



Promoting an Enabling Environment for African SMEs: Emerging Lessons Learnt

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Outline

- What is an enabling environment?
- How is Africa doing?
- What about jobless growth?
- Common BE challenges
- What can be done?



Commonly Agreed Enabling BE Factors

- Stable macroeconomic environment based on sound fiscal and monetary policies
- Level playing field – framework conditions should not be biased against SMEs
- Access to affordable infrastructure
- Access to regional and global markets, open trade policy
- Access to government procurement opportunities
- Low barriers to entry (compliance costs) and exit (bankruptcy penalties)
- Flexible labour markets



How does it look in Africa?

❑ Africa: an extremely diverse continent

- Levels of economic growth
- Urban/rural proportions
- HIV prevalence
- Foreign direct investment
- Size of informal economy
- Capacity of governments to govern

❑ Encouraging growth rates

- More than 5% on average the last 3 years

❑ ...but poverty remains high

- Almost 50% of SSA have less than \$1 per day



Growth and poverty reduction

The missing link?

- Africa's current growth is largely the result of a commodity boom (oil, gold, etc) driven by East Asian and Indian growth
- Such (capital-intensive) growth does not create many jobs
- What is the missing link?



Employment!

- Employment is at the heart of poverty reduction
- Poverty reduction strategies should focus on developing employment-intensive sectors to transform growth into pro-poor growth
- Ensure that natural resources benefit the many and not the few, e.g. Brunei vs. Equatorial Guinea
- Use the leverage of employment for poverty reduction:



Poverty reduction strategies

Analysis

- Identify competitive and employment-intensive sectors
- Emphasize sectors where labour-based approaches can be used without compromising productivity
- Take value chains and cluster development approaches into account

Action

- Remove barriers to formalisation
- Encourage entrepreneurship, BDS and access to finance
- Enhance women's market access
- Encourage an inclusive public-private dialogue
- Strengthen the functioning of natural resource markets
- Ensure distributional policies, e.g. health and education



There is no universal formula for growth
but there is some pragmatic wisdom

Countries need to make themselves more
attractive to private business

The important question is:
« Is this initiative going to make it easier for a
business to start and flourish? »



Common business environment challenges

- Increase demand for business environment reforms
- Improve the supply of business environment reforms
- The relative importance of different types of regulatory reform



Increase demand for business environment reform

- ❑ Challenges
 - **BE reform often implies significant transfers of wealth and opportunity**
 - **Obtaining support from civil society for business environment reform is difficult**

- ❑ What can be done?
 - **Start with what is easy**
 - Simplify business registration
 - **Create the right incentives for governments**
 - Use selectivity to encourage ownership
 - **Create the right incentives for established businesses**
 - Balance reform costs against opportunities from growth
 - **Increase civil society support**
 - Show that ordinary citizens will benefit directly



Improve the supply of BE reform

❑ Challenges

- Donor fragmentation undermines the effectiveness of development aid
- Corrupt and arbitrary governments are unreliable suppliers of BE improvements
- Funds are sometimes allocated on the basis of “strategic priorities” without reference to countries’ governance practices or the likelihood of successful reform

❑ What can be done?

- Improve donor coordination and reduce transaction costs
 - Global funds that address specifics, e.g. customs, taxes



The relative importance of different types of regulatory reform

- ❑ Challenges
 - Time lag between regulatory reform and impact on growth
 - Wide gap between legal formalities and the real world of business
 - Doing Business and other indicators may be misleading or inaccurate

- ❑ What can be done?
 - Improve existing BE indicators
 - Support structures that permit regular high-level tripartite dialogue between business, government and donors
 - RIA is a useful mechanism for obtaining constructive input from business to processes of regulatory reform
 - Tax regime, labour legislation, property rights, regional integration are probably more significant than registration reform



The objective is to develop a policy and regulatory environment that supports the creation and growth of SMEs that generate decent work and incomes

Long-term economic history teaches us that the journey to prosperity is a long one

BE reformers should be patient and policy makers ought to think more in terms of achievements reached over a decade or more rather than in annual project cycles

The debate continues about the relative importance of BE reform vs. active enterprise development such as access to BDS and finance...

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