

Business Climate Surveys: Experiences from Ghana, Mozambique, and South Africa

Improving the Business and Investment Climate (BIC) has become an important topic in the international discourse on private sector development. Partner governments and donor organisations alike have started to focus more and more on systematically analysing and shaping a country's BIC.



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1. Introduction

Governments have come to realise that past efforts to increase the competitiveness of developing economies have not achieved the expected supply response due to their regulatory, administrative, and institutional frameworks. The private sector and particularly local micro- and small and medium-sized enterprises (MSMEs) are increasingly seen as pivotal players in creating broadbased economic growth.² Surveys show that it is specifically the development of MSMEs which is constrained by unfavourable *economic governance conditions*,³ such as:

- non-transparent, time-consuming, and costly bureaucratic procedures,
- outdated laws and regulations for business transactions,
- lack of implementation and enforcement capacities at the local/regional level, and
- a high level of corruption.⁴

Furthermore, *competitiveness conditions* focusing on the initial endowments like infrastructure and proximity to markets have proven to be severe obstacles to MSME establishment and growth.

Drawing on examples of the GTZ-supported Business Climate Surveys (BCSs) in Ghana, Mozambique, and South Africa, this U4 Brief shows how this instrument should be designed and applied to effectively set the reform agenda and promote public-private dialogue, as well as initiate and sustain business environment reforms.

2. The multiple purposes of Business Climate Surveys

In the past decade, a number of instruments to reform the Business and Investment Climate (BIC) have emerged at global, regional, national and sub-national levels. Policy reviews such as the UNCTAD Investment Policy Review, regulatory impact assessments, more general BIC approaches like the OECD Territorial Reviews, and lastly Business Climate Surveys have all proven to be effective instruments to provide information on the BIC.

The probably best known instrument to analyse the business climate is the World Bank's *Doing Business Report*.⁵ By annually tracking a set of 10 economic governance indicators, it provides an invaluable benchmark of the business environment across countries, and has proved to be a strong catalyst for reforms. Yet, in order to allow international comparisons, the report understandably cannot always take into account the peculiarities of each country. Therefore, it describes the business climate of a hypothetical and highly stylised company. Furthermore, it only focuses on the regulatory and administrative environment, leaving out other determinants of international competitiveness. Governments and private sector representatives in many Sub-Saharan countries – such as Mozambique, Ghana and South Africa – have decided to build on the *Doing Business Report*. In implementing an adapted BCS, they have adopted a tailor-made solution to their country, thus complementing – not substituting – the *Doing Business Report*.

The main rationale for a BIC reform instrument is to provide information on economic governance and/or other determinants of international competitiveness of the BIC. Business Climate Surveys are able to identify the bottlenecks to private sector development in an easy-to-understand way. Many instruments rely on external experts to analyse the business climate without the involvement of the business community. Such assessments are often criticized or even rejected by the private sector. By contrast, BCSs directly capture the voices and perceptions of entrepreneurs and provide private sector organisations with a powerful policy advocacy tool to address even politically sensitive issues such as corruption.

However, it is self-evident that the information generated by a BCS is only the start to a wider reform process. To create the momentum for reforms, BCS-results can be used as a key input to a structured and well-informed public-private dialogue (PPD). Experience from the GTZ programme in Mozambique clearly shows how the BCS motivated stakeholders by creating a competitive spirit of reforms (e.g. through benchmarking). Generally speaking,

the wide publication of BCS-results is a key factor in sustaining reform efforts.

A second purpose of BCSs is to inform the Public Private Dialogue process about the allocation and prioritisation of resources and the design of reform processes. This is particularly interesting for governments and donor organisations involved in a BIC reform process. In GTZ Mozambique, for instance, the survey results clearly influenced management decisions and project priorities. The GTZ programme in South Africa involves plans to allocate resources via a temporary fund to support the most innovative competitiveness reform projects identified by the BCS.

Last but not least, BCSs can be used for monitoring and evaluation (M&E) purposes. For instance, they can measure the success (or failure) of reform projects, complementing or even replacing specific M&E surveys. BCSs are usually repeated over several years, and therefore also allow for baseline benchmarking. However, experience from Ghana, Mozambique, and South Africa shows that it takes considerable time and effort to initiate a BCS which is well embedded in the institutional setting of the partner country. Achieving proper integration of BCSs into the routines of a partner-country is an investment with high returns: the management capacity for policy advocacy increases, and there is a knowledge-transfer of methodology skills and interview techniques.

