

SYSTEMS CHANGE IN THE BUSINESS ENABLING ENVIRONMENT

INVESTMENT CLIMATE PRACTICE NOTE

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Systems Change in the Business Enabling Environment (BEE)

Investment Climate Practice Note

By Miguel Laric, DFID*

I. Executive Summary

i. This guidance note is both for implementers and donor managers of legal and regulatory investment climate programmes. It is designed to help either manage or oversee programmes using a comprehensive conceptual and implementation framework that maximizes probability of sustainability and transformational impact of business environment reforms. The guidance is divided into three parts: a Theoretical Framework, some Operational Guidance and Key Challenges and Risks.

ii. There are three key messages of the **Theoretical Framework**:

1. **The Business Enabling Environment (BEE) is a complex set of interconnected and overlapping systems** that define the policies, rules and regulations administered by government that affect business. The core exchange is between business and government. But the interconnected systems are both within and outside government and include media, civil society and businesses organisations. A poor BEE results from underlying systemic failings in the way BEE rules, regulations and requirements are formulated and implemented. Unless programmes address these underlying systemic constraints, they will fail to promote sustainable improvements in the BEE. This is the core proposition for taking a systems approach.
2. **Systems analysis of BEE reform reveals many critical challenges that an effective BEE programme must overcome and that make systemic reform slow and difficult:** different systems and actors demand and supply different elements of the BEE and benefit differently; reform is slow because it is beset with complex interactions and weak incentives; and is intensely political; the social benefits are often unclear to actors or are overshadowed by the status quo's private benefits; both supply and demand of reform are critical to success and sustainability; and both depend on the capacity and incentives of actors in the systems who must therefore own and take charge of reforms at the pace that internal capacity constraints allow. Purely technocratic solutions are unlikely to deliver lasting change.
3. **But these challenges are precisely why a systems approach should lead to more sustainable, more flexible, more politically savvy and ultimately more effective BEE interventions at scale.** There already exist viable frameworks for analysing and implementing systems change, managing the complexity that these challenges engender and creating incentives-led programmes. A systems approach operationalises the key principles of the Donor Committee for Enterprise Development (DCED) for BEE reform (see Annex 2) which have not yet been turned into practical guidance for delivery.

iii. The **Operational Guidance** contains frameworks and guidance for taking a systems approach in design, implementation and evaluation with three key messages:

* Many helpful comments and additions were gratefully received and incorporated from colleagues including M4P practitioners, DFID advisors, DFID programmes, IFC and DCED.

1. **Taking a systems approach is about prioritising the change in systems (ie processes, exchanges, incentives and relationships) that an intervention leaves behind rather than the outputs it delivers directly.** Success in a systems framework is measured by how much the elements of systems have improved and how much more capable stakeholders are at sustaining existing change and articulating, demanding, executing or managing further change.
 2. **There are a wide range of key characteristics of a systems approach that should be integral to a BEE programme:** These include multidisciplinary diagnostics at both programme and intervention levels, a very strong and thorough monitoring and results measurement system for both reporting and wide communication, focus on both technical and practical constraints to reform, facilitating change by putting local actors in charge of change rather than delivering it directly, making use of influencing (or ‘nudging’) techniques to win hearts and minds, piloting and experimenting diverse activities and applying lessons learnt to evolve the programme organically by either scaling up, reformulating or trying something else, and prioritising local solutions and smart, local adaptation of international practice.
 3. **Simple inertia can be a powerful force against change. Programmes need clarity on where the incentives or nudges for change will come from; who stands to lose and gain and how the status quo will change.** Incentives for change can come from a range of models and scenarios depending on the country context. Only a subset are likely to apply in a given country context and the programme should be designed accordingly to take advantage of likely change pathways such as: emerging political champions, investigative media, increasingly powerful yet benevolent business interests, wider public administration reform momentum or jurisdictional competition.
- iv. **The Key Challenges and Risks** section is the shortest section of the guidance and gives brief consideration to some of the drawbacks. Its key messages are:
1. **Taking a systems approach produces a challenging trade off: greater chance of sustained, transformational impact in exchange for less speed, control and more difficulty reporting attributable results.** These drawbacks do not align well with short donor timescales for delivering results. Direct delivery may be justified if risks or constraints are substantial but programmes should always proceed within a systems framework; circumventing a systems approach only after assessing possible costs to impact and sustainability and as part of an overall systems strategy.
 2. **Donors tend to have significant aversion to risk but risk taking is necessary to maximize likelihood of impact and scale up.** Given this, together with the challenges above, programmes must make a substantial resource investment in measuring, reporting and communicating progress. Evidence for transmission mechanisms needs to be proactively managed to show that programmes are delivering, using process (intermediate) indicators of progress to show the programme is on track and ensuring donor and government stakeholders have sensible expectations and a clear mutual understanding of these issues.
 3. **Different development objectives (poverty, growth, reform momentum, gender) will likely compete with one another for prioritisation.** Difficult conversations, decisions and trade-offs should be expected. But success in sustaining change will depend heavily on interpersonal relationships, facilitation and influencing skills.

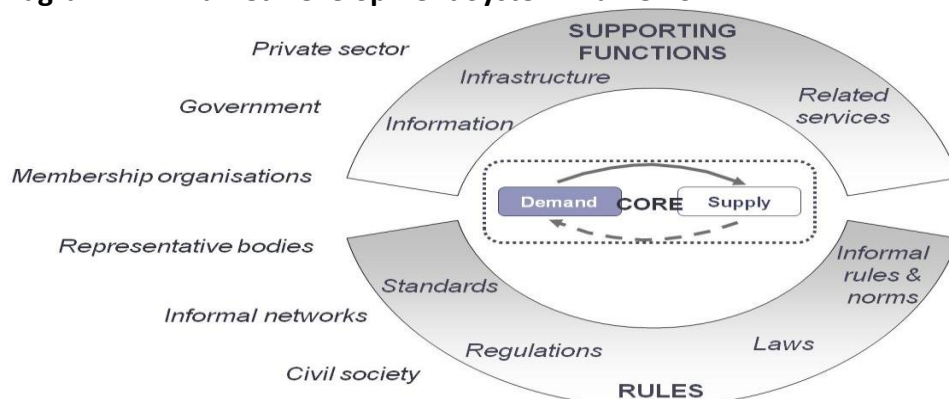
Systems Change in the Business Enabling Environment

4. **Stimulating local markets for research, media and capacity building deepens the likelihood of sustainability but will be easier in some contexts than others.** Flexibility of approach and a pluralistic private/public model of change can avoid unnecessary ideological tussles and ensure the best actors are supported.
- v. **Overall:** Programmes taking a systems approach face challenges of measurement, results communication, pace and risk appetite that need to be managed. But if permanent improvement in the BEE is the objective, a systems approach can be a more effective way to deliver durable solutions.

