an overview of the BEE – what it is and why it matters – with the aim of developing a shared understanding across Christian Aid. Understanding and influencing the context in which we work can strengthen our ability to affect change beyond immediate project beneficiaries at the community level and help create sustainable, long-term impact.

The private sector and development

The private sector – from village to global level – has a vital role to play in ending poverty, but rapid global economic development in inadequately regulated markets often benefits privileged elites and excludes growing populations from the benefits of economic growth. Governments must put in place the necessary policies and investments to ensure fair and sustainable economic opportunities for all. We must support local, regional and global solutions that enable all communities to realise their potential and benefit equally from markets, knowhow, infrastructure, sustainable technology and investment.

Our own theory of change states: 'businesses potentially have an important contribution to make to the eradication of poverty by paying their fair share of taxes, by using their power and influence wisely, by providing employment and by investing their profits in a way that contributes to the "greater good", their communities and the wider environment'.¹

The private sector is comprised of a range of different actors, such as multinational companies (MNCs), small- and medium-enterprises (SMEs) and micro-enterprises. In many developing countries, there is an emerging domestic private sector, which often struggles to compete with foreign or multinational companies, but which in some circumstances can also be powerful and influential. Further, the private sector can be understood in both formal and informal dimensions, with micro-enterprises tending to dominate the informal sector in developing countries.²

Three main areas make up the BEE:

- 1) The **formal rules, laws and regulations** that governments at all levels impose on workers, markets and private businesses. These are imposed not just by the state's government but also by supranational institutions (such as the World Bank³ and the European Commission), bilateral agencies (such as a financial institution set up by one individual country to finance development projects in another country), multilateral bodies (such as the African Development Bank) and global institutions (such as the International Monetary Fund (IMF)). **Examples of formal rules, laws and regulations include tax legislation, property rights, employment law, labour rights, interest rates and trade rules.**
- 2) The **informal behaviours, customs and norms** that determine business practice and shape how markets work, and where governments can only have an indirect impact. **Examples of this include consumer preferences, gender attitudes and corruption** (often labelled 'fees' or 'charges').

3) Public investment in **infrastructure** and provision of **public goods and services** by the government. **Examples of this include health and education provision, transport and water management.**

Debates about the BEE tend to focus on the first area (formal rules, laws and regulations), but it is important to recognise the other factors that affect enterprises and workers.

Why does the BEE matter?

'An enabling environment is an essential pre-requisite for growth, employment, income generation and ultimately poverty reduction through strengthening the capacity for wealth creation, productive employment and decent work'.⁴

The private sector is a crucial stakeholder in development. The private sector generates economic growth by engaging in economic activity, creating jobs and wages for people, and opportunities and markets for small enterprises. Economic growth and private sector development must be key elements in development policies and strategies; however the interests of poor women and men must be championed in this context and the private sector must be equitable, sustainable, thriving and well regulated. Evidence shows that poor people do not gain fair value for the goods they produce or the services they provide due to unfair supply chains, limited market access and their lack of power when it comes to wages and working conditions. In some countries, there are concerns about land being sold off or leased to private sector companies, often forcing poor people off their land without sufficient compensation. All these areas are determined by the BEE policy framework.

Alongside direct impacts there are also indirect impacts of the private sector on development, for instance by providing the goods, services and capacity needed by poor communities at the right price, or by paying taxes. Also, in many countries, the private sector has become increasingly involved in essential service provision; for example by privatisation, contracting out and public-private partnerships.

However, the private sector is not a heterogeneous group and so the impact on and contribution to development follows that pattern too. **Micro-enterprises** are arguably the most important private sector actor for those living in poor communities, given their role as a safety net for people with limited access to formal jobs, often due to a lack of education or skills, or due to their gender

or social status. We work with a number of micro-enterprises, such as cooperatives of smallholder farmers, as part of our Inclusive Market Development work.

Another group of private sector actors that has the potential to create an impact on development are **SMEs**, rural as well as urban. SMEs often act as major employers in developing countries alongside performing the role of a major participant in economic activity. They engage in a wide variety of commercial activities in the formal and informal sectors, ranging from primary production to complex manufacturing, at different levels and in different locations. As a result of their diversity and wide sectorial coverage, their potential to impact on poverty is incredibly important and must be harnessed. They are a less mobile sector because due to their structures they are usually closer to the local communities in which they operate, which helps contribute to communities' survival and development. Furthermore, the linkages that are established between SMEs and **MNCs** will continue to be crucial in opening up new opportunities and benefits for development. The abilities of SMEs to be involved in more diverse supply chains, and production and distribution processes – alongside enabling access to innovative new technology and increased productivity – is crucial for future sustainability.

