

SUPPORTING BUSINESS
ENVIRONMENT REFORMS

PRACTICAL GUIDANCE
FOR DEVELOPMENT AGENCIES

ANNEX: Supporting Local and Regional Business Environment Reforms



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**Supporting Business Environment Reforms:
Practical Guidance for Development Agencies**

Annex: Supporting Local and Regional Business Environment
Reforms

Donor Committee for Enterprise Development (DCED)

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PREAMBLE

In 2008 the Donor Committee for Enterprise Development (DCED) published guidance for donor and development agencies in their support of business environment reform in developing countries, entitled *Supporting Business Environment Reforms: Practical Guidance for Development Agencies*.¹ Since this publication, increasing attention has been given to a number of specific and closely related topics, which have been published as annexes to the original guidance.

This Annex focuses on how donor and development agencies can support local and regional business environment reforms. It is based on the findings of a Technical Report commissioned by the DCED Business Environment Working Group as well as on broader experiences of DCED members.²

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¹ The guidance is available in [English](#), [French](#), [Spanish](#) and [Arabic](#).

² White, S. (2016) *Beyond National Business Environment Reform; A Review of Donor Agency Support for Regional and Local Business Environment Reform*, Final Technical Report, Donor Committee for Enterprise Development, Cambridge: Available from: <http://www.enterprise-development.org/wp-content/uploads/BEWG-DCED-Technical-Report-Beyond-National-BER-2016.pdf>

KEY MESSAGES

Local and regional business environment reform is an important dimension to ensuring **private firms contribute to inclusive economic growth and job creation**. These reforms **complement national-level reforms** to address specific business and market constraints.

Key messages in local business environment reform (LBER):

- While the global economy is highly integrated, **location has a major role to play in supporting inclusive economic growth**. LBER contributes to this by addressing the major barriers to increased private investment at the local level.
- The major advantage of LBER is its ability to **respond to unique local conditions**, making implementation easier and deepening the involvement of local counterparts. LBER is considered by many to be **more closely connected to local decision makers**, making reforms **more practical** and **easier to achieve**.
- Conversely, the danger with LBER arises when **local elites capture or unduly influence** the reform process so that reforms do not benefit the poor or the marginalised. Thus, it is important to **ensure a diverse range of local actors are involved** in defining and overseeing local reforms.
- **Local business environment assessments**, such as the World Bank's Subnational Doing Business assessments, provide a baseline against which reform results can be measured and used to identify **what practices have led to success**. Assessments also provide **benchmarks** against which municipalities and other subnational authorities can compare themselves with others.
- Ensure local business environment assessment involve a **participatory process** in which the formal and informal business sector and civil society are actively involved. Assessments should identify **gender dynamics** as well as other risks of exclusion or discrimination and the results of all assessments should be publicly validated and debated. The factors affecting local informality should also be considered.
- When considering the need for a local reform program for the first time, **map all the relevant actors** in the local business environment as well as the institutional arrangements and assess the extent to which they have **political and legal authority** with regards to business regulation and the mandate and capacity to design and implement LBER.
- Distinguish between those reforms that can be fully undertaken by the local entity (e.g., municipal bylaws) and those that require national reform. **Coordinate between local and national partners** where required. There can be great differences in the ways local governments implement national legislation and in quality and effectiveness of the public services they provide.
- Support local **business representation and public-private dialogue** processes and structures, giving attention to the representation of women and men, and participation by a diverse range of local enterprise sizes and sectors. Involve local councillors in the implementation of local public-private dialogue agreements. Quick buy-in by the local council is important if public-private dialogue agreements are to progress.
- **Involve the local private sector in setting local laws and regulations**. A local joint taskforce with public and private representative may be formed to make **joint proposals** to the relevant local authority.

- Ensure women's economic empowerment policies and programs specifically address the **challenges facing local businesswomen** and **mainstream gender** programming into all local reform interventions.
- Identify and **support strong local leadership and champions**, such as a progressive mayor or an informed chamber of commerce president, and **hold local officials accountable** for the implementation of specific reforms. It is also important to **strengthen the role of civil society actors** in local reform processes.
- Assess the **capacity** of local reform actors and **design reform programs accordingly**. **Build the capacity** of these actors where necessary to sustain local reform efforts.
- Design and **outreach and communications** strategy so local business environment concerns are **shared with national agencies** (e.g., national chamber of commerce and other business associations, as well as the national local government association) to bring local business environment issues to the attention of national BER processes.