II. Theoretical Framework

- i. For simplicity of exposition, this note defines BEE reform narrowly as the policies rules, regulations and requirements, either formal or informal, primarily owned and/or administered by the government that businesses must deal with to conduct business operations. When beneficial, they create a level playing field, protect consumer welfare, address market failures and facilitate dynamic, growing and increasingly mature markets. When detrimental, they create barriers, uncertainty and costs that impede investment, concentrate market power to the benefit of a few, and undermine competitive, more resilient and more sophisticated market systems that lift poor people out of poverty.
- ii. The key principle underpinning a systems approach is that a poor BEE undermines investment and the growth of markets as a result of underlying systemic failings in the way BEE rules, regulations and requirements are formulated and implemented. Unless programmes address these underlying constraints then they will fail to promote sustainable improvements in the BEE.
- iii. A systems approach is a more effective way of sustaining BEE reform and maximizing the likelihood of progress and scale up/replication. The approach aligns strongly with donor corporate priorities to:
 - a. Integrate more private sector entrepreneurship into interventions: being more experimental, risk taking and flexible to learn lessons and respond to complexity.
 - b. Take a multi-disciplinary approach to design and implementation, integrating political economy and sustainability challenges into the core of the programme approach.
 - c. Map out theories of change to proactively manage complexity,
 - d. Prioritise stronger measurement and results and use these to manage and adapt programmes.
 - e. maximize value for money by
 - i. increasing sustainability and impact at scale and
 - ii. reducing costs by using local systems and resources at sensible pace.
- iv. Market Development has a framework for assessing market systems. This is used in conducting diagnostics to identify underlying systemic failings, in developing and implementing interventions to address these failings and in evaluating the outcomes of interventions. The market development systemic framework is set out in Diagram 1.

Diagram 1: A Market Development System Framework



Source: The Springfield Centre
M4P Training

- v. For the business enabling environment, this market development system framework can be adapted and changed into a private/public interface system framework with a core exchange between business and government at its heart. The government supplies rules and procedures that businesses demand and wish to be predictable and facilitative to allow their business activity to flourish. In exchange businesses supply jobs, economic growth and tax revenue which the government demands to meet political and governance objectives.

Important Clarification: This does not mean turning the government public services and procedures that make up the BEE into priced market transactions that businesses elect to purchase. Rather the systems change framework for market development can be adapted and applied to the largely non-market systems change framework for the BEE.

- vi. Surrounding this core conceptual exchange and determining how effective it is are a number of other systems that play supporting and rule setting functions. This can be thought of as “The BEE Conceptual Systems Framework” (BECSF) (Diagram 2) of interacting, overlapping and complex systems that determine the conduciveness of the BEE exchange between business and government. Diagram 2 shows major relationships and interdependencies where systems overlap in a simplified way. It does not show all the complex relationships between the different systems. The main components of the BECSF are the following systems:

A. Core Exchange

1. The commercial market systems in which businesses operate that are affected by government rules and requirements. (the business part of the core exchange)
2. Government administration systems that interface directly with businesses to enforce rules and regulations and either facilitate or impede business activity and thus create the de facto BEE. This includes the judicial system that enforces some of the government’s rules. (the government part of the core exchange)

B. Key Support Functions

3. The media system: that can highlight deficiencies, raise awareness, increase transparency and accountability and shift public opinion to influence political decision makers and can motivate change. (a key supporting function)
4. The business advocacy network systems that can articulate constraints and demand improvements to the BEE and hold government to account most forcefully. (a key supporting function)
5. The research and knowledge generation system of think tanks, universities and NGOs that can produce the information and analysis that media and business advocacy can use to identify priority concerns and their impacts and effectively lobby for change. (a key supporting function)

C. Key Formal Rule Setters (and Support Functions)

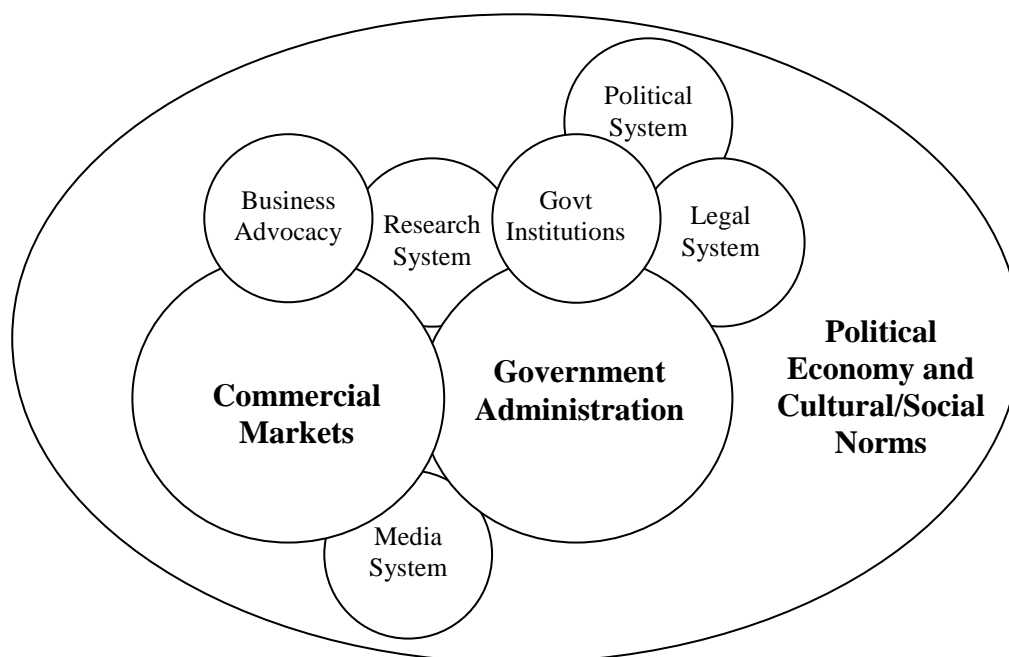
6. Government institution systems: how ministries, departments and agencies are organised internally, how they produce policy, how they interact with one another and how rules are determined to be then administered by administrative systems. (a key formal rule setter and supporting function)

7. The legal system which changes slowly and contains the underlying rules and value system that set the scope and boundaries of policy and reform in institutions and administrations. (a key formal rule setter)

D. Key Informal Rule Setters/Support Functions

8. The political system, how legislative change comes about, as shaped by party ideologies and dynamics, the electoral process and the dynamics and robustness of the social contract. These set the context for any development intervention.(a key informal rule setter)
9. Across all of these systems is overlaid: The political economy system of networks, incentives and personalities that determines policy priorities and the likelihood and pathway to meaningful reform and the champions and blockers for a given reform initiative. (a key informal rule setter and informal support function). Cultural and social norms also play a critical role across all of these areas.

Diagram 2: The Business Environment Conceptual Systems Framework: Overlapping Systems



- vii. When the BEE system works well, the government has incentives to provide the soft infrastructure that encourages a wide and diverse private sector and the private sector’s incentives are similarly aligned. When it works poorly, the incentives are missing or dysfunctional, disincentives dominate or capacity is weak: media acts as a mouthpiece of government, or fails to investigate issues facing businesses and hold government to account. Research institutions fail to influence the policy debate because of weak capacity and poor dissemination practices. SMEs and the poor especially, are not well represented by business associations or media because of elitism, political capture, and weak capacity.

