



## Business Environment Reform Facility

### *Public–Private Dialogue Interventions in Sub-Saharan Africa: Lessons for Zimbabwe*

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## Acronyms and abbreviations

|        |   |
|--------|---|
| AGI    | Association of Ghana Industries   |
| AIAE   | African Institute for Applied Economics   |
| ASI    | Adam Smith International  |
| BBI    | Better Business Initiative (Nigeria)  |
| BCR    | Benefit–cost ratio  |
| BEEP   | Business Enabling Environment Programme (Zimbabwe)  |
| BER    | Business environment reform   |
| BERF   | Business Environment Reform Facility  |
| BMO    | Business membership organisation  |
| BRICK  | Building a Reliable Investment Climate in Kenya   |
| Danida | Danish International Development Agency   |
| DFID   | UK Department for International Development   |
| ENABLE | Enhancing Nigerian Advocacy for a Better Business Environment                                   |
| EPPCF  | Ethiopian Public–Private Sector Consultative Forum  |
| FCA    | Fragile or conflict-affected  |
| FCAS   | Fragile and conflict-affected state(s)  |
| ICT    | Information and communication technology  |
| IDB    | Inter-American Development Bank   |
| IFC    | International Finance Corporation   |
| IMF    | International Monetary Fund   |
| IPA    | Investment promotion agency   |
| IPPG   | Research Programme Consortium for Improving Institutions for Pro-Poor Growth                    |
| KEPSA  | Kenya Private Sector Association  |
| KIPPRA | Kenya Institute for Public Policy Research and Analysis   |
| LBBF   | Liberia Better Business Forum   |
| MDAs   | Ministries, departments and agencies  |
| MDC    | Mobile data collection  |
| NAG    | National Action Group (Malawi)  |
| ODI    | Overseas Development Institute  |
| OECD   | Organisation for Economic Cooperation and Development   |
| PIAC   | Presidential Investor Advisory Council  |
| PPD    | Public–private dialogue   |
| SAAS   | Software as a service   |
| SACU   | South African Customs Union (comprising Botswana, Lesotho, Namibia, South Africa and Swaziland) |
| SBR    | State–business relations  |
| SME    | Small or medium-sized enterprise  |
| SMS    | Short Message Service   |
| SSA    | Sub-Saharan Africa  |
| USSD   | Unstructured Supplementary Service Data   |
| VFM    | Value for money   |



## Executive summary

Public–private dialogue (PPD) can be a powerful driver of business environment reform. In many contexts, donor interventions have successfully fostered dialogue that has led directly to a wide range of improvements in the investment climate. However, donors have been slow to begin implementing PPD projects in sub-Saharan Africa, and reforms have often been less successful than elsewhere.

Nevertheless, evidence of the importance of PPD for African firms and economies is now emerging.

- **Good PPD institutions and laws enhance economic growth**, even when controlling for the general quality of institutions and other factors.
- **Membership of a business membership organisation (BMO) increases a firm’s productivity by 25–35 percent.** Firms benefit from reduced corruption, improved public utilities and higher labour productivity. The effect is similar for firms of all sizes, and includes both domestic and foreign firms (although the effect is larger for the latter).

Donors have applied two distinct methodologies to PPD interventions, which are founded on differing theories of change. However, programmes have encountered similar challenges regardless of approach, and valuable lessons can be learnt from experiences in both areas.

- The **traditional approach**, associated with the IFC and World Bank, emphasises a structured process mediated by a neutral secretariat, and incorporates the provision of evidence-based research to focus dialogue and maximise returns.
- The **market systems approach** has been developed more recently in a DFID-funded programme implemented by ASI and the Springfield Centre in Nigeria. It focuses on the market for business environment reform, in which the private sector demands reforms from government. It emphasises sustainability and catalytic interventions, and has achieved notable success working to strengthen domestic research institutions and media outlets.

Amongst the variety of strategies that have been documented in SSA, including those that have been tailored to politically unstable environments, those listed in Table 1 have been identified as priorities for consideration by Zimbisa in Zimbabwe.

