



Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
Division 41 Economic Development and Employment

Promoting the Business and Investment Climate

Many partner countries have recognised that the private sector is crucial to accelerating economic growth and reducing poverty. Yet political, legal and institutional framework conditions constrain private sector development in many countries:

- administrative obstacles to the (de-)registration of companies;
- uncertainty about the protection of property rights and the enforcement of contracts;
- corruption;
- distorting regulations for goods, capital and labour markets;
- lack of middle-level institutions;
- under-representation of the private sector in the political process;
- lack of dialogue between public and private sectors;
- poor market access and small domestic markets.

The GTZ product "Business and Investment Climate" is designed to support our partners in developing the private sector in dialogue with the private sector, civil society and the state.

Objective, partners and tools

Objective: We aim at creating better development opportunities for the private sector by improving the political, legal and institutional framework conditions.

Partners: Our partners are public and private institutions on macro, meso and micro level. We typically work with regional, national, provincial and local government institutions and business membership associations.

Tools:

- Identification of bottlenecks for private sector development by analysing existing laws and norms as well as existing statistics and self collected data.
- Raising awareness of political decision-makers on the significance of political, legal and institutional framework conditions for the private sector.
- Promotion of private sector participation in (economic) policy-making processes by building and strengthening intermediary institutions, such as chambers and associations.
- Enhancing the ability and willingness for public-private dialogue through capacity building, organisational development and establishing networks. Our goal is transparency and broad participation in the reform process.
- Discussing outcomes with all stakeholders (e.g. in workshops, meetings and publications).
- Improving knowledge management systems in the public and private sector.
- Advising economic and sector policy reforms as well as providing legal advice through long- and short-term experts.
- Streamlining bureaucratic procedures e.g. by implementing one-stop-shops.
- Supporting the introduction of international standards and the development of (international) value chains.
- Initiating public-private partnerships (PPP) and promoting corporate social responsibility (CSR).



From core problem to development result

We start from the core problem of the current legal, political and institutional framework conditions creating a business and investment climate that discourages business expansion and investment. In order to contribute to the solution of this core problem, the GTZ designs and implements activities in joint responsibility with its partners. The GTZ activities include the development and dissemination of tools and instruments for improving the regulatory framework conditions, capacity building of key stakeholders as well as organisational support in the public-private dialogue. In the course of these activities, political decision-makers and representatives of business associations are made aware of key issues and trained for improving the regulatory framework conditions. At the same time the institutional set-up for the public-private dialogue is improved.

Building upon the output of the GTZ activities, the private sector is now enabled to articulate its demand for improved framework conditions. In the dialogue with the private sector, the government analyses and ranks the bottlenecks to private sector development, evaluates the regulatory impact of possible reform scenarios and designs and implements new laws and regulations. The private and the public sector constantly monitor the climate – jointly. These participatory processes lead to the desired outcome of an improved business and investment climate reflected in reduced “costs of doing business”, reduced non-commercial risks and new business opportunities.

The GTZ product “Business and Investment Climate” is also expected to contribute to a rise in the formation of new companies, to an expansion of existing businesses as well as to increased investment in human and physical capital thereby facilitating

companies to participate in technical progress. These indirect impacts are to a large extent dependent on external factors so that the success or failure at this stage of the results chain can no longer be exclusively attributed to the product “Business and Investment Climate”. On a highly aggregated level, the program is expected to contribute to the development result of pro-poor growth by reducing constraints and barriers to economic growth and by improving the participation of the poor in the growth process.

Why GTZ?

We offer an extensive and integrated approach to creating a business-friendly environment in our partner countries. We focus on a macroeconomic perspective that addresses general and specific restraints to development of sectors and companies and/or regions with great potential for pro-poor growth. Our emphasis is adapted to the country-specific context. In one country it may be reducing constraints to agricultural development, in another to promote business start-ups and small and medium enterprises. Our approach aims at sustainable structural change. Our activities focus increasingly on the macro and meso levels. GTZ supports advising and qualifying public and private (intermediary) organisations and promotes the necessary dialogue between public and private sector actors. Our long-standing contacts with governments and associations in our partner countries facilitate bridging the gap between public and private actors.

GTZ participates in monitoring the impacts of the reform process. Indicators are designed to use quantitative and qualitative methods of measurement that can measure changes in the business and investment climate. Company surveys and structured interviews form a suitable database.



Examples of indicators:

- duration of the registration process,
- development of a self-constructed investment climate index over time,
- qualitative **evaluation of the** reform progress by the people involved.

