

**Reforming the Business Enabling Environment**

Mechanisms and Processes for Public-Private Sector Dialogue

Matthew Gamsler, International Finance Corporation.  
Rebecca Kadritzke, Bannock Consulting Ltd.  
Richard Waddington, Bannock Consulting Ltd

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# Executive Summary<sup>1</sup>

DFID Policy Division's Investment, Competition and Enabling Environment (ICEE) team commissioned Bannock Consulting Ltd to examine how public-private sector dialogue (PPD) can support investment climate improvement. The research included an inventory of project activities and interviews with donor and selected contractor experts. DFID's and the European Union's experience in private sector development spans many continents, political and social systems. It embraces a wide variety of participants from both the private and the public sector, a range of discussion forums ranging from highly formal/structured to the more informal/ad hoc, and initiatives lasting from only a few hours to multi-year, ongoing processes. According to DFID Enterprise Advisors over £60 million is committed to PPD-related project and programme activity at present.

PPD plays a key role in promoting and implementing enabling environment reform. 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.

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. 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.

PPD needs a host institution, which generally should be a government body. 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

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<sup>1</sup> This paper is based on work undertaken for DFID by Bannock Consulting Ltd. This report represents the views of the authors and should not be interpreted as reflecting DFID's official position or policy.

credibility, expertise and publicity. 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. Civil society organizations, including trade unions, should be participants in PPD; but they should be brought in carefully. They often engage more constructively after the initial phase of PPD, when the issues and reform options are somewhat clarified.

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. Strengthening dialogue between central and local officials often is as important as strengthening dialogue between the public and the private sectors. 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).

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. 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.

Political will to change matters much more than the legal status of the 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. Timing and intensity, like formality, need to fit the prevailing institutional dynamics between the public and the private sector. 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.

## **Donor Dos and Don'ts in Supporting PPD**

### ***Dos***

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.

### *Don'ts*

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.

A number of key factors determine the usefulness of PPD for investment climate reform:

- *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.

# 1 Introduction

1. DFID Policy Division's Investment, Competition and Enabling Environment (ICEE) team commissioned Bannock Consulting Ltd to examine how public-private sector dialogue (PPD) can support investment climate improvement. Bannock was tasked "to examine international experience to date in the area of private-public sector dialogue on private sector policy issues, identify models, mechanisms and processes of dialogue that work, and provide guidance on what DFID, other donors, government agencies and private sector institutions should do in this area in the future."<sup>2</sup>
2. This research has taken place in parallel to a similar assignment being conducted by Benjamin Herzberg and colleagues from the World Bank-IFC Private Sector Development Vice Presidency.<sup>3</sup> Their work focused on the experience of "competitiveness partnerships", various forms of structured dialogue between the public and private sector promoted across 37 countries, involving a number of donor institutions. From inception we were in dialogue with this initiative to identify synergies between the two assignments and avoid duplication.
3. Our focus was on dialogue between public and private sector participants aimed at improving the enabling environment for private sector growth and investment. Such dialogue may involve various parts and levels of government (central and local), donor institutions and civil society organizations. Public Private Partnerships (PPP) in the sense of infrastructure development and the provision of basic services were not areas of enquiry within this study.

## 1.1 Research questions

4. Several key questions were identified to be addressed within the research, including:
  - Why is private-public sector dialogue important and what are the potential benefits and risks?
  - What should be the respective roles of the government and the private sector in policy reform processes?
  - With which parts of government and at what levels should dialogue occur?
  - On what types of issue should the private and public sectors engage in dialogue (Poverty Reduction Strategy Paper development/business policy issues etc)?
  - What are the constraints to dialogue and necessary conditions for success?

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<sup>2</sup> See DFID: *Reforming the Business Enabling Environment- Mechanisms and Processes for Private-Public Dialogue*- Draft Terms of Reference.

<sup>3</sup> Benjamin Herzberg and Andrew Wright. *Competitiveness Partnerships: A resource for building and maintaining public-private dialogues to improve the investment climate*. Washington, DC: IFC, forthcoming.

- What are the most effective formal/informal mechanisms or processes for private-public sector dialogue and what are the reasons where these have failed?
  - What should be the frequency/intensity/mode of dialogue?
  - What can donors do to strengthen private-public dialogue? (e.g., is it effective for donors to support or ‘create’ single apex groups that represent all the various divergent private sector groups?)
5. The consultants were asked to focus on DFID’s field experience with public private dialogue processes and mechanisms in its private sector development initiatives world-wide. The research mapped what DFID is doing and spending on PPD, what outcomes have been achieved, and what main gaps in understanding and capacity remain. It identified models of support that are working at country level, and which might guide future initiatives. It assessed DFID’s comparative advantage in PPD promotion, and how it should interact with other donor institutions in this work area.

## **1.2 Research approach**

6. The consultants carried out an inventory of DFID activities in this type of PPD, followed up by telephone and/or in-person interviews with 17 DFID field and headquarters staff involved in the management of projects in which PPD was a feature. Several DFID consultants and partner organizations also contributed time and suggestions to this research. A detailed list of projects inventoried and persons interviewed can be found in Annex 4. The consultants also reviewed European Commission synthesis documents and interviewed a key EC consultant concerning that donor’s experience in promoting PPD.
7. DFID asked that we include an inventory of PPD expenditure in this research. This aspect of the exercise has proved somewhat problematic. In the words of one DFID Private Sector Enterprise Adviser “[it is difficult] to separate in a meaningful way the PPD expenditure from programme expenditure as a whole.” Nonetheless, we have included the best estimates we could obtain on expenditure in Annex 1.
8. The consultants also searched for analyses of other donor experiences in this area, unearthing some useful material both from the World Bank review of competitiveness partnerships (referred to as “the World Bank review” hereafter), and from recent European Commission reviews of its PPD work both within the European Union and in its overseas aid to the ACP (Africa, Caribbean and the Pacific) region.

## **1.3 Report structure**

9. Section 2 of this report maps DFID’s and the EU’s experience in promoting PPD for investment climate reform. It examines which dialogue forms were adopted, who were key participants, and what levels of intensity and duration occurred. It



compares these with the outcomes achieved to consider what good practice models are emerging from this field experience.

10. Section 3 considers the larger issues raised by DFID's and other experience in PPD. It assesses why PPD is so critical to investment climate reform, how to identify key people and institutions who should be involved in this dialogue, and what role to assign such processes in larger private sector development efforts. This section analyses the strengths and the limitations of donor interventions in this area. It provides overall conclusions and recommendations on how DFID can best add value in PPD work, and how it might improve its collaboration and coordination with other donors working in this field.
11. Section 4 summarises the main factors behind PPD successful in achieving investment climate reform, and makes recommendations for DFID's further promotion of PPD.
12. The authors and Bannock Consulting Ltd. are grateful to Tony Polatajko and the Policy Division of DFID for supporting this research. Cerstin Sander of DFID conceived this research topic and helped in the early conceptual stages of the investigation. We also would like to acknowledge the contribution of the following key informants to the research:

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## 2 DFID and selected EU Experience with PPD

13. DFID's and the European Union's experience in private sector development spans many continents, political and social systems. It embraces a wide variety of participants from both the private and the public sector, a range of discussion forums ranging from highly formal/structured to the more informal/ad hoc, and initiatives lasting from only a few hours to multi-year, ongoing processes.
14. This section presents an overview of DFID's experience and selected EU experience in promoting PPD for investment climate reform.<sup>4</sup> It examines which dialogue forms were adopted in the context of DFID- and EU-funded work, and who the key participants were. It considers the levels of intensity and duration, as well as the politico-economic context in which PPD occurred.

### 2.1 Participants

#### 2.1.1 Private Sector.

15. The private sector brings a myriad of different actors to the dialogue table. Larger firms generally are deemed to have the biggest voice in the policy arena. However, closer examination reveals that this group is far from homogeneous. In Lesotho, for example, the private sector is highly fragmented between indigenous African entrepreneurs and either Taiwanese manufacturers or South African manufacturing subsidiaries.
16. Large domestically-owned enterprises rarely see eye-to-eye with foreign-owned multi-national concerns (MNCs). The former in general have supported protectionist policies and greater state subsidy, while the latter tend to favour trade liberalization and market-opening policies. MNCs in Africa seeking up-stream and down-stream partners in value chains at times have proven far stronger supporters of smaller firm interests than their indigenous large enterprise counterparts. Micro- and small-scale enterprises (MSEs) make up the bulk of firms in all assisted countries, but they rarely have a large voice in dialogue, due to difficulties in allocating time to such efforts. Small businesses' voices often are drowned out, even in well established systems with formal structures. The large companies will always have better informal links to policy-makers, so SMEs need to be very well organised in order to make a difference. Even in formal, mature business associations, smaller firms can disappear. In "all-inclusive" organisations, even if 75 percent of the membership comes from SMEs, the 25 percent from large companies tend to run the show.
17. DFID advisors noted that in Nigeria, MNCs such as Shell and BP prefer to seek results through one-on-one dialogue with Government Ministers, rather than channelling their efforts through inclusive representative mechanisms.
18. The legacy of fragmentation and mutual suspicion that has often characterised the

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<sup>4</sup> A more detailed examination of EU experience in PPD is found in Annex 5.

private sector in DFID's partner countries can make it difficult for sectoral concerns to be voiced over the demands of narrow parochial interests. The most powerful way, in theory, for the private sector to express its voice should be through national-level umbrella or **Apex Associations**. However, these do not always constitute a true communal voice for business. The Zambia Business Forum (ZBF) is a coalition of 5 national Apex Associations representing different sectors of the economy. Having been invited to dialogue directly with the President in early January 2003, the ZBF set the agenda for discussions with the President. However, having the ear of the highest holder of political office in the country proved too much of a temptation, and the 5 ZBF founders allowed the meeting to degenerate into the narrow pursuit of their individual parochial interests. In Nigeria, a DFID advisor commented that Apex Associations were less representative of their memberships at the state and local levels because there was greater scope for the dialogue agenda to be captured and dictated to by individual personalities.

19. On the other hand, well respected private sector individuals with suitable knowledge and experience of the field in which they are working can go a long way to enabling PPD. In Malawi, a number of local consultants who were well regarded have been used to set up and develop the National Action Group (NAG) forum. In Pakistan, one expatriate and one local private sector actor are credited with having created and developed the Pakistani Microfinance Network. In particular they are said to have known "when to push and when to pull back." In Fiji, the President of the Sugar Commission's strong facilitation and mediation skills kept dialogue going through early difficulties as public and private representatives learned to accommodate differences of view.
20. **Chambers of Commerce** typically were described by DFID Advisors as politicised institutions with limited representative capacity. Often their remit to represent smaller enterprises is not translated into practice. All too often they act as conduits for dialogue between Government and larger scale enterprise. One example of this was found in Nicaragua, where the National Chamber of Commerce is tasked with representing all business associations within the private sector, yet concentrates its efforts on the larger firms. Mandatory membership requirements for chambers in many transition economies created an atmosphere of bureaucracy and control, rather than one of dialogue and member advocacy. However, local Chambers may play more useful roles. One DFID project in the Ukraine is concentrated specifically on support to strengthening the Chambers of Commerce in Donetsk and Luhansk.
21. The informal sector, by definition, generally is unorganized and uninvolved in dialogue. There are some exceptions, as in South Africa, where street vendors have a recognized association, and in Kenya, where *jua kali* artisans have an association. There are cases where local chambers of commerce have taken up causes of informal sector entrepreneurs, but the only dialogue most of this community have is with local police – and this dialogue rarely could be called constructive.

### 2.1.2 Public Sector.

22. Many DFID Advisers interviewed for this study commented about uneven “pockets of capability” within public administration, with respect to both willingness and capacity to engage in useful dialogue with the private sector. Many parts of the public sector don’t understand the private sector, don’t believe the private sector has a role in policy-making, and have little enthusiasm for talking to the private sector. The lack of a coherent policy process in many African countries means that even where there is will on both sides to have dialogue this is not possible. For example, there often is no administrative tradition of green and white papers that allows time for consultation. Decisions frequently are made by a Minister or a President after informal discussion with a small group of advisors.
23. As a general rule of thumb, those institutions that tended to perform better from a private sector perspective were either the Office of the Presidency or similar inter-Ministerial agency, such as a Council of Ministers, or office of the Prime Minister, or the Ministry of Finance (or Economy/Treasury), both of which have cross-sectoral responsibilities. Ministries of Trade, Industry and/or Commerce were centres of excellence and valuable resources in some countries, but forces of resistance in others.
24. In Malawi, Zambia and Uganda, for example, PPD has often been championed by the Presidency. In Nigeria, the Ministry of Trade and Regional Integration is perceived to be one of the more competent branches of Government when it comes to responding to the private sector. In South Africa, the Department for Trade and Industry was singled out for specific praise by one Enterprise Adviser. In general DTI officials were described as customer service-focused and aware that strong engagement with the private sector is linked to their own job performance. This ethos was less obvious within other Ministries in the Government of RSA.
25. By contrast, in Kenya and Uganda, Ministries of Trade, Commerce and/or Industry were more reactionary forces, often the main obstacles to enabling environment improvement. Similar resistance was observed in these Ministries in many transition economy countries. Factors behind this include ministerial interests (honourable and less honourable) in business and trade licensing regimes, and ministerial ties to state-owned enterprises, whose interests often are at cross-purposes with those of the private sector.
26. Political actors at the Presidential or cabinet level generally had a good grasp on the importance of the private sector to economic growth. However, this awareness tended to dissipate relative to level of seniority within Government. “Middle Ranking Bureaucrats” in central government were singled out for criticism by DFID advisors.