- viii. By looking at BEE systemically in this way, key challenges and specific practical implications for programme delivery become very clear. In current practice, these are often ignored, played down or converted into assumptions:
1. Different systems and actors demand and supply different elements of the exchange and stand to benefit differently: political actors and society as a whole are the main beneficiaries of growth and jobs while administrators and political leaders are the direct beneficiaries of revenues
 2. The exchange does not happen in real time and it is informed by complex interactions: one positive rule or administrative change is not directly exchanged for 2,000 new jobs. The significant time lags, diffuseness in the exchange and complexity of interacting systems and actors make it challenging to establish strong, positive incentives to motivate and reinforce reform across different system actors.
 3. The social benefits are often unclear to actors in the systems or are overshadowed by private benefits. In weak states, politicians must weigh up the competing demands of their network of interests and patronage against the public goods of growth and widening employment opportunities. Poorly paid, unmotivated and untrained administrators will look to supplement their incomes in administering rules and will block change that undermined their income streams. Dominant businesses best placed to advocate have an incentive to influence government to block any reforms that reduce barriers to competition; allowing them to continue to extract rents from an uncompetitive status quo.
 4. Addressing both the supply and demand in the exchange is critical and depends on the capacity and incentives of each actor in the system, as well as influential actors outside the system and the relationships between them. Understanding networks and how incentives evolve across players and organisations is paramount. In a system where politics is conducted on a patronage basis and business groups serve to secure political access for an elite group, government complains these groups are not credible voices; businesses complain that government does not listen. These two outcomes reinforce each other as neither side voices credible positions on policy and most businesses are not represented. Efforts to tackle one side without the other face lower probabilities of success¹.
 5. Actors within the systems must own and take charge of reforms and these must go at the pace that internal capacity constraints allow to promote the right incentives that can withstand the pressures of entrenched interests, changing political fortunes, and complex interactions in the supporting systems. In this way there is a greater possibility of creating a virtuous cycle of ongoing BEE improvements that exists independently of donor interventions.
 6. All BEE reform is intensely political and constrained by institutional weakness. Proposing purely technocratic solutions when faced primarily with largely political and institutional capacity binding constraints is unlikely to deliver lasting change.

¹ The journal article: "Institutional Stickiness and the New Development Economics" by Boettke, Peter J., Coyne Christopher J., And Peter T. Leeson in American Journal of Economics and Sociology, Vol. 67, No. 2 (April, 2008) supports and expands on this thinking by arguing that the prospects of institutional change are path dependent (ie history matters).

III. Operational Guidance

1. What Do “Systemic” or “A Systems Approach” Mean in Practice?

- ix. It can be difficult to explain what is meant by a systemic versus an unsystemic approach. A Systemic approach aims to tackle the underlying constraints (the supporting functions and rules) undermining the BEE by using the capacity / incentives / relationships / behaviour of actors in the system. It aims at sustainable impact at scale. Unsystemic approaches supplant or compete with local actors and systems or are largely dependent on donor financing for sustained success.
- x. Table 1 below sets out examples of contrasting characteristics of both in a BEE programme. To evaluate the “systemicness” of their approach, programme staff should continually ask themselves two fundamental questions: “What will be left behind after the intervention ends?” and “What behaviour or process or action will continue as a result of and beyond the life of our intervention?”

Table 1 : Systemic vs Unsystemic BEE Programmes

| | Unsystemic approach | Systemic approach |
|------------------|--|--|
| Design | Diagnostics focus on BEE outcomes only (e.g. time to register a business, process for paying taxes) | Diagnostics also examine underlying systemic constraints (e.g. how BEE policies are formulated and administered; the capacity / incentives relationships of players in the system; norms governing behaviours etc). |
| | Diagnostics are performed exclusively by “technical experts”. | Diagnostics are multi-disciplinary, including political economy, institutional perceptions analysis. |
| | BEE constraints are seen as technical problems, to be “fixed” by technical experts, strongly informed by Western conceptions of best practice | BEE outcomes seen as inherently political and contested; sustainable impact requires catalyzing local solutions to local problems and uses external expertise only where there is clear demand/rationale. |
| Implement | Targets a narrow range of “partners”, typically exclusively government agencies | Targets a broader range of partners, including non-governmental actors that give voice to businesses (esp. SMEs), monitor implementation, and hold govt to account |
| | The poor are not explicitly considered during programme design. Benefits of a better BEE assumed to trickle-down. | Explicitly considers the poor and their context. It identifies and targets those systemic constraints that lead to a weak BEE for poor entrepreneurs. |
| | Implements technical solutions identified by technical experts; “solutions” are rigid and implementation is linear; monitoring is limited to BEE outcomes | It recognizes the complexity of BER; implementation involves testing, probing, learning from failure, scaling up successes; monitoring includes capacity and incentives of local actors and intermediate organization changes. |
| | Interventions generally ignore the incentives of policy makers and administrators to act in the right way. “Buy-in” from partners is superficial and has to be bought. | Interventions take into account the incentives of actors in the system. Where incentives are not aligned, further interventions are undertaken to try to change incentives (e.g. by changing the institutional framework, strengthening the demand for reform) |
| | Directly performs analysis of BEE constraints, devises technical solutions, conducts training for government, monitors implementation, and pays bulk of costs | Supports local actors to understand BEE constraints, identify BEE priorities, deliver training, and monitor implementation. Partners are expected to contribute their own resources. Partners with funding constraints are supported to find sustainable local sources of funds (e.g. by helping BMO improve member relations and services). |

| | | |
|-----------------|--|---|
| | If public-private consultation is undertaken, the programme hosts, manages, and pays for it. | The programme supports the creation of local platforms, to be owned, managed, and funded locally |
| | If the media is engaged, the programme creates the content and pays for its distribution | Works with media to launch / upgrade media’s own investigative business programming; marketing constraints addressed to ensure sustainable content. |
| | Focuses on building relationships between itself and its “partners” | Focuses on building the relationships between local actors (e.g. BMOs and research bodies) |
| Outcomes | The programme fails to catalyse true local ownership | Partners demonstrate true local ownership (e.g. through significant contribution of resources, own innovations) |
| | Fails to fully transfer knowledge as many key tasks and roles are performed directly by the programme and/or because solutions are not designed to fit the local context | The programme transfers knowledge to local actors and develops solutions based on local context. |
| | Successes are fragile because the underlying system remains weak | Successes are robust because resilience of the system has increased; local actors are able to devise their own solutions |
| | Impact is short-term, and does not extend beyond the life of the programme nor affects the poor. | Impact is sustained beyond programme lifetime: local actors have the capacity and incentives to continue to deliver better BEE outcomes and the poor have directly benefited. |
| | Impact is limited to the partners directly targeted by the programme. | Impact extends to actors / agents not directly targeted by the programme (e.g. apex organizations, copying/crowding in) |

2. Guidance on Applying the BEE Systems Framework

Case Study 1: A Better Approach to Tackling Nuisance Taxation in Nigeria

A DFID programme is using a systems approach to address a problem critical to SMEs: unpredictable and repeated taxation by local (official and unofficial) tax collectors.

The local state manager (SM) of the programme collected the views of major public and private stakeholders, to identify priority concerns in the BEE. The SM chose multiple taxation due to its impact on business income and, through intensive engagement and negotiation, because stakeholders including government, became interested in addressing it.

The SM created a stakeholder group (state and local government and the private sector), to get wide buy-in for a pilot to stop nuisance taxation in a key district, central to the area's economic activity. The pilot will yield lessons for strengthening the intervention and a proof of concept for potential scale up.