**Table 1: Headline recommendations**

| Recommended actions, including those implemented or planned by Zimbisa  |             |         |
|---|-------------|---------|
| Recommendation  | Implemented | Planned |
| Strengthen the private services offered by BMOs to increase the value firms place on membership   | ✓           |         |
| Encourage collaboration between BMOs in commissioning research and joint campaigning  | ✓           |         |
| Support the development of low-cost research techniques using mobile data collection (MDC) tools either by BMOs or domestic research institutions as appropriate in the local context. Consider building the capacity of organisations that can provide local long-term support for these systems to improve sustainability. This support could be provided through BERF Activity E |             |         |
| Consider time-limited programmes that amplify the voice of underrepresented groups such as women, youth and the poor, if self-financing solutions are not practical for these groups  |             |         |
| Encourage partnerships between BMOs that receive support directly and grassroots organisations, as a practical means to involve underrepresented groups in dialogue   |             | ✓       |
| Seek options to twin Zimbabwean BMOs with international counterparts  |             |         |
| Recognise the ability and incentives of larger firms to represent the interests of small, rural firms in PPD, when they are connected by backward and forward linkages  |             | ✓       |
| An emphasis on communication, transparency and accountability can consolidate trust and mitigate the effect of political instability on dialogue  | ✓           |         |
| Local members of staff with a strong political understanding of the context can assist enormously in developing strategies to build inclusivity and manage risks associated with political instability.   | ✓           |         |

## 1. Introduction

Donor support to PPD is a fairly recent trend in the history of overseas development assistance. Until the 1990s, development cooperation usually ignored the private sector, along with other non-governmental stakeholders.<sup>1</sup> The earliest programmes focused on relatively more conducive environments in South-East Asia and Latin America, and early attempts to replicate their results suggested that SSA would provide its own unique challenges.<sup>2</sup> However, over the last ten years there has been a much greater quantity of academic research dedicated to the impact of PPD in SSA, and its value has been established beyond doubt.<sup>3</sup>

The objective of the study is to provide evidence to support the Business Case extension of the current Zimbisa PPD programme in Zimbabwe, including guidance from other donor programmes on what works and doesn't work in the context of SSA.

Chapter 2 begins with an overview of recent programmes in SSA for which good information is available, and then explores the costs, benefits and risks associated with PPD and donor PPD interventions. While great progress has been made in confirming and quantifying the benefits of PPD in general, the costs and benefits of donor programmes are much more challenging to quantify, largely because they aim to have a catalytic effect in a complex system, making attribution inevitably difficult to trace.

Over time, donors have developed new ways of conceptualising PPD. The most important break came with the establishment of the ENABLE programme in Nigeria in 2008. This programme applied the Springfield Centre's "market systems" approach to the market for business environment reform for the first time. Chapter 3 explores the differences between this methodology and the "traditional" approach that came before it and continues to be used by agencies such as the IFC. While philosophically different, in practice the two methodologies have faced many of the same implementation challenges, and lessons learned from both types of programme are broadly applicable.

Chapter 4 builds on from chapter 3 to discuss some of the key challenges that have been identified in programming PPD interventions in SSA. Each challenge is paired with appropriate mitigating strategies adopted by "traditional" and "market systems-based" programmes. The particular challenges faced by programmes based in fragile and conflict-affected states (FCAS) are considered in section 4.5.

In the final chapter, attention is turned to Zimbisa, a component of a DFID-funded project called the Zimbabwe Business Enabling Environment Programme (BEEP). BEEP began in April 2013, and DFID is currently considering options for its continuation beyond its scheduled completion in January 2017. The Zimbisa component has been implemented by ASI, following the same market systems approach that ASI previously employed in ENABLE in Nigeria.

<sup>1</sup> Pinaud, 2007, p12.

<sup>2</sup> World Bank, 2009.

<sup>3</sup> Including te Velde, 2006; Sen and te Velde, 2009; te Velde and Leftwich, 2010; te Velde et al, 2010; Qureshi and te Velde, 2012.



Chapter 5 highlights which of the challenges and strategies already discussed are most appropriate for consideration if DFID’s support to Zimbisa continues, and concludes with a summary table of PPD intervention strategies appropriate for SSA and the challenges they are able to address.

## 1.1 Definitions

Definitions of **public–private dialogue** (PPD) itself vary, with more recent definitions tending to be more inclusive of informal arrangements. In this report we use the definition of Herzberg and Sisombat:<sup>4</sup>

PPDs bring together government, private sector and relevant stakeholders in a formal or informal process to achieve shared objectives and play a transformational role for a particular set of issues.

There are a variety of synonyms used in the literature that mean broadly the same thing, often with a minor distinction that is not important for most purposes. These include:

- public–private strategic policy alliances (PPAs)
- public–private collaboration (PPC)
- public–private policy dialogue (PPPD)<sup>5</sup>
- reform coalitions and growth coalitions
- state–business relations (SBRs).

