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International  
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# An enabling environment for sustainable enterprises

## Creating a strong environment for business development

Sustainable enterprises do not and cannot exist in a vacuum. All enterprises operate within a political, social and economic context and are subject to regulatory and institutional constraints. While it is important to support enterprise-specific interventions for businesses to grow, it is equally important to look at the external environment in which they operate. Without addressing the issues related to the overall business environment, interventions at the enterprise level alone do not produce optimal results to achieve sustainable development.

The ILO is committed to creating enabling environments that help entrepreneurs to expand their activities and create incentives for them to formalize their businesses. This means encouraging them to innovate, generate employment, and invest in human and natural resources over the long term, thereby boosting economic growth and raising living standards.

## The ILO approach to creating an enabling environment



The ILO has devised its own tool, Enabling Environment for Sustainable Enterprises (EESE), as a basis for providing evidence-based recommendations on how to improve the business-enabling environment. This unique tool focuses on the political, economic, social and environmental aspects of doing business. The original evidence generated enables ILO constituents to identify priorities and to make specific proposals for reforms of the business environment.

### EESE: The Process

#### ASSESS

Social Partners assess the enterprises' economic, political, social and environmental context and prioritize reforms. A report outlines the main: legal, institutional, and regulatory constraints.

#### ADVOCATE

Social Partners develop informed policy positions and structured advocacy efforts. They aim at influencing GOVERNMENT to address the priorities identified by the assessment report.

#### GROW

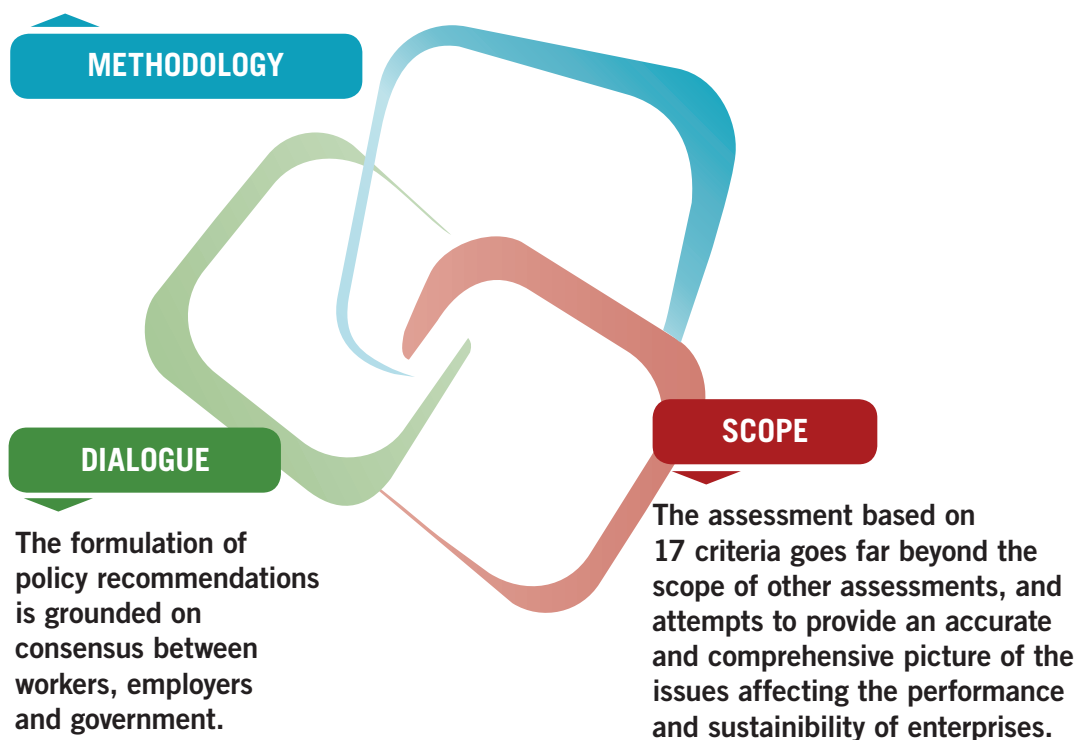
Reforms reduce business costs and risks and increase competitive pressures on markets. Enterprises change their behaviour: investment and innovation increase, the economy grows, jobs are created and poverty reduced.