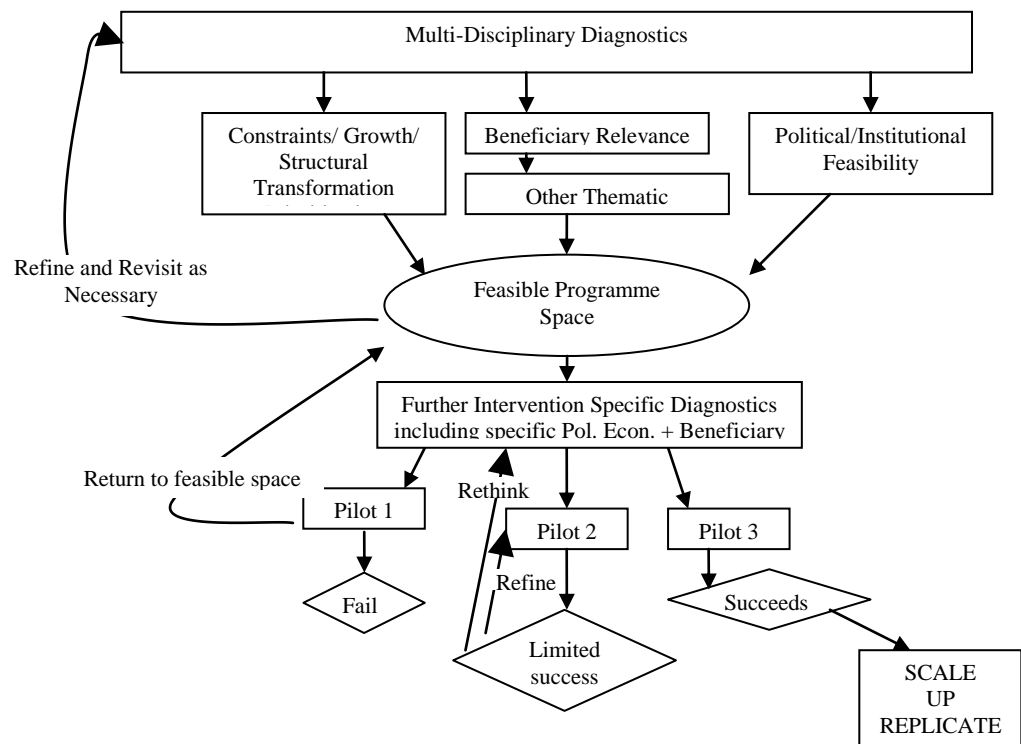
When challenges emerged, the SM encouraged stakeholders to develop their own solutions: Informal tax collection is used as political patronage, so stakeholders devised a plan to wean patrons off this income source by providing alternatives.

As the process has progressed the SM has been trying to discover why mutually beneficial interactions between government and private sector are missing. This will aid in identifying how to facilitate a change in the dynamics of these relationships.

Contrast this with the initial programme approach which dealt primarily with government officials and planned to produce technical tax information for them to publish. This approach made an ambitious assumption that a static, donor-led increase in transparency would change the relationship and incentive dynamics between business and government and through this hoped-for change, permanently reduce the incidence of nuisance taxes.

- i. The conceptual framework and diagram set out in Diagram 2 serves as a useful generic map and reference for any BEE programme- to help correct course or verify the proposed approach during implementation. But it is very generic and cannot be applied to a specific intervention. The programme team should modify and adapt this map to the specific area of intervention, the particular core exchange (reforms, process changes, advocacy dynamics etc) and its supporting and rule setting functions (see Diagram 1). But this begs a prior question: How to decide where to intervene?
- ii. There are only a few DFID programmes, namely GEMS and ENABLE in Nigeria that are currently, fully embracing a systemic approach to BEE so there is still much to learn about the best way to undertake a systems approach. The following general guidance on key issues will help teams think through key tensions and challenges. Diagram 3 sets out a high level, generic intervention framework to illustrate the different steps of the guidance. Annex 1 contains a helpful checklist of most of the issues set out below to help management and oversight functions to monitor and evaluate a programme's implementation approach.

Diagram 3: The Business Environment Systems Intervention Framework

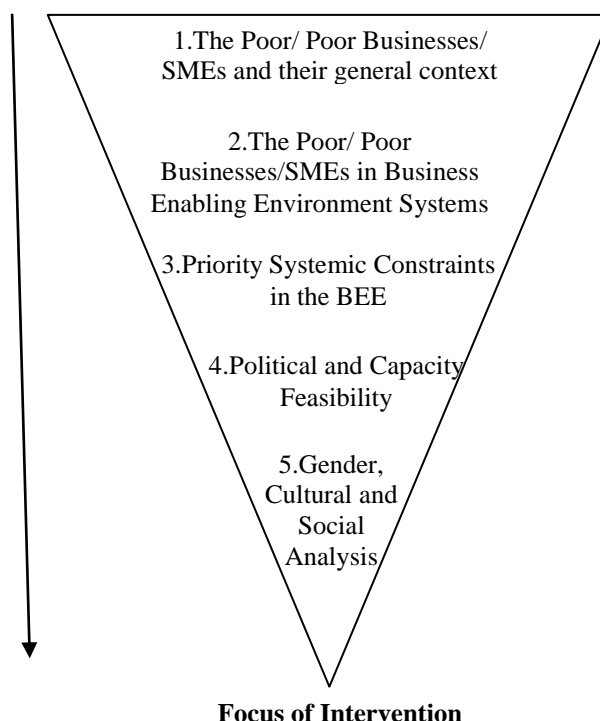


A. Design

1. Follow a clear set of design steps that evolve the programme organically: understand BEE constraints (symptoms); understand underlying systemic constraints that drive poor BEE outcomes (causes); map out a theory of change / change pathway (including entry points, leverage opportunities, momentum); implement; constantly re-assess design strategy in light of implementation experience.

2. Set up a strategic diagnostic framework. Diagram 4 shows how one might move from a broad to narrow focus using multiple lenses: The area of the BEE to prioritise will be a judgement that balances potential for impact on growth and poverty and other objectives (as in the next section) against inherent feasibility due to political will, local incentives and capacity assessments. Diagnosis must be multi-disciplinary. The BEE has gender, social and environmental dimensions that may require changes to design and approach.
 - As the BEE Systemic Framework makes clear, a political economy analysis is particularly important to assess feasible entry points for reform and to design small interventions to help create them. Annex 3 is a sample stakeholder mapping DFID has used and a helpful table of possible responses to key PE issues from the DCED. There are more tools available².
 - The programme should identify feasible, flagship interventions with the potential to transform relationship and incentive dynamics to anchor its strategy. BEE reform can both enhance productivity and raise investment levels. Both effects can be important for growth and poverty reduction (the latter if targeted and designed adequately).

Diagram 4: A Sample Sequenced Diagnostics Framework



² For a good overview of the theory and practice of PEA please see <http://www.thepolicypracticelibrary.com>. DFID’s 2009, 'Political Economy Analysis How to Note' provides a good overview of the tools available www.gsdrc.org/docs/open/PO58.pdf. And for a good brief overview of problem/sector based Political Economy Analysis look at the World Bank How to note on “Political Economy Assessments at Sector and Project Levels” www.gsdrc.org/docs/open/PE1.pdf

3. In choosing entry points, balance diversification with a focused approach: Focusing interventions on particular markets or sectors that are important for growth may help to narrow down the list of agencies and actors, reduce the complexity of competing interests (champions and blockers), strengthen advocacy and influencing incentives by generating salient examples and facilitate results measurement. But an overly rigid focus on specific sectors or markets can set the program up for failure if change is not feasible there, if it is too narrow to be widely felt, if the players in the sector change or if the biggest opportunities for generating systemic change are elsewhere. Think about the long term and be prepared to negotiate and make tough decisions between competing development, reform and programme needs.