Key Messages in regional business environment reform (RBER):

- RBER contributes to **improving new market opportunities** for private sector development. For donors there are **two possible entry points in support of RBER: Increasing the scale of economic activity** through **regional market integration** and promoting the development of value chains through **harmonised regulations and standards**.
- Most regional bodies do not have the **legal authority** over regional business environments. Nation states have authority over their own territories and participate in regional structures as members. Moreover, the implementation and enforcement of regional reforms relies on national governments.
- Match the **capacity of the regional partner** with the reform agenda and **learn from past experiences with partners**.
- Establish strong **program linkages** with **business representative organisations** at regional and national levels.
- Ensure all reform programs contain **capacity building support** to help partners learn from the reform process and to promote sustainable reform processes. **Invest in peer-to-peer learning**.
- When selecting program partners, choose regional agencies with a **technical mandate and relevant body of expertise**, rather than those with a broad or general mandate.
- Work with a **combination of program partners** and **build coalitions** of partners around agreed reform efforts.
- Communicate a vision of the **big picture**, describing how regional integration and harmonisation is good for the country and region—businesses and customers.
- Enhance **civil society participation and programming** to ensure regional reforms respond to the practical barriers facing the business community. **Keep national legislatures and judiciaries closely involved** so they can respond to emerging regional opportunities.
- Construct regional integration projects that are **country-focused** and focus on **bigger, integrated programs** using **basket fund facilities**, rather than multiple donors funding poorly coordinated program components.

INTRODUCTION

Most business environment reform (BER) support programs are configured at the national level or within specific industry sectors. However, donor and development agencies are increasingly attuned to the barriers to private investment and economic growth found within subnational jurisdictions or across regional markets. While the objectives remain the same (i.e., to reduce costs and risks, and increase competitive pressures) the functional areas and approaches to regional and local BER can vary.

Local business environment reform (LBER) focuses on business environment constraints found within national boundaries and on the role of subnational government authorities and business representative organisations.

Regional business environment reform (RBER) is concerned with allowing businesses to produce and trade more easily with their neighbours and among other international markets. This includes, in particular, support to trade facilitation and regulatory cooperation and harmonisation in areas related primarily to the conduct of business, but also in relation to trade-related infrastructure (e.g., transport, energy).

SUPPORTING LOCAL BUSINESS ENVIRONMENT REFORM

As national markets become more integrated into the global economy, the significance of the local is growing. Greater attention is given to the role of subnational government authorities and, in particular, to urban economies and city governance. While LBER focuses on state capitals, regional centres and provincial and local cities and towns, this includes those in urban and rural settings.

Assessing the local business environment

LBER assessments apply indicators relevant to local conditions and attempt to highlight the subnational variations in business environments. It is important to identify local business environment barriers and constraints around which reform programs can be formulated.

One of the flagships in local business environment assessments is the World Bank Group's Subnational Doing Business (SNDB) reports. These reports capture differences in business regulations and their enforcement across locations in a single country or group of countries. SNDB provides data on the ease of doing business in specific locations and ranks each location. It recommends reforms to improve local performance in each of the indicator areas. Unlike the annual Doing Business reports, which focus on the national political or commercial capital of the country, SNDB assessments highlight variations in the business environment across states, provinces and cities.

Beyond the SNDB reports, there is a range of other local business environment assessment tools in use. These apply a variety of indicators, but are common in the following features:

- Compare local business environments within the country;
- Identify local reform priorities;
- Provide a basis for validation and agreement among a range of local public, private and civil society actors; and
- Apply baseline data against which reform results can be compared.

When assessing the local business environment, it is important to map all relevant actors and assess the extent to which they have political and legal authority with regards to business regulation and the mandate to design and implement LBER.

Benchmarks should be established so reforms can be monitored overtime; these measures inform LBER design and quantify reform outcomes. Local business environment assessments can compare business environments across localities within a single country so as to highlight and distil good local practices. This should include a gender analysis of the impact the local business environment has on businessmen and women, and their male and female employees, including informal firms and workers.

Local business environment assessment is a participatory process in which the local private sector is actively involved. Results should be publicly validated and debated. It is important to support local business representation and processes and structures for effective public-private dialogue to ensure equal representation of women and men, and a diverse range of enterprise sizes and sectors.

