

# Business Enabling Environment Assessment Tool

## Private Sector Engagement Toolkit:

### Purpose

To identify the formal and informal business enabling environment (BEE) rules and norms that impact the private sector activity in a given context.

### Description

The business enabling environment is shaped by formal and informal rules (and their enforcement) which act to shape market outcomes and govern players' participation and behavior. Rules can be of several types:

- Generally applicable rules such as contract, property, consumer and environmental protection, weights and measures, health and safety, competition and tax laws.
- Sector-specific rules such as banking codes, telecommunications acts and land use and ownership laws.
- Non-statutory regulations such as industry codes of good conduct and quality standards.

Informal rules and norms are those that are generally outside the direct influence of the government and include the social and behavioral dynamics within firms, between firms, and across value chains. It also includes social and cultural issues such as women's role in the workplace, perceptions of paying for services or interest, the role of caste or religion in business.

Formal rules are those that are impacted by government activity and include issues surrounding, infrastructure, taxation, and regulation. Excessive or negative rules can create barriers, limitations, and flaws in the business environment with the impact of increasing the cost of doing business, increasing risk, hindering market development and reducing competition.

The enforcement of rules depends on the functioning of various organizations including the judiciary, systems of regulation, inspection and licensing, revenue authorities, company and land registries, industry regulators, local tax offices and self-regulation mechanisms.

How rules are interpreted and applied is often shaped by social, cultural and political norms and practices as much as by the letter of the law. Where formal rules and their application are weak, the environment is governed by the informal.

Improvement of the enabling environment can be one of the strategic interests that motivate a private sector actor to engage with a development actor, as they believe we can help reform the environment to their benefit. BEE reforms may also be an intervention strategy as a healthy business environment is vital for inclusive economic growth.

### Engagement Stage(s) this Tool Supports

TOOL	ENGAGEMENT STAGE					
	Context Analysis	Assessing a Specific PSE Opportunity	Partner Assessment	Partnership Development	Engagement Agreement	Ongoing Management
Enabling Environment	•	•	•			

Stage 1: Context Analysis/Prepositioning; provides a high-level picture of the business enabling environment to help map the overall context in relation to potential private sector engagement.

Stage 2: Assessing a Specific PSE Opportunity; facilitates understanding how the business enabling environment will support or hinder an identified PSE program.

Stage 3: Partner Assessment: helps to better assess the capacity of potential private partners relative to the business environment where they operate.

### Expected Output

The *BEE Assessment Report* that summarizes the findings of this research.

### Key Activities:

1. General BEE research
2. Informal rules collection
3. Formal rules collection
4. Analyze findings in a *BEE Assessment Report*

### 1. General BEE Research

The internet is perhaps the best place to conduct BEE research for a specific country. Simply searching for the country and “business enabling environment” may uncover some useful sources of BEE data. In some cases these are embedded in program reports or proposals of other development actors. In other instances information is available from the country governments in policy documents. There are number of good sources of business environment data at a country and comparative level.

1. Business Environment Snapshots: Aggregate economic and BEE data for 183 countries. <http://rru.worldbank.org/besnapshots/>
2. Doing Business Reports: Annual publication from the World Bank provides an overview of the business enabling environment across the world. This site also includes some country-specific and regional reports although not all updated yearly. <http://doingbusiness.org/reports>
3. Enterprise Surveys: Provides comprehensive company-level data in emerging markets and developing economies. Business data are available on 130,000 firms in 125 countries. <http://enterprisesurveys.org/>
4. Business Environment and Enterprise Performance Survey (BEEPS). Developed by the European Bank for Reconstruction and Development and the World Bank and updated in 2009. This contains detailed core survey as well as specialize surveys for the manufacturing and services sector. <http://www.ebrd.com/pages/research/analysis/surveys/beeps.shtml>
5. Corruptions Perceptions Index (CPI): Produced annually by Transparency International, the CPI ranks 200 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. <http://cpi.transparency.org/cpi2011/>
6. Country Compass Assessments: These publications produced by USAID assess countries receiving funding in 15 topics clustered around the economy, the private sector enabling environment, and pro-poor growth environment. The countries are organized in either as post-conflict or economic growth categories. <http://www.countrycompass.com/>
7. BizCLIR: Funded by USAID, this program assesses and reports on the specific constraints in the business environment at a country level based on a set of comprehensive indicators, providing a deeper perspective to the Doing Business Reports. <http://www.bizclir.com/cs/countries/overview>

Another general category of research related to BEE is political economy assessment (PEA). PEA is a study that explains the distribution of power and wealth between groups in a specific country, why that is created and sustained, and the implications of that distribution to society and to our target populations. Internet research may uncover political economy assessment resources for the countries we work, and Mercy Corps has a collection of PEA resources available in the digital library.

