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Draft "How to" note

How to Promote Public-Private
Dialogue for Business Enabling
Environment Reform

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HOW TO PROMOTE PUBLIC-PRIVATE DIALOGUE FOR BUSINESS ENABLING ENVIRONMENT REFORM¹

This note for DFID staff and partners describes how to promote public-private dialogue in support of business investment climate reform.

- [1] Recent studies supported by DFID, the World Bank and others show that countries with better business environments grow faster, attract more investment and reduce poverty more than countries posing greater barriers to private sector activity. Countries with better business environments generally also have stronger, more constructive dialogue between government and the private sector. DFID's experience shows clearly that public-private dialogue (PPD) plays a key role in promoting and implementing enabling environment reform. This experience also provides useful insights into how DFID and other donors can encourage and strengthen PPD and thus sustain investment climate reform.

Why is PPD important?

- [2] Governments that listen to the private sector are more likely to promote sensible, workable reforms. Entrepreneurs who understand what government is trying to achieve are more likely to support these reforms. Talking together is the best way for the public and the private sectors to set the right priorities, and to support common interests. Meeting on a regular basis builds trust and understanding between the sectors. Failure to communicate leads to failure to understand each other's concerns, which in turn leads to distrust and non-cooperation. Non-cooperation leads to inefficiency and waste, which inhibits growth, investment and poverty reduction.
- [3] PPD is a force to counter policy-making by shouting, or by back-room deals involving a select few. The loudest voices rarely speak in the best interests of private sector growth as a whole, or of poverty reduction. Individual deal-making inevitably leads to bad, inconsistent policy and regulation. By contrast, PPD promotes good public and corporate governance. It sets an example of transparency and dynamism. It sheds light on the workings and performance of government institutions. It also improves the quality of the advice government receives from the private sector by diversifying sources and by promoting more evidence-based advocacy.
- [4] PPD is not a panacea; but it is an important ingredient in strong business enabling environments. Both the public and the private sector still need good information, good analysis, and a sustained commitment to implement change.

¹ This "how to" note summarizes the main findings of the larger Bannock review of DFID PPD experience. Readers wishing more detail should consult Matthew Gamser, Richard Waddington and Rebecca Kadritzke, *Reforming the Business Enabling Environment: Mechanisms and Processes for Private-Public Sector Dialogue* (DFID/Bannock: March 2005). Another useful resource is Benjamin Herzberg and Andrew Wright, *Competitiveness Partnerships: A resource for building and maintaining public-private dialogues to improve the investment climate, drawn from a review of 37 countries' experiences.* (World Bank: March 2005).

What roles for government and the private sector in PPD?

- [5] PPD needs a host institution. This host generally should be a government body, as government makes policy. The host must create a forum where frank discussion and knowledge-sharing is encouraged, a “neutral space”. Champions from both the public and the private sector must drive the dialogue, promoting the idea, investing time and effort in it, and giving PPD credibility, expertise and publicity.
- [6] In Malawi, the formation of the National Action Group (NAG) Forum has been highly successful in creating a ‘neutral space’ for both the government, donor and private sector representatives to meet and discuss how to improve the business environment. Started as a small ad hoc group in 2001 and supported by DIFD, it has since grown into a respected tripartite forum that has brought structure and consistency to PPD in Malawi. Although NAG has maintained its neutrality by not becoming an organisation with a specific agenda, it does have a secretariat which helps deliver the actions agreed and facilitates any dialogue initiatives of the three partners.
- [7] Without government will to consider reform it is difficult to initiate dialogue. Without both public and private champions investing in and driving the process, it is difficult to sustain PPD and achieve reforms. Backing the right champions is the most important part of outside support to PPD. PPD can overcome other obstacles (government resistance to change, private sector lack of organization/capacity, resource shortages (logistical facilities, funds) – but it can be derailed by bad champions. A strong government champion might compensate for a weak private champion, but it is difficult to overcome the absence of a strong and effective government driver for change.
- [8] If champions are too strong, then the agenda can become too narrowly focused, or personalised. In Zambia, the dominance of two key individuals on both sides, from the Ministry of Trade and the Zambia Business Forum (ZBF) respectively, has threatened to undermine broad based ownership of the process. However, the right person in the right place at the right time, who sees the bigger picture, can be crucial: within the micro-finance sector in Pakistan, two individuals in the micro-finance community, one expatriate and one Pakistani, were instrumental in driving the initial process forward. Importantly, they understood “when to push and when to pull back”, and that they as individuals would eventually be taking a back seat once the process was firmly established between key institutions.