The MNCs are the most powerful and influential of private sector actors. Much has been written about MNCs and their influence on policy frameworks, practice and developmental outcomes. While development donors often praise their contribution, civil society organisations and NGOs, including Christian Aid, have challenged their records and exposed the harmful effects they can have on the environment, human rights and development. Although MNCs have the capacity to supply goods and services that meet the needs of poor people and also provide jobs, their presence in the market also risks putting small enterprises out of business, reducing the range of goods and services available, and forcing up the price of essential ones.⁵ MNCs therefore need to champion long-termism, and become more accountable and transparent in their actions, with the aim of developing business practices that have mutual benefits for business and society. This includes responsible sourcing of goods and services, fair wages and decent working conditions.

What makes up the BEE?

As we have already mentioned, three main areas make up the BEE. Below are some more details about each of these.

1) Formal rules, laws and regulations

Regional and global policies: global and regional trade agreements and bilateral investment agreements can restrict the ability of governments to use procurement policy to benefit local suppliers of goods and services. Unregulated or unfairly regulated markets can deepen existing inequalities and lock people into poverty as markets are biased towards larger enterprises. However, SMEs have the potential to boost equitable growth in developing countries, as they employ a significant number of people. For example, 97% of firms in Mexico and Thailand are SMEs and generally in developing countries, SMEs employ half of the working population.⁶ Decision makers should therefore consider the impact on SMEs when developing and implementing policy, and consider ways in which to create a level playing field. One example is border posts, which are often a major constraint to small traders, as transactions can be onerous and expensive. Improving these can lead to a better business environment for SMEs.

In Ghana, our partner Ghana Trade and Livelihoods Coalition has been campaigning since 2005 to influence trade and agricultural policies by amplifying the voice of poor farmers and empowering them to lobby the government. In the rice sector, the campaign has contributed to strengthening the domestic rice sector by introducing policies for the institutional purchase of local produce, including for the state-funded Ghana School Feeding Programme. Another measure adopted to boost local production has been the reintroduction of an import duty on rice. Overall the purchase of locally produced rice has increased.

Monetary policies: poor entrepreneurs often lack the finance necessary to build up their businesses – their lack of collateral (such as land or property) means they can often only access loans in the informal sector, which are normally much more expensive than those of banks. Government interest rate policies influence the rate at which banks and informal lending institutions make loans, and therefore the ability of poor men and women or small enterprises to access the finance they need to grow.

Fiscal policies: government budget decisions determine the size of the budget and how it

is allocated. Overly strict fiscal policy, which constrains budget deficits and lending, will reduce the resources available for public goods and services, and for interventions that could improve the business environment for poor enterprises. It is important to remember, however, that some developing countries receive significant amounts of aid from bilateral and multilateral donors, who often impose fiscal conditions, restricting the recipients' ability to lend or increase the budget. This, in turn, affects their ability to provide goods and services.

For example, in Malawi, foreign aid makes up approximately 40% of the government budget, which means that stakeholders such as the IMF and the World Bank have significant influence over fiscal policy in that country.

Tax: tax subsidies in rich countries and tax incentives can influence the prices of products, and thus the ability of the domestic private sector, in particular SMEs, to compete with imports or large suppliers. Business taxes, value added tax (VAT) and licence fees can limit the ability of SMEs to do business. Tax evasion and avoidance by local and foreign large businesses also reduce the revenue available to governments to spend on public goods and services. Conversely, governments also have scope to use taxes to support SMEs; for example tax incentives to MNCs could be made conditional upon their sourcing of inputs from local SMEs.⁷

Procurement policies: government procurement policies can provide a valuable market opportunity for SMEs if they stipulate sourcing from smallholder farmers or small enterprises for supplies needed in schools, hospitals and other public institutions.

After many years of advocacy, our partner MST (the Landless People's Movement) in Brazil succeeded in ensuring that two comprehensive national government programmes are in place to procure food for state initiatives from smallholder farmers. MST began by advocating in one area on this issue and the state began to buy food from smallholders for the local school feeding programme. The local political party challenged other states to do the same and now there are two agreements in place that commit the government to purchase at least 30% of all its food for schools, orphanages, prisons and hospitals from smallholders. In addition the programmes include finance for farmers to invest in improving their yields.

Energy policy: an unreliable or non-existent energy supply might prevent businesses from expanding their existing operations or investing in a new location. This is particularly problematic for smaller enterprises, which might not be able to afford alternative or back-up sources of energy, such as generators.

