



C. DESIGNING, IMPLEMENTING AND MONITORING PPD - ISSUES TO CONSIDER

The diagnostic mapping tool assesses the status and potential of public-private dialogue. Now it comes to designing and implementing dialogue, what issues should a task manager consider?

This section of the handbook is based around the Charter of Good Practice in using Public-Private Dialogue for Private Sector Development (see section A. 4. above)

C.12. DEVELOPMENT PARTNERS

The issue: Much of the growth in interest in PPD in recent years has been fueled by the international donor community's perception of it as a tool to promote private sector development and poverty reduction. Often, the relationship between public and private sectors is so poor that dialogue has little chance of getting started without the involvement of a donor. But donor involvement brings with it significant risks.

*Charter of Good Practice in
Using Public-Private Dialogue
for Private Sector Development*

PRINCIPLE XII: DEVELOPMENT PARTNERS

Public-private dialogue initiatives can benefit from the input and support of donors (development partners) when their role is determined by the local context, demand driven, and based on partnership, coordination, and additionality.

- Development partners can encourage conditions for dialogue, and initiate, promote, support, fund, and facilitate dialogue.
- Capacity building and disseminating international best practice are two areas where development partners can play a particular role.
- The role should be as neutral as possible, maximizing the local ownership and capacity, the development of trust, and the maintenance of a conducive and transparent environment.
- Development partners should consider social, economic, and political context; exit strategies; and sustainability issues.
- They should coordinate among themselves to avoid duplicating efforts and maximize the availability of funds when partnership are found to be worth supporting.

C.12.1. What can donors do to strengthen dialogue?

Donors should not normally think of support for PPD as being a stand-alone project, but should rather consider integrating a PPD component in any private sector policy reform support program in which they are involved, particularly regulatory reform and business-enabling environment programs. This has been DFID's and the World Bank Group's approach, for example, in recent interventions in Bangladesh, Nigeria, Tanzania, and Sierra Leone.

That said, donors can be one of the biggest resources and one of the biggest obstacles to effective PPD.¹⁷

They serve as resources when:

- ☑ they help participants collect and analyze evidence, both from the in-country environment and from other international experience;
- ☑ they build capacity in policy analysis, regulatory impact analysis, and other key policy-making skills; and
- ☑ they help improve the infrastructure that promotes dialogue, such as improved communications, knowledgeable business journalism, and international benchmarking (such as the Doing Business report).

But donors often are one of the biggest obstacles to PPD. They obstruct primarily when:

- ☒ they impose their agendas on host governments; and
- ☒ they make both governments and private sector associations respond more to donor priorities than to their home constituencies.

C.12.2. Challenges in donor funding

A problem donors face is that PPD and enabling environment reform needs sustained support more than it needs large, one-off financial contributions. Donor and PPD time horizons often don't match. Bureaucracy can make donors slow-moving and inflexible. DFID has had success in promoting PPD through setting up independent trusts and "challenge funds" such as the Business Linkages Challenge Fund in the United Kingdom, which for instance supported a program with PPD dimensions in Tanzania. Such funds are more capable of responding to changing opportunities. Using local trusts as a means to bypass donor project cycles to synchronize better with PPD requirements also represents a promising initiative. Challenge funds, too, can serve this purpose, but only if they can be given long enough lifetimes to establish their presences and streamline their procedures. In general, donors should develop more flexible and less time-bound approaches to promoting PPD.

Overall donors need to adopt a more venture capitalist attitude towards PPD – treat it as a high-risk but essential investment, one that will require innovation and experiment, and a healthy tolerance for failure. In the same vein, PPD investments need an exit strategy right from the start, a way of migrating from donor promotion to self-promotion.

Donor funding should also take into account associated risks and actual capacity. As noted above, capable BMOs are a major help to PPD. Donors can play an important role by providing seed funding and support for technical capacity building – but must be extremely careful not to foster dependence and make BMOs responsive to donor needs rather than the needs of their members.

¹⁷ This section borrows in part from *Reforming the Business Enabling Environment: Mechanisms and Processes for Private-Public Sector Dialogue*, Report by DAI Europe for DFID, February 2005.

Less appreciated is how much government ministries in foreign aid-dependent countries could potentially focus more on donor project management than on sound policy making and implementation. If grant funds are abundant, engaging civil servants in PPD and other policy reform initiatives could be rendered difficult due to competition from other donor programs.

Donor funding and coordination during the Better Business Initiative (BBI)

“A significant design problem related to donor funding and coordination. In fairness, it is important to note that donor coordination is never easy given the different timeframes, mechanisms and strategic objectives under which different donor organizations operate. [-] The problem was more at the level of the contract structure and project design than at the level of the day-to-day coordination and working relationships among officers for the donor groups. Indeed, [-] all three of the sponsoring donors (IFC, USAID and DFID) [-] worked well together.