Government

- [9] The government’s champion should come from a division with broad and continuous involvement with private sector matters, and with oversight responsibility for many ministries/agencies. This should be a senior official (Permanent Secretary level). Ministries providing direct services to the private sector don’t make good champions (such as Ministries of Industry who run direct credit programs or business services operations, or Ministries of Commerce whose funding depends on license fees). Ministries whose primary mission is the protection of civil society (such as Health, Education, Labour, Environment) also make poor champions, but are essential participants in PPD. Over time PPD must engage all parts of government, and all

levels of government (central, regional and local). One or two local government representatives can play useful roles in early stages, bringing in the public sector perspective from the coal face of policy implementation. At the outset, it is better to engage a smaller group of agencies most cognizant of the need for change, and to grow from this critical mass.

Private sector

- [10] The private sector champion should be someone with a wide appreciation of business concerns and a reputation as an honest broker. The champion could be either a motivated individual entrepreneur, or an elected representative of the business community (an association official, for example).
- [11] Thanks to the strong leadership of a charismatic female head, FENATA, the Namibian Tourist Association has established itself as a credible, progressive and representative association. This is despite a popular perception of the industry as “white-owned and white-benefiting”. FENATA plays a major role in dialogue with the public sector and also other stakeholders on business climate issues. It is a prime mover in PPD developing a Tourism Charter for Namibia, supported by DFID’s COMMARK Trust.
- [12] Selecting private sector participants for PPD often confronts a trade-off between “representative-ness” and capacity for dialogue. In principle, general business associations (like Chambers of Commerce) should represent a more diverse array of firms’ interests. In practice, they may have less grasp of details, and lower appreciation of small firm concerns. Sector-specific associations may know the details of issues better, but they can struggle to see the bigger picture. They tend to advocate for a narrow range of interests, at times working at cross purposes with efforts to promote competition (and end protected interests).
- [13] In Ghana, road hauliers and shipping freight firms separately lobbied government for policy change without consulting the other. The result was court-based arbitration that imposed heavy costs on all parties involved.
- [14] Multi-national firms sometimes can serve as better advocates for small firm interests than large indigenous firms, particularly MNCs interested in developing local supply chains. State-owned enterprises usually have a strong voice, but rarely a constructive voice for open and competitive market environments. The solution to this private sector trade-off is to include a mix of participants in PPD. General business chambers and sector-specific associations should have representatives. Ideally, both capital city-based and regionally-based companies should take part. In countries where the private sector is especially poorly organized, enterprise-level surveys and focus groups can help understand the business perspective and provide a reality check on the contributions of sector’s representatives in PPD.
- [15] In Lesotho, as in many African countries, the private sector is not well organized and does not speak with one voice. The local private sector is protectionist and often rent-seeking. The manufacturing sector is mostly Taiwanese and distant from the local situation. The biggest firms are all subsidiaries of South African firms. This makes PPD extremely difficult. Government has to take its own position, and to try to lead

the private sector to a common vision of the future – a task that often requires skills beyond existing capacity.

- [16] Civil society organizations, including trade unions, should be participants in PPD; but they should be brought in carefully, for the right issues and at the right time. They often engage more constructively after the initial phase of PPD, when the issues and reform options are somewhat clarified. Local and regional experts can play key roles as facilitators of PPD.
- [17] The best PPD participants take ownership of the process - institutions volunteering their own resources to support PPD are more likely to be useful participants than institutions which join PPD only if compensated somehow.
- [18] DFID's Drivers of Change approach offers useful tools to guide participant selection for PPD. More information on these tools can be found at:

http://www.grc-exchange.org/g_themes/politicalsystems_drivers.html .

On what level should dialogue occur?

- [19] PPD can and should occur at all levels, central, regional and local. PPD generates the most immediate and practical reforms when it takes place at the lowest level at which business and government interact. Broader, more fundamental reforms require higher level dialogue and take more time. SME participation is easier at local level, where the SME voice is stronger. The national setting poses the greatest difficulties for effective SME participation, and requires the most work to ensure that the SME perspective is included.
- [20] Local public officials can be key agents of PPD, and also its worst enemies. Local officials must be included in all dialogue concerning the implementation of changes. Strengthening dialogue between central and local officials often is as important as strengthening dialogue between the public and the private sectors.
- [21] Ukraine's administrative structure devolves a good deal of power to regional and local governments. At the same time, its economy is characterised by a high percentage of informal activity, with an estimated 60 percent of actual GDP generated in the latter part of 2002. Since 2001, DIFD has promoted SME and private sector strengthening at regional level e.g. by supporting the capacity building in regional chambers of commerce. Activities have ranged from developing management, communication, presentation, and negotiating and influencing skills of key chamber staff to enabling the chambers themselves to train their private sector members in ways to engage effectively in dialogue with government. Results have included an improved level of understanding of SMEs within the public sector, and a reduction in business registration times in several towns.

What issues are best suited to PPD?