An explanation of the distinctions between most of these terms and how they have been used in the literature can be found in Herzberg and Sisombat.<sup>6</sup> In this report, the only one of these terms to be used is SBRs when covering research on the impact of these relations on economic growth and firm productivity. As well as PPD institutions, SBRs also refer to elements of the legal environment such as competition law that prevent harmful state–business interactions. The specific components that make up a typical SBR index are detailed in section 2.2.1.

PPD can have a variety of goals. In this report, our focus is on PPD that aims to deliver reform to the business environment or investment climate. Little attention is given to PPD with other aims, such as industrial policy or climate change policy, although in fragile and conflict-affected states (FCAS), the scope of PPD is often less tightly defined.

<sup>4</sup> 2016a, p10.

<sup>5</sup> Pinaud, 2007, pp11–12.

<sup>6</sup> 2016a, pp5–7.

## 2. Costs, benefits and risks

### 2.1 Examples programmes in SSA

In its latest review of the IFC and World Bank programmes outlined below (and other programmes used only in Eastern Europe and South Asia), the World Bank concluded that

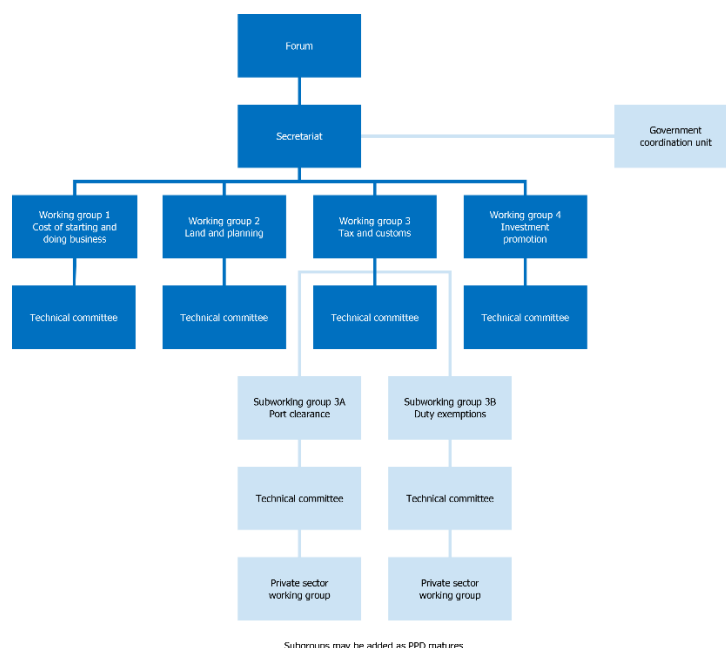
there does not appear to be one particular type of PPD platform that has proven to be most effective.<sup>7</sup>

The programmes discussed in this section use the traditional approach explained in Appendix 2. To avoid repetition, the ENABLE programme in Nigeria is not discussed here — information on it can be found in chapter 3 (particularly section 3.1), and an explanation of the philosophy behind it is in Appendix 2.

#### 2.1.1 IFC PPD forums<sup>8</sup>

The IFC had established PPD programmes in 21 countries by 2009, including ten in SSA.<sup>9</sup> National programmes typically have a budget of between US\$100,000 and US\$200,000 per year.<sup>10</sup> The first programmes were established in South-East Asia in the late 1990s, with a rapid expansion in SSA in 2007 and 2008.

**Figure 1: Typical structure of an IFC-supported PPD**



Source: Adapted from World Bank, 2009, figure 1, p12, based on description on p23.

<sup>7</sup> World Bank, 2009, p15.

<sup>8</sup> World Bank, 2009, p23.

<sup>9</sup> These were in Cameroon, CAR, Chad, Ethiopia, Liberia, Rwanda, Sierra Leone, Sudan, the region that would become South Sudan, and Zambia (World Bank, 2009, p16).

<sup>10</sup> World Bank, 2009, p6.





