

TOOL 10: ANALYSING THE BUSINESS ENVIRONMENT

The point of any Business Environment (BE) analysis /BE scan is to get a broad and strong understanding of the issues within the BE that may impact on small businesses in your ED project. There is no right or wrong way to do this though the tool below draws on the PESTLER analysis in tool 7 and provides one method that may be useful to you.

Remember:

The enabling environment: The set of policies, institutions, regulations, support services, social norms and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive.

WHO SHOULD LEAD THE PROCESS?

Any BE scan should be done in close partnership with the businesses or market actors that you're working with. CAFOD can play a role in facilitating this process, but ideally should empower partners and programme participants to take the lead so that they own the process, the analysis and the next steps.

Who leads depends partly on an intervention. If for example you were supporting a partner who works with one cooperative, it would be valuable to capacitate cooperative leaders to play a lead role in this. If you are doing a value chain or PMSD project, the partner could play a key role in facilitating the process, linking various stakeholders and working with them to understand joint priorities issues and strategies for tackling constraints (and possibly a joint advocacy strategy where there is a common interest in changing a particular issue). The Livelihoods adviser, Economic Justice Policy Analyst could discuss these options further with you.

HOW TO ANALYSE THE BE:

Step 1: Preparation (decide on methodology and identify relevant stakeholders)

Step 2: Gather information (PESTLER or situational analysis tool may be useful)

Step 3: Decide course of action

STEP 1 - PREPARATION

In step one you need to prepare for your BE analysis. Here you need to decide on the methodology you'll use for your BE scan and identify stakeholders that you will include in the process.

Methodology / format

Within step 2 you will find a list of questions that will help you to analyse the BE. There are three methodologies that can work to help you find the answers to these questions and in this preparation phase you will need to choose which is the most suitable to your context.

Methodology / format

The list of BE questions below, could be in a PMSD workshop format, in one-to-one interviews or focus group discussions.

- **PMSD workshop:** PMSD (Participatory Market System Development) is a process designed by Practical Action and is outlined in tool 7. This is really useful methodology and process for looking at and understanding the system as a whole. The added benefit of this methodology

is that it ensures participation and consultation in analysing the constraints / challenges and therefore buy-in about the analysis done. It can also be a very useful format for collaborative learning, awareness raising and building linkages / shared understanding (i.e. it has benefits outside of the information on the BE gathered in the workshop).

- **Focus group discussion:** if there is a group of people with similar interests, you may decide to hold a focus group discussion (e.g. members of a cooperative / the smallholder food producers that you're working with in a project etc). This is useful if you think that a group may be disadvantaged or under-represented in a more general PMSD workshop (i.e. if you think micro-entrepreneurs didn't have a chance to fully express their views) or if you want to build understanding and consensus ahead of a PMSD workshop.
- **Key stakeholder interviews:** will allow you to go into more detail than a workshop or group discussion could. While timing won't allow you to only do one-to-one interviews, you may decide you need to follow up in more detail with a few specific informants who may be able to provide you with specific information. You could for example follow up after the PMSD workshop with interviews with a few key people.

Stakeholders

To get a full picture of the BE it's important to talk to a full range of stakeholders who can share different perspectives. Part of the preparation phase is to identify who these stakeholders would be. It would be important to work closely with partners / communities to identify whom these stakeholders are. Consider:

- Players along the value chain
- Micro-enterprises themselves
- Local / national government officials
- Local / national traditional leaders / politicians / decision makers who may have a particular interest in your type of ED project
- Academics
- Representatives from trade unions / workers associations etc.
- Other CSOs / networks working in this area

STEP 2 – GATHER INFORMATION

The next step is to gather information about the business environment. Below are some useful questions to do this. You won't necessarily need to ask all of them – this depends largely on the nature of your ED project.

Please note that small businesses include farmer's coops, food producers/processors, service providers, trade / craft groups...

Are there any areas of the BE (policies, institutions, regulations, support services, social norms) which may impact on the small businesses that you're working with?	
Focus area	Examples of questions to ask / issues to probe
P (political)	<ul style="list-style-type: none"> - What are the major political or power related challenges or blockages that affect small businesses? - What is the political appetite to support small businesses? How do decision makers view small businesses?