- [22] All business enabling environment and investment climate issues can benefit from PPD. However, PPD will not be equally effective with all issues at all times.

Understanding a country's political economy and, in particular, its institutions and their relations, helps understand the risks, constraints and incentives that will shape PPD. DFID's Drivers of Change website offers some tools for assessing individual situations.

- [23] The greater the distrust between the public and private sectors in a country, the fewer the issues PPD can tackle effectively.
- [24] Nigeria's history of authoritarian rule under military dictatorships has created a command culture and widespread corruption. This has heightened suspicions between the public and private sectors, and has led to an often confrontational approach to dialogue. This atmosphere makes progress very difficult, and requires careful selection of agendas.
- [25] It is usually more productive to begin with a small band of issues that face the least political resistance to change. Sectoral (industry specific) dialogue usually is more effective than general dialogue on private sector development. SMEs and local authorities participate most effectively in dialogues on tangible, hands-on matters, such as discussions of administrative processes (registration, tax administration, customs clearances, etc).
- [26] Pakistan's experience of PPD in its microfinance environment serves as a good example of sectoral dialogue. Microfinance has strong roots in Pakistan, and correspondingly strong organisations. Recognising the growing importance of this sector, the government decided to create its own micro-finance initiative. In parallel, the private sector actors realised the necessity of speaking with one voice on matters of concern to the sector as a whole. Their response, for example, to the government initiative was the creation of a micro finance network (MFN), which has strengthened both sector and government capacity through training and promotion of good practice. MFN has established a consistent, if ad hoc, dialogue with government and the government's microfinance programme.

At what stage of reform is PPD most useful?

- [27] PPD is useful at all four main stages of policy reform: assessing and agreeing problems; designing and legislating solutions; implementing reforms and monitoring/evaluating the impact of reform. The earlier government brings private stakeholders into consultation, the better. However, governments and donors tend to forget that the private sector also has a key role in the latter stages of reform. Private participation can speed changes, ensuring rapid uptake of new processes and promoting greater efficiency in new administrative regimes. Neglect of private participation during implementation can derail promising initiatives.
- [28] The Entebbe Municipal Council in Uganda increased the effectiveness of its business licensing reforms by subcontracting a private enterprise to implement the new system. The combination of the simplified procedures (developed through PPD) and the performance-based contract enabled licensing times to be reduced from 2 days to 30 minutes. Firms responded to the new, business-friendly system, with licensing revenues increasing 40 percent, numbers increasing 43 percent and compliance costs

reduced by an estimated 75 percent. In addition, the government reduced its own administrative costs by 25 percent through this out-sourcing. Streamlined business licensing in Entebbe won the Africa Investor 2004 award for “Smart Regulation”.

How formal should PPD be?

- [29] PPD can take the form of carefully scheduled and structured meetings of statutory bodies with elected membership. It can consist of periodic meetings over meals by key individuals. Or it can operate at levels between these extremes. All in all, political will to change matters much more than the legal status of the dialogue.
- [30] Formality can be a double-edged sword. It gives statutory authority and some solidity to a dialogue. At the same time, it can breed complacency and inefficiency, if members’ focus moves from the issues at hand, to sustaining the privileges and publicity of being part of the officially selected elite. The more structured and formal a dialogue, the higher the cost for smaller firms to take part.
- [31] In theory, the Nicaragua national Chamber of Commerce is supposed to represent all businesses and associations. In practice, the Chamber facilitates dialogue primarily between government and large enterprises, many of whose senior officials have moved between the public and private sector in recent years. SME representation remains very limited. Nicaragua’s Central America Free Trade Area (CAFTA) negotiations, as a result, have been captured by large firm interests, which are not always in line with promoting open and competitive markets. DFID has focused support on the national apex association for SMEs to try to counter this large firm bias.
- [32] On the other hand, greater structure permits explicit inclusion of small firm interests. More unstructured and informal PPD has greater risk of hijacking agendas by individual interests, and gives advantage to larger firms and multi-national companies with existing close ties to senior government officials.
- [33] More formal dialogue is not necessarily more productive dialogue. The formality of PPD should respond to the opportunities and constraints posed by the country’s political economy, and it should evolve as these factors evolve. Some of the most successful ongoing PPD evolved from informal meetings to more formal structures over time.

How frequent and intense should PPD be?

- [34] Timing and intensity, like formality, need to fit the prevailing institutional dynamics between the public and the private sector. There is no ideal dialogue frequency or format. In countries where public-private trust is low and collaboration has been limited, it is best to begin with small numbers of participants, keep meetings relatively informal, and focus on a limited number of issues. During the early stages meetings should be relatively frequent, with narrow (but carefully managed) agendas.
- [35] In Zambia, largely due to its socialist past, the first steps taken towards PPD were initially met with suspicion on both the public and private sector sides of the divide. It

took several meetings and discussions in order to address this issue and for the dialogue to gather pace and become accepted by key partners. DFID has funded the first four meetings, although there is now a need to prioritise and sequence the “wishlist” of reforms that have emerged from these early discussions.