4. Keep the big picture in mind and be creative: Development is not always a linear process and it is intensely political. By setting out a path to reform, a programme can feasibly include small, seemingly unrelated interventions if these have a primary objective of building buy-in and momentum for the true reform pathway, provided it is done strategically and intelligently within a systemic context. The reform path and systemic framework also serve to keep track of programme progress, assess effectiveness and make course corrections as necessary.
 - It is likely that a political ‘entry point’ for the programme may not directly correspond to a poverty objective or even to a main programme objective. Keep the big picture in focus and use programme information generated and entry points as tools to create the credibility to pursue difficult reform where necessary.

5. Ask consistently where the incentives or “nudges” will come from: who stands to lose and gain and how will the status quo change? The solution to the BEE exchange incentives problem can come from a range of scenarios such as:
 - Political actors who internalise the social benefits of reform (perhaps due to patriotism or a wish to create a lasting legacy) and have the power and perseverance to see changes through, regardless of the strength and usefulness of business advocacy.
 - A fully functioning exchange relationship between wide business interests and key government actors that drives a long term reform agenda.

Case Study 2: Local Nudging to Motivate Change: Mid-level officials as reform catalysts in Bangladesh

Mid-level government officials interact with senior officials and are aware of the government’s overall policy imperatives. They also interact with officials who directly interface with businesses and have a good sense of what is happening on the ground. This position gives them considerable knowledge about the inner workings of government. If knowledge is power, then they are very powerful.

Recognising this, between 2008-2010, IFC’s donor-supported Bangladesh Investment Climate Fund (BICF), implemented an initiative to build a community of reform-minded mid-level officials, the “Core PSD Group”. Officials regularly participated in BICF sponsored events like seminars and training workshops, exposing them to investment climate issues, other parts of government, and through private sector participation, other views too.

This network soon produced dividends: a reform to export subsidy payments – a major headache for exporters- stalled in early 2009 when the government changed. Mid-level officials stepped in: studying the reform, assessing what work was still needed and persuading colleagues in mid-tiers of government to revive it. Together, they advocated to their superiors to complete the reform.

In September 2009, government issued an order that 70% of each claim would be met a few days after submission. The remaining 30% would be paid after an audit. This solution, driven by mid-level officials, successfully balanced twin objectives of expediting payments and minimizing fraud while being locally owned; thus gaining the approval of decision-makers.

By helping key stakeholders be better informed and better networked champions, BICF created influential “nudgers”, able to convince both colleagues and superiors to deliver a viable local solution to a BEE problem.

Source: S. Akhtar Mahmood, IFC

- A powerful and enlightened business elite that equate a conducive BEE with their long term profitability and broader well being and can advocate forcefully for reform at all levels of government and have mechanisms for holding government to account.
- An investigative media that proactively identifies pressing BEE issues, monitors implementation, provides a voice to businesses, and holds government to account.
- A wider cultural or institutional shift that strengthens the professionalism of government institutions and which as a consequence, results in a collective reform programme that improves the BEE.
- Stark examples of the political and country-wide benefits of reforms could encourage political actors and key electoral constituencies to agree to reforms in less contentious areas and kick start reform momentum.
- Competition between jurisdictions, (eg provinces or states within a federal system) reinforced by BEE benchmarking.

The country context will determine whether any of the above models (or others) are viable and which (if any) should be pursued in designing and implementing interventions.

Change often fails to happen because of inertia so creating the right incentives / “nudges” is key. Keep transactions costs and barriers to change in mind as you think through the path to change and identify ways to reduce them or address them to facilitate the change process. Nudge Theory is currently a popular academic topic and is particularly useful when designing regulatory reforms that affect beneficiary behaviour. It is being promoted in the [British Government](#)³, but its application to the policymakers and administrators that drive reform in developing countries is less well understood which validates taking an experimental and piloting approach to influencing reform.

6. Contextualise interventions and consider complex interactions across systems. Interventions that take account of and are coherent with local conditions and contexts are much more likely to succeed than those that import accepted best practice in isolation. Interacting effectively across the different systems means putting key actors at the centre of reform efforts and thus ensuring long term sustainability. It may be necessary to stagger interventions to tackle both long term issues (ie the legal system) and short term ones (procedural changes) to bridge the gap between cause and symptom.
 - Don't forget the core exchange. Even if reform is driven by the government, build up both the supply and demand for reform to safeguard reform progress in the long term. It may take longer to deliver the visible reform change that donor needs demand but the result should be more sustainable and meaningful. This is consistent with recent academic work on “nudge/ think” theory that brings together beneficiaries and governments to develop solutions to public policy problems⁴.
7. Ensure you are pluralistic and be mindful of redistributive effects: Keep in mind that reforms will invariably redistribute benefits as business activity becomes more efficient. Regulatory Impact

³ <http://www.cabinetoffice.gov.uk/resource-library/behavioural-insight-team-annual-update>

⁴ See the following link for an overview that links “nudging” with “thinking”:
http://www.civicbehaviour.org.uk/documents/nudge_nudge_think_think_PJ5May2009_001.pdf

Assessment⁵ is a feasible method to assess this and should be used where useful. Seek to ensure the benefits are widely distributed to secure a sustainable and pro poor path for growth. Programmes should take special care to ensure interventions widen opportunity and promote fairly contested, plural markets and not inadvertently reinforce or worsen existing imbalances or unfairness.

8. Be responsive, opportunistic and fast acting. And don't overcomplicate: Set out a flexible, path to reform, pilot and test and switch tactics and update to a new path if circumstances or constructive stakeholders change for the worse. If donors find their own plans to be complex, then the plans are far too complex for developing country partners. Programmes will especially benefit from being risk taking, flexible and facilitative because systemic BEE reform is a new approach, BEE is very context specific and there is plenty of scope to innovate.
9. Manage momentum and leverage: don't be afraid to take big strategic decisions about changing intervention partners if one is better able to move forward (ie if the wheels drop off one partner- ie interest wanes or your key champion moves on). Changes in one part of the system can create further opportunities elsewhere – e.g. a better performing BMO can create pressure for reform in government.

B. Implementation

1. Ensure you internalise your role as a facilitator. The aim is to strengthen the capacity, incentives, and relationships of local actors in the system, NOT to supplant local actors. Facilitation activities might include:
 - Seeding new ideas (e.g. concepts for new operational practices for government administrators);
 - Supporting the dissemination of new innovations (e.g. disseminating case studies of successful new media programmes for small-business);
 - Providing skills building and mentoring (e.g. mentoring for business advocates or researchers);
 - Acting as a broker to build local relationships (e.g. providing linkages between BMOs and media houses); and
 - Cost-sharing to buy-down risk or create demonstration effects (e.g. cost-sharing for new administrative systems or for training of government staff).
2. Generate evidence and use this information strategically: to strengthen demand and a platform for reform and make sure information is widely owned. Make a special effort to monitor robustly, record and share lessons from experience to build up our collective knowledge for how to undertake systemic change effectively in the BEE.
3. Know your key tools intimately: Fully understand and internalise behaviour, incentives, local capacities and relationships as these will be fundamental to success. Assess administrative and institutional systems to identify what's possible given capacity and organisational constraints and

⁵ For guidance on RIA in a UK context, see <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-1112-impact-assessment-toolkit.pdf>

Case Study 3: Empowering the Private Sector to Hold Government to Account.

ENABLE, a DFID Public Private Dialogue (PPD) Programme in Nigeria uses a systems approach to strengthen the private sector's ability to advocate for Business Environment Reform (BER) and strengthen dynamics with government

One intervention addresses the underlying incentive and capacity issues that prevent the media from effectively promoting pro-poor BER.