3. Creating ownership and leverage in policy advocacy

Many BCSs are not used effectively in policy advocacy and are not taken as the start of a wider reform process. To create ownership of the BCS-results, and to sustain this momentum, it is important to involve public and private sector stakeholders from the very beginning of the reform process. In many settings, there is a deep mistrust and a lack of communication between the private sector and government. This can lead to a situation where the private sector doubts the outcomes of government surveys, and the government retains the power to implement BCS policy recommendations. A BIC reform process only has a significant impact when the public and private sector communicate effectively.

It should be emphasised that in this kind of setting, the least preferable option is to have an external stakeholder – such as a donor organisation – conduct a BCS without strong government and private sector partners. Although donors are often willing to fund such exercises, their role should be a passive one. The actual implementation has to be done by a partner institution in order to create ownership of the survey and acceptance of its results in the country. On the other hand, contributions by donors should not be limited to financial resources alone. Technical assistance to ensure a methodologically sound survey design has proven to be a valuable contribution. It is extremely important to get a scientifically sound methodology (see part 4), to avoid criticism due to methodological flaws e.g. in sampling or questionnaire design.

Most donor organisations have government partners defined in the bilateral treaties between countries or groups of countries. It would be a natural choice to initiate a BCS together with these government partners. However, we argue for strong private and public sector involvement. Experience from many countries shows that reforms will be implemented more quickly if the private sector constituents articulate demands to their government. Moreover, it will only be through continued private sector advocacy that the BIC reform process can be sustained over time. The private sector partner should not only be selected because of their capacity (which clearly is important), it must also be a highly reputed institution – both from the government and peer private sector stakeholders' viewpoints. Moreover, it is beneficial if the private sector partner is already participating in a public-private dialogue, or is at least capable and willing to do so in the future.

Based on the GTZ experiences from Ghana, Mozambique and South Africa, we suggest cooperating with one significant Business Membership Organisation (BMO) which has a country-wide outreach in its membership, and the capacity to take the lead in this exercise. Additionally, it makes sense to integrate other private sector partners and rely on their networks.

Capacity development is an integral part of a BCS process. While some parts of the capacity development may be spin-offs of training for methodology and interview techniques, the main objectives are BMO management – for instance with regard to memberships and policy advocacy training. It is precisely these objectives which lead to the participation of BMOs in BCS processes. One measure to ensure the necessary ownership in the private sector is to let it directly contribute to the BCS. GTZ has a so-called Public-Private Partnership (PPP) scheme, where the public partner is the German Ministry for Economic Cooperation and Development (BMZ) represented by GTZ. This scheme supports projects by private stakeholders, where the objectives are not directly related to their core business, and in which the private partner contributes at least 50 % of the cost. Considering possible financial capacity constraints of BMOs, the private partner's contribution can be in cash and/or in kind.

Ghana

In Ghana, a public private dialogue has already taken place, and the government has started reforming many relevant areas of the BIC.⁶ Yet, implementation of reforms has been slow. Additionally, the private sector has often not been properly consulted. The government argued that the BMO could not prove the claims they made in the public-private dialogue meetings. Against this background, the Association of Ghana Industries (AGI), supported by a Public Private Partnership agreement with GTZ, decided to implement a BCS. AGI is the leading industrial business organisation, representing mainly small- and medium-sized enterprises from different economic sectors. The association is strongly represented in most of Ghana's regions, which has enabled it to draw heavily on its regional support structure during the implementation of the BCS. From the beginning, AGI involved other stakeholders through events accompanying the implementation. The business association is well represented in public private dialogue fora and its president serves on Ghana's Oversight Committee of the Private Sector Development Strategy.

As the AGI Business Climate Survey was the first of its kind in Ghana, it was very much welcomed by the government, the media, and other private sector institutions. Although the financial contribution of GTZ to this project was more than 50 % in the first year, AGI has maintained from the start that it wanted full ownership of the instrument. AGI has succeeded in finding private sponsors for the second year, thus significantly reducing the need for funding from GTZ. The BCS is envisaged to be fully sponsored by AGI and private companies after the third year.

South Africa

The South Africa discourse on reforming the BIC was initiated already at the beginning of the decade. A number of government departments and public-private bodies are championing the initiative. This has resulted in quite a large number of reports on the BIC, such as regulatory policy reviews and investment climate surveys. The most recent developments are subsumed under the Accelerated and Shared Growth Initiative for South Africa (ASGISA). A national Regulatory Impact Assessment system has been adopted, which will be piloted during 2007. Also, the Department of Local and Provincial Government, supported by GTZ, is championing an initiative to reduce local level red tape and improve the local business climate. The latter becomes particularly important at this advanced stage of the BIC discourse, where national level reforms have to be translated to the local and

regional level. In implementing the local BCS, strong involvement of local and national level BMOs is about to emerge.