Figure 1 shows the typical structure of an IFC-supported programme, although within this structure there is substantial variation based on country circumstances. Overall control of the process lies with a large forum or smaller governing board that meets approximately every six months. Reporting to the forum is a secretariat, which might be housed in a government ministry, a BMO, within the IFC or be established as an independent institution. Thematic working groups concentrate on more specific areas, with technical support from the secretariat. As the programme matures, sub-working groups may be added to divide work further. In some cases, distinct private sector working groups meet prior to joint technical committees, to enable the private sector to develop their own common positions in advance. A minority of programmes also incorporate a government coordination unit, to liaise across MDAs and to promote reforms with implementing agencies. The overall programme may be mandated by a presidential decree or merely a memorandum of understanding between participating organisations. Evidence on the results achieved by the IFC's PPDs is included in section 2.2.2, but the World Bank's evaluation of these programmes highlighted the following challenges:

- underuse of evidence and impact assessment
- unrealistic expectations of government implementation capacity
- lack of PPD at sub-national level
- lack of outreach communication with the business community and public.<sup>11</sup>

#### 2.1.2 World Bank PIACs

Presidential Investor Advisory Councils (PIACs) were first established in 2002 as an exclusively African programme, in response to requests to establish dialogue between the highest levels of government and investors. By 2009 there were seven in operation.<sup>12</sup> Schematically they are based loosely on the structure of IFC-sponsored PPDs, but their processes tend to be heavily influenced by the direct participation of the country's president. The involvement of the private sector also tends to be limited to a small number of domestic and foreign business leaders, so they incorporate fewer if any working groups.<sup>13</sup>

A 2005 evaluation concluded that PIACs were an "effective, credible and visible PPD mechanism in all five African countries in which they were then operating".<sup>14</sup> The main benefits identified were:

- motivated participants
- success in fast-tracking existing proposals
- effective for sector-specific reforms

<sup>11</sup> World Bank, 2009, pp37–38.

<sup>12</sup> These were in Benin, Ghana, Mali, Mauritania, Senegal, Tanzania and Uganda (World Bank, 2009, pp16).

<sup>13</sup> World Bank, 2009, pp23–24.

<sup>14</sup> World Bank, 2009, p33, citing *Presidential Investors' Advisory Councils in Africa: Impact Assessment Study*, May 2005.

- strong monitoring of issues and action plans.

However — perhaps unsurprisingly — the success of these projects has depended on the president’s interest, and continuity in both the presidency and other key cabinet positions. There have been concerns as to whether placing such focus on high-level dialogue stifles the emergence of more broad-based advocacy. In some cases there was a lack of government capacity to implement PIAC decisions, and even to communicate effectively with PIAC members. PIACs have often not performed as well as other PPDs in commissioning and using evidence during the reform process. PIACs have also proved difficult to evaluate, as the World Bank struggled to obtain enough information on the majority of these processes to draw useful conclusions in its 2009 evaluation.

The two cases for which evidence is most readily available differ starkly, between wide-ranging success in Uganda and a highly challenging experience in Ghana. However, even in the Ugandan case, the government struggled with implementation, use of evidence was weak and no evaluation of results had been conducted during the first four years of operation. The programme was considered to be good value for money by the World Bank due to its low cost and popularity with government, but this could not be quantified.<sup>15</sup>

## 2.2 Costs and benefits

### 2.2.1 The impact of effective state–business relations

Although much of the earliest research on the impact of state–business relations (SBRs) focused on Asia and Latin America, in the last decade a series of papers has examined sub-Saharan Africa (SSA). The main findings are as follows.

- **Good SBRs enhance economic growth.** Research using a panel dataset of 19 SSA countries between 1970 and 2004 found that effective SBRs “contribute significantly to economic growth”.<sup>16</sup>
- **Membership of a BMO improves firm productivity by 25–35 percent,** based on research into firm performance in seven SSA countries. Firms perceive that information on regulation and lobbying government are the most important services that BMOs provide. Productivity<sup>17</sup> improvements are achieved through reduced corruption, improved public utilities (including IT development) and higher labour productivity. The effect holds regardless of firm size and nationality of ownership, though the effect is larger for foreign-owned firms.<sup>18</sup>

<sup>15</sup> World Bank, 2009, p33–36.

<sup>16</sup> Sen and te Velde, 2009, p1278. The study controlled for conventional measures of institutional quality, such as degree of executive constraint, rule of law, corruption, and quality of the bureaucracy. Similar results have been found for other regions: see, for example, evidence for India in Cali and Sen, 2011.

<sup>17</sup> Total factor productivity.

<sup>18</sup> Qureshi and te Velde, 2012. The countries covered by this study are Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia.