27. Interest and competence in PPD dissipates within Ministries less directly involved with entrepreneurs. Ministries of Health and Ministries of Labour generally are most reluctant to join in dialogue (with the exception of South Africa, where Labour and its constituency has a statutory seat in the central NEDLAC forum). Ministries of Justice tend to be positive contributors, recognizing the importance of more rapid and efficient dispute resolution mechanisms to economic growth. Judges, however, can resist dialogue and change in countries where court inefficiencies are a key source of income and political influence.
28. Local government officials can be key agents of PPD, or its worst enemies. At their best, their sensitivity to local business needs and economic imperatives make local officials great champions of reform, as was evidenced in Vidin (Bulgaria) municipality's creation of a new business information and support centre, and in Entebbe municipality's award-winning support for business licensing reform.<sup>5</sup> At their worst, vested interest in state-owned companies or other individual relationships can make local officials the keenest opponents of enabling environment improvement. In some localities officials see businesses not as partners, but as cash cows, particularly when resources are not forthcoming from central government. Local government focuses on extraction, not on growth. In Uganda and many other countries there are few limitations on the power of local authorities to tax businesses, a situation promoting short-term, revenue-maximizing decisions not in the best interests of long-term growth.
29. In Nigeria there are 36 states operating within a federal system. Federalism can be said to have eroded the prospects for a consistent approach to PPD in Nigeria, as the current system vests considerable power in individual state governors. Usually engagement with the private sector is influenced by the dependence-level of an individual state on donor finance or oil wealth. Generally oil wealth serves to insulate state governors from external pressure.
30. In China, pressure for economic reform has been generated within the upper echelons of government. Nonetheless, responsibility for delivering on the reform agenda rests principally with city Mayors. As a result, the DFID SOERED project often had to work within the constraints of the personal preferences of individual city Mayors, who may or may not have favoured the enabling environment aspect of the reform agenda.

### 2.1.3 State-owned sector

31. In most DFID countries the private sector is only one part of the business sector, and often not the largest part. State-owned enterprises (SOEs) often have a strong voice at all levels of government. As is the case with larger firms, they tend to prefer one-on-one discussions to wider dialogue in representing their

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<sup>5</sup> This Entebbe initiative has just won the *Africa Investor* 2004 award for "Smart Regulation", presented in Dakar, Senegal in November 2004.

interests. SOE behaviour dominates the business enabling environment in many countries, such as Ukraine and China. SOE operations and privileges are the focus of PPD in many DFID countries, though SOEs are rarely active participants in such consultations.

32. There can be strong SOE legacy on PPD after privatisation. In the Ukraine, the close linkages between Government and big business have been particularly pronounced thanks to the legacy of SOEs. Despite a rapid process of privatisation since the early 1990s, many of the privatised industries, and especially those perceived to be of strategic national importance, remain under tight state control. According to DFID's Ukraine Private Sector Development Adviser "businesses in these and other sectors can be heavily subsidised, often via the non-recovery of unpaid bills and taxes to the state sector."<sup>6</sup>
33. In China, the majority of economic activity has been generated by SOEs. The "private sector" in China is a nascent source of economic activity, and consequently is relatively immature in terms of capability and capacity to represent its own interests. The environment for PPD in China has been further shaped by the restructuring of state-owned enterprise under the economic reform process. As a result of the restructuring, many actors within the private sector are former managers of SOEs.

## 2.2 Level and structure of PPD

### 2.2.1 Central v. local levels

34. DFID's PPD experience has been mostly at central level: central government talking to country-level representatives of the private sector, with most of the talking going on in the capital city (with occasional field trips to resort locations to minimize distractions and promote deeper discussion). There have been some notable exceptions at local level, including the award-winning work of Entebbe Municipal Council and local business on improving licensing, and Bulgaria's work on developing municipal-level information services to help businesses through administrative processes.
35. There was a general consensus among DFID Enterprise Advisors that PPD should operate at all levels of government, but was most likely to be most effective at the lowest level at which business and government interact. When structuring PPD processes and mechanisms, much depends on the subject matter involved, the level of government responsible for delivering results, and the identity of the stakeholders who should be involved. National level issues are best addressed in a national setting, most likely to be within the capital city.
36. Nonetheless, if the voices of SMEs and MSMEs are to be heard, the national setting rarely is conducive to their participation. Poor transport and

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<sup>6</sup> Fortune, Peter (DFID Ukraine). *A contribution to WDR on Investment Climate, Growth and Poverty: Investment Climate Reform in Ukraine.* (October 2003) p3

communications infrastructure disproportionately impact on smaller private sector actors as they are often located in rural areas or urban areas far removed from the government centres. This has, for example, proved problematic in Nicaragua, where a geographical approach has been adopted to PPD.

37. The example of NCUSBO in Uganda, a national apex association of 1200 parish-level business associations, illustrates how dialogue that incorporates a structured mechanism at the local level can have a positive impact on increasing the participation of affected stakeholders. However, a significant problem negatively impacting dialogue facilitated by NCUSBO is the lack of effective facilitation at the parish level meetings, and the tendency for participants to concentrate on their own narrow personal interests.
38. DFID has attempted rural consultation on a number of Poverty Reduction Strategy Papers (PRSPs). However, a common problem here has been the inability of participants to contribute effectively, due to a lack of understanding of the problems they are faced with. Indeed, as one DFID Adviser suggested, consultation on PRSPs with businesses at the local level often produces a list of symptoms, rather than diagnoses of the causes of a poor business environment.
39. PPD that makes most effective use of MSMEs and SMEs relates to localised issues within the business enabling environment, which often tend to be the responsibility of local authorities. Tax administration and business registration are just two examples.

### **2.2.2 Sectoral v. general dialogue**

40. The consensus of DFID's advisors is that sectoral dialogue is the most effective in producing results. Private sector actors are first and foremost self-interested individuals, and in environments where there is a combination of low education, corruption and over regulation, it is difficult for smaller businesses in particular to see the wider picture. Dialogue must be based on issues that are directly relevant to private sector participants; this is most likely to lie within their immediate sphere of influence, the economic sector in which they conduct their business.<sup>7</sup>
41. Within the European Union, sectors with clearly defined similar goals, such as the pharmaceutical sector, are considered more effective players in PPD, whereas tourism is more diverse and is considered less effective. Groups are more effective that can respond flexibly to change. Advances in technology brought about the merger of two groups, telecommunications and IT, into the European Information and Communication Technologies Association (EICTA).

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<sup>7</sup> The World Bank review of competitiveness partnerships finds that over time, PPD can nurture broader and more thoughtful input to the investment climate from firms. It cites an example from Malaysia, where businesses initially used PPD to promote their own industry-specific agendas, but over time came to realize that government responded better when they took a broader view, demonstrating commitment to overall growth.

42. In Nigeria, the Better Business Initiative is based on sector working groups to examine existing bottle necks within those sectors. Each working group produces a working paper which is presented to the Government in an annual conference. In Nicaragua, the government has structured dialogue through seven clusters in the coffee, tourism, forestry, fish, textiles and clothing, meat and dairy; and mining sectors. In Pakistan, the Microfinance Sector is particularly vibrant in terms of dialogue and building a relationship with Government, thanks to a focus on sector-specific issues.<sup>8</sup>

### 2.2.3 Informal v Formal Structure

43. PPD occurs within a spectrum of formality, including:

- Ad hoc informal consultation;
- Informal consultation that evolves into a more structured formal process over time;
- Structured formal consultation process and mechanisms;
- Capacity-building dialogue (typically on less formal basis)

Structured dialogue processes and mechanisms place a financial and a time burden on participants. This disproportionately penalizes smaller firms. These financial and time barriers to participation are compounded by a failure among many smaller private sector actors to see the wider picture, and to understand how dialogue can benefit their businesses.<sup>9</sup> Within the public sector this failure to see the wider picture is often prevalent within the middle management levels, where a customer service ethos is subjugated to a civil service culture based on inputs and self-interest.

44. In many African countries there is common practice in which Government officials attend formal workshops and other formal dialogue “events” simply to secure the per diems and fuel allowances that are on offer (generally underwritten by donor grants). Many public officials feel less inclined to participate in dialogues that do not entail such supplements. Entrepreneurs, too, can succumb to such temptations. In the case of the EC-supported ACP Business Forum, private representatives, with a few exceptions, did not truly commit to the process. They failed to contribute the agreed payment of Euro 5000/member to the organisation. The lack of joint funds meant that, while meetings could take place, a full secretariat could not be set up, and no staff could be recruited. This left the Forum without a proper support structure and reduced its ability to move a policy reform agenda forward.

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<sup>8</sup> The World Bank review demonstrated similar value for cluster-based initiatives in Bosnia and Nigeria.

<sup>9</sup> To some extent all firms are affected by the “positive externality problem” of reluctance to invest in dialogue whose scope and potential benefits are not all directly or immediately relevant. However, larger firms tend to have more tolerance for such processes, as they have more resources (and thus the luxury) to make longer-term investments.



45. By contrast, in Fiji, the local Chamber of Commerce, the sugar industry association and a number of indigenous business councils bought into the EC-promoted PPD process wholeheartedly, committing considerable time and resources. This impressed the Prime Minister and moved this dialogue into centre stage of policy reform discussions.
46. Large enterprises and MNCs are better suited to take advantage of informal dialogue opportunities, due to better resources and the fluidity that exists between the government and big business in the upper reaches of power. Other private sector actors are not necessarily excluded from opportunities to dialogue on an informal basis with key government figures. Nonetheless, when such opportunities do arise, it is vital that these smaller firms are equipped to present their interests in a coherent and analytical manner. Without a well researched case their credibility is jeopardised.
47. DFID experience suggests that informal dialogue has a place in trying to effect reform. While there is a risk to big business gaining exclusive access to senior figures within Government, there is also an advantage in the sense that such dialogue conveys hard economic messages to key government decision-makers. One DFID Adviser interviewed for this survey felt that, in the absence of capacity within SME representatives, certain key large firm representatives can represent the interests of SMEs to government, particularly those from firms with strong interests in developing up-stream and down-stream linkages to improve efficiencies and competitiveness.
48. PPD involving a multitude of actors requires some form of neutral space in which to take place. Informants to this study were universal in emphasising the importance of this space being well-managed and facilitated in order to move the process towards producing specific outputs and concrete results. A common facilitation model adopted within PPD processes is the use of a dedicated Secretariat to coordinate events, promote the flow of information and try to ensure the process is results-orientated. One particular risk that became apparent in relation to the involvement of third party facilitators was the extent to which their independence can be compromised by government (or indeed donor) influence.
49. The National Action Group in Malawi exemplifies the neutral space concept in its forum format. It was created in 2001 to help Government and the private sector to come together and discuss how to improve the business environment. While it is structured around a forum concept, it also encompasses sub-sector working groups which meet to discuss individual sector relevant issues in a more focused manner. The NAG is supported by a dedicated Secretariat. It has attempted to maintain its neutrality by structuring the Secretariat on a tri-partite format with representation from government, the donor community (a DFID representative) and the private sector.
50. In Nigeria, the African Institute for Applied Economics (AIAE) supplies the Secretariat to the Better Business Initiative (BBI), which in itself is another example of the creation of a neutral space for dialogue. This offers one example as to how existing institutions in-country can be capacitated to act as the third party facilitators of dialogue. Similarly KIPPRA, in Kenya, has been used both

to facilitate dialogue within DFID's Enabling Environment programme, and to provide evidence-based research to strengthen the dialogue.

51. Many PPD structures evolve from informality to more formal entities over time. In Pakistan, the Pakistan Microfinance Network began as an informal information and exchange network, but evolved when it became apparent that it needed to develop its activities in the light of increased government interest in Microfinance. In Malawi, the National Action Group evolved from a National Private Sector Stakeholder workshop in July 2001, which prompted the realisation that a neutral space for dialogue was needed. DFID was instrumental in setting up the NAG and was flexible enough to try to source the necessary funding from whatever means necessary.

#### **2.2.4 Intensity and duration**

52. DFID has been involved in PPD ranging from "intense brevity" to "relaxed longevity". The 2-3 hour, one-off public-private consultations in the SADC countries accompanying the publication of DFID's 10 Country study of the relationship between private sector enabling environments and per capita economic growth exemplify the former. DFID's contributions to the Commonwealth Business Council, to the Private Sector Initiative, and to selected NEDLAC activities in PPD constitute only one of many foci of activity in a multi-year programme with many sponsors, and typify the latter.
53. There is no ideal duration or intensity for PPD. However, without a clear aim and a clear issue around which to conduct PPD, the process will quickly lose credibility and collapse. Without signs of early results it is difficult to sustain interest and confidence in dialogue. This suggests that PPD should be more intense in its early phases, although again this can be very issue-specific.
54. The required intensity of PPD is closely linked to its scope. PPD around a cyclical issue such as the budget may not require frequent dialogue throughout the year, but the dialogue should be sufficient at key times in the budget cycle to gain influence and to promote accountability. On the other hand, dialogue at the sector level around a specific issue may need to occur on a fairly frequent basis if results are to be achieved. Within the Commark-supported Heavy Mining Cluster Initiative in South Africa, some of the sub-sector working groups meet every few weeks in order to ensure that the strategy agreed for their sub-sector is met.

#### **2.2.5 PPD and the stages of policy reform**

55. We defined the reform cycle as four phases: 1) assessing and agreeing problems and constraints; 2) designing and legislating solutions; 3) implementing reforms;

and 4) monitoring and evaluating impact of reforms.<sup>10</sup> The required intensity of PPD is closely linked to the stage of the reform process around which dialogue is occurring. Dialogue that is focused around monitoring and evaluating the implementation of a policy is likely to be less intense than during legislative reform of a policy.

56. While isolated examples of PPD could be identified around stages 3 and 4 of the reform cycle, it became apparent that most of the existing examples of PPD in which DFID was involved were concentrated on stages 1 and 2: assessing and agreeing problems and constraints, and designing solutions. More often than not, this was attributable to the fact that many PPD initiatives were relatively new and taking time to bed down. It was also reflective of the relative immaturity of the relationships that exist between government and the private sector in many of DFID's partner countries.<sup>11</sup>
57. The fact that the majority of PPD is concentrated on agreeing existing constraints, identifying problems and designing solutions represents a significant concern for the prospects of delivering results and implementing reform. In particular, it underscores the need for donors to stay engaged in PPD to ensure it migrates through all four phases of the reform cycle. Zambia's experience typifies the problem with dialogue stuck at Phase 1 of the reform cycle. Countless forums and commissions have produced countless wish lists of reforms. However, in general the country has not undertaken the prioritising and sequencing necessary to implement policy change and substantially improve the investment climate.