- [36] Early-stage meetings should set short-term goals for work on reforms, and should concentrate on issues where short-term progress is likely because resistance to change is low. Empirical research and analysis should be commissioned to support the dialogue, to help produce clear, credible recommendations for change. Focusing on such “quick win” topics (also known as “low hanging fruit” issues) gives credibility to PPD, giving it momentum that enables dialogue to remain effective at lower intensity over a wider range of issues.
- [37] Certain cyclical issues, such as budget and fiscal reform, may require dialogue that varies in intensity over time, gearing up as key government deadlines draw near, and gearing down after annual decisions are taken. PPD on implementing and monitoring reforms may be less intense than PPD designing reform, but dialogue should be sustained over all four stages of the reform cycle. Effective monitoring and accountability mechanisms are strengthened by the establishment of periodic public-private review procedures.

What can donors do to promote PPD?

- [38] Donors often are a key support to PPD. Unfortunately, just as often they can be a key obstacle to effective dialogue. Some of the main donor dos and don'ts are:
- *Dos*
- [39] Donors are extremely useful when their resources help dialogue participants to collect and analyse the evidence surrounding a particular issue. Donor resources are well deployed when building local capacity in policy analysis, regulatory impact assessment and other policy-making skills. Donor assistance can help improve the political economy infrastructure that supports dialogue, including open and objective information/communications systems (informed business journalism in particular), and benchmarking of local policy-environments against international good practice. Donors can help break the ice for PPD in countries where public-private trust is low, bringing in trained facilitators, and supporting facilitation skills and techniques development.
- [40] The DFID Enabling Environment Project in Kenya has been successful in creating the space for evidence-based dialogue where previously none existed. Prior to this, PPD was a superficial exercise and there was a feeling that government was deliberately excluding the private sector on key consultations (such as for the PRSP). The general climate was one of mutual distrust and reluctance to engage in constructive PPD. A DFID-funded quasi public sector institution (KIPPRA) acted as a key facilitator to support and promote evidence-based dialogue (although this has not been without problems). The key task was to move the discussions away from emotive rhetoric due to historical grievances and past practices, to ensure a steady flow of communication, and to produce evidence-based research to support private sector positions.

- *DON'Ts*

- [41] Donors should not impose their own agendas on PPD. Local participants must own the agenda, and the host government must embrace the need for change. Donors should not over-use grants and make local institutions more beholden to the donor than to their constituents. Donors should not force PPD agendas into limited time horizons due to foreign aid procedures and restrictions. Donors may do the most damage to PPD when they confuse participants through un-coordinated initiatives that tackle the same issues through parallel, isolated projects that soak up scarce human resources.
- [42] Donors need to think carefully about their funding approaches to national level apex organizations. Excessive support for the Secretariat of the Zambia Business Forum from four donors, including DFID, has made this agency too dependent on outside aid, and has distanced it from its local constituents. Without this local support there is no long-term future for ZBF.
- [43] DFID Nigeria is helping improve donor coordination in private sector development. It provides support to the World Bank in formulating its Country Strategy Paper. DFID also supports inter-donor discussions in Nigeria as to how they can complement each other in-country, considering how one donor might have lead responsibility regionally, or for one sector.
- [44] The donor's profile in PPD should correspond to the local political economy. In countries where donors are seen favourably, a high profile can give legitimacy to the dialogue. Where donors are seen more as "part of the problem", a high profile can be the kiss of death for PPD. If a donor has limited resources in a given country, it may be more effective developing a capable host for dialogue than pushing inadequate support for a specific reform. Local trusts or challenge funds can provide a way of stretching donor resources beyond the limitations of project cycles.

What are the principal success factors for PPD?

- *Effective champions* drive successful PPD.
- *Buy-in* by both public and private sector is essential.
 - There should be significant local resource commitment (time and money)
 - Avoid donor dependency
- Maintaining a *balance* between public and private interest and contribution sustains PPD.
- *Results* drive PPD over the longer term.
- *Respect* keeps participants at the table.
- *Planning* is vital, including:
 - Agendas in advance, minutes and accountability ex-post
 - Supporting empirical research (local situation + international good practice)
 - Timetables with milestones for specific outcomes (and specific responsibilities)
- *Measurement* is critical to focusing PPD.
- *Public relations/communications* builds wider support.
- *Capable private sector associations* are needed for sustained PPD.
 - Representative of wider business community
 - Able to produce evidence-based analysis and recommendations