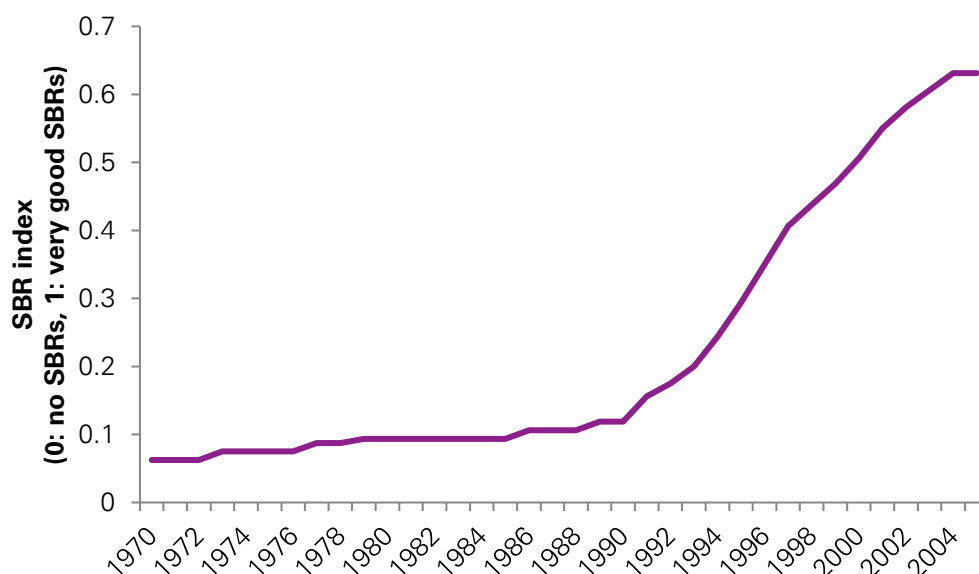


In this strain of research, effective SBRs are considered to consist of four elements, and are measured through an index constructed from these components.

- **Private sector organisation**, usually whether the private sector is represented by an umbrella organisation.
- **Public sector organisation**, in particular whether the government has an investment promotion agency (IPA).
- **Institutionalised PPD**, i.e. whether a formal forum for PPD exists, and whether it meets regularly.
- **Safeguards against collusive behaviour**. This component of the index responds to evidence that close collaboration between the private and public sectors can be motivated by rent-seeking, which is harmful to the overall business environment. This can be measured by whether competition laws exist and whether they are enforced.

An average of this index is presented in Figure 2 for 20 countries in SSA between 1970 and 2005. The data for each country in 2005 is tabulated in Appendix 4.

**Figure 2: Average SBR index for sub-Saharan Africa**



Source: te Velde, 2006, appendix D, pp34–35.

## 2.2.2 Costs and benefits of donor programmes

Donors are more accustomed to thinking in terms of the ratio of benefits to costs for a given intervention, in order to determine whether a project offers better value for money (VFM) than alternative proposals.



In this report we distinguish between the “traditional” and “market systems” approaches to PPD programming. The differences will be fully explained in chapter 3. The traditional approach covers most current and all older programming, whereas the market systems approach is an innovation that has so far only been applied in Nigeria and Zimbabwe.

For **traditional** programmes, the benefit–cost ratio (BCR) is often difficult to measure in a meaningful way. There are two main reasons for this. First, as noted by DFID advisors, in practice PPD activities are often combined with other elements of business environment reform, such that estimates of expenditure on PPD “must be taken as a gross approximation”.<sup>19</sup>

Secondly, the calculation of a BCR is complicated by the fact that PPD components of larger programmes are usually perceived as a necessary (but insufficient) measure to ensure that each other component is successful. This means that the BCR of the PPD component *when calculated in isolation* will be high, because it is likely to be the difference between success and failure for other, expensive reform efforts. This does not mean that these benefits are uniquely attributable to the PPD component, as would normally be required when calculating a BCR. But if PPD is necessary for successful reform, this high BCR is the more relevant measure, provided its meaning is understood.

Even when donors initiate PPD projects in isolation, one of the inherent benefits of PPD is that it catalyses the use of non-donor resources, namely government expenditure and the time and BMO membership fees of the private sector. In order to follow standard methodology for calculating a BCR, these costs would have to be taken into account, although in practice they can be extremely difficult to quantify.<sup>20</sup>

The World Bank estimates the BCR for IFC-supported PPDs in three highly successful South-East Asian programmes at 290 (counting only IFC advisory costs).<sup>21</sup> The same study was not able to quantify benefits from the IFC’s much younger SSA programmes, but conceded that results had been much more elusive than in Asia. However, data from a later World Bank study suggests that the BCR for the IFC’s support to the Ethiopian Public–Private Sector Consultative Forum (EPPCF) is likely to have been between 16 and 31 (again, counting only IFC costs).<sup>22</sup> The same study suggests a BCR for the Liberia Better Business Forum (LBBF) of between 2.6 and 5.2.<sup>23</sup> Given the difficulty faced by the World Bank in gathering evidence on results, it is quite likely that these were amongst the better performing programmes. BCRs would, of course, be much lower if government and private sector costs were included.