### **2.2.6 Expenditure on PPD**

58. According to DFID Enterprise Advisors, over £60 million is committed to PPD-related project and programme activity at present. This figure must be taken as a gross approximation, as in most cases PPD is only one aspect of a larger DFID initiative.<sup>12</sup> The advisors could estimate the PPD portion only in some of the cases, as is noted in the table in Annex 1. In some cases they may have been quite generous in defining the "PPD portion", and in others they appear to have been more parsimonious. In a large number of cases no figure could be provided at all.
59. Despite the difficulties in quantifying this DFID investment, it clearly is substantial. At the same time, there is no evidence linking the size of investment in PPD with achievements in investment climate reform. While there may be

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<sup>10</sup> This definition was arrived at in response to comments received from Tony Polatajko of DFID on the Bannock Consulting Concept paper.

<sup>11</sup> The World Bank review of competitiveness partnerships gives examples of similar problems with the latter stages of reform, but also cites the monitoring mechanism established in Mexico, after reforms passed in the 1980s, as good practice in enabling government, labour and business to police compliance with the new agreements.

<sup>12</sup> This figure does not take into account DFID support to PPD through its trust fund contributions to the work of the multi-lateral donor institutions.

instances where DFID under-investment hindered progress, there are other cases where limited funds forced a focus on critical partnerships, leading to unexpectedly strong results (as in the reform of business licensing procedures in Bulgaria).

## **2.3 Political Economy Context**

60. Public Private Dialogue does not take place in a vacuum. Understanding the institutional environment in any given country offers an analytical framework for understanding the risks, constraints, and significantly, the incentives that shape PPD processes and mechanisms. Context is everything when seeking to understand what shapes PPD.

### **2.3.1 Lack of trust between government and the private sector**

61. The historical trajectory of a nation's development is an important contributory factor in this context, and in particular the legacies of socialism and authoritarian rule. Authoritarian rule created a command culture with limited flexibility and responsiveness within public administration to the private sector. The prevalence of socialist governance in many African states created a partition between government and the private sector that has often directly contributed to a climate of distrust between the two parties. In both African and former Soviet-bloc countries, years of propaganda painted entrepreneurs essentially as parasites on society, and suggested that individuals who had amassed any significant wealth must have done so through nefarious activities, at the expense of wider economic and social interests.
62. One notable exception to this effect of authoritarianism occurred in Nicaragua, where the command culture that prevailed in the 1980s created an expectation within the private sector that the government should be proactive in support and intervention in the economy. In the current climate of progression towards a Central American Free Trade Area, many SMEs are looking towards Government for assistance in improving their competitiveness.
63. The combination of antiquated colonial systems, and/or socialist legacies and the remnants of authoritarian rule have often served to create business environments consisting of overly complex legal and regulatory frameworks, overly burdensome business registration, licensing and tax regimes, and limited availability of business development services. These conditions serve as negative incentives to SMEs and hinder their opportunities to grow, invest, and if applicable, make the transition from the informal to the formal economy. This poor enabling environment is one obvious area for fruitful dialogue between Government and SMEs. Yet it is also why SMEs are reluctant to trust the Government in the first place.
64. Authoritarian systems of governance have often proved to be the breeding ground for corruption and rent-seeking across the whole spectrum of public

administration. As authoritarianism and socialism have been replaced by democratic transition, corruption has been sustained by the failure of regulatory frameworks to keep pace with democratic change. This has been compounded by continued poor pay and low morale within the civil service and a lack of capacity within accountability and transparency structures and mechanisms.

65. In Kenya, for example, many private sector actors feel completely exhausted by the divide and rule tactics employed by the Kenyatta and Moi Administrations over forty years. A combination of high taxation, service delivery failure and government corruption has fostered this sentiment. The end result has been to erode the vitality of the private sector, leaving it “introverted, conservative and reluctant to confront government directly.”<sup>13</sup>

### **2.3.2 Fluidity between Government and the Private Sector:**

66. The boundaries between government and the private sector are often blurred at the most senior levels of government. This appears to be especially apparent in developing and transition economies where systems of transparency and accountability are less well developed, and in which there is the classic scenario of the “missing middle.” This high degree of fluidity between the two sectors at such a rarefied level was evidenced in country contexts ranging from Pakistan to Nigeria to Nicaragua. It usually proved to be the case that these national elites had lived and/or been educated within the Diaspora, and had often held some form of senior management post within high finance or large enterprises.
67. These cross sector movements of high level decision-makers further distort the space for dialogue between Government and the private sector, loading it in favour of larger enterprises and the multi-national corporations. A counter argument to this perspective is the idea that close relationships between senior decision-makers in both sectors increase the focal points for dialogue and generally enhance the prospects for empathy towards private sector needs within government.

## **2.4 Models/outcomes**

### **2.4.1 Neutral space**

68. As is evident from the examples of previous sections, DFID has helped develop a number of successful models for PPD that are seen as contributing to investment climate improvement. One of these models is the establishment of a “*neutral space*” which can enable public and private actors to meet while political divides may still remain. DFID has helped create dedicated secretariats/facilitators for these structures, using KIPPRA in Kenya, NAG in Malawi, the Better Regulation

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<sup>13</sup> Comments from DFID Enterprise Advisor in Nairobi.

Project in Uganda, AIAE in Nigeria, and the Donbass project in Ukraine. The locally-based business information centres in Bulgaria to some extent established these spaces at municipal-level, offering entrepreneurs, government officials and business development service providers a place to exchange information and ideas.

69. Successful “neutral spaces” are seen as centres for information-based discussion of the strengths and weaknesses of present investment climates, and for attracting multiple views on reform options. The most successful facilitators under-write evidence collection to focus dialogue, and promote information exchange. They are perceived as inclusive, not selective (although they obviously have to limit participation to enable true dialogue to take place).

#### **2.4.2 Independent trusts/challenge funds**

70. DFID also has established independent trusts, such as FinMark, ComMark and the various Challenge Funds, which have provided grease to the wheel of PPD at critical moments. FinMark enabled the government and bankers/financiers in South Africa to have access to the research and analysis they needed to develop a mutually acceptable Financial Sector Charter for transforming access to and ownership of the financial sector. ComMark, as noted earlier, has helped governments and the textile industry in SACU countries to investigate ways that labour standards and efficiency interests overlap. The Business Linkages Challenge Fund provided critical seed capital to the Private Sector Initiative in Tanzania. Such trusts and challenge funds have offered a flexibility and responsiveness of support that generally cannot be provided through donor aid processes, and as a result have brought critical, but time-sensitive public and private sector participants to the PPD table. Their independence, and their competitive mechanisms for selecting initiatives, enable the trusts and funds to reach out to groups DFID direct-assistance finds difficult to support.

#### **2.4.3 Large firm networking**

71. In ZIBAC and the Private Sector Initiative, DFID has created a space in which MNCs and large corporations can meet to share lessons learned in promoting economic growth and indigenous private sector development. Despite the popular impression that these CEOs network continuously in golf clubs around the world, DFID experience has been that senior officers do not communicate effectively on investment climate issues, and welcome the opportunity, on neutral ground, to do so. DFID’s experience also has shown that, on a limited basis, such forums can prove useful grounds for business-government dialogue on critical investment climate issues. The pressure of public scrutiny also can

encourage large firms participating in PPD to sort out their own governance issues.<sup>14</sup>

72. These models have not been perfect. KIPPRA and AIAE have been criticized for furthering their own long-term research interests over more immediate private sector concerns. NAG, in Malawi, and the Better Regulation project, in Uganda, have no formal institutional status, and survive entirely on donor contributions. NAG not being an independent (and potentially competitive) institution may make it easier to attract other groups to its meetings. The Bulgarian business information centres have not maintained even standards of quality, service and utility as the model has been replicated to more and more municipalities. ZIBAC and PSI have attracted suspicion and occasional enmity from private sector associations and parts of government not included in such high-level gatherings.

#### **2.4.4 Outcomes – too little known**

73. DFID can proudly point to specific achievements in investment climate reform related to its projects and programmes. These include the South African Financial Sector Charter, the Tourism Charter in Namibia, the *Africa Investor* “Smart Regulation” award for business licensing reform in Entebbe, the passage of business licensing reform in Bulgaria, and of business registration reform in Bosnia (the latter one of the first instances of policy reform designed and legislated by Bosnians, without the strong force of the Office of the High Representative needing to be used to break deadlocks).
74. However, while the role of dialogue is perceived as an important factor in these achievements, its importance to investment climate reform in the long run is unproven. Intuition suggests that countries with stronger PPD will have stronger investment and growth, but there is insufficient data to validate this conclusion. The Bannock 10 country study included the state of PPD as one of the factors in a positive enabling environment (which did correlate with stronger growth), but it did not isolate this factor. There is no way to compare the relative merits of pursuing strategies not reliant on PPD, such as Sachs-style “shock treatment” reforms initiated due to the influence of external advisors.
75. Nor does a focus on “macro” outcomes, such as passage of new laws or charters, necessarily depict the most important contributions of PPD to the investment climate. Unfortunately, DFID project reports do not generally describe key day-to-day contributions, such as getting troublesome pieces of proposed legislation removed in Uganda (or sent back to a ministry for further review and consultation). Business confidence often reacts more to minutiae than to major reform, as was the case in Bulgaria, where attitudes towards government increased more through the establishment of local business information centres

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<sup>14</sup> The World Bank’s research into competitiveness partnerships demonstrates how participation in PPD has encouraged large firms to become more transparent and accountable, as in the adoption in Mauritius of a Code of Conduct by Enterprises in 2001 by the 60 CEOs participating in the Joint Economic Council.

than through the passage of licensing reforms in the national Parliament. DFID's project framework metrics rarely are designed to capture these measures of achievement.



### Achievements and lessons learned from previous DFID PPD related projects and programmes

Country	Initiative	Actors	"Hard" Results	"Soft" Results	Specific PPD lessons
Bosnia	Reform of the Business Registration Process (RBRP)	Central and local ministries of Justice and Economy  Business associations  Office of the High Representative (UN)  DFID and other donors  Regional facilitators from Poland and Bulgaria.  Local facilitator/coordinator.	Reform of state and entity laws on business registration to simplify and unify procedures.  Business registration cut from months to a maximum of 5 days.	First indigenous success in policy reform (not pushed through by OHR).  New communications and negotiation channels between entities, particularly across ministries of Justice.	Bosnia needed intensive, hands-on facilitation by both outside and indigenous facilitators. Insufficient intensity leads to loss of momentum.  Getting it done locally is sometimes more important than getting it done to the highest standard of international practice!  Time and patience required.
China	State Owned Enterprise Restructuring and Enterprise Development Project (SOERED)  NB: Was not a classical PPD project as defined in our study. Much of the focal point for PPD was through the creation of business advisory centres.  Dialogue was crucial to the success of the project in terms of dialogue between DFID, the consultants, SOE management and provincial government.	SOE management, SOE employees, state Governors (and Vice Governors), city mayors, donor-funded consultants, DFID	6 Business Advisory Centres.  Training to laid off workers on how to start small businesses , as well as advice to SMEs that might employ them.  Project institutions forecast that 150,000 jobs will be created as a result of SOERED.  Dissemination of awareness of CSR;  NB: it is difficult to attribute these results directly to PPD within the SOERED project, although it will have played a significant role. In addition, there were other	Changing of the mindsets within government so that they see themselves as supporters of the enabling environment rather than service providers.	Important to get the partners right at both provincial and national levels. DFID had the right partner provincially but the wrong partner nationally (Ministry of Foreign Trade).  Need to adapt quickly to the local context and not overly prescribe solutions.  Significant lobbying and change management needs to be targeted at key stakeholders within government. In this case was at the Mayoral level of government.

*Reforming the Business Enabling Environment: Mechanisms and Processes for Private-Public Sector Dialogue, Gamser, Kadritzke and Waddington*

*August 2005*

Country	Initiative	Actors	"Hard" Results	"Soft" Results	Specific PPD lessons
			results such as the creation of six credit guarantee funds which we have chosen not to attribute directly to PPD.		
India	SIDBI	Indian parastatal (SIDBI), Microfinance Institutions, Government Policy-makers	Relaxation of government restrictions on APEX financing of microfinance by parastatals.	Growth of membership and capability of MFI associations. Government "comfort" with broader range of microfinance methodologies.	Importance of benchmarking of performance and annual review. Usefulness of annual government-practitioners forum
Malawi	National Action Group (NAG)	Large enterprises, some limited SME representation through National Association of Small Farmers (NASFAM) and Malawi Chambers of Commerce, NAG Secretariat, Ministers, Senior Policy Makers.	NAG Secretariat facilitated input of private sector into Malawi Poverty Reduction Strategy Process  NAG Forum developed Business Plan for Malawi which tied in well with Government's own perspective. This has formed the basis for the Malawi Economic Growth Strategy (MEGS)  Important sub sector successes have included (among many others) lobbying for legislation on licences for electricity generation; assisting with obtaining refinancing of a sugar small holder scheme.	"Democratisation of the policy process"  Opening of communication between government and private sector- improving relations	NAG needs to become self-financing  Good local consultants can act as catalysts in the process  Working groups can be used to address sector/sub sector issues within a wider PPD arena  Donors need to be flexible- NAG evolved organically from a previous DFID project  SME representation remains a problem
Namibia	Commark- support to the Namibian Tourism Sector	Commark, Namibian Tourist Board, FEN ATA	Creation of a Namibian Tourism Charter	The energy and drive of FENATA and the NTB are helping to change mindsets within government as to how	Importance of supporting champions with "vision". Much of the success is attributed to the drive of one woman within FENATA.