### 2. Informal Rules Collection:

Informal rules collection seeks to create a picture of the business environment that supports or constrains the private sector outside formal government channels. This is done by conducting observational research or interviews following a set of contextually relevant questions. There are three recommended steps:

2.1. Create informal rules survey: Below are a number of key questions, neither exclusive nor prioritized, that could form the basis of that research. This list is fairly exhaustive and it is not expected that all questions would be relevant or feasible for a BEE assessment at this level. It should be adapted to the context and reviewed with key field teams and revised as necessary.

- a. Is there a healthy cooperation between the firms horizontally and vertically along a particular value chain?
- b. Is there evidence of win-lose business practices (e.g. broken contracts, lack of trust).
- c. What are the power dynamics between firms? Are markets controlled by one firm (monopoly) or a small number of firms (oligopolies), and if so what are the positive or negative implications of that?. (This is the type of question addressed by a political economy assessment.)
- d. Are there informal business associations? (i.e. unregistered producers or trading groups)
- e. Is there informal service provision?
- f. Are there ethnic groups who are taking the lead and keeping others from entering the market?
- g. Are there ethnic groups unable to participate in the market and if so, why?
- h. What is the role of friends and family networks in the business relationships?
- i. Are there trusted commercial relationships outside the friends and family networks?
- j. Do business relationships cross ethnic, religious, caste, or language divides or do people tend to deal only with others like them?
- k. Are there strong family requirements to fund other family or network members?
- l. What are the cooperation tendencies in the community? Do businesses collaborate or cooperate productively, or do they tend to be more independent and competitive?
- m. What are the roles of men and women in the community (who controls the money, who controls which crops? How are decisions made?)
- n. What are the roles of women in business? Do women have access to credit, land?
- o. Does the community define themselves more with their group/friends and family network or the country (to what degree)?
- p. Do social norms contribute or counter risk taking and innovation?
- q. What is the relationship between social norms and the behavior of the government, civil society, the media?
- r. How do people communicate when social norms are not being followed as expected?
- s. Are there social or cultural barriers to land ownership and tenure
- t. How is the local community political/social hierarchy structured?
- u. How do religious beliefs affect business practices?
- v. What is the cashflow cycle(s) in the community – including domestic and international remittances?
- w. What are the cash holding practices in the community?
- x. How do they manage seasonality and market requirements?
- y. Is there barter credit in the community?
- z. Do you compete against unregistered or informal firms?

Once a list of questions is developed, a simple survey can be created to collect data. This should also include space to add additional data points not captured by one of the questions. This survey should also capture key background data including but not limited to:

- Name of Collector
- Date
- Location
- Respondents Name,
- Respondents Livelihood
- Respondent's business details (name, location, # of employees, type of business, years in business)
- Other Respondent information (i.e. gender, language, ethnicity)

Determining what background data to collect should be resolved in consultation with the field team and other key internal stakeholders. Remember, the goal of this is to encourage thinking about key systemic and structural disincentives to private sector activity. It is therefore not a required that every item to be completed by every respondent.

## 2.2. Collect Data: Informal rules data collection can be carried out by:

- Market Observation: Provides information related to aspects of the informal rules that are in public view
- Discussions with key stakeholders: Meetings with lead firms can uncover valuable informal rules; however because many of these questions are highly subjective, it is necessary to meet with trusted individuals and to triangulate data.
- Field staff input: Team members are good sources and including them in the development of the questions, and training and encouraging them to observe the marketplace, can help develop a fuller understanding of the business environment.
- Internet research: Some of the sources listed for general BEE research may also reveal informal rules.

## **3. Formal Rules Collection:**

The goal of formal rules collection is to understand the support or constraints on private sector activity resulting from government activity or inaction. This is best done by doing research, much of which can be based on the sources identified in *General BEE Research* (Activity 1,). From that we can create a targeted survey with contextually relevant questions and interview stakeholders.

3.1. Create formal rules survey: Below are a set of questions, neither exclusive nor prioritized, that help form the basis of a formal rules survey. Similar to the informal rules survey (above) this list is fairly exhaustive and it is not expected that all questions would be relevant or feasible for a BEE assessment at this level. It should be adapted to the context and reviewed with key field teams and revised as necessary.