Land policy and governance of natural resources: land property rights impact on the BEE, as around the world marginalised communities lack property and land rights that expose them to loss of livelihood and displacement. In contexts in which women traditionally do not have property rights, this can jeopardise their access to a sustainable livelihood.

In Sierra Leone, a law passed in 2007 ensures women and children retain rights to land when their father or husband dies, but often in practice male relatives would try to take away the land. We have been working with local partners Network Movement for Justice and Development and Methodist Church of Sierra Leone to support women in defending their rights to property and to promote the role of women in society as peace makers in the aftermath of the civil war.

Labour laws and social protection: labour is an important – and often the only – commodity people living in poverty can sell in the marketplace, either as core market actors, or as suppliers of services to the market. It is common for poor and marginalised groups to enter the labour market on unfair terms. They often do not have association rights and lack the means of seeking redress towards unfair treatment or advocating collectively for better working conditions.

There are multiple frameworks and regulations that aim to define and protect dignified and safe labour conditions.⁸ However, if and how these rights play out in practice varies around the world, and the poorest and marginalised often face the greatest challenges in achieving fair labour conditions. The regulatory framework influences these dynamics, for instance governments can intervene by establishing quotas for employment in the public sector for marginalised groups, such as those that exist in India for socially excluded and tribal groups. However, laws and regulations need to be enforced and monitored to be effective, therefore civil society has a crucial role to play in ensuring that the rights of all workers, but especially

marginalised groups, are protected.

In some countries, a growing proportion of poor people (and increasingly women) are employed in larger businesses, such as plantations, garment and electronics factories, and extractive industries. There are concerns around exploitative working conditions of workers, many of whom are migrants in these sectors (having often moved from a rural to an urban area to find employment) and often vulnerable.

In Egypt, our partner Wadi el Nil is working directly or indirectly with 15,000 of the 25,000 workers of the stone mines of Minia. Quarry workers in Egypt often work without employment contracts and are denied rights such as paid leave. They are often subjected to abuse, for example being forced to take unpaid leave when sales are low. Despite existing labour laws for a safe working environment, there is no monitoring provision to ensure basic standards are upheld. Moreover, in Egypt unions have historically been centralised and de facto run as state entities. Quarry workers, supported by Wadi el Nil, were one of the first groups of workers to establish an independent trade union in the wake of the 2011 overthrow of the Mubarak regime and subsequent changes. In this context, Wadi el Nil had an amazing success in 2012, when workers went on strike for the first time, to prevent a tax increase on the transportation of quarried stone that would have bankrupted many quarries and caused poverty levels to soar. Their demonstrations resulted in the dropping of the tax hike.

2) Informal behaviours, customs and norms

There are many informal behaviours, customs and norms that determine business practice and shape how markets work, but on which government can only have an indirect impact.

An example of this is consumer preferences, such as for a particular brand of food, which can be difficult to change. Then there is tradition and habit ('this is how we have always done it'), cultural issues (for example, in relation to people in positions of authority) and gender attitudes. Another issue is corruption and bribery – in many parts of the world, people are expected to pay an unofficial 'fee' or 'charge' for a service, which can make many daily transactions time consuming and expensive.

In the Maniema province of the Democratic Republic of Congo, our partner Union Paysanne pour le Progrès (UPKA) is helping local communities to recover from years of conflict and corruption. Maniema is a remote area with rich fertile land, and UPKA has worked with farmers to assert their rights against a local corrupt practice whereby they are often illegally taxed as they go to and from markets. In a rural area like this, where few people can read or write, civil servants, police and the military often take advantage of their authority.

Bringing farmers, local authorities and tax collectors together, UPKA has run training sessions on how to work within the law. The result of this cooperation has been the development of a simple pass for each farmer to wear that gives a clear message – they know their rights and the law and cannot be abused. Working free from fear means the farmers also know they can keep their earnings and pay for education and healthcare for their families.

3) Public goods and services

Public goods and services include the physical objects that facilitate economic activity, such as roads and railways, airports, reliable electricity and water supplies, hospitals and schools. Being able to access the necessary infrastructure at the local level can improve the relationship with the market. One example of this is rural transport services, which enable people to access employment or markets in nearby towns and villages. Another example is education, which can enable people to acquire the knowledge and skills needed to gain employment or establish a small business (although the latter often requires access to affordable finance, which is a major challenge in a number of countries). In many countries, such goods and services are increasingly being provided by the private sector through outsourcing or public-private partnerships, or in a more informal manner where other alternatives have failed or are non-existent.