Country	Initiative	Actors	"Hard" Results	"Soft" Results	Specific PPD lessons
				they view tourism sector actors. Previously, government viewed the sector as a whites only preserve.	
Nicaragua	Enabling Environment Programme NB: no follow up was received from the DFID Adviser in Nicaragua following initial discussions due to her changing posts.	DFID is supporting the National Council of SMEs	Increasing representation of SME voice in cluster based and geographical PPD mechanisms?	None specifically documented during interview.	Need to ensure PPD is needs-based and not dialogue for dialogue's sake.  The importance of strengthening SME representation.  Dialogue should occur at all levels of government.
Nigeria	Better Business Initiative	DFID provides limited funding to the African Institute of Advanced Economics (AIAE) which acts as Secretariat to the BBI. Apex Organisations participate in the working groups.	BBI has identified business bottlenecks and published accompanying roadmaps to put the bottle necks in context.	None specifically documented during interview.	Need to avoid over financing of third-party facilitators by donors  Working groups are a useful forum in which to situate sector issues in a wider enabling environment context.
Pakistan	Micro Finance Network	Pakistan Microfinance Network, Officials from the Govt Microfinance Bank, DFID.	PMN has built capacity of both government officials and MF institutions within the network  Higher standards of MF institutions in Pakistan	Ownership from key stakeholders  Improved relations between government and microfinance network  Strong microfinance sector	DFID needs to be flexible and support promising initiatives  Strong local actors can act as catalysts
South Africa	Commark- Mining	Private sector actors	None specifically captured	None specifically	The need for an impartial voice

Country	Initiative	Actors	"Hard" Results	"Soft" Results	Specific PPD lessons
	Equipment Industry Cluster Initiative	within the sub sector, government and Commark	although there was some mention of private sector helping government to draft some regulations within the sector	mentioned	PPD processes  The importance of seed funding
Tanzania	Private Sector Initiative  NB- this is not a classical example of PPD according to our definition, but useful lessons can be learned.	Large enterprises and MNCs' CEOs in the steering committee and their CSR managers, buyers, et alia, in the main implementation committee. SBP as facilitators and Govt and DFID commitment.	SMEs capacitated to meet the supply needs of large enterprises.	Closer relationships within the private sector between large enterprise and SMEs.	Large enterprise can act as a proxy voice for SMEs if stakeholders are empowered to see the mutually inclusive incentives.  In some situations third-party facilitators should cede responsibility to the actors involved.
Uganda*	Commercial Court Users Committee (part of Commercial Justice Reform Programme)	Commercial Court Users, Commercial Court Registrar, Donor-funded consultant, donors (for 6-monthly review)	None mentioned during interview	Increased accountability within the commercial courts; greater ownership from commercial court users	Sub sector/issue-based approaches to PPD are likely to produce results  Donors have an important role to play in ensuring accountability of government
Ukraine	Chambers of Commerce Project	DFID-funded reform of 2 Chambers of Commerce in Donetsk Oblast	Chambers of Commerce managers have been trained to initiate dialogue between Govt and the private sector  Chamber staff have also been trained to train the private sector in better representing its needs to govt	None specifically documented	From donor perspective, PPD should be a continuous process, not just built around projects.
Ukraine	Donbass Social and	Within a wider social	Agreement reached on the	Focus groups have helped	Importance of local facilitators

Country	Initiative	Actors	"Hard" Results	"Soft" Results	Specific PPD lessons
	Economic Regeneration Project	and economic regeneration intervention, a specific PPD process has been created around enabling environment reform	need for improved BDS and information to be made more widely available.	to ensure tension between government and the private sector has been reduced.  Trained facilitators have helped to ensure all voices are heard.	Progress must be made early on to avoid disillusionment  Meetings should be carefully managed
Zambia	Private Sector Development Forum	ZIBAC, ZBF (both receive some funding from DFID), Office of the President, Ministry of Trade Commerce and Industry	Generation of a wish list of enabling environment reforms	The process of overcoming distrust between the government and private sector is under way but far from complete.	It is important to sequence and prioritise "wish lists"  Need to ensure Apex BMOs are not over funded by donors  Should ensure some private sector actors are not seen to be treated unequally in dialogue processes  PPD can be less successful if it is overly formal

**Notes:**

Hard Results= specifically quantifiable results

Soft results= less tangible benefits such as trust, ownership, accountability, etc.

This results table focuses only on those projects that were discussed in depth during the course of interviews with DFID Enterprise Advisers. It does not address the more extensive list of PPD-related projects covered in Annex 1. At the same time, it only seeks to document those results and lessons actually mentioned by DFID advisers, and consequently it may not capture all results and lessons covered elsewhere in this study. This table is offered as a guide only and more extensive results-orientated research is recommended.

\* DFID's project: "Support to Legal and Regulatory Environment for Business in Uganda Phase 2", currently run by Bannock Consulting, is not included here. While it was included in our research, it was not covered in depth in conversations with DFID Uganda and so does not appear in this table.

## 3 PPD and the Investment Climate

### 3.1 Why is PPD Important?

76. Our review of DFID and EU experience raised the following issues:

- Governments in partner countries often do not understand the private sector very well;
- This failure to understand the private sector has helped to sustain a trust deficit between the public and private sectors;
- Through a combination of historical influences, lack of capacity and lack of incentives, Governments tend not to be very adept at listening to the private sector;
- This often leads to prescriptive policy-making, lacking in sufficient analytical rigour and less likely to be tailored to unlocking the growth potential of the private sector;
- For its part, the private sector often makes contradictory and unrealistic demands on government;
- A lack of analytical skill and capacity makes it difficult for both the private sector and government to prioritise individual issues in the reform process;
- Without dialogue government tends to follow the loudest, most powerful voices, which rarely speak in the best interests of private sector growth and investment as a whole, or in the interests of poverty reduction.

77. PPD is crucial to the successful and sustainable implementation of DFID's private sector development and enabling environment reform programmes and projects within its partner countries. Given the linkages between private sector development and poverty reduction, PPD also has a strong bearing on all DFID's projects and programmes.

78. As DFID and other field experience shows, PPD is not a panacea. Many factors can cause it to go off course into, at best, time-wasting, and at worst, support for "populist" agendas that really serve only an elite few. Figure 1 below illustrates some of the major constraints and risks to PPD discussed in the previous sections.

**Figure 1. Constraints and risks associated with Public Private Dialogue**

<b>Constraint</b>	<b>Cause</b>	<b>Risk</b>
Size of the informal economy	Over-burdened regulatory framework; Lack of investment; Historical legacy	Many private sector voices not well represented within PPD; Lack of ownership of the reform process by key private sector actors.
Dominance of dialogue by individual champions	Power of elites, whether in government, business, donors or multi-nationals; "Fluidity" between big business and senior Government posts; Lack of accountability within public administration;	Many private sector voices not well represented within PPD; Lack of ownership of the reform process leads to poor policies and difficulty in implementation.
Limited representative capacity of Business associations (BAs)	Lack of resources; Lack of evidence-based research and advocacy; Poor infrastructure; Failure to understand membership	Capture of dialogue by large enterprises/MNCs. Lack of SME and key sectoral business voices in dialogue.
BAs disconnected from their membership	Failure to meet overheads from membership fees; Overheads and resources met by donor funding; Lack of resources; BAs as platforms for personalised interests; excessive provision of donor grants to leadership	Donor dependency; Many private sector voices excluded from PPD; Associations become the personal fiefdoms of individuals; donor agendas dominate over business agendas.
Fragmentation within the private sector	Sectoral differences, size differences, formality/informality differences	Failure to focus on key issues, limited private sector influence due to discordant voices, drowning out smaller firm voice
Lack of trust between govt and the private sector	Historical trajectory > socialist and/or authoritarian legacy; Overburdened regulatory framework; Lack of incentives within government to respond to private sector actors equitably > rent-seeking/corruption	Failure to get real issues onto the table, dialogue as ceremony only, not leading anywhere
Government has limited understanding of private sector	Historical trajectory> legacy of command and control culture within public administration; Lack of incentives within public administration to respond to private sector; Lack of capacity to respond to private sector.	"Rush to regulate" as only means of resolving problems, failure to separate firm-specific from larger enabling environment issues, excessive use of special regimes/incentives/controls
Fragmentation within Government	Lack of capacity within public administration, Poor communications, Leadership limitations (or active "divide and rule" tactics), Fragile power sharing coalitions	Inconsistent design, implementation and evaluation of private sector policy; Excessive use of special regimes/incentives/controls
Lack of accountability within Government	Poor information/communications from government; Uneducated public; Uneducated and/or muzzled media	Incomplete consultation, no feedback on impact of policy change, multiplication of errors
Consultation fatigue	Lack of donor coordination; Over-dependence on donor funding in governments/inability to rationalize personnel and programmes on country's own agenda	Endless dialogue, considerable time and costs, no results
Socio-cultural barriers	Historical influences; colonial past, etc	PPD divides along ethnic, religious, political or other lines

79. Despite the risks and constraints, dialogue is better than non-communication between the private and the public sectors. Investment climate reform and poverty reduction efforts need ideas and impetus from the private sector. As the World Bank's review of competitiveness partnerships observes, "Governments that listen to the private sector are more likely to design credible and workable reforms, while entrepreneurs who understand what their government is trying to achieve with a program of reforms are more likely to accept and support them."<sup>15</sup> DFID field staff rightly note that PPD is a central element of all work related to enabling environment reform and to private sector development in general.

### **3.2 What are the right roles for government and the private sector?**

80. There is no single answer to this question, nor to the questions below about what parts of the public and private sectors should be included in PPD. There is no formalized way of supporting PPD across all regions and countries. At worst, the private sector may display a high level of distrust in government, or reluctance to engage due to unfortunate past encounters. In other instances, the climate may be historically more favourable to dialogue, such as higher levels of education in government, better career interchange between public and private sectors and thus more general openness for dialogue. There might be more political maturity of actors in one sector in particular driving the process forward. Generally, smaller countries with limited sectors will find it easier to organize private sector representation effectively. However, in very small countries personal animosities can lead to inability to act together.
81. Some general principles do emerge. In general, a government body should be the host for PPD. Governments make policy, and government officials implement policy. It is easier to move from dialogue to reform if the dialogue occurs within government's "house". There are countries, such as Kenya and Zambia, in which government for many years was not a conducive host for dialogue, due to corruption and other factors that made business unwilling to come to a public sector-laid table and speak frankly on issues. In such cases, private sector hosts can be used (such as think tanks, independent trusts, and other vehicles). Private hosts must demonstrate credibility to attract the right people to PPD. Public hosts, to some extent, start with credibility assumed, but must show results in order to maintain this credibility over time.
82. Regardless of the affiliation of the host, there needs to be a sense of "neutral space" during PPD. Participants should feel that their knowledge and experience are genuinely sought, and that evidence-based analysis will govern the discussion (as opposed to political concerns). They should feel that they can learn something through this process, and equally important, that others in the dialogue can and will learn from them.

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<sup>15</sup> Herzberg and Wright, Op. Cit. page 4.



### **3.2.1 The critical role of champions**

83. Ideally PPD should have an effective champion from both the public and the private side. These champions motivate participation from across their sector, and promote strong communication both within the dialogue and with key interests outside the dialogue. They keep the dialogue on course, and at the same time mitigate the risks that the PPD becomes seen by the wider private and public sectors as an exclusive cabal, off on its own tangent.
84. Poorly selected “champions” can destroy PPD, dominating and personalising the dialogue. The World Bank review suggests that the risk of not finding the right public sector champion can be mitigated by strong public awareness and education campaigns surrounding the PPD work, which build bottom-up support. The review also recommends limiting initial expectations for PPD, to reduce “loss of steam” if a key individual has to become less involved.
85. The private sector’s role should not be limited to identifying problems and suggesting solutions. Private concerns also can and should contribute to the implementation of reforms, and to capacity building for improved public services. The private sector role in capacity building is particularly important in countries where administrative skill levels are low in the public sector.

### **3.2.2 Which parts of government should be engaged?**

86. Different issues require different government partners, at different levels (central, regional, local). Those parts of government most generally useful to PPD, and most likely to be productive hosts for dialogue, are the divisions that have broad and continuous involvement with private sector matters (including agriculture), and which have oversight responsibility (if not authority) across many, if not all, ministries. Government agencies with these attributes include: Office of the Prime Minister/President, Council of Ministers/Cabinet, Ministry of Finance, and sometimes Ministry of Economy (if it includes agriculture). Generally useful local government agencies include: Offices of Mayor/Governor, regional Ministry for Economic Development, and regional Ministry of Finance.
87. The ideal government host for PPD will allocate substantial resources from its own funds to staff and support this role. Hosts which depend largely on donor funding are vulnerable to diversion as donor project cycles evolve, or as new donors enter with different priorities.
88. The more a Ministry or agency historically has been involved in providing direct services to the private sector (such as finance or business development services), and the more a Ministry has been involved in managing state-owned enterprises, the less likely it is to prove a useful host for dialogue. This legacy tends to make the agency resistant to change that will reduce government presence in the economy and open up new markets for the private sector. However, such agencies often are essential participants in dialogue, due to these same vested

interests. If they are not engaged, and their hearts and minds worked upon, they can derail reform efforts.

89. Any Ministry that sees its mission as protecting civil society from the excesses of unbridled public sector activity also is unlikely to prove a useful host for dialogue, but is an essential participant in PPD (along with their civil society organization counterparts). This would include Ministries of Labour, of Women, and of the Environment.<sup>16</sup>
90. The ideal PPD engages all parts of government affected by the issue at hand. In practice, it may be necessary to begin with a critical mass that recognises the need for reform (the host and some other key ministries or agencies), and draw in other public institutions as evidence is accumulated and the reform proposal is more clearly defined. It can be useful to engage reform-minded local or regional officials at an early stage, due to their relative closeness to the coal face of the enabling environment, and their ability to speak from more direct experience in arguing the need for change. In the longer run, broader outreach must be undertaken across government to improve understanding of the private sector's role in growth, and its concerns with the issue at hand.

