OBSTACLES TO PRIVATE SECTOR DEVELOPMENT / CHALLENGES FOR EMPLOYERS' ORGANISATIONS

The Dutch Employers' Cooperation Programme has been set up to provide assistance and expertise to employers' organisation in developing countries.
The private sector has now generally been recognised as the prime engine for economic development, creating employment and wealth. However, despite that recognition, a number of formidable obstacles stand in the way of a healthy business and investment climate, thus discouraging potential entrepreneurs and forcing qualified entrepreneurs to continue operating in the informal sector. This large informal sector reduces economic efficiency, worker security and the government's tax base. Employers' organisations in developing countries should therefore concentrate their efforts on tackling the most important obstacles. There are a great many obstacles to private sector development but, when questioned [1], employers will mostly point to the following:

1. Uncertainty about government policy and macro-economic stability.

When making investment decisions, companies look to the future. They are in need of stable and consistent government economic and monetary policies. Unfortunately governments in developing countries are often unable or unwilling to adopt unpopular measures (e.g. liberalisation of domestic markets, privatisation, ending state monopolies) and stick to them. Employers' federations should therefore make it very clear to the government that predictability, reliability and continuity are imperatives for the development of a healthy private sector.

2. Corruption.

Few things distort economic development the way corruption does and the business community considers it to be a major constraint. Nevertheless, it is widespread in most developing countries and many firms and individuals will –privately – admit to paying bribes. The cost of corruption is substantial and it is the prime responsibility of employers' associations to impress upon the government and on their own members that the fight against corruption is an indispensable tool in creating a healthy business climate. Here the role of governments is vital, it must lead by example. Several countries have made progress in this respect: e.g. in Georgia in 2005 only 11% of businesses reported that bribery was frequent, as against 44% in 2002.

3. Red tape / Bureaucracy / Over-regulation.

Of all the complaints about governments this is one that really gets business people excited. While red tape is a nuisance in developed countries, it is often a nightmare in developing ones. Some of the rules and regulations date back to colonial times. The number of procedures and licences required to e.g. start a business is often excessive and every single procedure or licence provides an opportunity for corruption. Fortunately, reducing bureaucracy turns out to be easier than remedying some of the other obstacles to private sector development. Since 2004 the World Bank has been publishing its annual Doing Business Reports, in effect benchmarking all the world's economies with regard to the ease of doing business. Pressured by these reports, governments have started getting their act together and in some cases achieving important reforms. However in many

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[1] See: World Bank Investment climate surveys..

developing countries there is still a long way to go and employers' associations –using the Doing Business Reports as a tool- could and should play a key role in putting further pressure on governments.

4. The legal environment / Enforcing contracts.

As we saw under 3. there are too many rules hampering economic development. At the same time, however, enforcement of those rules is also a problem. Legal procedures are cumbersome and the courts are very slow in many countries. Enforcement of (commercial) contracts can take years, e.g. 1420 days in India and 1459 days in Guatemala[2], while in New Zealand the court will deliver a verdict within 109 days. The lack of speed in enforcing contracts constitutes a constraint on economic development because it discourages doing business with strangers. Speeding up legal procedures should therefore be a top priority for employers in their lobbying efforts vis-à-vis the government. Interestingly, in the case of Cameroon, employers have gone a step further and have created their own commercial arbitration system. Given the slow speed of legal reform in many countries this may well be an example worth following for employers' organisations in other countries.

5. Access to finance / Financial infrastructure.

In many developing countries there are a few very large companies or conglomerates and a great many very small businesses, most of which are operating in the informal sector. Frequently the banking system is geared towards the needs of the large corporations and a small group of very wealthy individuals. Banks (often state-owned) generally do not cater to the needs of SME's. Financial reform (privatisation)and developing financial markets should therefore be a priority. Also, encouraging micro-credits and some form of credit-guarantee system would be useful instruments to help young and aspiring entrepreneurs, in particular women entrepreneurs.
Financial reform is a true test of any employers' organisation's effectiveness: the most influential members/companies of the organisation will often be the same ones benefiting from the status quo. They will not be much inclined to open up the financial sector. Thus it will often have to be the government that takes the lead in financial reform.

6. Taxes.

High taxes on company profits are a major constraint on economic development, as are frequent changes in tax regulations. Investment decisions are heavily influenced by tax policies and entrepreneurs want stability and transparency. Most employers are not absolutely opposed to paying taxes, provided they are reasonable and above all predictable. Moreover, when companies notice that their taxes are being used by the government to improve the investment climate, e.g. in infrastructure or vocational training, their willingness to pay will increase. However, the latter is not the case in quite a few developing countries. On the contrary, all too often, tax money is being used to bankroll inefficient state-owned companies and corrupt officials and politicians.
Employers' organisations should therefore work towards a tax system that is marked by fairness, predictability and transparency.

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[2] Doing business 2007, World Bank.