The overall economic and political environment, as well as global and national trends, also impact on the BEE and should be considered when analysing the context in which we work.

The role and responsibilities of government

Governments have a critical role to play in achieving equitable and sustainable growth and setting out a clear framework for economic transformation, in which the private sector operates.⁹ Only governments can establish and enforce policies, regulations and legal frameworks that promote a private sector

whose potential is harnessed to create the right kind of growth, jobs and opportunities, and develop and implement safeguards to protect the interests of the poor.¹⁰

However, it is important to identify the actors that influence governments – and the greatest hidden power is often big business. As such, legislation and markets are often biased towards large companies (including MNCs) rather than the SMEs and micro enterprises with whom we and our partners tend to work. There are, for example, many examples of big business lobbying for deregulation and favourable tax rules, which can undermine democracies and prevent states from representing the interests of all citizens. It is therefore important that we understand power relations and the various 'faces' of the business environment.

In Sierra Leone, our partner the National Advocacy Coalition on Extractives (NACE) lobbied against a new mining agreement between the Sierra Leone government and a UK-based company, London Mining. Significant income tax and import duty concessions were among 11 provisions in total that NACE said were inconsistent with the country's Mines and Minerals Act, which was tightened up to address the low mining revenues that the country earns from its extractive sector.

NACE was especially concerned that the tax and import duty concessions offered would drastically reduce the potential revenues to the government and the country. The agreement contradicts a promise made to the IMF in 2010 that the Mines and Minerals Act would apply to all new mining contracts.

This is an example of how big business is often able to lobby for favourable agreements, sometimes in violation of national law.

Big business tends to be well organised and networked, and is often able to lobby for favourable domestic policies and influence how governments negotiate trade and investment agreements. The opposite is often the case for SMEs.

SMEs provide the bulk of employment in an economy, including for women. The productivity of this sector matters immensely for employment creation, job quality and wage levels. However, governments often spend minimal amounts of public budgets on supporting micro-enterprises and SMEs; instead, many policies and laws favour large businesses.

Role of government

1. Setting out a framework for economic transformation and growth.
2. Regulating markets.
3. Investing in infrastructure and social capital.
4. Establishing and enforcing policies, regulations and legal frameworks.
5. Developing and implementing safeguards to protect the interests of the poor.
6. Incentivising and promoting an enabling environment that creates transparency and equitable business practices.

Big business

Big business tends to be well organised and networked. It is often able to lobby for favourable domestic policies and influence how governments negotiate trade and investment agreements.

Civil society

Civil society have a key role to play in holding government and business to account.

Inadequate or adverse public and commercial policies, the state of infrastructure, the possibility to access finance and levels of technical capacity all influence the degree to which the poor can successfully engage with markets.

It is critical that governments tackle the barriers that keep people marginalised and powerless. Unless a level playing field is established, small businesses will forever be unable to access and create sustainable and thriving markets. Regulating markets, investing in infrastructure and social capital (including through investment in education and training), considering indicators beyond economic growth and tackling power imbalances in the system are critical. Alongside this, governments must incentivise and promote an enabling environment that aims to create transparency and equitable business practices.

Christian Aid and our partners therefore have a key role to play in holding governments to account for establishing the frameworks, holding businesses to account for upholding them, and challenging all relevant stakeholders where we see an opportunity for change that will positively impact on people living in poverty.

Need more information?

For more information, to discuss the issues raised in this paper and to contribute to our thinking on the BEE, please contact **Ida Quarteyson** at iqarteyson@christian-aid.org

Endnotes

- 1 *No small change*, Christian Aid, 2007, christianaid.org.uk/images/no-small-change.pdf
- 2 *Getting back on the rails*, Christian Aid, 2009, christianaid.org.uk/images/private-sector-report.pdf
- 3 Via, for example, the Doing Business Indicators.
- 4 *Big ideas from small entrepreneurs*, CAFOD, September 2013.
- 5 See note 2.
- 6 S Nichter, L Goldmark, *Small firms growth in developing countries*, 2009, *World Development* 37, 9, 1453-1464, where SMEs are defined as firms with up to 50 workers engaged in non-primary economic activities and selling at least half of their input.
- 7 Africa Mining Vision, africaminingvision.org
- 8 ilo.org/global/topics/lang-en/index.htm
- 9 For example, Ethiopia's Growth and Transformation Plan for 2010-15, Ghana's Vision 2020.
- 10 *Getting growth right*, Christian Aid, 2008 christianaid.org.uk/Images/getting_growth_right.pdf