### **3.2.3 Which parts of the private sector?**

91. It is harder to pick “likely suspects” from the private sector, due to the varied structure and performance of business representative organizations throughout DFID's countries of operation. The ideal private sector “champion” for PPD will have a wide appreciation of business concerns, both by sector and by scale, and a strong reputation across government as an honest broker. This champion might be a motivated entrepreneur (as in the Uganda Better Regulation Project), or an elected leader of a formally-constituted association.
92. There is a fundamental trade-off between “representativeness” and “capacity for dialogue” in private sector institutions. General business associations, such as chambers of commerce and managers'/entrepreneurs' associations, tend to have more members and, theoretically, a broader perspective on the business environment. However, they have less in-depth appreciation of key sectoral issues, and at central level have very limited grasp of smaller firm concerns. In many countries' recent histories Chambers were government-run institutions committed to command-and-control practices which many still have not shed. Sectoral associations and small business bodies, by contrast, have deeper understanding in certain areas, but their depth can degenerate into tunnel-vision. They are often quite effective in informal dialogue, but their narrow mandate can be a drawback in more formal PPD sessions.
93. Unfortunately, SME associations generally fail to represent their constituencies as well as they do the interests of their executives (and, those of the donors who generally provide the bulk of funds for their operations). As noted earlier, SME

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<sup>16</sup> DFID's recent paper “Role of Civil Society in Poverty Reduction and PPG” contains useful ideas on how these ministries and civil society organizations can be linked up to PPD.

interests often are better represented by visionary larger-scale entrepreneurs, or even by MNCs interested in supply-chain development and similar relationships that require dynamic local private sectors. In a number of countries, local chambers of commerce (as opposed to the national organization) also can be useful advocates for small business concerns.<sup>17</sup>

94. The only solution to this dilemma is to ensure that a number of private sector associations are in any core PPD group, to get both “representativeness” and capacity in the mix. Inclusion should be based on contribution to dialogue, rather than on political reputation. Those associations which bring the most evidence and analysis to the table should go highest on the dialogue invitation list. As with public institutions, the initial number of private sector representatives should be small, but over the life cycle of an issue the PPD should widen to include all affected associations. The World Bank review argues that PPD which invests in empirical research and in public education campaigns is more likely to avoid co-option by a narrow range of private sector interests.
95. Capital city-based private sector representatives may not be able to speak effectively on local-level business environment issues, particularly concerning administrative and regulatory obstacles. As *Doing Business 2005* has rightly noted, the situation for basic business processes, such as start-up, dispute resolution or registering collateral, can be relatively straightforward in the capital, yet far more complex and time-consuming for firms based elsewhere.<sup>18</sup> Yet, small local firms often struggle to see the bigger picture in discussions of the investment climate and enabling environment. PPD should include either local entrepreneurs with a broader perspective, or centrally-based entrepreneurs with enough dealings in the hinterlands to be sensitive to regional differences and priorities. Similarly, PPD that includes women and minority entrepreneurs is more likely to address gender- and ethno-specific concerns.

### 3.3 What issues are most amenable to dialogue?

96. The simplistic, theoretical answer to this question is that ALL government policy issues benefit from PPD, and therefore ALL business enabling environment issues are equally amenable to dialogue.
97. The answer from the trenches is that while it might be true that private sector knowledge and opinions can inform dialogue on all issues, PPD is not equally effective on all issues at all times. The greater the distrust between government and the private sector, the poorer the communications between the sectors, and the more political the representatives of both sectors are seen to be, the fewer the issues that can usefully be put to PPD.
98. In such situations it is prudent to focus on that narrow band of issues that both government and the private sector can agree on. Business registration is a more

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<sup>17</sup> Conversely, national Chambers of Commerce, even in OECD countries, tend to be dominated by large firm interests.

<sup>18</sup> World Bank, *Doing Business in 2005*. pp.12-13.

politically neutral issue than land registration. Improving tax administration is less controversial than revising tax rates and other duties (and the same goes for Customs administration v duties). Technology policy is a more politically neutral issue than employment policy. As the two sectors become more comfortable working together, more politically controversial issues can be tackled. Improving public information services can be a useful precursor to tackling thornier issues of public administration and elimination of corrupt practices.

### 3.4 What frequency/intensity/mode of dialogue gets the best results?

99. There really is no simple answer to what frequency/intensity/mode of dialogue is most useful. This is going to depend on individual circumstances. Ideal enabling environments will have daily dialogue between public and private interests going on at an informal level on some topics, monthly or quarterly dialogue between “representatives” going on more formally on thornier issues (with more structured agendas), and perhaps a quite formal annual or semi-annual meeting to review progress and priorities for years to come (such as the White House Conference on Small Business, which is actually the culmination of 1-2 years of local and regional consultations, research and analysis).
100. Time limitations, capacity limitations and other obstacles prevent this ideal from being achieved in DFID countries. So where to start? The more limited the existing PPD, the more important it is to begin with narrow issues, reasonably small numbers, reasonably frequent meetings, relatively informal settings, and short time horizons. This establishes an understanding of how dialogue can work, and hopefully also achieves a result that demonstrates the merits of further PPD.
101. Open-ended, formal consultative processes are a double-edged sword. On the one hand, they provide statutory authority and permanence to PPD. High profile initiatives such as NEDLAC and NEPAD also consolidate a place for representatives from key civil society groups (such as labour organizations and consumer groups) in dialogue on issues of national and continental importance. On the other hand, this formalization of permanent places at the table can breed complacency and inefficiency. Groups given a place become more occupied with keeping it than with achieving anything through the dialogue. Groups not included focus more on how to get in the door than on how to contribute wider experience to the dialogue. The more pomp and circumstance surrounding the meeting, the more the danger that the meeting can become an end in itself, and improving the enabling environment becomes an afterthought.
102. The World Bank’s review focuses on the more formal PPD processes, which it groups under the term “competitiveness partnerships.” It describes these partnerships in terms of four dimensions:
  - **“Government** [emphasis WB throughout]: the public sector must display sufficient capacity, political will and leadership to engage.

- **Business:** the private sector needs to be organized, have leadership and feel a basic sense of security in speaking out to government without fear of being penalized.
- **Sponsor:** a champion acting as sponsor needs credibility, expertise and the ability to get media attention.
- **Instruments:** logistical facilities and seed funds.”<sup>19</sup>

These formal structures need not be strong in all four areas, but any areas of weakness must be compensated for by strength in another area. In Bosnia the Bulldozer Initiative had weak commitment and participation from government, but compensated because of strong support from donors and the private sector (and perhaps due to the unique powers of the Office of the High Representative, which enthusiastically backed the initiative).

103. It is more important to have a strong, sustainable host for PPD at all levels than it is to have PPD actually going on at all levels. This host, generally a government institution, should create an atmosphere in which groups from either sector confronting an issue are helped to raise it with their opposite numbers, to measure the costs of the problem, to investigate and evaluate options for reform, and to promote and monitor progress against agreed reforms. The host, to be effective, must have the skills to assess issues arising and determine what type of dialogue will be most useful on a case-by-case basis. This assessment will include determining whether more permanent dialogue structures would be practical.
104. It is probably better, if resources are limited, to invest in developing a capable host body to support many levels of dialogue, than it is to invest in a specific dialogue mechanism. This is what DFID has shifted course to do in Uganda. Having started by supporting a public-private task force to improve the regulatory environment, DFID realised (after initial successes) that the long-term sustainability of better regulation depended on creating a point within the Ugandan public sector that could not only support task forces, but could also support a wide manner of PPD initiatives to continue reforms.

### 3.5 At what stage of policy reform is dialogue most useful?

105. Dialogue can assist at all stages of policy reform, from identification of problems, through design of reforms, through legislation of reforms, through implementation, monitoring and evaluation of reforms. In general, the earlier government brings key stakeholders into the process, the better. As mentioned earlier, few pay attention to the private sector’s potential to help in implementation and monitoring of reforms, although it has a valuable role to play in these later stages, too (as has been the case in business licensing reform in Entebbe, where a private contractor is efficiently implementing the new system for the municipality).

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<sup>19</sup> Herzberg and Wright, *Op. cit.*, p. 12.

### 3.6 What can donors do to strengthen dialogue?

106. Donors can be one of the biggest resources and one of the biggest obstacles to effective PPD. They serve as resources when they help participants to collect and analyse evidence, both from the in-country environment and from other international experience. They serve as resources when they build capacity in policy analysis, regulatory impact analysis, and other key policy-making skills. They serve as resources when they help improve the infrastructure that promotes dialogue, such as improved communications, knowledgeable business journalism, and international benchmarking (such as the *Doing Business* league tables).
107. But donors often are one of the biggest obstacles to PPD. They obstruct primarily when they impose their agendas on host governments, and when they make both governments and private sector associations respond more to donor priorities than to their home constituencies. Poverty Reduction Strategy Papers (PRSPs), unfortunately, are a general impediment to good PPD. Their outcome (debt relief) is highly desirable to governments, and their remit is highly relevant to the enabling environment; but the way they have been implemented has permitted little private sector input. This is because most donors, until recently, have not recognized a relationship between private sector growth and investment and poverty reduction. As a result, PRSP processes have included a wide range of civil society organizations, but few private sector bodies, and the resulting programmes miss major opportunities to reduce poverty through improving enabling environments.
108. Similarly, there are all too many instances of private sector associations growing rich on donor funding while losing touch with their membership. Less appreciated is how much government ministries in foreign aid-dependent countries have reorganized to focus more on donor project management than on sound policy making and implementation. This problem is particularly acute in sub-Saharan Africa, where in many countries it is impossible to engage civil servants in PPD and other policy reform initiatives, because they are receiving donor subsidies to manage direct intervention projects and other donor programmes. Even many Finance Ministries seem to spend less time making policy than on hosting project management units for various donor agencies.
109. The other 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 don't match. Using local trusts as a means to bypass donor project cycles to synchronize better with PPD requirements is a promising initiative. Challenge funds, too, can serve this purpose, 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.
110. 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.

## 4 Conclusion - Success factors in PPD

111. There is no simple key to the success of PPD, but there are some general conditions that characterize the more successful initiatives reviewed.
112. **Effective champions** drive successful PPD. Active, motivated, persuasive champions keep processes on course when obstacles are encountered. They keep participants feeling engaged and valued, so that when changes are agreed, they are implemented. They are focused on results, but flexible enough to respond to PPD contributions (as opposed to using these meetings as a vehicle to advance individual agendas). It is difficult to sustain PPD without active work from both a public and a private champion. The private champion may be able to generate ideas and enthusiasm at an early stage, but without a public counterpart (preferably at a senior level), results are hard to come by, and momentum cannot be sustained.<sup>20</sup>
113. Conversely, poor champions dominate and personalize the PPD agenda, discourage participation and derail the process. Champion selection is critical, but there is no magic formula for picking correctly. Perhaps the only way to mitigate the risk of poor champion selection is to start the PPD process on a more informal level, which might make it easier to change champions as practical experience dictates.
114. **Buy-in** by both the public and private sector is essential. Both have to commit significant resources to PPD (whether in cash or in kind). The process cannot depend on donor backing – excessive donor support before local buy-in orients PPD to donor agendas instead of to local priorities, and discourages local ownership. Buy-in is particularly important in countries heavily dependent on donor funding for economic development, where the public sector, in particular, has become used to receiving subsidies for following donor agendas.
115. **Balance** between interests and contributions sustains PPD. More participants contribute in successful dialogues, both at the table and in pre- and post-table research and analysis. PPD in which one or two participants do most of the work don't tend to achieve much influence, even if the active parties are genuinely trying to work on behalf of the whole group. Engaging trained facilitators in PPD (as occurred in Ukraine) can help promote more balanced contribution. Certain facilitation techniques can be useful in breaking the ice and building trust. Scenario planning, in which participants try to look and plan several years ahead (and thus escape any current political impasses) has proven a useful tool in PPD in southern Africa, for example.
116. **Planning** is vital. There is more to PPD than simply providing a space and persuading people to sit together. Agendas should be set well ahead of meetings (and well advertised). Evidence-based materials should be provided to inform

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<sup>20</sup> The Bulldozer Initiative in Bosnia survived without a strong public sector champion, but only because of strong support from the Office of the High Representative, which in effect is the highest “public” authority in the country. The consultants doubt that this model could be implemented with such weak government support in other countries.



and enliven discussions. Minute logistical matters can be critical, such as meeting over lunch or dinner to accommodate busy schedules, or hosting a meeting slightly away from the capital city to get away from distractions. Timetables should be set for group outputs wherever possible, to support planning and to keep up pressure on the group to produce results.

117. **Results** drive PPD in the longer term. Dialogue without change cannot be sustained for very long. Careful setting of priorities and sequencing group activities works better than trying to tackle a large wishlist of reforms all at once. The more successful PPD initiatives focus early on “low hanging fruit”, topics where political resistance to change is low and where reforms can be agreed over relatively short time spans. This strategy builds momentum for tackling tougher, less tractable problems. The more successful initiatives measure their achievements, and have effective communications strategies for letting not only all participants, but also the general public know the returns on the time and effort invested in dialogue. More successful initiatives, whether set up for the long- or the short-term, set deadlines for action, keep minutes of meetings, and monitor progress against deadlines.
118. The Outcome Mapping tool, originally developed by the IDRC and now used in a number of DFID projects (including the Better Regulation project in Uganda), can assist in ways project frameworks often cannot in setting objectives and monitoring achievements in policy reform efforts. The World Bank’s “diamond” mapping model for the four elements competitiveness partnerships (government, business, sponsor, instruments) can also monitor performance and identify vulnerable points to be addressed.<sup>21</sup>
119. **Respect** keeps groups coming back to the dialogue table. In the best PPD processes all parties feel motivated to contribute, and also feel that their contributions can make a difference. Where groups come to feel that they are brought into a dialogue just to make them change their minds, they don’t tend to come back for more, and they tend more often than not to harden their contrary positions. The institutions managing the “neutral space” play key roles in maintaining atmospheres of mutual respect.
120. **Measurement** is a key to getting PPD to focus. More successful dialogues don’t just hear complaints and plaudits, they look hard at the costs and benefits of the present situation and at possible future scenarios. The mathematics needn’t be fancy, but there should be some attempt to quantify problems and opportunities in the enabling environment. Many representatives at dialogues cannot generate this analysis themselves, and it often falls to the “neutral space” manager to help provide objective analysis for review and discussion by all parties. Regulatory impact assessment (RIA) is one of many tools which can promote more effective PPD.
121. **Public relations/communications** is vital to the implementation of change. No matter how carefully PPD participants initially are selected, implementing reform requires bringing more parties to the table. Few DFID PPD initiatives have formalised communications strategies (Uganda Better Regulation is one

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<sup>21</sup> See Herzberg and Wright, *Op.cit.*, pp. 12-13.

exception). More emphasis should be placed on communicating the rationale for reform, the “mission statement” of the PPD process, and ongoing achievements of that process to a wider public. This wider audience should include other parts of government (and Parliament), other private sector associations, and key civil society groups. The World Bank review recommends the use of branding and social marketing tools in these communications strategies.<sup>22</sup>

122. **Private sector associations** may not be essential to PPD in the short-term; but PPD cannot be sustained without capable private sector association participation. The problem is, excessive donor attention undermines the development of these associations by building the donor-executive relationship at the expense of the constituency-executive relationship. In the short run, PPD can compensate for association weakness by direct appeals to the business community. Enlightened individual entrepreneurs can provide the information and political support needed to initiate PPD and tackle initial issues. However, in the longer run it is too expensive to continue custom-assembling the private sector side of the dialogue as issues evolve. Capable business associations take on this cost in countries with better business environments and more positive government-business relations.