In the first place, the funding flow to several of the Host Organizations [running specific working groups] was irregular and based on cost-reimbursements. Thus, for the most part these organizations had to not just front the resources for BBI-related activities but, in some cases, had to endure long waits for cost-reimbursements. This took an uneven toll on the Host Organizations; some of them, such as the Lagos Business School and the MAN, were already doing similar activities and had resources upon which to call. In these cases, the irregular funding was not a major constraint. In contrast, the funding problem seems to have more significantly affected the performance of groups such as HuriLaws, which had less of an existing in-house capacity for the work envisioned by the BBI.

Beyond the matter of funding flows, the funding structure chosen by the donors set up a principle-agent problem for the BBI. The African Institute for Applied Economics (AIAE) was to be [the forum’s] secretariat and, in this capacity, organize and bring thematic, logistical and conceptual coherence to the ongoing work of the five Host Organizations and their respective Working Groups. However, these Host Organizations had a funding relationship with and reported to the donors, and not to the AIAE. Under the best of circumstances, this put AIAE in a difficult position - would the Host Organizations cooperate with its organizing efforts or not? However, as the donor funding performance became an issue as noted above, it further undercut the ability of AIAE to perform its secretariat role. Thus, AIAE ended up between a rock and a hard place; it was expected to perform coordination functions on behalf of the donors to support the BBI yet the donors did not provide it with the tools with which to properly fulfill this function.”

Public-Private Dialogues in Nigeria: The Better Business Initiative and Cluster Development Project, Report Prepared by for the SME department of the World Bank Group by Jesse Biddle and Paul Kalu, March 2006

C.12.3. Collecting evidence on behalf of local constituencies

PPD may be hard to get going because of a lack of evidence. Donors can play an extremely useful role by funding the collection of evidence that is seen by all parties to be independent. Business environment surveys are a good example of this.

Donor resources are well deployed when building local capacity in data collection and analysis, regulatory impact assessment and other analytical skills – including business journalism. An important role for donors hence includes benchmarking of local policy environments against international good practice.

C.12.4. Facilitation and coordination

Donors can help create PPD in countries where public-private trust is low by bringing in trained facilitators and building local capacity in facilitation. They can also support an existing PPD by providing coordination services, or by hosting a secretariat.

The direct role of a donor in managing the secretariat is appropriate in cases where an independent secretariat is the optimum solution but where there is no clear institutional solution involving existing parties. This often is the rationale for donor support, precisely to play an honest broker role between public and private sectors.

Sometime that role is so effective that it becomes hard to transition to a locally-owned secretariat. For instance, the IFC has been involved in this role in Cambodia for the past five years and for nearly ten years in Vietnam. It still plays a leading role in these business as of 2006.

Donors are present mostly during the start-up period. The first two years of a PPD are often sufficient to get the initiative off the ground, and ensure that it is well established and generating results. And while the depth of involvement of a donor can change over time, a donor may expect some ongoing role beyond this initial start-up period.

While the secretariat function could migrate elsewhere if a donor was involved in facilitating a PPD, the donor should expect and be prepared for an ongoing role in the initiative. There is often a lot of ground to be covered in setting up a Greenfield PPD in environments that can be characterized by a combination of cronyism and mistrust between government and the private sector. Without a strong role from the donor as honest broker, it may just not happen, nor quickly graduate to a process that can be assumed by an existing institution. If a transfer is successful, the donor could however keep mobilizing funds to support ongoing PPD activities. The PPD will also most likely benefit from an ongoing technical input from the donor community, in form of technical experts supporting specific working groups.

On the other hand, a PPD could suffer if the donor who had started brokering the partnership changes its strategic focus and “drops” its support after decides to hasten a full transfer to local ownership.

Such was the case for the Bulldozer Initiative in Bosnia and Herzegovina, where, after two successful phases of six months each, the international sponsors precipitated the transfer of the secretariat to local counterparts, while dropping their support to the project. The initial period had seen the creation of a new process, and had been focused on results so as to convince stakeholders to engage. After just a year, the secretariat was unprepared to transfer its newly acquired knowledge to local institutions, while these institutions, had not had the time to ramp up their capacity to host the initiative effectively. The result was a comedown of the Bulldozer initiative during its third phase and the eventual struggle of the locally-owned secretariat to lead the partnership effectively.

Donors may also be involved in general facilitation rather than operating the secretariat. The goals of these initiatives indeed correspond to their private sector development agenda. PPDs provide a non-partisan platform for policy advocacy on behalf of the private sector and in close relationship with the government and institutions that donors can tap into. PPDs also aim to represent the voice of the private sector vis-à-vis the government, to promote a number of investment-friendly policy reforms, and to introduce regulatory improvement practices and capacity within the administrative processes.