	<ul style="list-style-type: none"> - Does corruption affect small businesses? - What are the institutional arrangements to support small businesses? - Issues of power: <ul style="list-style-type: none"> - How much power do small businesses have in the value chain? - How much power do they have to influence decisions that affect them? Do they get an opportunity to go and talk to decision makers about the needs or challenges they face in their business? <p>If yes:</p> <ol style="list-style-type: none"> a. When & where do they get this opportunity? (I.e. you want to find out if this is official or unofficial – if government comes to them or if they have to go to government, if civil society is involved etc.) b. Does government listen to small businesses? (You want to find out if government act on what they're told – does it lead to any positive changes)? <p>If no:</p> <ol style="list-style-type: none"> a. Would you like to have more opportunity to talk to them? b. What forum would work best for this engagement? Do donors listen to their business needs?
E (economic)	<ul style="list-style-type: none"> - What are the major economic related challenges or blockages that affect small businesses? - Are there any regional / national / local economic development policies? - Is there national / local financial policy that may impact on the business? - What are financial services like? (access to affordable & appropriate credit, insurance, banks / places to store money safely) - Is insurance available? - What is pricing like? Who sets the price and could this impact on the business? - Is there a local economic development strategy that may impact on the business? - Is there demand in the local market? Does the community have cash in hand to pay for goods / services? - Are there any trade standards or policies which affect the business? - Is market instability an issue? - Are there local procurement policies in place? - Are there any macro-economic policies which may impact on the business? (price stability / inflation / economic growth policies) - Are there local government budget issues relevant to small businesses? - Are there social protection policies in place?
S (social /society)	<ul style="list-style-type: none"> - What are the major social or societal challenges or blockages that affect small businesses? - What are any relevant consumer trends?(Preferences, ability to purchase). - Are there any traditional practices that may affect the business? - How will gender norms affect the business? - Do small businesses have accessibility to skills training and support? - Are there any practices / norms which may impact on health and safety? - Are there enough skilled workers? - Are there labour policies in place and do these protect labour sufficiently? - How are informal enterprises viewed by the community?

	<ul style="list-style-type: none"> - Are there any informal gate keepers that we should be aware of? - Do traditional leaders play a role in the success of small businesses?
T (technological & transport)	<ul style="list-style-type: none"> - What are the major technological or transport related challenges or blockages that affect small businesses? - What is the infrastructure like? - Do small businesses have access to transport services? Is this affordable? - What is the energy provision like? (Is it affordable and appropriate?) - What are IT / telecoms services like? - Is there an appropriate physical market to sell from? - Are there appropriate storage facilities?
L (legal)	<ul style="list-style-type: none"> - What are the major legal challenges or blockages that affect small businesses? - Are there any business regulations which may impact on the business? - What is the tax and tariff regime like? - Contract enforcement - What is the status of informal workers (is informality viewed as a crime that is penalised or is there a supportive environment for this sector)?
E (environmental)	<ul style="list-style-type: none"> - What are the major environmental challenges or blockages that affect small businesses? - What are the land regulations like? - Is climate change an issue and are there any policies / practices in place around this? - Are there environmental services or training available? What are the extension services like for agricultural related businesses? - Are there any environmental policies which impact on the business? - What are water services / access like?
R (religious)	<ul style="list-style-type: none"> - Are there any religious practices which impact on the business? - What are the views of faith leaders towards this business?

You may find it useful to get participants to work in groups and brainstorm ideas onto small cards and then stick these up under the various themes. The photo below shows an example of how this could be done (note in the below photo, partners were analysing the BE across 4 different value chains they were working on which made for a slightly more complicated picture).

For any issues which come up through this PESTLER analysis you would need to find out some of the basics:

STEP 3 – DECIDE COURSE OF ACTION

Once you have mapped the BE and identified if there are any key blockages or constraints, you need to decide what to do. If there are issues which need to be addressed you may decide that you need to work together to influence them for better local economic development outcomes. Whilst not essential, linking complementing enterprise development initiatives with policy and advocacy initiatives aimed at improving the enabling environment or local economic development can help to improve the sustainability of the initiative and also enhance the scale of impact.

There are a few steps you can follow to help you decide your course of action.

