

Narrowing the Gap: Business Environment Reform and Private Capital Mobilisation

Policy Brief



Traditional business environment reforms are necessary but insufficient on their own to mobilise private capital at scale.



Climate resilience investment requires sector-specific BER frameworks rather than generic investment climate reforms.



BER works as an upstream enabler that reduces risk and improves predictability, but rarely triggers investment without attractive market opportunities.



Coordination gaps between policy reform teams and investment practitioners weaken mobilisation outcomes and must be addressed.



Political feasibility, timing, and sequencing are decisive; technically sound reforms fail when they lack political backing or precede investor interest.



Effective BER must evolve into a more selective, context-specific, and investor-aligned approach grounded in real market needs.

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Introduction

Mobilising private capital is indispensable to achieving sustainable development and climate resilience goals, particularly in emerging and developing economies (EMDEs). With Official Development Assistance (ODA) under increasing pressure and global financing needs for the Sustainable Development Goals (SDGs) and climate action reaching trillions of dollars annually, Business Environment Reform (BER) has long been promoted as a foundational tool to attract private investment.

BER seeks to improve laws, regulations, institutions, and policies that shape business activity, reducing costs and risks while enhancing predictability

and transparency. In theory, BER plays a critical “upstream” role in enabling downstream private capital mobilisation (PCM). In practice, however, the relationship between BER and Mobilisation is neither automatic nor universally strong.

The study synthesises evidence from practitioner interviews, literature review, and case studies from South Africa, Vietnam, Senegal, and Zambia. It finds that traditional BER interventions—such as administrative simplification and regulatory streamlining—remain necessary but are insufficient to mobilise private capital at scale. BER is most effective when it is selective, politically feasible, aligned with investor demand, and closely coordinated with investment actors.

Four strategic pillars emerge as essential for sharpening BER into a more effective mobilisation tool:

1. **Align reforms with local business and investor needs**
2. **Focus reforms where political will and investor demand converge**
3. **Adapt BER frameworks to enable climate resilience investment**
4. **Bridge the gap between policy reform and investment practice**

The central conclusion is not that BER should be abandoned or reinvented, but that it must evolve—from a broad, generic enabling agenda into a more deliberate, context-specific, and market-responsive instrument for mobilisation.

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Why BER matters for mobilisation

The Changing Development Finance Landscape

Global development finance has undergone a structural shift. Trade, foreign direct investment (FDI), and remittances now far exceed traditional aid flows, while the financing gap for achieving the SDGs and climate goals continues to widen. Estimates suggest that climate investment needs in EMDEs alone must reach approximately USD 2.4 trillion annually by 2030.

In this context, mobilising private capital is no longer optional—it is central to development strategy. BER has been widely adopted as a means to reduce investment risk, improve market efficiency, and unlock private sector participation.

BER in Theory: An Upstream Enabler

BER operates primarily as an upstream intervention. Within frameworks such as the World Bank Group’s “Cascade” approach, BER lays the groundwork for private investment by:

- Reducing regulatory and administrative barriers
- Lowering transaction costs and risk premiums
- Enhancing investor confidence and policy predictability
- Improving financial sector depth and access to credit
- Enabling new markets and business models

BER can improve project bankability through sector-specific reforms (e.g. energy tariffs, PPP frameworks), strengthen property rights and contract enforcement, and support financial infrastructure such as collateral registries and credit information systems.

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Evidence of what works

The Limits of BER in Practice

Despite its strong theoretical foundations, evidence shows that BER alone rarely triggers investment. Key limitations include:

- **Political economy constraints:** Reforms often challenge vested interests and lack political backing.
- **Weak implementation:** Legal changes do not guarantee enforcement.
- **Indirect and delayed impacts:** The link between reform and investment is difficult to attribute and measure.
- **One-size-fits-all approaches:** Standardised reform packages often fail to reflect local market realities.
- **Measurement challenges:** Investment outcomes are influenced by multiple exogenous factors beyond BER.