(Alternatively, there a number of published surveys that could be used or modified. These are typically more extensive and may be more appropriate for a detailed BEE assessment. Some include questions that overlap with informal rules data collection, but do not explore themes related to private sector engagement. Links to some of those instruments are at the end of this tool.)

- a. Are lead firms familiar with regulations (tax code, export regulation, inspection of products)?
- b. Is there adequate infrastructure in the area, or are there infrastructure constraints that keep firms from working in a specific area? Infrastructure may be physical (roads, power, water) as well as tax laws, and export requirements.
- c. How the does the government manage the policy development, enactment, public awareness, enforcement, monitoring, assessment, and adjustment process?
- d. How participatory is the policy process?
- e. How does the government invest and emphasize monitoring and enforcement of business policy?
- f. What is the level of nepotism? Corruption?
- g. How does land tenure work?
- h. What is the role of civil society/media in balancing government/private sector?
- i. What is the level of government intervention in the private sector?
- j. Does government compete with the private sector? (state-owned firms)
- k. What is the capacity of government to function in rural areas?
- l. What is the condition of the electrical infrastructure? (outages, time it takes to establish new service or address outages)
- m. What is the condition of the water / sewage infrastructure?

- n. Is there a single firm or a few firms setting prices?
- o. What is the condition of the telecommunications infrastructure and how does that impact businesses?
- p. Does the government inspect your business? Why? How frequently? Are these an obstacle?
- q. Do most businesses of this type register with the government? Are there penalties for not doing so?
- r. Is it required to have certificates or permits for this business? What are they? What challenges are there obtaining them?
- s. Does the level of crime dictate that a firm needs private security? Have they had a recent loss due to crime?
- t. What % of senior management time is spent dealing with requirements imposed by government regulations?
- u. Is the process for competing for government contracts transparent and fair? What about business operating licenses or import/export licenses
- v. Which of the following elements of the business environment, if any, currently represents the biggest obstacles faced by this establishment?
  - Access to finance
  - Access to land
  - Business licensing and permits
  - Corruption
  - Courts
  - Crime, theft and disorder
  - Customs and trade regulations
  - Electricity
  - Inadequately educated workforce
  - -Labor regulations
  - -Political instability
  - -Practices of competitors in the informal sector
  - Tax administration
  - Tax rates
  - Transport

After a list of questions is developed, a simply survey can be created. This can follow the process and form outlined in 2.2 (above)

### 3.2. Collect data: Formal rules data collection can be carried by:

- Interviews with key private sector firms: Meetings with lead firms are the best way to gather data about formal business environment rules.
- Meetings with government officials and other CSO stakeholders: These stakeholders may help confirm data gathered from other sources.
- Field staff input and MC experience: Team members who are in the field may be good sources for this information. This includes reviewing reporting and documentation on past MC programming in that country.
- Internet research: Some of the BEE internet research in the first activity may reveal information about formal rules impacting the enabling environment.

Market observation may also provide some data about formal rules; however this channel may prove less valuable given the technical nature of formal BEE rules.

## 4. Analyze findings in a *BEE Assessment Report*

The findings of the business enabling environment assessment should be summarized in a *BEE Assessment Report*. The exact form of this report may be determined based upon the expected usage and the context. At a minimum, it should include:

1. A description of the methodology used for this assessment
2. A summary of the formal rules and informal rules
3. The opportunities and the challenges presented by the BEE
4. Necessary further research
5. A recommended plan of action related to further research or BEE reform

### Supporting documents / Resources:

Following are two survey instruments particularly applicable to the formal rules that make up BEE assessment

1. Surveying the influence of national policies, laws and regulations on employment in micro and small enterprises - Survey Kit. Developed by the International Labor Organization (ILO) in 2002. The survey instrument begins on pg. 35 of this report.  
[http://www.businessenvironment.org/dyn/be/docs/40/pol\\_surv\\_2002.pdf](http://www.businessenvironment.org/dyn/be/docs/40/pol_surv_2002.pdf)
2. Business Environment and Enterprise Performance Survey (BEEPS). Developed by the European Bank for Reconstruction and Development and the World Bank and updated in 2009. This contains detailed core survey as well as specialize surveys for the manufacturing and services sector.  
<http://www.ebrd.com/downloads/research/economics/microdata/core09.pdf>  
This is the overview of the BEEPS program.  
<http://www.ebrd.com/pages/research/economics/data/beeps.shtml>

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