

Summary: How to create an enabling environment for inclusive business?

Lessons from private sector development



Donor Committee for Enterprise Development

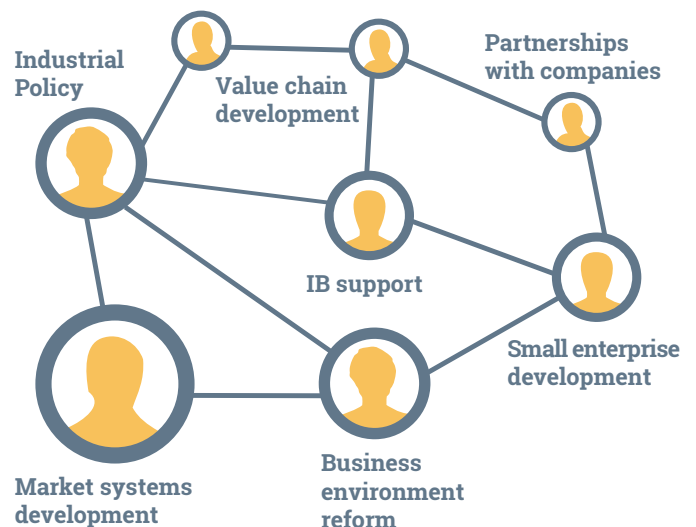
This is a summary of an 81-page report published by the DCED in 2016.

To view the full document click [here](#); for more on the theme, visit the [DCED Inclusive Business](#) webpage.

Different communities - similar objectives: What can we learn from their experience in promoting businesses that are pro-poor?

To answer this question, the DCED has reviewed more than 100 documents including empirical experience and emerging evidence – not only from inclusive business (IB) but also other private sector development programmes, such as market development, industrial policy or business environment reform.

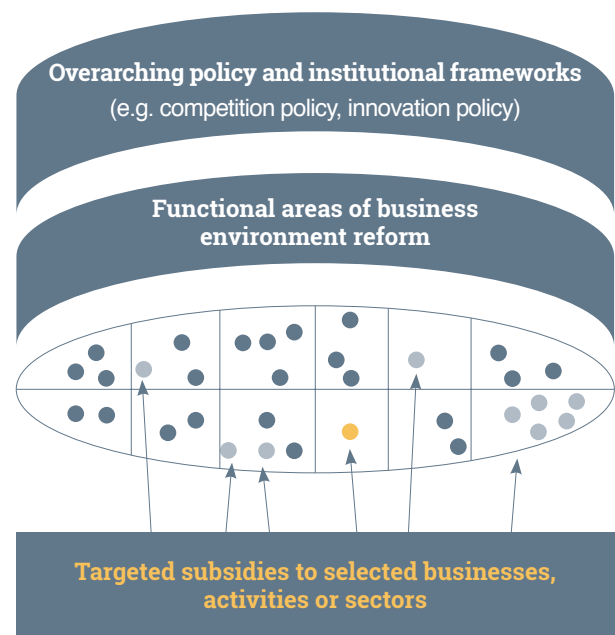
Such programmes have for many years promoted reforms and policies to alleviate poverty, without an explicit mention of IB. Interestingly, their experiences turned out to be either strikingly similar, or surprisingly different from policy recommendations found in the IB literature. Below are some of the main findings and lessons emerging from the study:



1. Functional areas of business environment reform

To structure reform options, it is useful to distinguish two fundamentally different sets of measures.

The first set are ‘functional areas of business environment reform’. These are designed to reduce costs and risks for all business caused by poor or changing policies, laws and regulations. Examples include simplifying business registration and licensing; improving tax policies; enabling better access to finance; improving land titles; enhancing public-private dialogue; and developing appropriate quality standards. *Are constraints – and solutions – in these areas different for inclusive business, compared to any other business?*



Summary: How to create an enabling environment for inclusive business?

Lessons from private sector development



Donor Committee for Enterprise Development

Practical experiences reveal that most reforms as currently implemented can be expected to make it easier to 'do business' in general, and therefore also benefit inclusive business.

Two examples of particularly relevant reform areas include

- inappropriate or missing quality standards, which can represent a binding constraint to introducing or scaling inclusive technologies or services; and
- public-private dialogue to advocate for reform, especially if inclusive business depends on substantial reform of government-controlled sectors or there is a need to raise government awareness of specific inclusive business constraints.

Existing advice and lessons on quality infrastructure development, the design of public-private dialogue platforms and political economy analysis can therefore offer valuable resources for IB practitioners.

Yet, inclusive businesses may not always benefit sufficiently from 'standard' reform initiatives but require additional measures – often based on sector assessments or tailored to the needs of individual businesses.

Examples include

- licensing regimes for highly innovative inclusive business models, e.g. in sectors that feature only limited private sector participation to begin with (such as energy or health); and
- specific legislation that allows IB to access relevant forms of finance (e.g. impact investment), or to act as providers of finance to the poor (e.g. mobile and agent banking regulations).

2. Targeted interventions to support specific businesses, activities or sectors

The inclusive business literature is rich in references to industry- or firm-specific government measures – such as subsidies, tax waivers, mandatory inclusion, or preferential public procurement. Indeed, all governments that have achieved growth in economic opportunities for the poor at scale have complemented business environment reform with targeted interventions, such as industrial policies. Yet, interventions that are badly designed and managed have also been a major barrier to inclusive growth. *What could IB practitioners learn from past successes and failures?*

Briefly, the most effective targeted government interventions share some common principles and have a strong potential for synergies with business environment reform.

They

- use public-private dialogue as a feedback mechanism to learn about business constraints;
- establish a clear economic rationale for intervening (in addition to social objectives);
- make support time-bound and conditional on performance; and
- favour support to sub-sectors, activities or technologies over individual firms. Empirically, the best poverty reduction results have been achieved through a focus on labour-intensive industries or productivity-enhancing practices in agriculture.

Evidence also suggests that *mandatory inclusion rules*, for example local sourcing requirements for supermarkets, should be avoided; they tend to work against private incentives, raise the cost of doing business and don't yield the desired effects. Market-based solutions (e.g. capacity-building and information about local small suppliers) may be more effective.

The role of *preferential public procurement* for inclusive business is unclear; however, emerging evidence from small and medium enterprise (SMEs) support hints that, under the right conditions, it has allowed SMEs to grow and hire new staff from the informal sector or unemployment.