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Hodder and Wright, *Washington* 24-26.

## Annex 1. Details of DFID's PPD Related Projects and Programmes

Region/Country	Programme Name	Duration	Structure and Scope	Expenditure
<b>Asia</b>				
China	SOERED	1999-2002	PPD structured around service delivery to the nascent private sector at a provincial level through the provision of Business Development Services. This takes the form of an Information and Advice Centre and Credit Guarantee Fund.	£5.1m approx
India	<i>Orissa Industrial Policy Resolution</i>	<i>05/02-05/05</i>	<i>Regular Tripartite dialogue between government, private sector and civil society in order to improve the climate for socially and environmentally responsible investment and enterprise development.</i>	<i>£100k from DFID towards overall £5.1m</i>
India	<i>Public Sector Enterprises Restructuring Prelude Phase (149-125-001, 149-542-077)</i>	<i>9/03-12/03</i>	<i>'Tracer Studies' – ex post social impact studies and 'Citizen's Committees' to oversee progress in implementation of programs and draw upon tracer studies. Studies aimed to address grievances whilst building commitment to public sector enterprise restructuring.</i>	<i>£23.13m</i>
India	<i>SME-SPI ( 149-540-017)</i>	<i>7/02- 7/09</i>	<i>Dialogue focused on increasing government's dialogue with and accountability to clients, particularly SMEs.</i>	<i>£16m</i>
Pakistan	Pakistan Microfinance Network	2001-2003	Support to the formalization of the Pakistan Microfinance Network. PPD activities including secondments involving government employees, development of financial and performance standards with Network members (through engagement with CGAP), dialogue with Government on a needs basis, and capacity building and training events.	No value given
Vietnam	Markets for the Poor (186-540-001)	<i>8/03-10/06</i>	<i>"Enhanced policy dialogue between government and other stakeholders in order to increase the understanding of the links between growth, poverty and the dynamics of markets and institutions."</i>	<i>£1.3m</i>
<b>Balkans</b>				
Bosnia and Herzegovina	Post Privatisation Enterprise Restructuring Project		"One element of this project was to identify obstacles being faced by enterprises in BiH in the restructuring process and to communicate the nature of the problems and possible policy solutions to policy makers (with a view to policy reform: e.g. labour laws)."	
	Reform of the Business Registration Process		Locally appointed working groups. Strong dialogue between DFID project and local officials.	

Region/Country	Programme Name	Duration	Structure and Scope	Expenditure
<b>Caribbean</b>				
Jamaica	<i>Cluster Competitiveness Programme (111-540-002)</i>	02/02-05/04	<i>"Creating and supporting appropriate forums for productive stakeholder dialogue. In order to aid consensus building and to generate momentum, process started with issues that aren't overly controversial and linking with regional advocacy and integration efforts. Dialogue focused on improving wider enabling environment through assisting private sector in prioritizing and articulating their needs."</i>	£572,000
	CBC Trade Policy Dialogues on "Singapore Issues" (790-637-049)	09/02- 3/03	<i>"Series of trade dialogues involving 30 business and government leaders. Outcome of discussions provided inputs to the Commonwealth Trade Congress in March 2003 and also to Cancun ministerial meeting." Dialogue focused on strengthening WTO negotiating ability.</i>	£78,000
<b>Central and Latin America</b>				
Bolivia	<i>Making Markets work for the Poor</i>	5/02-03/04	<i>"The Bolivian productivity and competitiveness system is a platform that links economic growth and poverty reduction by establishing strategic alliances between public, private and academic sectors to develop and implement public policy in favour of increased competitiveness."</i>	£740,000
Guyana	<i>No information provided</i>			
Nicaragua (and Honduras?)	Business Enabling Environment	No details of dates given	DFID providing support to national apex association representing SMEs.	No value given
<b>CIS</b>				
Ukraine	Chambers of Commerce Project	2001-2004	Oblast (regional level). DFID support focused on developing a strong voice for business in regions concerned, creating an effective business development services organization, and a lobby for business in enabling environment reform. Focus groups and round tables established in 3 towns. In addition, support to Chamber staff to train private sector members, via seminars and roundtables, on best way to raise issues with regional government.	£400,000
Ukraine	Donbass Social and Economic Regeneration Project	2002-2007	Focus Groups have been set up in four local districts. In addition an Oblast-wide consultation group has been created involving business, Oblast officials and regulatory bodies. Dialogue focused on developing socio-economic frameworks for improvements to the enabling environment plus specific regulatory issues.	£250,000
<b>Sub Saharan Africa</b>				
Africa Regional (Southern Africa)	Commark	5 year project (deliberately)	Commark is structured as an independent trust in order to act as a third party facilitator for the development of Commodity and Service markets. PPD is supported through sub sector cluster initiatives (e.g. Mining	No specific figures given

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Region/Country	Programme Name	Duration	Structure and Scope	Expenditure
		time bound)	Equipment in South Africa) and support to specific issues (e.g. development of a Tourism Charter in Namibia). Sub Sector initiatives involve all relevant government and industry stakeholders. Commark also supports PPD through the production of research papers, etc.	
Africa Regional (Southern Africa)	FinMark	2002- ongoing	Finmark is also structured as an independent trust which seeks to make Financial Markets work for the poor. PPD elements include supporting forums on relevant issues; collecting information through surveys (e.g. FinScope) and the production of Research papers. Finmark has been instrumental in the use of scenario planning techniques, and used its influence to promote dialogue between government and the banking sector over the access to finance question.	£5m from DFID
Africa Regional (Southern Africa)	Cutting Red Tape for Business in Africa	No dates given	A media-focused programme aimed at promoting regulatory reform.	No specific figures given
Ghana	<i>Business Sector Advocacy Challenge Fund</i>	<i>15/07/04</i>	<i>"Programme of support to business associations, trade unions and business media to enhance public/private dialogue and improve business advocacy in the country."</i>	<i>£5m from DFID (£10.5m overall)</i>
Ghana	<i>Business Linkages Challenge Fund</i>	<i>1/02-1/06</i>	<i>"To feed lessons learnt regarding obstacles/opportunities for private sector development, into enhanced dialogue between government and private sector."</i>	<i>£1.1m</i>
Kenya	Enabling Environment Programme	No specific dates given	Dialogue to date under the Enabling Environment Project has been on a less formal, more ad hoc basis involving the Government, the quasi independent research institute KIPPRA and the National Apex Association, KEPSA	
Lesotho	IF and PRSP processes	No specific dates given	Insufficient information for structure and scope description	
Malawi	Support to the National Action Group	2001 onwards	Non-institutionalized , high-level forum for dialogue that involves large corporate entities, central Government, the Malawi Chamber of Commerce, the National Association of Smallholder Farmers. The Forum is based around working groups, with sub sector working groups in support. The NAG is facilitated and supported by a Secretariat that includes a donor focal point (DFID), a private sector focal point (provided by local consultants), and Government focal point. Dialogue is based around the Malawi Economic Growth Strategy (MEGS) and also addresses specific issues within that framework.	DFID provides a resource to the Secretariat. No other details given.
Nigeria	Better Business Initiative (BBI)	No specific dates given	DFID has provided support to the African Institute of Applied Economics, specifically to its provision of a Secretariat to support the Better Business Initiative. The BBI is based on an issue-based working group approach	\$20,000 to conference in 2004, no other

Region/Country	Programme Name	Duration	Structure and Scope	Expenditure
			concentrated on the production of policy papers which are presented to Government in an annual conference.	figures given.
Nigeria	Policy Advisory and Knowledge Facility (PAK)	No specific dates given	This facility is designed to strengthen the advocacy capacity of Non-State Actors, including the private sector.	No value given
Nigeria	Pro Poor Growth Programme (design phase)	Due to commence 2004	As part of the design phase DFID is analyzing the existing Apex Organisation environment at the State Level in order to inform the programme design phase.	No value given
Nigeria	State and Local Government Programme	No specific dates given	No detailed information given, but mentioned in the context of dialogue between decentralized government actors and local and state level Apex Organisations	No value given
Namibia	Support to development of a Tourism Charter (support provided by Commark)		See above with reference to Commark	
South Africa	Employment Promotion Programme	No specific dates given	Insufficient information for structure and scope description	
South Africa	Land Programme (Design Phase)	No specific dates given	Insufficient information for structure and scope description	
South Africa	NEDLAC	No specific dates given	NEDLAC includes four different types of stakeholder- Organised Labour, Civil Society, Business and Central Government. An Executive Council, involving senior representation from all parties meets four times per year. There is also an Annual Summit to review work and plan the year ahead. PPD within Nedlac is based on a four-chamber model, focusing on: the Labour Market; Trade and Industry; Development and Finance and Monetary Policy. Sub-committees are formed to address specific issues, and NEDLAC is serviced by a Secretariat.	
Tanzania	BEST Programme		No feedback from DFID Tanzania due to recent staff changes	
Tanzania	Private Sector Initiative	2-year commitment from SBP to set up and then hand over.	A partnership between government , big business and donors to make up the "missing middle." Helps to bridge the knowledge gap between big business and SMEs by establishing linkages between the two. The Small Business Project (RSA) acts as a facilitator. Initiative structured around a Steering Group, Working Group, and the SBP as facilitator.	
Uganda	Commercial Justice Reform Programme	No dates given	Court users provide feedback on commercial courts performance	
Uganda	Medium Term Competitiveness Strategy	No dates given	Insufficient information for structure and scope description	

Region/Country	Programme Name	Duration	Structure and Scope	Expenditure
Uganda	Support to Legal and Regulatory Environment for Business in Uganda Phase 2	2004-2006	PPD is an integral component of the project, include capacity building efforts to strengthen the voice of business and the analytical capacity of government.	
Uganda	Uganda Public Private Partnerships (UP3)	No dates given	Insufficient information for structure and scope description	
Zambia	Support to dialogue between Govt, ZBF and ZIBAC	Since Jan 2003, DFID has committed to funding two meetings pa for 2 years.	Support to tripartite dialogue between Zambia Business Forum, Zambia International Business Advisory Council, and Government. This has focused on identifying constraints within the enabling environment. Structured meetings include closed-door sessions between President and ZIBAC, followed by a plenary session, and sub sector meetings.	DFID funds the national Secretariat of the ZBF, DFID pays ZIBAC members' flights.
Zambia	Enabling Environment Programme		Project forthcoming	£2m out of earmarked £7m for PPD

#### Notes

This table reflects a combination of responses from DFID Enterprise Advisers, plus analysis by David Stubbs, a DFID intern (*In italics*). Some of the expenditure values in the context of PPD will not be accurate as it proved difficult to capture this information through primary research with Advisers. In addition, further follow-up with DFID advisors did not always yield complete information due to staff rotation or time constraints.

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## Annex 3. Case Study 1 DFID's experience in Zambia: The Private Sector Development Forum

### 1. Historical Context

Under President Kuanda in the early 1990s, Zambia began a shift from a centrally-planned socialist economic model to a more liberalised market model. Whilst reforms stuttered during the second term of President Chiluba, prospects for economic reform have been revived following the election of President Mwanawasa in 2002. Prior to the Mwanawasa presidency, there was no real history of public private dialogue. Instead, the government's approach was defined by the legacy of its socialist past, and the private sector remained fragmented with deep suspicions on both the public and private sides of the divide. Private sector fragmentation was characterised by the existence of fifteen different private sector representative organisations, each pursuing its own agenda.

### 2. Demand for PPD

Demand for public private dialogue in the context of investment climate reform in Zambia can be traced to several specific events in 2002: the withdrawal of the Anglo-American mining company coupled with the election of President Mwanawasa.

Two significant developments occurred in that year to advance the prospects for PPD in Zambia:

- The emergence of the **Zambia Business Forum** (ZBF) facilitated by the USAID-funded project, Zambia Trade and Investment Enhancement (ZAMTIE). The ZBF was formed to try to unite the private sector and enable it to speak with one voice. It brought together five of the main business Associations in Zambia:
  - Zambia National Farmers Union;
  - Zambian Association of Chambers of Commerce and Industry;
  - Zambian Association of Manufacturers;
  - The Tourism Council;
  - The Chamber of Mines
- At the same time, President Mwanawasa requested separate dialogue with DFID. The outcome of this dialogue was that Lord Cairns, then chair of the Commonwealth Business Council, was enlisted to establish the **Zambia International Business Advisory Council (ZIBAC)**. ZIBAC was designed to enable the President to receive impartial advice from 12 international business people (with no vested interests in Zambia) who reflected the principal sectors of the Zambian economy.

In a bid to chart the way forward for private sector development in Zambia, President Mwanawasa invited the ZBF to a meeting on January 16<sup>th</sup> 2003. The ZBF was invited to set the agenda, and in doing so articulated a principal objective of gaining acceptance from the President for a permanent structure for public private dialogue on cross cutting issues. Despite the fact that the January 16<sup>th</sup> meeting often degenerated into the pursuit of individual agendas by the five ZBF members, they were successful in securing Presidential agreement to the requested public private dialogue mechanism. Five major cross cutting issues were identified for discussion within the new dialogue mechanism: tax reform; high interest rates and hyper inflation; reform of the Investment Centre Act and generally improvement of the investment climate; de-dollarisation of the Zambian economy; and the budget and public sector reform.

### **3. The experience of the Private Sector Development Forum**

The new PPD mechanism agreed between the ZBF and the President is known as the Private Sector Development Forum. DFID has supported the forum in a number of ways, including agreeing to fund two meetings per year for the first two years of its existence. In addition DFID indirectly supports the forum by paying for the flights of ZIBAC members and by funding the ZBF in conjunction with three other donor partners.

**3.1 Structure and Scope of the PSDF.** The PSDF has adopted a highly formalised structure driven from a top down approach. The agenda for each meeting is set by the Office of the Presidency, and there is an initial closed door session between the President and ZIBAC. The second and third days of each session involve plenary sessions and sub sector meetings. Much of the dialogue takes place around the five cross cutting issues described above.

**3.2 Progress to date:** After the first three meetings, the PSDF has produced an action plan addressing fifty five priority enabling environment issues.

