Building capacity
Strengthening advocacy
Fostering governance

Public-Private Dialogue

Private Sector Engagement for Good Governance

Setting up a Collaborative Policy Platform in 90 Minutes

Literavia Simulation

Assignment Objectives

Following growing and domestic pressure, the Literavian Government has agreed to engage in a public-private dialogue in 2010 – prior to the 2011 elections – in order to increase the country's competitiveness and to foster foreign investments. With support from developing partners, the Government has issued TORs and has invited foreign consulting firms to bid for the assignment. Three firms have been pre-selected and have been asked to deliver a preliminary report on the set-up of the Literavian Business Forum.
The consultants are in the country and are meeting the stakeholders today for a first round of consultations. The consultants are expected to deliver their preliminary PPD design later in the day. Stakeholders will vote on the most appropriate design and select the best firm during a plenary voting session.

- 15 minutes to select a design methodology and/or your stakeholder position on the PPD design elements
- 25 minutes for stakeholder consultations
- 20 minutes for preparing the presentations
- 30 minutes for presentations and general assembly's vote

Political situation

- Absolute monarchy and absolute cronyism since independence.
- Following turmoil, peace keeping mission and elections 3 years ago.
- Donors came back with economic reform programs, etc.
- Disappointing performance with strong grip on economics and politics by the Movement for National Liberation
- Growing pressure from regional integration partners and Breton Woods institutions
- Last year's attempt to promote economic reforms resulted in tax code simplification
- Domestic pressure from youth (education, employment) and civil society (governance, mineral resources)
- Prime Minister (MNL); Commerce & Industry (OBAMAL - Organization for the Betterment and Advancement of Literavia); Investment Promotion Agency (MNL)
- Elections due next year – OBAMAL expected to sweep victory in provinces

Economic situation

- GDP per capita: $289
- GDP growth rate: 0.9%
- A large majority of investment is in the form of Foreign Direct Investment (FDI) but the rate of growth of domestic investment is higher.
- Inflation reached 11% in 2009, the third year in a row in which inflation was in double digits.
- Formal unemployment is 21% while the size of the informal economy is estimated at 50% of the total economy and includes 80% of all small businesses.
- Youth unemployment is particularly high at over 50%.
- Reducing unemployment is considered a major Government priority

Sectoral Data

- Industry composition: agriculture 40%, Industry 30% (mining, heavy manufacturing), Services 30% (tourism)

- Mining is the largest industry and forex earner with cadmium, lead and cobalt being the main minerals. The sector employs 7% of the country workforce. Mines are operated by international firms that operate in the country for up to 25 years. The firms pay the state fixed fees for the right to exploit the sites. Despite the huge size of the sector the companies contribute little to the economy beyond wages and direct taxes – the mining companies import most of their supplies from neighboring countries and source little products and services in-country. The mining sector is very active in the foreign business association.

- Heavy industry is a large but declining share of PNB. Industrialists have been increasingly moving to the large northern neighbour over the past 20 years. Surveys mention the following reasons for Literavia declining competitiveness: poor infrastructure and cost of electricity, unskilled labor force, social unrests.

- With 300,000 annual visitors, tourism is responsible for 6% of the PIB. The country offers diverse landscapes and environment (mountains in the north, sea coast, desert in the south). Literavia mainly attracts low-income, low spending tourists. A WB report identifies upper income segments as potential tourism targets. The report identifies the following pre-conditions to attract them: upgrading airport facilities, integrating domestic with regional tour operators, increase in-country transport options and infrastructure, attract international hotel chains, reduce the time to obtain a visa and make them available at the airport (vs. embassies abroad).

- Agriculture represents 40% of PNB. Cut flowers and cattle are the main agricultural outputs, while subsistence agriculture remains prominent with 55% of citizens. International donor funded studies identify a number of value chain improvements that could significantly increased agricultural production and productivity. Agricultural inputs are not easily available throughout the country, financial institutions do not lend for agricultural purposes, transport is expensive due to poor infrastructure, price discovery and market mechanisms are not well developed, ag. research is not performed in-country, etc.

- The country has few universities and technical colleges. The number of new PhD and engineers has steadily declined over the past 20 years which is attributed to (i) a failing public school system where teachers wages are well below civil servant average income, (ii) quality professor and lecturer tend to emigrate to teach in foreign university that offer much higher wages (50-250%), (iii) declining national budget for research and public universities.

Business environment snapshot

- Literavia ranked among the bottom 10% in the overall Ease of Doing Business ranking.
- For the Paying Taxes indicator, it is second-worst for total tax (278.7 % of profit) the time needed to pay taxes (1,400 hours) is over three times the regional average.
- For the Dealing with Licenses indicator, Literavia's cost (as a percent of income per capita) is greater than three times the regional average. The long time to start a business (202 days) is more than three times the income group average.
- The credit to GDP ratio is the smallest in the region.
- According to the World Economic Forum's Global Competitiveness Report, the four most problematic factors for doing business are access to financing, corruption, tax rates, and tax regulations.
- Over 40% of firms rate tax rates as the greatest obstacle to firm investment, according to the 2010 Enterprise Survey.

TOPIC RANKINGS	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	162	161	-1
Dealing with Construction Permits	163	173	10
Getting Electricity	157	157	No change
Registering Property	100	101	1
Getting Credit	67	64	-3
Protecting Investors	97	93	-4
Paying Taxes	110	108	-2
Trading Across Borders	108	109	1
Enforcing Contracts	125	125	No change
Resolving Insolvency	80	78	-2

There are a total of 12 groups in this exercise:

A. Consulting Companies
B. Government (Prime Minister Office, Minister of Commerce and Industry, Investment Promotion Agency)
C. Private sector (Large foreign investor, SMEs, Informal sector)
D. Donors & Civil Society (World Bank, Private Sector Development Working Group -- bi-lateral agencies – , NGO Forum for Democracy)