Working with local business environment partners

Most LBER involves working with local partners. Working with local partners promotes local ownership and enhances the sustainability of reforms. This includes local municipalities and other subnational authorities. However, because LBER often involves some degree of national reform to enable the desired local changes, there are national or central government ministries, departments or agencies that become involved in LBER.

Other actors may include: local business representative organisations (e.g., local chapter of the national chamber of commerce, local industry associations and informal business associations), local banks, public utilities and authorities, universities and technical colleges, local development agencies (e.g., business advice centres, investment promotion offices), and non-government organisations.

Themes of local business environment reform

LBER responds to unique local conditions, making implementation easier and deepening the involvement of local counterparts. LBER is more closely connected to local decision makers, making reforms more practical and easier to achieve.

Political structures have a powerful influence on the ways LBER programs are designed. Some countries have a more decentralised political system (e.g., federal systems) than others. Reforms are based on a sound understanding of these political systems, the legal authority of subnational government structures and the relationships between central offices and their local branches.

Many donor and development agencies support LBER because of the direct affect it has on the local business community. Local municipalities and other subnational government entities often have the power to introduce legal and regulatory provisions with the effect of severely inhibiting business growth.

While there are a variety of LBER areas of interest, donor and development agencies tend to focus on supporting reforms in the following functional areas:

- Formalising local enterprises through improvements to local business registration and license procedures;
- Local construction permit reform;
- Local taxation reform;

- Local regulatory reform (i.e., simplification and improvement of local laws and procedures);
- Local investment promotion; and
- Local land reform and local area planning.

Many local reforms require support from external authorities (e.g., national government). Thus, it is important to distinguish between those reforms that can be fully undertaken by the local entity (e.g., municipal bylaws) and those that require national reform. This will strongly influence the design and management of the local reform programs. Indeed, in most cases, good coordination between local and national partners is required.

LBER can also respond to the problems resulting from the poor implementation of national policies and laws at the local level. In these cases, it is necessary to improve the harmonisation of national and local policies, programs and laws, and to ensure local actors have sufficient capacity to implement or enact national directives. Often, it is necessary to strengthen the dialogue and improve the flow of information between local and national government entities.

An outreach and communications strategy detailing local business environment concerns can be shared with national agencies (e.g., national chamber of commerce and other business associations, national government ministries, departments and agencies, as well as the national local government association) to bring local business environment issues to the attention of national BER processes.

Success in LBER is achieved by identifying and supporting strong local leaders and champions, such as a progressive mayor or an informed chamber of commerce president.

As with all aspects of BER, engaging the private sector is critical. Yet, while it is important to involve the local business community in setting local by-laws, this rarely occurs. Where this has been done successfully, local taskforces between local government and local business councils have been created to collectively consider local laws and regulations and to make joint proposals to the relevant authority.

LBER promotes greater levels of transparency and accountability in the local business environment. Local officials should take responsibility for leading reforms. Programs should promote stakeholder engagement and build trust between public and private stakeholders engaged in LBER.

LBER can be used to promote women's economic empowerment policies and programs. These can specifically address the challenges facing local businesswomen. Gender issues should also be mainstreamed into all LBER interventions.

SUPPORTING REGIONAL BUSINESS ENVIRONMENT REFORM

Donor and development agencies support RBER because of the significant impact these programs promise. Working across borders affects more than one nation state and, by implication, has the potential to affect larger markets and a larger population of businesses and employees. Thus, regional reforms can have a greater impact than many national level reform programs. Despite this, many regional-level reforms also require national level reforms in order to agree on, adopt or implement regional initiatives.

RBER creates opportunities for countries in the region to learn from and adopt the practices of neighbouring countries. Thus, there are many opportunities to leverage additional resources for reform programs.

Assessing the regional business environment

There is a wide range of regional business environment assessments tools in use. However, many of these describe the national business environment of countries within a region, rather than focusing on specific regional business environment concerns. For example, the World Bank Group has prepared a series of Regional Doing Business reports capturing the differences in business regulations and their enforcement across countries in a single region. These assessments provide data on the ease of doing business, ranking each location and recommending reforms to improve performance in each of the indicator areas. They usually draw from the global (national) Doing Business database and present the data in a manner to suit comparison within a region.