Mozambique

In Mozambique, GTZ has supported a BCS conducted by the national association CTA (Confederação das Associações Económicas de Moçambique) and KPMG as the technical implementer. KPMG uses the survey process as a marketing instrument for its own company. Due to the higher complexity of the methodology and logistics in Mozambique compared to e.g. Ghana, the costs were higher and the survey has been mostly financed by GTZ. For the future, it is envisaged to bring more donors on board for the financing and include more provinces, helped by the fact that many donors seem to be interested in strengthening the public-private dialogue and producing more facts to substantiate that dialogue. The future vision is to work more in line with the National Statistics Institute (INE) and use the national enterprise survey as a basis to form a representative BCS sample based on regions, sectors, and enterprise-sizes.

4. Methodological challenges: lessons learned

Lessons from Mozambique show that a high-quality BCS, with a high degree of public ownership, is crucial for initiating a successful BIC reform process. Survey results should be widely published and must therefore withstand public scrutiny, and accommodate a wide variety of stakeholder interests. High-quality information is also required for the results to influence far-reaching policy decisions.

Many current BCSs do not, however, use state-of-the-art methodology, particularly when it comes to covering the right target group (usually MSMEs), statistical issues, and thematic focus. Often, BCSs tend to target only large enterprises in the major cities. Yet, it is the MSMEs and businesses operating at the threshold between the formal and informal sectors, which are most affected by high costs of doing business and high non-commercial risks. The right target group – the group of companies which really need and depend on a good business climate to prosper – should therefore be the MSMEs. Furthermore, larger companies usually have resources to obtain favourable conditions through advocacy relations with the authorities.

With regard to statistical issues, the validity of many BCSs is often compromised by unrepresentative samples as well as weak data collection, processing, and analysis. In order to guarantee a high quality, the questionnaires need to be elaborated by an experienced statistician and must be pretested. All perceptions are required to be reported on a quantitative scale, checked for significance, and crossed with characteristics of the company, the sector, and other sub-criteria. This method enabled GTZ in Mozambique to identify which sectors, regions, and company sizes were most affected by weak public services, corruption, and high levels of bureaucratic regulations, and why.

BCSs should incorporate good economic governance aspects as well as other possible determinants of international competitiveness, concentrate on the right target group, and convey a clear message for reforms of the business environment.

Appropriate surveys are costly and logistically complicated. However, care must be taken before deciding to cut costs during such activities. A higher cost can be justified by the multifold uses of a good survey, which leads to the following recommendations:

- Produce facts for a private-public dialogue and feed them into the political process.
- Help prioritise facts through empirical cross-checks and use them for project steering and political discussions.
- Quality and sample size must allow enterprise-size, sub-sector, and regional analysis in order to differentiate approaches and

compare best practices.

- Create interest, bring in regional competition, and allow in-country benchmarking in order to stimulate local actors (like a Doing Business ranking).
- Identify champion regions.
- Monitor not only the progress of the project with regard to its impact on the business climate, but make it available for the public and the use of other donors.

Partners need to be convinced that getting a high-quality survey is pivotal. However, high-quality surveys are a cost issue particularly in developing countries. Most donor agencies do not budget sufficient funds for that purpose, particularly in the first year. However, experience from Mozambique and South Africa shows that once a quality product is established, other donors will show interest. Often they do not have the capacity to focus on specific statistical issues and appreciate the lead of others. Later, with less risk, they will be more willing to contribute and make a BCS a programme-independent instrument that is sustainably applied. Over time, one can strive to bring more donors or government organisations on board and use a single tool. Admittedly, this will require a huge harmonisation effort, as every donor has its specific objectives and reporting. However, one can start with a small group, show results, and more stakeholders will join in the course of implementation. In Mozambique, at the time of writing, three donor-countries including GTZ are negotiating to join the improved, extended survey. Alternatively, as in Ghana, private sponsors could also be brought in to finance parts of the BCS.