#### **3.3 Problems encountered in the PSDF: These include:**

- Resentment and suspicion within the ZBF at the closed door sessions between the President and ZIBAC;
- The pace of dialogue has been dictated by mutual suspicion on both sides, with the first few meetings taken up by addressing this issue;
- The action plan (wishlist) has lacked prioritisation and sequencing making it difficult to progress towards implementation. The World Bank is funding a consultant to review and cost the action plan. Implementation is also going to be addressed under the aegis of the forthcoming DFID Enabling Environment Project;
- The overly formal nature of the sessions and the lack of a proper facilitator act against inclusion of all stakeholders.

#### 4. Additional problems associated with PPD in Zambia

There are a number of additional problems not unique to the Private Sector Development Forum that are impacting on the prospects for successful PPD in Zambia:

- **Overfunding of the Zambia Business Forum.** DFID, along with three other donors, are described as having overfunded the ZBF leading to it becoming disconnected from its membership and donor-dependent. Donors are described as having become the ZBF's new constituency. One example given was recent lobbying of the ZBF by a donor staff member to make the issue of residency permits for foreign nationals a dialogue issue;
- **Personalisation of the dialogue agenda by individual champions.** The environment for PPD in Zambia is so fragile that several individuals have been prominent in driving it forward. They include Dipak Patel, the Minister for Trade, Commerce and Industry, and Dr Sam Mwenwache, Chairman of the ZBF. Their dominance in promoting the recent PSDF action plan risks undermining broad-based ownership of the product. The issue is further complicated by Patel's Asian ancestry (racism towards Asians is a problem in Zambia) and the fact that he comes from the opposition party;
- **Limited capacity within government:** Years of poor pay, low capacity and bad management culture have negatively impacted chains of command. Even if a Minister issues an order there is no guarantee that this will be followed through further down the chain of command;
- **Poor use of communication:** The PSDF does not incorporate a formalised approach to engaging with the media;
- **Poor grassroots representation:** Poor quality representative bodies have impacted on the ability of small businesses to be heard within PPD. The forthcoming DFID Enabling Environment Project aims to address this problem by concentrating demand-side strengthening within various sub sectors.

#### 5. Further lines of enquiry:

The Zambian context would be worthy of further research into PPD at both the macro and sub sector level. The Integrated Framework process could be one area for exploration, and at the sector level, there is a lot of activity ongoing in the agricultural sector. The DFID Enterprise Adviser alluded to one initiative being developed by the Zambia National Farmers Union to engage and train Agricultural Extension Officers, representing a bottom-up process driven by a private sector actor. She had no additional information to hand.

# Annex 4. Case Study 2 DFID's experience in Ukraine<sup>23</sup>

## 1. Historical Context

The Ukraine has an administrative structure that favours regional governance with the country divided into 24 regions (Oblasts), two Oblast-level cities and one autonomous republic, Crimea. Since the collapse of the USSR, the country has suffered economic and social collapse- estimated GDP for 2002 was only 65 percent of the 1990 figure. However the informal economy has grown significantly in this period with some estimates describing 60 percent of total actual GDP as coming from informal activities. The development of the private sector and SMEs in particular, has been much slower than in neighbouring Central European countries.

The political economy is characterised by close ties between government officials and recently privatised former State Owned Enterprises. Privatisation of State Owned Enterprises has also led to the emergence of powerful oligarchs capable of influencing the government's private sector agenda. Many politicians also have close ties to the larger end of the private sector. As one example, the Governor of the Lugansk Oblast is a former Chief Executive of a Local Bank.

As a general rule of thumb state officials at the national and regional levels have traditionally had a poor understanding of both the needs and the problems encountered by SMEs. Although Chambers of Commerce are private sector organisations, they have often had strong links to Government, usually through close ties to the Oblast State Administrations. They receive up to 50 percent of their annual income from a monopoly on certification.

## 2. Demand for PPD

Demand for dialogue in Ukraine has been driven by donor pressure and partly by Government, with the joint realisation around the year 2000 that the enabling environment for SMEs was poor. The newly elected President - Yushchenko - was involved at the start when he was Prime Minister. Some regions have actively adopted PPD with donor support. In Eastern Ukraine, donors have led the way.

## 3. DFID's PPD Interventions in Ukraine

Two significant DFID interventions were identified as important in the context of PPD in Ukraine:

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<sup>23</sup> This case study draws on conversations with DFID Ukraine's Enterprise Adviser and a background note prepared by him for this study.

- Strengthening the Chambers of Commerce in Donetsk and Luhansk
- Social and Economic Regeneration Project in Donbass

#### **4. Strengthening the Chambers of Commerce in Donetsk and Luhansk:**

Since 2001, DFID has committed approximately £250,000 (over 3 years) to PPD-related activities under this project. The aims of the project have been to: create a strong voice for business in the regions concerned and to act as a counter-balance to government; to create an effective business development services organisation; and to produce a lobby for business in the ongoing attempts to improve the enabling environment.

- **Structure and Scope of PPD:** PPD has principally been structured around focus groups and round tables for businesses in three towns in Donetsk Oblast, and in addition both where Donetsk Chamber of Commerce has branches and in the Kirovsky District of Donetsk City. Extra activities have included developing the negotiating and influencing skills of the two Chamber Presidents; strengthening the management skills of senior and middle management of the two Chambers; training senior managers to initiate dialogue with government; and enabling training staff to train their private sector members on ways to raise issues with government.
- **Achievements:** The use of trained facilitators has been important to balance the contribution of business and ensure smaller businesses have the opportunity to have their voices heard. Overall the level of understanding of SMEs within Government bodies has improved, and the time taken for the process of business registration has been reduced in several towns in Donetsk Oblast.

#### **5. Social and Economic Regeneration Project in Donbass:**

DFID has committed £6 million over 5 years (since 2002) to this wider social and economic regeneration project (although it is difficult to identify a set sum for PPD). Within the economic block of activities, support to improving the enabling environment is one output.

- **Structure and Scope of PPD.** A number of PPD structures have been put in place:
  - The programme has created focus groups at the level of four local district Rayons to develop socio-economic strategies as frameworks for improvements to the enabling environment. These focus groups have been led by Ukrainian staff trained in facilitation and participatory techniques.
  - Four groups have also been established to specifically discuss regulatory environment issues in each of the four pilot rayons. The groups have been successful in reducing tensions between business and government, helping to find common ground between the 2 sides and reaching common solutions.

- An Oblast wide consultation group between business, Oblast administration and regulatory and economic bodies, and chaired by the Governor himself has been created. Mirror groups have been created at the level of the four pilot rayons headed by the Mayor or Head of Administration. The remit was specifically to find ways to increase economic growth from **SMEs**.
- **Achievements:** The consultation group especially has been useful in breaking down barriers and giving business confidence that something can be achieved.

## **6. Overall Lessons Learned:**

- PPD should be established as a continuous process and not a project-related activity. Enabling environment reform is a continuous process , and PPD will only be sustainable if it is also established to be continuous;
- PPD should operate at all levels of government, but is likely to be more effective at the lowest level at which business and government interact;
- Trained local facilitators are vital;
- Meetings should stick to the agreed agenda to avoid disillusionment;
- The frequency of meetings needs to be carefully managed to encourage attendance;
- Early progress is useful to avoid disillusionment;
- PPD should engage on issues which most affect business- there is no point in either side raising issues that cannot be changed.

## **7. Further lines of enquiry:**

Both the World Bank and USAID are active in a number of PPD initiatives and it may add value to engage with these and identify lessons learned.

## Annex 5. The European Union experience in PPD

123. In order to be able to explore further and compare the DFID experience with other donor and multinational experience, we conducted some basic research and analysis on the European Union's experience in promoting PPD. This research, given the time constraints, was not based on detailed interviews of country actors (which would have numbered at least 120!), but restricted itself to an examination of reviews of European Commission (EC) work at different levels, both inside and outside the EU. It thus serves as a 'snapshot' with examples only.
124. The EC has seen the importance of PPD for some time, stating in the preamble to the Africa-Caribbean-Pacific (ACP) Business Forum Pilot Project it launched in 2000, "In many ACP countries a new generation of ACP entrepreneurs is eager to enter into structured dialogue with their governments to help shaping policies and work out a suitable task division between public and private sectors. If properly handled, a public-private sector dialogue can help to improve the quality of policy-making and to ensure a greater impact of EU co-operation resources."<sup>24</sup>

### 1.1. Actors in PPD

#### 1.1.1. Inside the EU

125. With 80% of national legislation originating at EU level, business groups now account for two thirds of all groups operating at EU level in the context of EU consultation and dialogue. Around 1000 business interest associations are listed with the European Commission, and almost 1300 EU level groups of all types and 300 transnational firms have government relations offices in Brussels. Private sector actors are more or less divided into three different categories: 1. trade/sector federations, 2. national business associations, 3. individual firms. All engage in dialogue with public sector institutions in a variety of ways. They form alliances for specific purposes, or engage in structured dialogue with the public institutions through the systems that have been put in place (European Social Dialogue, Consultation of Draft Legislation, Technical Working Groups and ad hoc advisory committees, etc.).
126. Larger firms in the EU tend to pursue dual lobbying strategy – via EU trade associations and on their own. They do not always act in the interest of the 'common good'. A powerful grouping of high-level company representatives may have a much stronger influence on policy developments than smaller sectoral organizations. Also, they may not necessarily use their influence for the general improvement of the business environment, but may champion their own narrow agenda (as was recently the case with certain automobile manufacturers).

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<sup>24</sup> Text of EU ACP Business Forum Pilot Project 2000 on PPD Support.

*Reforming the Business Enabling Environment: Mechanisms and Processes for Private-Public Sector Dialogue,*  
Gamser, Kadritzke and Waddington

August 2005



### 1.1.2. In ACP countries

127. A further difficulty arises during the selection of those developing country representatives who engage in PPD on behalf of the private sector. The ACP Business Forum, an EU initiative started in 2000, serves as a good example here. Although initiated by the private sector (with a strong champion in the Mauritius Chamber of Industry), the subsequent invitation and board selection process under the auspices of the EC did not sufficiently screen representatives in order to ensure that the actors taking part were capable of representing the private sector views correctly. This led to a situation where the representatives did not actually represent their local, regional or national constituencies.

#### **The ACP Business Forum pilot project on PPD**

Before the Cotonou agreement negotiations started at the end of 1997, the EC published a Green Paper on the future of ACP EU relations. At the time there was a growing realization that the private sector role had strengthened throughout ACP generally as a result of economic and political liberalisation in the early nineties. The new Cotonou agreement correspondingly foresaw private sector engaging in political dialogue, national and regional programming, and formulation and implementation of EC cooperation policies. In return, the private sector would be granted easier access to funding and capacity-building support measures. Very few private sector organisations were aware of the potential offered by the Lomé Agreement and of the new dialogue opportunities envisaged in a new ACP-EU cooperation agreement. Prior to the start of the Cotonou negotiations, the Mauritius joint economic council asked for help to build stronger ACP-wide business/private sector representation for the negotiations. They sought to ensure dialogue with ACP government on key policy areas (trade, regulations, political reform, EDF programming etc.). Out of this initiative the idea was born to launch a pilot project with the ACP Business Forum on the promotion of structured public-private sector dialogue in the context of ACP-EU cooperation. The project's aim was demonstrating (in substance and form) how structured forms of dialogue can be promoted between public and private actors in ACP-EU cooperation. It hopefully will act as a relevant source of inspiration for dialogue initiatives in different ACP regions and countries.

128. Voices such as those of small businesses are drowned out, even in well established systems with formal structures. Large companies will always have better informal links, so SMEs need to be very well organised in order to make a difference. Even in formal, mature systems, smaller organisations can 'disappear', in an all-inclusive organisation (even if 75% of an association's membership comes from SMEs, the 25% of large companies tend to run the show).

### 1.1.3. Fostering commitment

129. Support to institutional structures and capacity building can be provided by donors, but ownership needs to come from both public and private sector representatives themselves. In the trade associations and sector representations engaged in consultation and dialogue with the European institutions and at national level, a membership fee is usually levied which pays for

In the case of the ACP Business Forum, representatives, with a few exceptions, did not provide the initial input for Euro 5000 per member to the organisation. The lack of joint funds meant a full secretariat could not be set up, no staff recruited. This left the Forum without a proper support structure and reduced its ability to coordinate positions effectively.

a secretariat structure and supporting mechanisms that coordinate and advocate policy reform and positions taken by the organization on behalf of the companies. If a new structure is supported by donors in a developing country context, a fee-based system for associations reduces the risk of donor dependency and creates ownership and a stake in the process for those participating. The ‘put your money where your mouth is’ test is a way to gauge the level of commitment of an organisation. Generally, the larger sector organisations have the resources already to contribute to a basic membership system.<sup>25</sup>

#### 1.1.4. Fostering Champions

130. Despite the risks associated with strong individual players discussed above, it is nevertheless accepted that some of the key advances in PPD have come about as a result of ‘drivers of change’ and strong individual champions on both sides of the dialogue process. Crucially, as stated above, these need to be connected to the grass-roots levels and be accepted as representatives. If they leave, the process may stall.

##### Successful PPD Case Study 1: Fiji

Fiji benefits from being a small island, with a correspondingly controlled business and government environment. Here, all interested parties in the private sector have in recent years joined forces to create a strong platform for business to engage in dialogue with the public sector. Intensive talks and discussions on how to organise themselves were owned wholly by the main actors such as Fiji chamber of commerce, the sugar industry, and indigenous councils. Despite differing interests, these key players, driven by strong champions in each organization, saw the wider picture and benefit in interacting with government on a common platform. The government/prime minister took note and as a result this platform has now become the interlocutor for wider consultation with the government. Factors for success here were strong individual leaders with good mediation/facilitation skills (such as the President of the Sugar Commission) who saw the wider picture, a generally young generation of dynamic representatives of private sector organisations, discreet third-party (EC) support (e.g. for drawing up the statutes for the system), and favourable environment – limited economic sectors and geographical size, and ultimately strong government commitment.

## 1.2. Level and structure of PPD

131. An explicit and open policy development process, such as exists within EU member states’ administrative and/or legislative systems, is a major promotion for dialogue (UNCTAD). In addition, the EU provides us with an example how within this well developed structure, despite significant historically different approaches at national level, the need for the private sector to concentrate at EU level has led to a gradual development and migration of dialogue from national to multi-national level over time:

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<sup>25</sup> As noted in the previous section, DFID advisor experience suggests that membership fees in ACP countries rarely meet full operating costs for associations, leaving them to source additional funds from elsewhere (usually donors). Few smaller firms pay their dues. Fee payment is unlikely to be a total solution.