3.1 – classifying issues

It is likely that you will have identified a range of different things: the first step in deciding a course of action is to briefly classify issues as:

- **Challenges** or blockages that could hinder the success of your business
- **Potentially positive** issues which could be positive but which aren't currently being implemented or operationalised effectively
- **Hooks** within the political or contextual situation. These issues are not necessary challenges / potentially positive things, but they are useful for you to be aware of and which, if you're trying to advocate for policies or practices to support small businesses, could provide a useful framing for you to 'hang' your messages around¹
- **Gaps** where more information or analysis is needed.

You could use coloured dots as one method for helping you to classify issues.

3.2 – Identifying the most pressing issues

The next step in deciding a course of action is to look at the challenges / potentially positive issues in a bit more detail and to identify what the most pressing issues are which **most** constrain the success of the small businesses you're working with. This should take the form of a participatory discussion with key members of your project and the community involved.

If many issues have been identified within the BE scan, a simple 'voting' process may be useful to identify the top challenges. Here, key stakeholders are asked what they think the top 3 most critical issues to the success of the project / the enterprises are. If the group is literate and you've written your PESTLER analysis up on the wall/flipchart, voting with 'sticky dots' may work. This will help to identify 5-10 specific issues which you can explore a bit further. Importantly this voting method doesn't prioritise issues, it merely identifies if there is consensus that a certain issue is a constraint (i.e. the issue with the top number of votes doesn't mean that this is the most pressing issue, there is however a large amount of consensus that this is an issue).

3.3 – Initial analysis

Once you've identified the top set of issues you can then probe them a little further through participatory discussion or group work. The following questions are useful to aid this discussion:

- WHAT is the issue and what does it do? (This policy / issue / constraint harms the success of my ED project in the following way... This policy / issue, if developed and implemented, could benefit the success of my ED project if it deals with the following issues...)
- WHY is it an issue and HOW does it impact on the enterprise you're working with?
- WHO is responsible for it? (i.e. which government department / decision maker etc.)

3.4 – Identifying criteria

Now that you have a better idea of what the major issues are facing small businesses, and you have started to analyse and understand the nature of these issues a bit more you need to identify which one or two issues you want to tackle within your particular project.

¹ For example, you may know that a particular local politician really thinks small businesses are valuable to local economic development, or you may know that there is a national or regional policy which is in favour of smallholder food producers. These could be 'hooks' that you use to pin your messages around. Say for example you identify that local business regulations are too onerous and you decide to tackle these. When talking to local decision makers you could try to convince to change these regulations because (a) this would help small businesses and therefore help local economic development and (b) would help the local decision maker to operationalise the national/regional policy which is in favour of small businesses.

To help you make this decision you need to identify a set of criteria. Criteria are a principle or standard by which something can be judged or decided. The criteria you will choose will help you select which issue is most appropriate for you to tackle in this project. You can decide criteria in a participatory discussion format, but some possible criteria could include:

- **Project fit** (does this issue fit with our project/programme objectives?)
- **Organisational fit** (does this issue fit within our organisational goals / objectives / mandate?)
- **Achievable** (would tackling this objective be achievable? Is it a 'low hanging fruit'? Could we achieve something within the time frames of this project?)

Using these criteria you can then assess whether tackling each issue fits the criteria. Below is a photo showing how some groups have tackled this.

The issue which fits the most criteria could be the one that you choose to tackle in your project.

3.5 – Unpacking the selected issue

Again, through a process of participatory discussion you now need to identify:

- What are the gaps in your knowledge around this issue?
- Who are potential partners or allies who are already working on this issue?
- What are the risks in tackling this issue and how do you mitigate these?
- What support would be needed to tackle this issue?
- What are some immediate next steps that can be taken (as in next week)?
- What are some medium-term next steps (the next month)
- Who will champion what?

Through this process you may identify that you need to develop an advocacy strategy or do further policy analysis. Whilst not essential, linking enterprise development or income generation initiatives with policy and advocacy initiatives aimed at improving the enabling environment can help to improve the sustainability of the initiative and also enhance the scale of impact. It also has other benefits such as building and mobilising local civil society organisations. Please contact us should you need further resources for this process.