Instead of producing the content directly and paying for its distribution, ENABLE partners with interested local media houses to launch high-quality business programmes that investigate the real issues facing small business and micro entrepreneurs.

First, ENABLE supports the partner to design a new business product or revamp an existing product. Once the concept is finalised and a production team is formed, ENABLE provides intensive training and mentoring, designed to transfer skills and know-how without doing the work directly or taking away local ownership.

With ENABLE support, nearly ten new business products have been launched across print and radio. Many of these products have been running for over 18 months with no direct financial support from ENABLE, showing a high degree of financial and conceptual sustainability.

Another intervention is working to increase the number of effective PPD platforms in Nigeria. With ENABLE support, the Lagos Chamber of Commerce and Industry (LCCI) hosted three roundtables, has gone on to host two more without any direct support and has plans for three per year also without external support, showing a high likelihood of sustainability. These outcomes reflect a facilitative approach, focused on local ownership, knowledge transfer, and strengthening incentives.

Source: ENABLE Impact Paper Series No 1

be ready to focus on very practical issues that may constrain or undermine your technical efforts if not dealt with (eg poor motivation, lack of skills, poor management, lack of internal resources).

4. Be prepared for success as well as failure: Be ready to scale up and replicate success when it appears. But equally do not be afraid to put a partnership / intervention on hold if it is not delivering expected results. Drop interventions that are not working and scale-up those that are.
5. Plan an exit strategy early when establishing a partnership with a local partner by asking key questions: How will practice change and be embedded / institutionalised? How will local actors continue to fund activities? How will capacity continue to be transferred?
6. Identify scale-agents, such as apex business associations, that can deliver impact at scale.
7. Local knowledge is crucial to success. Programmes need to be opportunistic, and understand the political landscape which requires good locals in the field and a good knowledge management system.
8. Take local ownership as far as you can while being cognisant of speed and control trade-offs (see next section): As much as possible, ensure actors in the system are in charge of the changes and the change process so that changes exceed the life expectancy of development agency interventions. This means programme staff should be primarily facilitating change rather than producing it themselves. If feasible, make use of local consultancy, research and advisory expertise to foster a service market that government or business organisations can use on an ongoing basis to continue reform efforts using own budgets and local capacities rather than donor funds and knowledge.
9. Be flexible in execution as well as design: Be prepared to shift resources and effort if current plans are not yielding results. Have a wide range of technical skills available on a periodic basis to enable you to do this. Curiosity, risk-taking, trial and error, and learning is integral to the approach – systems are complex, and it is impossible to know with certainty what will work and what will not work ex ante. M&E systems need to provide timely and relevant information to management, and the programme must have a culture that supports learning and accepts “competent” or “intelligent” failure.

C. Monitoring and Evaluation

1. Put your money where your results are: Market development programmes taking a systems approach (M4P) invest heavily in detailed

results frameworks, indicators and measurement⁶. A systemic BEE programme is no different and will need to make even greater effort since BEE system changes are less quantitative, more difficult to attribute to final outcomes than market systems and incentives to support change need to be motivated by effectively articulating the expected benefits to stakeholders.

2. Make maximum use of your information. Monitoring information can be used to reorient programmes, strengthen advocacy and generate evidence and further reform momentum. Have a dissemination and communications strategy (both internal and external) well developed and be proactive and judicious in using it. M & E plays a key role in learning. Programmes need to constantly monitor interventions along the length of the results chain to understand what is working, what is not working, test assumptions and reorient as necessary.
3. Set out evaluation questions early on and triangulate evidence: As part of programme operations and design, think through what needs to be evaluated, set out key evaluation questions early and make sure the programme is well set up to answer them. Make changes as necessary to ensure evidence can be easily triangulated to strengthen evaluation assessments.

3. Integrating Poverty Reduction, Gender, Social Empowerment and Climate Change

- iii. One of the core strengths of the systems approach is its use of appropriate, multi-disciplinary diagnostics in the planning and design stage which is then adapted into a results and monitoring framework for implementation. It also strives to put the impact on poor people at the heart of programme design. Using a systems approach facilitates putting the poor at the centre of BEE interventions by integrating appropriate tools of poverty analysis such as Poverty and Social Impact Assessments (PSIAs)⁷.
- iv. Gender, social empowerment and climate change diagnostics can also be integrated into programmes in a similar way. Core guidance on gender issues in the BEE is available here.⁸ For the remainder of this section the focus will be on poverty but a similar approach can be applied to other core thematic issues.
- v. Integrating poverty has been traditionally a challenge for BEE reform since much effort is spent on reforming formal systems rather than the informal systems which most affect the poorest. But there is plenty of evidence that the formal BEE is important for the poorest:
 - Small formal businesses have a lower capacity to cope with a poor BEE and so stand to benefit disproportionately from the right reforms.
 - Weak property rights and contract enforcement leave significant assets untapped to help build poor people's wealth.
 - A poor BEE is likely to be a primary incentive for remaining informal.

⁶ The DCED Results Measurement Standard is regularly used by market development programmes:

<http://www.enterprise-development.org/page/measuring-and-reporting-results>

⁷ See the following webpage from the World Bank for an overview of PSIA: <http://go.worldbank.org/TI2GSSDCI0>

⁸ See the IFC webpage at:

http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc-sustainability/publications/publications_report_genderdimensionsguide

- vi. All these issues point to significant entry points for integrating explicit poverty reduction objectives. The key is to ask the right questions and conduct the right diagnostics, something that most BEE programmes may not spend sufficient time doing. The following questions provide a sample of the issues to consider:
- How well integrated are the poor and their perspectives to the core exchange in the BEE system both in terms of the supply side (government listens and actions) and the demand side (businesses and the media investigate and action)?
 - How are informal entrepreneurs most negatively affected by a poor business environment?
 - Can BEE reform be used as a pathway to formalisation: ie create the necessary benefits (whether in property rights reforms or elsewhere) to make formalisation attractive to informal businesses?
 - Are there any BEE reforms that simultaneously help both formal and informal businesses (the latter perhaps indirectly)?
 - What BEE issues most heavily affect small and medium formal enterprises and what interventions will resolve them?
 - How can an intervention be designed or implemented in such a way to have a bigger relevance for the poor?
- vii. Programmes can create similar sets of questions for gender, social empowerment and climate change objectives and use these to inform design and implementation. Together with core growth objectives this should result in a focused set of interventions that intersect priority objectives. These should be weighed against impact and feasibility criteria. Tensions will arise between these and overriding feasibility where reform space is thin. In such cases, programmes should take account of the relevant poverty, climate, social and gender dimensions in design and implementation and at a minimum integrate into design, the last question in the bullet list above for each critical theme (gender, empowerment, climate etc).

IV. Key Challenges and Risks

1. Systemic change takes time but progress needs to be visible: It is a long term challenge and there is a critical trade-off with speed and control that needs to be managed. The links in the BEE exchange are weak and complex making effective systemic reform slow and difficult. Be prepared for this but have strong monitoring systems and a thorough results chain in place to be able to communicate evidence of progress relatively quickly and convincingly.
 - Programmes may feel they don't have the luxury to take a purist systemic approach to reform given the need to deliver quickly and to spark change. A purist systemic approach may be less attractive and useful if direct delivery is a more effective way to deal with inertia quickly or if there are significant programme risks that accompany the loss of direct programme control.
 - These trade-offs need to be carefully and consistently managed and programmes should, on an intervention specific basis and in full consideration of the relevant trade-offs between sustainability, control, speed and effectiveness, decide whether to take a direct delivery approach. But they should always do this within a system change context and strategy.