<b>Date</b>	<b>Levels of dialogue</b>	<b>Structure</b>
- pre-Single European Act	<ul style="list-style-type: none"> <li>• Local, regional</li> <li>• National</li> <li>• Limited EU (some: Commission and Council only)</li> </ul>	Before Single European Act no real system for PPD at EU level. Mainly direct, informal contacts.
1985 (Social Dialogue initiated)	<ul style="list-style-type: none"> <li>• Local, regional</li> <li>• National</li> <li>• Commission</li> <li>• Council</li> <li>• European Social Dialogue</li> </ul>	Commission formally required by Treaty to develop dialogue structure. Social partners along tripartite structure involved are: Employers (UNICE), Trade Unions (ETUC) and Public Enterprises (CEEP). Involves formal discussions, joint action, negotiations. Can lead to contractual agreements that are then implemented via a Commission proposal that is adopted by the Council (e.g., parental leave, part-time work).
1986 (Single European Act adopted)	<ul style="list-style-type: none"> <li>• Local, regional</li> <li>• National</li> <li>• Commission</li> <li>• Council</li> <li>• Parliament</li> <li>• European Social Dialogue plus other less formal channels</li> </ul>	Strengthened role of European Parliament (new legislative procedures co-operation and co-decision) and new representative bodies added - increasingly business also in dialogue with European Parliament.
1992 (Creation of single market)	<ul style="list-style-type: none"> <li>• Local, regional</li> <li>• National</li> <li>• Commission</li> <li>• Council</li> <li>• Parliament</li> <li>• European Social Dialogue and large variety of other fora</li> </ul>	EU institutions increased their regulatory authority – dialogue for business at EU level becomes crucial. Likewise, EU institutions dependent on sector input on their policy reform initiatives. Many types and scope of interaction (sectoral, formal, informal, long, short).

132. In the case of the EU, all actors have responded flexibly to the shifting balance of power among European Institutions by moving their key PPD forum accordingly. National and regional associations have not been abandoned, but an important supra-national level of consultation and dialogue has been added as and when necessary.

133. In this context it is interesting to note that, in parallel to the 'standard' consultation mechanisms outlined above, the Commission has recently established an on-line consultation platform (the European Business Test Panel) designed to receive feedback on initiatives at EU level from all kinds of 'representative' businesses in the EU. This is a new electronic mechanism for consultations that complements the traditional set up via chambers of commerce, associations and other private sector groups at EU level. It is also a good example of a dialogue-seeking initiative by the public sector, interested in receiving specific feedback on regulatory proposals.

Originally launched in 1998 as a pilot project, the European Business Test Panel (EBTP) will allow the Commission to contact and obtain the views of up to 3,000 EU businesses (selected at random) whenever major Commission legislative proposals and/or policy initiatives are being considered. The EBTP is entirely internet-based, using on-line consultation tools. The EBTP is part of the Commission's overall policy to further improve and develop consultation links with businesses throughout the Community as it implements its 2002 'Better Regulation' Action Plan. The EBTP will be an addition to, and not a substitute for, other existing consultation or impact assessment instruments used by the Commission.

The EBTP's extensive panel of businesses is drawn from a wide range of sectors and sizes, on the basis of proven sampling techniques. The composition of the panel reflects the relative importance of the different sectors, and the size of national economies across the EU. This helps to ensure that the panel is statistically representative of businesses throughout the Union. The EBTP will concentrate on new Community proposals and initiatives only and not on national proposals. Businesses can be consulted 6-8 times a year on questions such as how a particular proposal will generate or reduce costs, administrative burdens, red tape and could improve the environment in which they operate. The EC in turn commits itself to taking these business views into account when finalising their proposals.

134. In those developing countries where structures are weak at the national level and coordinated PPD is largely absent, local government may be a more appropriate level of engagement than the federal level. Large degrees of decentralization mean that often local governments are better run and organised, and have more resources (raise enough funds) than at the federal level.

135. In the ACP Business Forum pilot project the level of PPD was pitched incorrectly. There was no discernible overlap between the interests of, for example, the Dominican Republic's fisheries associations and Nigerian farming interests. Strong regional groupings, such as Cariforum and Ecowas would have been more relevant levels to focus on.

136. Within the EU, British business has a long tradition of direct contact/dialogue (Westminster 'lobby' system) with government, in addition to more formal systems of consultation on government initiatives and policy reform. In Germany, where there has traditionally been a high degree of business confidence in the government, national actors have preferred the clear, long-established, trusted dialogue processes of tripartite consultation and negotiations.

137. Generally, smaller countries with limited sectors have found it easier to organize private sector representation effectively. On the other hand, in very small nations personal animosities can lead to inability to act together (as in the EC's experience in Surinam, where personal enmities among top representatives of private sector organisations prevented effective joint action).

### 1.3. Scope of PPD

138. Sector specialisation reduces the danger of competition from members with divergent interests within an organisation. Within the EU-private sector dialogue process, sectors with clearly defined similar goals, such as the pharmaceutical sector, are considered more effective players,

whereas tourism is more diverse and is considered less effective. Groups are more effective that can respond flexibly to change. Advances in technology brought about the merger of two groups, telecommunications and IT, into the European Information and Communication Technologies Association (EICTA). Multinationals used to different regulatory environments are also considered effective players.

139. In developing countries large and relatively homogeneous grouping, such as commodity groupings, have strong potential for effective PPD. For example, sugar representatives from Mauritius not only fully represent and defend their own country, they also represent larger ACP interests in sugar.

## **1.4. Lessons learned**

### **1.4.1. Avoid donor dependency**

140. In the example of the ACP Business Forum, facilitation services were to be provided by a Brussels-based think-tank, EDCPM. From the very beginning EDCPM was asked to take a lot of initiative in the dialogue process (carry out analysis, organise meetings, etc.) and thus became too heavily involved. This created difficulties of ownership, as the private sector actors relied heavily on 'donor' or third-party involvement to keep things going.

### **1.4.2. Limit the donor role**

The EC provides 'seed' money in addition to facilitation, in the form of targeted contributions to sort out initial difficulties of establishing a PPD platform or an initiative. The EU ProInvest programme goes some way to provide such assistance in ACP countries. Grant are given to Chambers of Commerce and Industry, professional and sector associations, employer's federations and ACP Investment Promotion Agencies to support their policy dialogue strategies, implementation of policy proposals, action plans or lobbying efforts related to the improvement of the investment environment and climate. The limitation of this programme lies in its implementation as a grant mechanism. It can support individual organisations directly, but has little or no clear overall support strategy.

The PROINVEST objective is to promote investment and technology flows to enterprises operating within key sectors in the ACP States. This will be achieved through a two dimensional approach: to support intermediary organisations and professional associations and to develop inter-enterprise partnerships. PROINVEST is an EU-ACP (Africa, Caribbean and Pacific) partnership programme developed and undertaken by the European Commission on behalf of the ACP countries. PROINVEST, which has an approximate budget of 110 million euro over a period of 7 years, is financed by the European Development Fund (EDF). One strand of ProInvest initiatives deals with public-private policy dialogue initiatives. They can be proposed by so-called "ACP Intermediaries", and if approved, supported by means of a grant (ca. 50,000 Euro). ACP intermediaries who can apply are organisations such as Chambers of Commerce and Industry, professional and sector associations, employer's federations and ACP Investment Promotion Agencies. Areas of activity include:

**Policy Dialogue Strategy Planning:** Preparation of proposals for action plans aiming at promoting public - private initiatives related to the improvement of the investment environment and climate (e.g. investment-related policy and legal reforms , investment regulatory framework, legal system vis-à-vis investment protection or guarantee, implementation of best practices in investment promotion, promotion of investment packages, public-private-partnership approaches (e.g., in water treatment and management), investment-related Economic Partnership Agreements strategies and approaches,...).

**Development Of Investment Policy Proposals :** Activities related to the development of initial action plans / strategy papers into fully substantiated policy proposals ready for submission to regional / national authorities and the reinforcement of intermediary organisations in the field of policy dialogue.

**Implementation Of Policy Proposals And Lobby Activities :** Provision of technical assistance to ACP intermediaries in the course of lobbying regional / national authorities to introduce specific improvements in the regional / national investments environment and climate, as well as implementation of specific policy proposals.

Grants awarded under PROINVEST were made to extremely diverse activities. Amongst the 32 grants awarded (totalling ca. 2 m Euro) between September 2002 and 2004 were:

*Jamaica Promotions Corp.:* Policy dialogue workshop preparation for future WTO, Cotonou commitments.

*Yacht Services Association, Trinidad and Tobago:* Establishment of a regional marine trade industries association.

*Agro-Industrie Communication, Cameroon:* Organisation of a regional dialogue forum in the central African bio-alimentary sector.

*Inter-african Forest Industries Association, Ivory Coast:* Reinforcing professional African syndicates for a better public/private dialogue in the tropical timber sector.

*COMESA Business Council, Zambia:* Diagnostic survey for the establishment of a Comesa business council through nat.focal points

*Union of Savings and Credit Cooperatives, Kenya:* Policy Dialogue Strategy Planning for the East African Community

### 1.4.3. Choose partners carefully

141. The EC has learned the hard way that representative organisations can become heavily politicised – this is normally more prevalent in economies with less mature democracies. Here, the process of advocacy (or ‘lobbying’) that is considered an effective tool in most PPD systems may be used more for the pursuit of narrow interests than the ‘common good’. The Commission seeks relatively representative organisations that can truly engage in dialogue in-country and also regionally, and locally.

142. Examples of successful advocates for the private sector in PPD in the Eastern European context include: the Entrepreneurs Society in Slovakia, which has had new social insurance legislation modified to meet concerns of private business; the Hungarian Association of Craftsmen’s Corporations, which obtained a lower tax burden for SMEs; and the Czech Energy Agency, which has reduced the tax and social security burden on SMEs in the power industry.<sup>26</sup>

<sup>26</sup> As cited in UNCTAD. Survey of Good Practice in Public-Private Sector Dialogue (UN 2001)

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143. By contrast, the ACP Business Forum made poor initial choices and did not have the flexibility to make adjustments later on. Its advisory board was conceived as a loose and flexible body; but the initial “interim board” of six firms became entrenched and rigid. EC and ACP official bodies did not invest sufficiently in restructuring the process and identifying the real, effective actors.

#### 1.4.4. Slow Build-up to Process only

144. Processes in developed countries have taken many years to build, as they have within EU member states. The EU’s example shows how, despite historical differences, the need for the private sector to concentrate at EU level has led to a gradual development and migration of dialogue from national to multi-national level on certain issues over time. Examples from Botswana show that a functioning PPD process could only be set up successfully over a considerable time period (see below).

Successful PPD Case Study 2:

Botswana is considered an example of well-functioning PPD. According to a case study on PPD in Botswana, it took almost a decade for the role of the private sector to be recognised by government and for the dialogue to become routine, or ‘institutionalised’. The initial reactions of suspicion, mistrust, self-interest and lack of common goals were only gradually overcome. Botswana now enjoys a highly developed institutional framework for PPD, with effective follow-up and implementation mechanisms. Government involves the private sector at the formal and informal levels as well as in other fora such as working groups, technical committees and studies of specific policy issues. Seeing the PPD build-up as a long-term process, creating sufficient capacity and skills to engage in dialogue, self-regulation of the private sector to build its own credibility, and a suitable policy framework acknowledged by the government were key factors for success.

#### 1.4.5. Make sure the public sector is ready for dialogue

145. The potential of PPD depends on the government’s willingness to listen and open up to a true process of consultation. UNCTAD’s review of trade-related consultations notes that, ‘even in the most highly developed democracies and economies, government still selects what it wants to hear and when it wants to hear it.’<sup>27</sup> The report suggests that a public sector organisation’s preparedness/maturity for dialogue depends on its shifting from an ‘administrative’ culture to a ‘managerial’ one. It criticises the EU experience of seeking to assist in public sector development in an environment where the state’s role has historically been considered ‘disabling’ rather than ‘enabling’, where there is not so much a need of reform, but for a fundamental redefinition of the role before dialogue can be effective.

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<sup>27</sup> UNCTAD, Op.Cit.

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## Annex 6. Persons interviewed and projects inventoried

DFID Adviser	Country	Project/Programme
Sukhwinder Arora	India	SIDBI/CASHE (Microfinance)
Susan Barton	Zambia	Private Sector Development Forum and forthcoming Enabling Environment Programme
Richard Boulter	General overview discussion re PPD	N/A
Malaika Culverwell	Global	Extractive Industries Transparency Initiative (EITI)
Peter Fortune	Ukraine	Social and Economic Regeneration of Donbass + Support to Chambers of Commerce in Donetsk and Luhansk.
Holger Grundel	Pakistan	Pakistan Microfinance Network (PMN) (Microfinance)
Justin Highstead	South Africa/Namibia	Commark- support to Tourism in Namibia + Heavy Manufacturing Cluster Initiative in South Africa
Zoe Hensby	Global	Forge II; Just Pensions, Pro Poor Investment; Slum Upgrading Facility (SUF).
Catherine Martin	China/Ghana	State Owned Enterprise Restructuring and Enterprise Development (SOERED) re China and general Ghana overview
Catherine Masinde	Kenya	Enabling Environment Project
Corin Mitchell* (DFID consultant)	Tanzania	Private Sector Initiative (PSI)
Geraldine Murphy	Nicaragua	Enabling Environment Project
Mavis Owusu-Gyamfi	Nigeria	Currently designing Pro Poor Growth Programme + considering trust fund based approach
Rob Rudy	Malawi	National Action Group (Forum)
Adrian Stone	Uganda	Commercial Court Users Committee (Commercial Court Users Programme) + some discussion of Regulatory Best Practice (RBP) project with project staff.
Hugh Scott	South Africa and regional Southern Africa	Finmark; Commark; Employment Promotion Programme (NEDLAC), Cutting Red tape for Business in Africa; Integrated Framework Process in Lesotho + other sector based interventions in Lesotho referenced in responses.
Alec Wersun	Bosnia and Balkans	Reform of the Business Registration Process (RBRP) + Post Privatisation Restructuring Project (PPERP)
Jan Wimaladharma	Nigeria	Better Business Initiative State and Local Government Programme