<sup>19</sup> Bannock, 2005a, p17.

<sup>20</sup> HM Treasury, 2011. In practice, donors tend to ignore these costs entirely (i.e. assume that they are zero) rather than estimate them approximately.

<sup>21</sup> World Bank, 2009, p14.

<sup>22</sup> Author’s calculation based on \$US25 million private sector savings reported by Herzberg and Sisombat (2016, p8) and typical project costs of between US\$100,000 and US\$200,000 reported by World Bank (2009, p6) over the eight years from 2008 (World Bank, 2009, p16) to 2016.

<sup>23</sup> Author’s calculation based on \$US4.7 million private sector savings reported by Herzberg and Sisombat (2016, p8) and typical project costs as above over the nine years from 2007 (World Bank, 2009, p16) to 2016. Again, only IFC costs are included.



The only known completed programme based on the **market systems** approach is the first phase of ENABLE in Nigeria, so any assessment of the BCR of M4P can only be based on this data point. However, the philosophy of the market systems approach is to create a *catalytic* effect, meaning that the intervention will unlock investment by the private sector and government. In other words, a successful market systems project would result in a large number of firms paying BMOs to demand reform, and to government delivering reform using taxpayers' money. In that sense, the VFM of a donor intervention in which only the cost to the donor is considered (i.e. which excludes fees paid by firms and domestic tax revenue spent on reform) will be extremely high. This is because the bulk of the cost of reform is borne by others (which is similar to, but perhaps more extreme than, the case for traditional programmes).<sup>24</sup>

This expectation is met in the case of ENABLE, which reports a BCR of 9.5 within the life of the project, noting that this is an understatement since benefits are expected to be ongoing while costs (to the donor) are not.<sup>25</sup> The technical complexity of calculating a BCR that incorporates the cost to firms and the government of investing in PPD was prohibitive in this case, and is likely to remain so in the near future.

## 2.3 Risks

### 2.3.1 For governments

The main risk to government of engaging with new PPD processes is that greater transparency will publicly highlight shortcomings in government policy and capacity, or reveal that the private sector is dissatisfied with the government's performance. Governments are most likely to show reluctance in environments where there is a lack of media openness, and where performance management systems within government are weak, meaning that government institutions may have little awareness of their own performance.

### 2.3.2 For donors

Evidence reviews such as Bannock (2005) and IFC (2005) have been candid about donors' past mistakes and the potential for well-intentioned interventions to make PPD worse.

- **Over-financing** by donors can cause a range of problems.
  - It may attract the wrong participants.<sup>26</sup>
  - It is likely to make BMOs and MDAs more responsive to donors' preferences than their constituents'.<sup>27</sup>

<sup>24</sup> Again, this methodology for calculating BCRs is not in accordance with UK Treasury guidance (HM Treasury, 2011).

<sup>25</sup> DFID, 2014, pp10–11.

<sup>26</sup> Bannock, 2005a, p42.

<sup>27</sup> Bannock, 2005a, p52 offers an example from Zambia: "DFID, along with three other donors, are described as having overfunded the [Zambia Business Forum (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".



- It often undermines the financial sustainability of BMOs by inflating operating costs, and reducing organisational focus on increasing membership, collecting dues, and tailoring their services to those that members value.
- **Rushing reform**, attempting to ensure that dialogue processes complete according to a timescale set by a donor’s commitment to demonstrate results.
- **Imposing an agenda or priorities** that do not stem from consultation with the private sector, for instance when a donor programme attempts to achieve pre-defined results.<sup>28</sup>

### 2.3.3 For the business environment

Various authors have discussed the fact that close relationships between private firms and government can as easily be based on rent-seeking collusion as on collaboration for reform.<sup>29</sup> For instance, Pinaud states that

Where the rule of law... and the... separation and monitoring of power have only recently developed, interaction between government and private sector tends to become a process of collusion and mutual predation. This interaction, which may take the form of a dialogue, risks becoming nothing more than a screen for rent-seeking — the very opposite of what might be expected from fruitful PPD[.]<sup>30</sup>

Rent-seeking is a greater risk in sector-specific PPD than in cross-cutting PPD.<sup>31</sup> It is also more relevant to PPD that aims to design industrial policy than that which is focused on business environment reform. It can be mitigated by:

- conducting a good political economy analysis<sup>32</sup>
- transparency measures (similar to those used to build trust: see section 4.4.2)
- open access, although this can make dialogue pragmatically more difficult.