Lessons from case studies

South Africa: Energy reform and the just energy transition partnership

South Africa's Just Energy Transition Partnership (JETP) illustrates how BER can catalyse mobilisation when aligned with political urgency and investor demand. Facing a severe electricity crisis, the government pursued energy sector liberalisation, unbundling the state utility Eskom and enabling private renewable energy generation.

These reforms were reinforced by results-based policy lending, notably a USD 1 billion World Bank Development Policy Loan, and supported by coordinated engagement from DFIs and donors. Early evidence suggests a sharp increase in private investment in embedded renewable generation.

Key lesson: BER is most effective when embedded in national priorities and reinforced by policy-based finance during moments of political alignment.

Vietnam: Sequenced green finance reforms

Vietnam's experience demonstrates the importance of sequencing. Rather than starting with financial instruments, reforms first focused on foundational elements: a green taxonomy, ESG disclosure requirements, and capital market infrastructure.

Supported by the World Bank, IFC, GIZ and SECO, these reforms addressed concrete barriers identified by domestic financial institutions. The result has been rapid uptake of sustainability-linked bonds and increased ESG reporting.

Key lesson: Foundational regulatory clarity is a prerequisite for mobilising private climate finance.

Senegal and Zambia: Scaling solar

The IFC-led Scaling Solar programme in Senegal and Zambia shows how targeted, standardised BER can unlock private investment even in high-risk environments.

Transparent auctions, bankable documentation, and multilateral risk mitigation enabled record-low tariffs and mobilised over USD 150 million in private capital.

Key lesson: Well-designed sector-specific reforms, combined with de-risking instruments, can deliver mobilisation at scale.

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Climate resilience

A critical but underdeveloped frontier

Climate mitigation and adaptation investments face unique challenges:

- Long investment horizons
- High political and regulatory uncertainty
- Public-good characteristics with limited monetisation
- Elevated cost of capital

Standard BER tools are often inadequate for these conditions. While climate-related financial policies have expanded since the Paris Agreement, frameworks remain fragmented and underdeveloped—particularly for adaptation and resilience.

Evidence suggests that policy stability and regulatory certainty are among the most powerful levers to reduce the cost of capital for climate investments. Strong climate policies have been shown to lower the cost of debt for renewable energy projects by over 30 basis points.

Mobilising private capital for climate resilience therefore requires purpose-built BER, not generic reform.

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Key findings

1. **BER is an enabler, not a trigger**
It facilitates investment once opportunities are attractive, but rarely creates demand on its own.
2. **Timing and sequencing matter**
Premature reforms in markets without investor interest waste scarce public resources.
3. **Political feasibility is decisive**
Technically sound reforms fail without political backing.
4. **Climate resilience requires bespoke BER**
Long-term certainty and sector-specific frameworks are essential.
5. **Coordination gaps reduce effectiveness**
Disconnects between policy reform teams and investment practitioners limit impact.

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Recommendations

Recommendation 1: Anchor BER in local business and investment needs

BER must be grounded in continuous dialogue with domestic and international businesses, investors, and financial institutions. Reforms

should prioritise constraints identified by market actors, supported by real-time feedback mechanisms.

Policy implication: Shift from top-down reform agendas to business-led prioritisation.

Recommendation 2: Focus reforms where political will and investor demand align

BER should be sequenced to follow both political feasibility and latent investor demand. This requires improved political economy analysis and investor intelligence.

Policy implication: “Follow the money and read the politics” before committing reform resources.

Recommendation 3: Develop tailored BER for climate resilience

Climate resilience demands specialised regulatory frameworks, including long-term policy roadmaps, climate-specific fiscal incentives, standardised PPP frameworks, and resilience-linked financial instruments.

Policy implication: Treat climate BER as a distinct reform domain, not an extension of traditional investment climate reform.

Recommendation 4: Bridge policy reform and investment practice

Development actors should institutionalise collaboration between BER teams and investment practitioners. Investment expertise must inform diagnostics, reform design, and implementation.

Policy implication: Integrate upstream policy reform with downstream transaction knowledge to maximise the impact of mobilisation.

For links to more resources on this topic see the [DCED's Business Environment Reform webpage](#).

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