As trade is a major topic of interest in most regional business environments, this topic has been assessed more closely. The East African Community's Common Market Scorecard is a good example of this. Supported by TradeMark East Africa, this scorecard helps Partner State deepen their understanding of the different issues under the Common Market Protocol and encourages them to undertake recommended reforms.

Working with regional business environment partners

Regional economic communities and their secretariats are the most natural leads of RBER processes. However, regional business organisations and their national affiliates across the region are increasingly advocating for reforms to improve trade and market integration.

RBER involves a wide range of regional and national actors, including: national bureaus of standards and their international affiliates, regulatory and customs authorities, national export and investment promotion agencies, regional business associations, regional professional associations, regional non-government organisations, development agencies, and think tanks.

RBER programs should be designed to suit the capacity of the regional partner. While there is no proven formula to choosing the right regional partner it is important to learn from past experience. Because some regional partners will be non-negotiable it will be important to bolster reform support with capacity building measures.

Choose regional agencies with a technical mandate and body of expertise where possible and appropriate; these agencies can be good RBER partners rather than those with a broad and often general mandate.

Work with a combination of program partners and build coalitions of partners around agreed reform efforts. Most successful RBER programs work with national government ministries and regional economic communities as well as civil society and the private sector at both national and regional levels.

There are many challenges when working with the private sector at a regional level. Not all regional business organisations are sufficiently representative of the region's business community. Thus, it may be important to involve more than one representative organisation and to ensure a flow of information to and from national business representative structures within the region.

Effective regional business representation can be influenced by financial constraints. Many regional business representative organisations also have limited capacity to undertake research and engage governments in evidence-based advocacy, and lack the understanding and skills for participating in trade negotiations. They also have limited access to information on regional integration and trade matters.

Themes of regional business environment reform

Many donor and development agencies plan BER programmes regionally. This largely focuses on coordinating national level reforms within a region and looking for opportunities to create synergies between countries in the region. While this regional programming is not specifically a RBER activity, it can lead to support for regional reforms. For example, a number of donor agencies support the Investment Climate Facility for Africa as a regional programming and BER facility.

Access to markets is often inhibited by poor regional economic integration. Thus, there is a strong interest in improving the legal and regulatory environment across the region and harmonising this across all member states. Within this context, regional trade and investment regimes are particularly important. However, there are other issues that require attention at the regional level, such as migration, land, and labour and financial markets. Regional economic communities play a major role in this. They provide an essential mechanism for regional harmonisation and economic integration.

While regional integration is a central focus of most RBER programs, there are other functional areas donors support through their RBER programs:

- Regional programming;
- Regional economic development;
- Simplifying business registration and licensing procedures;
- Improving tax policies and administration;
- Improving land titles, registers and administration;
- Simplifying and speeding up access to commercial courts and to alternative dispute resolution mechanisms;
- Broadening public-private dialogue processes with a particular focus on including informal operators, especially women;
- Enabling better access to finance;
- Trade agreements and regional trade facilitation;
- Improving access to markets and market information;
- Aid for Trade;
- Capacity building to regional organisations;
- Special economic zones;
- Value chain improvements;
- Women's economic empowerment;
- Publications on 'vertical cooperation' — linking regional and national reforms; and
- Programming through multi-donor facilities and programs (e.g., Investment Climate Facility for Africa, World Bank Group).

RBER can support regional integration projects that are country-focused to achieve greater support for regional integration. Help program partners, at regional and national levels, to focus on the big picture—describe, in practical terms, how regional integration and harmonisation is good for the country and region. Give support to communicating this big picture to all actors across the region.

Support bigger, integrated programs using basket fund facilities, rather than multiple donors funding poorly coordinated program components.

Enhance civil society participation and programming in reforms driven by local, national and regional structures. National legislatures and judiciaries should also be closely involved in the discussions concerning regional reforms.

Ensure all RBER programs contain capacity building support to help partners learn from the reform process and to promote sustainable reform processes. It helps to invest in peer-to-peer learning so that the benefits of regional reforms can lever broader and deeper reforms within and among partner countries.

While RBER identified can have significant impact, these reforms typically take a long time—up to 10-15 years, depending on the political economy. Thus, donor and development agencies should ensure their support for BER, and their measurement of results, accommodate these timeframes.