#### REFORM

Government engages in consultations with Social Partners to weigh different reform responses. Measures that contribute to a more conducive enabling environment for sustainable enterprises are adopted.

# What makes **EESE** unique?

EESE combines a variety of data collection and diagnostic techniques, including a literature review, enterprise surveys, focus groups, statistical analysis of primary and secondary data, and consultations with experts. The perceptions survey includes both employers and workers as respondents.



## EESE tools:

Surveys: surveys allow to collect primary, representative data. They can be customized, for example to compare constraints on informal businesses to those on formal firms.

## Red Tape Assessments

As an extension of the EESE methodology, the ILO is currently devising its own tool for assessing and quantifying bureaucratic burdens on enterprises also known as Red Tape. The methodology entails three inter-related phases, namely (1) conceptualization and development of survey instruments, (2) fieldwork, interviews, data capture and 3) analysis, reporting, and validation of findings. The methodology calculates compliance costs for a randomly selected representative sample of enterprises and then aggregates costs to the entire enterprise population. It has been successfully piloted in the Free State Province in South Africa.

## The ILO in action: Early results from EESE work

The EESE assessment tool has been fully operational since 2011. In cooperation with the Bureau of Employer Activities, the EESE methodology has been applied in some 30 countries all over the world. Early results demonstrate that fact-based assessments of the conditions in which enterprises operate can be effective in identifying the reforms needed to create enabling business environments.

In Honduras the ILO EESE assessment has triggered drastic reduction of business registration cost. Due to the successful advocacy efforts of the Confederation of Honduran Employers the Parliament of Honduras recently passed legislation eliminating the mandatory use of notarial services when registering a new enterprise reducing the cost of business registration approximately tenfold. It is estimated that this will lead to a yearly reduction of registration cost of USD 5 Mio and will give in addition an incentive to several thousand informal businesses to formalize. Further reform proposals are under discussion.

In the Free State Province in South Africa a red tape assessment concluded that aggregated compliance cost only for the two chosen municipalities in the Free State amounted to some USD 339 million. The main drivers were compliance costs related to (1) tax (administrative cost related to both income and value added tax, not actual tax payment), (2) initial business registration, (3) employees and labour laws. The study also showed that a large proportion react to red tape with defensive coping strategies. Enterprises choose to stay informal (31.5%) or limit the number of their own employees to stay below certain thresholds (25.6%) .

## The ILO and Sustainable Enterprises

The ILO Sustainable Enterprise Programme helps create more and better jobs through enterprise development. It connects business growth and competitiveness with the needs of people to make a decent living in a healthy environment - today and in the future. Anchored in the ILO's mission to create decent work for all women and men, this programme is centered on three pillars:

- An enabling environment for enterprises - Creating the right framework that enables businesses to start, grow and create decent jobs;
- Entrepreneurship and business development - Helping entrepreneurs, in particular youth, women and marginalized groups, to start and build successful enterprises;
- Sustainable and responsible workplaces - Demonstrating the link between productivity gains and improved working conditions, good industrial relations and good environmental practices.

The programme combines evidence-based policy development with capacity building and enterprise support services, delivered at the international and country levels, through advisory services and a large portfolio of technical cooperation. It works with governments, employers' and workers' organizations, in partnership with other UN agencies, financial and academic institutions, donors and others.

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## Further reading

ILO: Enabling environment homepage - [www.ilo.org/eese](http://www.ilo.org/eese)

ILO: Conclusions concerning the Promotion of Sustainable Enterprise Development (International Labour Conference, 2007) -

[www.ilo.org/global/resources/WCMS\\_093970/lang--en/index.htm](http://www.ilo.org/global/resources/WCMS_093970/lang--en/index.htm)

ITC/ILO: The Summer Academy on Sustainable Enterprise development -

[www.itcilo.org/enterpriseacademy](http://www.itcilo.org/enterpriseacademy)

DCED: Guidance and resources on Business Environment Reform -

[www.businessenvironment.org](http://www.businessenvironment.org)

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