<sup>28</sup> Bannock, 2005a, p36: “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.”

<sup>29</sup> Herzberg and Wright, 2006, p13; 2016a p6, citing Schneider, 2013; IFC, 2005, p87.

<sup>30</sup> 2007, p10.

<sup>31</sup> PPD Workshop, 2006.

<sup>32</sup> PPD Workshop, 2015.



### 3. Traditional and market systems approaches to PPD

Donor approaches to PPD fall broadly into two categories: traditional and market systems-based approaches. The traditional approach covers most current and all older programming, whereas the market systems approach is an innovation that has so far only been applied in Nigeria and to some extent in Zimbabwe. These two approaches should be seen as being built on two different theories of change, which lead donors to emphasise different aspects of PPD and engage in different ways, with the more recent market systems approach emerging, at least in part, in response to some of the challenges associated with the traditional model of PPD. To an extent, each provides analysis which helps to explain the shortcomings of the other; for that reason, an understanding of both is invaluable for the practitioner. Rather than pick a “preferred” option, ideally future programming will learn lessons from both.

We describe both approaches in detail in Appendix 2. What we describe as the “traditional” approach bundles together mainstream methods used until 2008, and continues to be the main framework used today, most notably by World Bank Group institutions such as the IFC. The programmes described in chapter 2.1 follow this approach.

The market systems-based approach is built on the “making markets work for the poor” (M4P) methodology popular in many fields of economic development. It was pioneered by Adam Smith International (ASI) and the Springfield Centre in a DFID-funded programme in Nigeria called ENABLE, which began in 2008 and has now entered its second phase.<sup>33</sup> Although it puts into practice many lessons that had already been synthesised,<sup>34</sup> it introduced a new theoretical framework that helped to explain previous shortcomings in a more coherent way, and provide a clearer theory of change. Moreover, by contrasting traditional programmes with the analytical framework of M4P, many of the assumptions hidden in the traditional approach have become clearer, which helps to explain why certain failures recur so often.

#### 3.1 Results achieved by ENABLE

According to the project completion review, ENABLE achieved the following results across the four categories targeted:<sup>35</sup>

- 13 **BMOs** achieved a sustained improvement in their advocacy score, and 49 percent of their members were satisfied with their advocacy<sup>36</sup>
- 10 **business media products** achieved a sustained improvement, 20 new products were introduced, and 68 percent of audiences were satisfied with project-assisted products<sup>37</sup>

<sup>33</sup> DFID, 2014a.

<sup>34</sup> See, for example, IFC, 2005, pp83–87.

<sup>35</sup> DFID, 2014a. The same source also indicates that the first three sectors exceeded the targeted improvements in capacity indices designed by the programme (no equivalent index was applied to research institutions).

<sup>36</sup> No baseline data on member satisfaction is included in DFID, 2014a.

<sup>37</sup> As above, no baseline data is included in DFID, 2014a.



- **7 MDAs** achieved a sustainable improvement in their dialogue capacity, and 66 percent of BMOs reported an improvement in the capacity of government to engage them in dialogue
- 12 BMOs and MDAs obtained research from project-assisted **research organisations** or others replicating those assisted by the programme, and 24 BMOs and MDAs obtained support services from research organisations.

### 3.2 Potential criticisms of M4P

The market systems approach has given donors new insight into PPD, and the ENABLE programme has yielded some impressive results (see section 3.1). Nevertheless, the evidence in favour of M4P is still limited, and its potential should be analysed critically. There are at least three reasons why the market systems approach may not be the most desirable for donors.

- **It might not work.** A crucial assumption of the theory of change of M4P is that the most important market failures can be overcome through well designed donor intervention. This will not always be the case. With donor support, BMOs may be able to overcome the effects of transaction costs and the free-rider problem to collect regular dues from a constituency of medium-sized urban firms, but the same thing may not be feasible for informal rural enterprises. Many market failures cannot be resolved through one-shot interventions.
- **It might not lead to equitable outcomes.** Markets by their nature respond to consumers with the willingness and ability to pay. In a functioning PPD market, larger firms with more financial resources will find it easier to lobby than smaller and less profitable firms. If a donor's objective is to equalise the role of women throughout an economy by facilitating women's participation in PPD, then the market systems approach will present a challenge. Women-headed firms represent a small share of the typical developing economy, especially amongst larger firms, and cannot afford to lobby as much as their male-headed counterparts. The market will therefore tend to perpetuate, or exacerbate, this inequality.<sup>38</sup>
- **It probably can't achieve as much, as fast, as a traditional approach.** Because donors are so limited in their ability to use finance to supply research and capacity support, it is doubtful whether a true M4P approach can achieve such rapid reform as a traditional donor intervention. Building the capacity of BMOs without undermining their financial sustainability is a slow process. Demonstrating the profitability of independent, investigative business journalism takes time. Many donors are hampered by short funding cycles that make the demonstration of rapid