2. Evidence that programmes are delivering needs to be proactively managed: Programmes must be able to communicate progress on an ongoing basis and provide the evidence that demonstrates it. This is particularly important for policy and administrative reform where the benefits of programme activities could remain hidden for prolonged periods and there are costs that some stakeholders have to bear (eg loss of illicit administrative payments). Significant investment in a monitoring system and triangulated data collection will help manage this. Consideration needs to be given to how to determine a sufficient level of evidence of attribution.
3. Donors have significant aversion to risk but risk taking is necessary to maximize likelihood of impact and scale up. There should be ongoing discussions with the donor to ensure risk appetites are aligned, to manage intelligent failure and to articulate the benefits of risk taking. Expectations of both donors and key stakeholders need to be proactively managed and both need to be clear on what good progress looks like.
4. Measurable indicators are more difficult to track for BEE reform: progress such as 'influencing', 'buy-in', 'organisational change' and 'reform momentum' can be hard to measure. Make use of best practice in measuring changes in systems, attitudes, relationships and behaviour. Use mixed evaluation methods to triangulate evidence sources and strengthen the measurement of impact and if feasible, identify ways in which randomised control or quasi experimental methods can be built into your systemic programme.
5. Competing objectives need to be proactively managed: direct poverty reduction, higher growth, political feasibility, capacity feasibility as well as gender, social empowerment and climate change are all likely to point to different interventions. Some form of transparent prioritisation and big picture tracking are essential. The approach is negotiable but the systems strategy itself should not be.
6. Stimulating local markets for research and capacity building: in fragile states this is less likely to be feasible and a purely commercial approach may also not provide the desired results. Flexibility and a pluralistic private/public model may be more appropriate.
7. Generating demand and system actor ownership of reform efforts in the face of undermining incentives. There is no manual for how this is done but understanding incentives and working smartly are necessary prerequisites for programmes to feel their way and adapt their approach successfully.
8. Finding good facilitators is challenging and good personal relationships are critical. Technocrats typically make bad facilitators because their natural inclination is to undertake work themselves and undervalue the importance of personal relationships and networks. Implementers need to understand systems change, be excellent relationship builders with a keen understanding of how to win hearts and minds and how to facilitate change to run successful programmes and set up a coherent strategic framework. Technocrats can then be used to provide technical inputs as required. But the balance of power needs to be correct within programmes – if technocrats have too much power, the outcome is technocratic solutions that fail to address underlying systemic constraints.

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Annex 1: Checklist for Ensuring Appropriate Systems Approaches are Used in Implementing Business Environment Reform Programmes

| | Criteria | RAG Rating and Justification |
|-----------------|--|------------------------------|
| Design/Strategy | 1. Multi-Disciplinary Diagnostics including political economy, poverty, social, cultural and institutional capacity considerations inform the design, strategy and implementation of the programme as a whole and each intervention –tradeoffs are identified and actively managed. | |
| | 2. There is a clear and transparent process for deciding to conduct direct delivery interventions based on their value in building political buy in, generating entry points for harder reform or to manage priority risks. There is a clear understanding of the risks of limited sustainability and impact with this approach. | |
| | 3. The programme has robust policies and procedures for: managing intervention choice, the systemic characteristics of each intervention, results measurement and monitoring, stakeholder engagement and communications. These ensure consistent quality standards across interventions. | |
| | 4. The programme has a clear strategy for mapping institutional interdependencies and institutional constraints at the intervention level and assessing key vulnerabilities to reform that it will tackle or will leverage others to tackle. | |
| | 5. It engages government administrators, politicians, business groups, media, research bodies and small businesses in designing interventions, creating solutions and setting the strategic scope. | |
| | 6. Each intervention has a clear theory of change leading (or contributing) to outcomes and impacts with baseline indicators measured across key process, output and outcome milestones before implementation begins. | |
| Implementation | 7. The programme is equally well placed to provide both technical expertise on key IC areas and generic expertise on organizational reform and change processes (see point 4 above). | |

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| | | |
|----------|--|--|
| | 8. Interventions focus on shifting incentives, behavior, relationships and processes between local actors including between the public and private sectors and can demonstrate local ownership both in who does and in who pays. | |
| | 9. Implementation is led by local actors. Programme staff play the role of facilitators. Or there are very good reasons why this is not the case (see point 2). | |
| | 10. Financing catalyses change it doesn't drive it. Before taking financial decisions a clear exit strategy is agreed to transfer financial responsibility and avoid creating dependence. | |
| | 11. The media is engaged with reform efforts otherwise another accountability mechanism is used to promote and sustain change at the overall reform and individual intervention levels. | |
| | 12. Interventions are lean and flexible and are designed to be easily scaled up or wound down depending on success or failure. | |
| | 13. There are strong measurement and knowledge management systems which are central to how the programme is managed and decisions are taken. | |
| Outcomes | 14. Local actors own changes to processes and relationships and these persist and continue to evolve once the programme stops intervening. | |
| | 15. All knowledge and capacity is transferred to local, long term actors by programme's end. | |
| | 16. Successes are robust because they are underpinned by changes in the dynamics of relationships between businesses, media, researchers and government. | |
| | 17. The programme has 'crowded in' additional or deeper reforms that it did not instigate due to the success of its systems approach. | |

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Annex 2: DCED Principles for BEE Reform⁹