The results of impact monitoring contribute to the revision of strategies for the improvement of the business and investment climate. Furthermore, “best practice” experiences can be identified for other development cooperation projects. GTZ collects and analyses data in cooperation with local and international economic research institutes. This ensures continuous quality control

The product put into practice: Three examples

- **Ghana: One-stop-shop and investor service centre**

Ghana urgently needs foreign direct investments to achieve its ambitious goals of economic growth. However, interested investors have to undergo a complex registration process. On average it takes 90 days even for comparatively simple projects. Projects involving the purchase of land or an environmental impact assessment may require a **lead-time** of one to two years. This is too long for many investors who start looking elsewhere. To ease the problem, the government of Ghana has tasked the Ghana Investment Promotion Centre (GIPC) to establish a so-called one-stop-shop. The concept of a one-stop-shop (OSS) processes applications centrally to issue licences on short notice. Such a process requires all involved agencies to **hand over** competencies to the OSS. In Ghana, like in most countries, this is an unrealistic expectation. So GIPC chose a slightly different model: the investor service centre. Staff delegated by various agencies work there. They accept applications, help to complete the forms, check the documentation for **being complete** and then forward it for further handling to the

respective agencies. After **fulfilled** processing, the Investor Service Centre hands over the approval to the investor. This eliminates having to visit several agencies or to provide additional documents. The GIPC manager in the Investor Service Centre also **intervenes** if a process is taking too long. GTZ supported these activities through its programme *Promotion of the Private Sector – Ghana (PPS)*. Besides financing the equipment, this mainly included discussing several OSS models with the GIPC management. After the service centre idea was chosen, a workflow chart was developed and discussed with the relevant agencies. Other tasks included qualifying agency staff. An investor guide is in preparation. Together with the agencies involved, the processes are analysed for time-saving potentials. PPS also advises and supports GIPC in developing a simple monitoring system to assess the success of the service centre. The aim is to reduce the average processing time of standard investments within three years from 90 to 20 days. There are **further** plans to expand the project approach to domestic investments.

- **Philippines: Simplification of company registration**

Compared to other Asian states, the Philippines **have** a particularly large informal sector. One crucial reason is that the registration procedure consists of 11 different steps and takes 50 days on average. Since 2004 GTZ has worked with public and private institutions in the Philippines to improve the local and national business and investment climate. The focus lies on small and medium-sized enterprises (SMEs). During the first year, the framework conditions were analysed on the local and the national levels. Additionally GTZ participated in the “Philippine City Competitiveness Ranking”, conducted by the Asian Institute of Management (AIM) in eight cities. GTZ initiated a dialogue with more than 1,000 companies and political decision-makers to discuss the findings.



Participants identified the licensing processes as the **predominant** field of action. Since January 2005 GTZ has been supporting two cities in simplifying their registration processes. This reduces transaction costs for the companies. At the same time the project identifies successful reform strategies on the local level and checks their transferability to other cities. If there is sufficient demand, the project will design and arrange adequate training with the Philippine conference of cities.

- **Regional business climate surveys in SADC**

The lack of private sector representation in the (economic) policy-making processes is a major reason for the sluggish reform of political, legal and institutional framework conditions. The example of the Southern African Development Community (SADC) shows that four goals can be met simultaneously by developing a business climate survey. Firstly, it identifies constraints to private sector development, which can be articulated in the political decision processes. Secondly, this instrument increases the legitimacy and visibility of national and regional chambers and associations. This in turn also strengthens the voice of the private sector through an improved identification of national chambers with their regional umbrella organisation. Thirdly, progress in regional integration is made visible from the private sector's perspective by means of an indicator. Fourthly, the survey lays a foundation for an impact-oriented monitoring system. GTZ supports the annual preparation of a business climate survey in the SADC region with the project *Advisory Service for Private Business*. Our contribution mainly consists of developing the methodological framework of the regional business climate survey, the qualification of the personnel for its realisation and assistance in data analysis. Another activity is feeding the results of the survey into the dialogue between public and private sectors and initiating reform processes.

Our contribution in relation to other donors

At least since the 2005 World Development Report "A Better Investment Climate For Everyone", the business and investment climate has become a high priority on the agenda of bi- and multilateral donors. GTZ complements these approaches with regard to contents and methodology. The approaches of DFID and ILO also contain the sensitisation of political decision-makers and governmental institutions. Their goal is to increase the understanding of the necessity of business-friendly framework conditions. As at GTZ, Danida, USAID and the SME department of the World Bank also rely on the promotion of chambers and associations to increase the participation of the private sector in the (economic) policy decision-making process and to improve the dialogue between the private sector and the state. Disagreement arises on the question of whether sectoral promotion policies should be integrated into DC operations to improve the business and investment climate. GTZ, DFID, ILO and JICA endorse this, whereas the World Bank is rather reserved on this issue.

The topic "business and investment climate" is very complex and demanding for all involved. It is desirable to cooperate with other strong partners in the field. Possible modes of cooperation would be sector-wide approaches (SWAp) and other forms of co-financing. Due to its decentralised structure, GTZ is well positioned to play a significant role in these cooperations

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