5. Multi-level BCS and benchmarking of business environments

Experiences with national legal and regulatory reforms in several countries have shown that there are serious shortcomings to an exclusively national-level approach. Clearly, in most decentralised government systems, both the national and local/regional government level will engage in the design of policies, regulations, and administrative procedures. Although most policies and regulations are set at the national level, a high number of specifically administrative procedures are set or implemented at the regional and local levels.⁷ In the end, investment decisions are always specific locational choices. We find that in decentralised states, government interacts with business predominantly at the local level. Moreover, experience from South Africa and Ghana shows that national rules and regulations are often of high quality while their implementation at local and regional levels often fails due to serious capacity constraints.

From a holistic viewpoint, it is evident that all three levels of government – national, regional, and local – must be included in any BIC reform efforts. In this respect, the main challenge is to secure a free flow of BIC-relevant information between these levels. Equally, this has to be complemented by improving the flow of information between local, regional, and nation-wide private sector organisations. Core BIC approaches need to be accompanied by other development instruments or disciplines: both governance issues, such as inter-governmental relations frameworks or anti-corruption instruments, and private sector development approaches, such as BMO capacity building, play crucial roles in this process.

Focusing on the local and regional BIC is essentially nothing else than applying international BIC benchmarking in a country context. Experience with local red tape reduction in South Africa shows that – just as national level reform is motivated by global agenda setting – local and regional reforms are greatly incentivised by national-level reforms.⁸

On a global level, the World Bank Doing Business Survey is a good example of how BIC benchmarking can lead to high motivation and commitment for reforms. On the sub-national level,

sub-national BIC programmes in Vietnam, Indonesia, and the Philippines provide compelling examples for sub-national BIC benchmarking. In Mozambique, a regional survey is expected to give concrete inputs for provincial public-private dialogue forums, and allow the provinces to compete and benchmark. In Ghana and South Africa, the introduction of regional competitiveness benchmarking indexes will follow the successful application of national BCS.

The rationale for benchmarking competing regions is rooted in organisational development, and more specifically in change management. In order to bring systemic change along, the actors of a system (region) must be aware of and eventually accept the local characteristics and the issues that inhibit performance.

Understanding the determinants of the BIC is an incremental learning process. The publication of BCS-results and a related benchmarking process generally challenge local stakeholders by exposing them to new situations, ideas, opportunities and threats. This will trigger reactions, which, regardless of whether the decisions taken prove to be successful or not, generate experience and learning. Capturing, analysing, and communicating these lessons learned helps to repeat success stories and prevents the replication of mistakes. This builds a local knowledge-base to constantly improve the quality of the BIC-process and its initiatives, and strengthens the area's competitiveness.

A structured BIC-process provides an institutional mechanism which allows for the constant production and sharing of learning, so that the activities, roles, and relationships of different actors and their overall effectiveness can be evaluated. These mechanisms need to cover three dimensions: 1) the systematic collection of data via BCS, 2) the analysis of results, and the drawing of conclusions via Public Private Dialogues and benchmarking, and

3) the feedback and application of the lessons learned in intervention support programmes.⁹ Furthermore, for the exercise to be successful, there must be political will and a minimum degree of openness in the system.

Conclusion:

While government interacts with business predominantly at the local level, experience shows that even where national rules and regulations are of high quality, local and regional level implementation may fail due to serious capacity constraints.

BCS success factors are:

- The systematic collection of data via BCSs, and analysis of results and the drawing of conclusions via Public Private Dialogue and benchmarking.
- A free flow of information on BIC issues between the national, regional, and local levels.
- The capture, analysis, and communication of lessons learned in order to repeat success-stories and prevent the replication of mistakes.
- The recognition of the importance of economic governance aspects such as inter-governmental relations frameworks or anti-corruption measures, and emphasising the crucial role of BMO capacity development.
- A rationale for benchmarking competing sub-national regions – rooted in change management. In order to bring systemic change along, the actors of a system/region must be aware and accept local characteristics and issues that inhibit performance.

Notes and references

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5. World Bank (2006), *Doing Business 2007 – How to Reform*. Washington, D.C. http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf
6. The Doing Business Report 2007 identified Ghana as the top reformer in Sub-Saharan Africa, and rated Ghana to be among the top 10 reforming countries in the world. Even though Ghana climbed 8 positions in the last overall report, it remains in place 94. (See note 5.)
7. *Ibid.*3
8. Rücker, Anja and Wegmann, Mattia (2006), *Facilitator's Manual – Local Red Tape Reduction to Improve the Business Climate*, GTZ South Africa. <http://www.businessenvironment.org/dyn/be/docs/65/GTZRedTapeFacilitatorsManualV1-1.pdf>
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