C.12.5. Donors input into the reform design

As they are defined by working groups and processed by a PPD secretariat, reform proposals would gain enormously if they are designed according to benchmarks and principles that have received a “seal of approval” from international agencies. While not reducing ownership of the proposals themselves, the involvement of the development partners in the design process has two main benefits:

- ☑ It ensures that reform proposals do not contradict or interfere with structural, top-down efforts.
- ☑ It can serve as a guarantee to the governments that the entrepreneurs are not going to hijack the process to request non-viable benefits, such as removing all taxes, etc, or that specific entrepreneurs are not going to use the process for their own exclusive benefits.

GTZ's role in Vietnam's Investment Law and Enterprise Law

GTZ provided support to the public-private consultation process in Vietnam prior to the passing of the Investment Law and Enterprise Law in 2005 in a number of important ways:

- It directly supported dialogue meetings between government and key private sector associations, exposing participants to international best practice techniques in moderation, discussion and use of the Internet.
- It supported a Regulatory Impact Assessment carried out by the Prime Minister's Research Commission. This included business test panels and consultation workshops held throughout the country.
- It used the media to publicize consultation, which increased the transparency of the process, helped to overcome reluctance and apathy on the part of businesspeople to make comments in public, and built support for the new laws.
- It published high-quality research studies (illustrated) on issues relevant to the two proposed laws. These became the neutral evidence base which could be discussed at consultation meetings.



Full case study from GTZ available on http://www.publicprivatedialogue.org/case_studies/

Getting a group of donors to participate in the partnership is beneficial. For instance, the IMF could ensure that all selected reforms comply with sound macroeconomic standards. The World Bank could ensure they correspond to good poverty reduction strategies and that they fit overall technical assistance strategies. The European Commission or other regional organization could guarantee that each proposed change is compliant with EC or WTO standards. The IFC, DFID, GTZ or USAID could participate in vetting the reforms against best practice legislation and good private sector development principles. Hence, a reform proposal, once out of the “production pipeline,” could become extremely resistant to political criticism, because the merits of the reform are backed-up by internationally vetted evidence and good practice.

Accolade *and* frustration of the international community during the Bulldozer Initiative in Bosnia and Herzegovina

“Other critics, primarily from international agencies, raised concern when the Bulldozer process started to tackle issues that clearly went out of the scope of the “micro-reforms” it had intended to process. When there were synergies between the development policies of the international agencies and the policy choices of the business community, donors were happy to use the Bulldozer as a platform to voice their concern with the government. In the case of Bulldozer Phase I Reform number 23, which addresses moving the point of collection for excisable tax, the OHR and IMF were happy to have the impetus come from local businesses, although this had long been an IMF policy objective. But this willingness to let the Bulldozer process lead structural policies was limited to the extent it promoted the International Community’s own agenda and priorities. A semi-crisis occurred, for instance, with Bulldozer Phase II Reform number 17, when the Bulldozer Committee on Agriculture decided to request an export ban on raw logs, until a new forestry certification mechanism would enable the export of wood while preserving both the local industry and the BiH ecosystem. Agreeing with the reform goal, which it had identified through consultations with the private sector, the World Bank opposed the approach of an export ban, as it contradicted its longer-term policy choice expressed in a Bank-funded multi-year forestry program. But despite this opposition, entrepreneurs decided to go for the quick solution of the ban and the reform was voted through as the international agencies no longer had veto power in the Plenary Sessions. [-]

This example illustrates the limits of the [public-private dialogue] process. Even if it is sponsored by international agencies, such a process will always remain private sector driven in its approach and in the recommendations it makes. Whether the international agencies can live with the results is another question. But it must be borne in mind that such disagreements are the sign of a healthy democratic process. After all, one cannot wish to have a vibrant private sector advocacy process and at the same time expect it to remain on the sidelines, applauding politely every move made by internationals.”

Investment Climate Reform - Going the Last Mile: The Bulldozer Initiative in Bosnia and Herzegovina - Benjamin Herzberg, World Bank, Policy Research Working Paper Series with number 3390.

But it is the participants who should set the pace – not the donors’ internal timetables.

Donors should not impose their own agendas on PPD. Donors should not force PPD agendas into limited time horizons due to foreign aid procedures and restrictions. This can be reinforced if there is a lack of coordination within donors. Donor coordination is indeed paramount. Donors may do the most damage to PPD when they confuse participants through uncoordinated initiatives that tackle the same issues through parallel, isolated projects that soak up scarce human resources.

If reform proposals bear the legitimacy of local entrepreneurs’ demands *and* are vetted by international agencies, they have a stronger chance to get enacted and implemented.