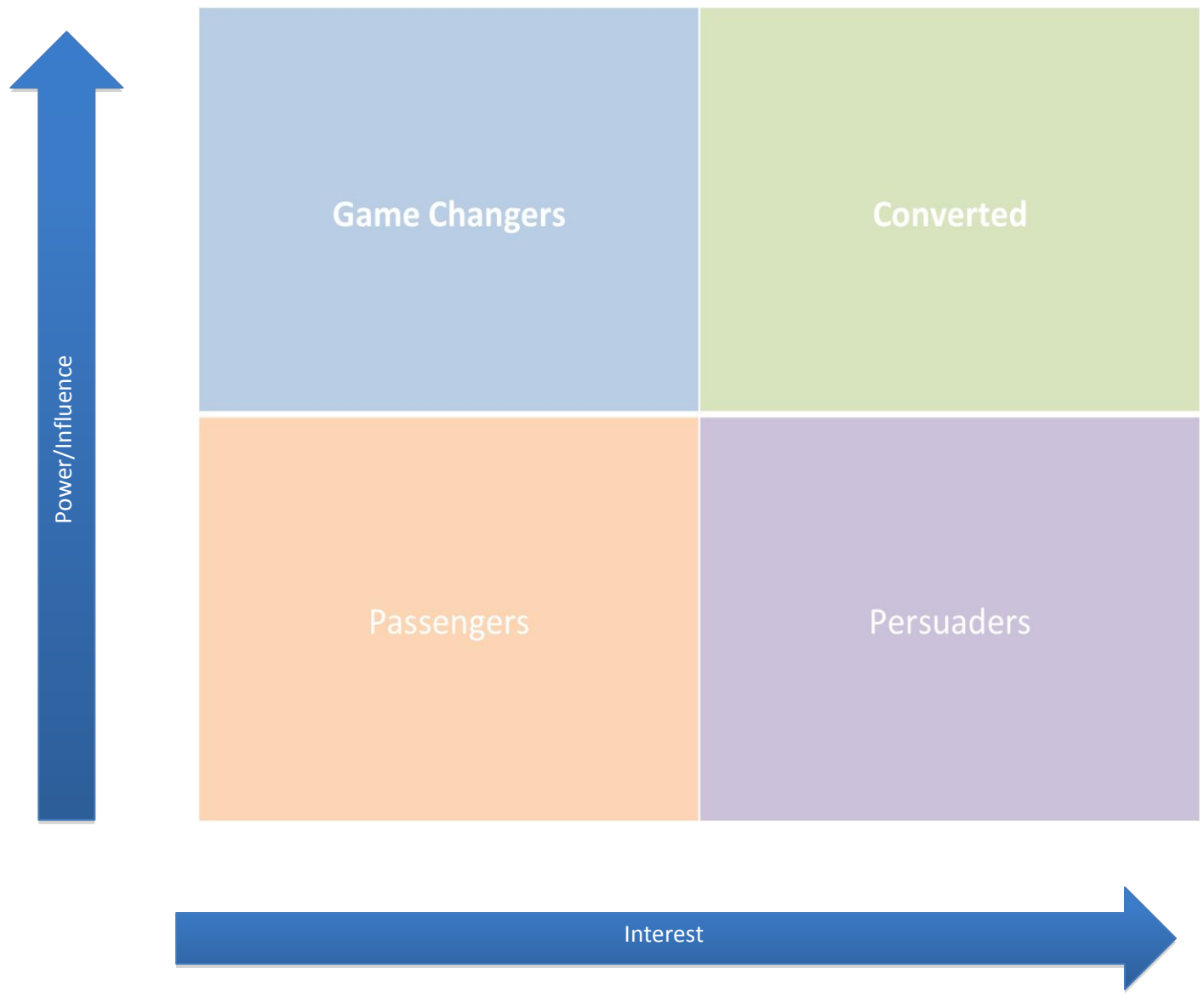
- Principle 1: Adopt a systemic approach to reform
- Principle 2: Understand and respond to the political economy of reform
- Principle 3: Respond to and stimulate the demand for reform and drivers of change
- Principle 4: Ensure domestic ownership and oversight of reform efforts
- Principle 5: Strengthen the role and capacity of key stakeholders
- Principle 6: Focus on what the private sector needs through public-private dialogue
- Principle 7: Focus on the binding constraints to business growth and scope reforms accordingly.
- Principle 8: Sequence business environment reforms and allow time
- Principle 9: Address the implementation gap
- Principle 10: Formulate a communication strategy and use media strategically

⁹ See the DCED's **Practical Guidance for Development Agencies** on BEE Reform: <http://www.enterprise-development.org/download.aspx?id=586>

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Annex 3: Sample Stakeholder Mapping Template and PE Constraints Response Table

Strategy for Stakeholder Engagement on Reform A



Annex: Systems Change in the Business Enabling Environment

| Key Issues in reform | The players | Strategy for engagement | If unsuccessful, what next? |
|--|---|--|--|
| Issue (e.g. Transparency) <ul style="list-style-type: none"> • Problem A • Problem B | Government ministry <ul style="list-style-type: none"> • Characteristics | <ul style="list-style-type: none"> • | <ul style="list-style-type: none"> • E.g. |
| | Donors <ul style="list-style-type: none"> • Characteristics | <ul style="list-style-type: none"> • Regular briefings on progress • etc | |

Annex 4: Table of Tools for Responding to Political Economy Constraints in BEE¹⁰

| Issue | Analysis: issues to consider | Tools: Ideas on addressing the challenge |
|-------------------------------|---|--|
| Corruption | <ul style="list-style-type: none"> • Is corruption driven by greed or necessity? • How does corruption occur – how are corrupt payments made? • How far is such practice seen as acceptable, or are local groups and individuals already seeking to address corruption? • How pervasive is the problem: is it widespread, or limited to particular regions, or functions? | <ul style="list-style-type: none"> • Can need-driven corruption be addressed through changes to wage rates? • Consider a media campaign demonstrating the negative social impact of corruption • Develop a group of other stakeholders to ‘point the finger’ at corrupt practice. • Work with existing anti-corruption initiatives such as the Extractive Industries Transparency Initiative, or with local chapters of organisations such as Transparency International |
| Problems of leadership | <ul style="list-style-type: none"> • Are leaders weak? <ul style="list-style-type: none"> • If so, why? • Are leaders unwilling to push forward reform? <ul style="list-style-type: none"> • What vested interest is causing this reluctance for reform? • Do leaders properly understand the benefits of reform, and the potential risks of inaction? | <ul style="list-style-type: none"> • Identify and work with politicians and officials who are advocates for reform • Re-configure reforms in a way that is less threatening to vested interests. • Lead reform programmes with measures that will quickly demonstrate wider benefit, so building wider support for further reform. • Identify ways of providing support to those who advocate reform, perhaps through media campaigns. |
| Ruling elites | <ul style="list-style-type: none"> • Is the Government of the country ethnically and religiously diverse, or is it drawn from a narrow group? • If the latter, then what is the | <ul style="list-style-type: none"> • Consider sequencing reforms in a way that does not challenge the dominance of the ruling group, and demonstrates how they might benefit from further reform |

¹⁰ From the DCED Publication “**The Political Economy of Business Environment Reform: An Introduction for Practitioners**” available at: <http://www.enterprise-development.org/download.aspx?id=1715>

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| Issue | Analysis: issues to consider | Tools: Ideas on addressing the challenge |
|--|--|--|
| State capture | <ul style="list-style-type: none"> • What is the nature of the group exerting undue control? • How is that control exerted: is it through the actual or threatened use of force, or through more subtle means? • How unified is the group: is there potential for demonstrating that elements of the group may benefit from reform? • What is the geographic or functional extent of the group's reach? | <ul style="list-style-type: none"> • Identify motivations of the ruling elite that might be consistent with a reform programme, for example a desire to look good on the world stage • Identify and mobilise other stakeholders – civil society groups, chambers of commerce, etc – who are also seeking to press forward with reform. • Begin reform processes in regions outside the group's control, so demonstrating the rationale for, and benefits of reform. • Identify and begin with reforms that will be in the interest of the dominant group • Identify and work with other stakeholders who are also promoting the need for reform. Such coalitions can sometimes prove to be more powerful than the entrenched interest group. • Identify media that may be relevant to reach the group in different ways. |
| Skills and capacity | <ul style="list-style-type: none"> • What skills and capacities are lacking? • Is the problem widespread, or does it occur only in certain parts of government or certain regions? • In what ways does the skills deficit cause problems for reform programmes? • What is the underlying cause of the problem – for example the result of poor education levels in the country as a whole? • How does the problem affect other aspects of government? | <ul style="list-style-type: none"> • Consider starting reforms in a particular area where sufficient skilled staff are available in the administration. • Create training programmes to foster and develop relevant skills and capabilities. • Understand and work with other initiatives that are working to develop the country's skills base, and ensure that the needs of business environment reform are reflected in these. |
| Official structures vs. reality | <ul style="list-style-type: none"> • What evidence is there that official processes and structures are actually reflected in practice on the ground? • Is adequate resource given to implementation of government processes and systems? | <ul style="list-style-type: none"> • Ensure that reform programmes take account of the reality of practice on the ground, not just 'official' systems. • Vary the reform process to reflect different realities 'on-the-ground'. • Ensure adequate resource is available to ensure reforms are implemented. |