<sup>38</sup> It is also problematic for the government to subsidise the representation of underrepresented groups, since the government already plays a distinct role in the PPD process. The independence of organisations and their sensitivity to their constituents' concerns can be compromised if they are financed by government. Strategies employed by ENABLE to mitigate these effects are detailed in Springfield Centre and ASI, 2013a, box 5, p8.

results mandatory, and sustained, predictable funding impossible: “Donor and PPD time horizons don’t match.”<sup>39</sup> In a sense, the two approaches represent a trade-off between rapid results and sustainability.<sup>40</sup> The pressure to establish credibility with early successes can be even more acute in fragile and conflict-affected states (FCAS).<sup>41</sup>

<sup>39</sup> Bannock, 2005a, p37.

<sup>40</sup> Here, “sustainability” is used to mean sustainability of *dialogue*, not of the reforms themselves. It is often noted that a short-lived dialogue process can achieve long-lasting reform (see for example Herzberg and Wright, 2006, p18).

<sup>41</sup> World Bank, 2014, p16.



## 4. Challenges and strategies

This section discusses the most common challenges faced during the implementation of PPD programmes, and for each challenge suggests a set of mitigating strategies, drawn from the experience of both traditional and market systems-based programmes.

### 4.1 Financial sustainability of BMOs

One of the most common problems faced by donors is to ensure the financial sustainability of BMOs, once the donor is ready to end or downsize their support.<sup>42</sup> Donors' initial actions frequently exacerbate the challenge of adjusting to their own absence. For instance, BMOs that are created by donors unsurprisingly find it more difficult to realign their operation to ensure a secure source of revenue from membership fees than do pre-existing BMOs that have received only modest support.<sup>43</sup> However, the main challenge that donors usually perceive in the early phases of supporting BMOs is to improve their capacity. Donors that incorporate financial sustainability into their planning from the start of the project lifecycle understand the difficulty of adopting a focused strategy within available resources and raising an organisation's capacity without making it less financially viable, through actions such as:

- recruiting additional staff
- recruiting more qualified or experienced (i.e. more expensive) staff, or even building transferable skills that raise their market value
- shifting organisational focus away from fundraising activities such as:
  - increasing membership
  - ensuring that member fees are paid on time
  - understanding which services are valued most highly by members
- commissioning and relying upon research that would be unaffordable using only membership fees.

There are two additional challenges for BMOs that engage in significant advocacy and seek financial sustainability by convincing members to pay fees.

- The free-rider problem discussed in Appendix 2. Firms may be disinclined to pay for membership if they believe that they will be able to benefit from the same improvements in investment climate regardless of whether they join the BMO.<sup>44</sup>
- The difficulty of claiming credit for advocacy work, because:

<sup>42</sup> The challenge of sustainability more generally is the entire subject of Herzberg and Sisombat, 2016b. Sustainability is highlighted by the IFC (2005) and Springfield Centre and ASI (2011; 2013a).

<sup>43</sup> See for instance IFC (2005, pp84–85), which recommends that financial assistance to BMOs be limited to no more than 20–30 percent of the organisation's annual budget.

<sup>44</sup> Although this is refuted by empirical evidence, as discussed in section 2.2.1.



- a BMO may be only one of many voices advocating a policy
- reform may be very slow, such that the connection between a campaign and subsequent reform may be unclear or forgotten
- advocacy is a risky activity and often fails to lead directly to reform, even in a well-functioning system.<sup>45</sup>

One of the most controversial challenges for donors when forming a strategy on financial sustainability is how to deal with the most financially disadvantaged members of the private sector. BMOs seeking financial sustainability will naturally be drawn to target a membership that is able to pay substantial fees and is already cognisant of the benefits of organised advocacy — in other words, they have an incentive to target large, formal, urban firms, especially those under foreign ownership. Most donors will prefer to target different constituencies, such as small and micro enterprises, the informal sector, rural firms, female-headed enterprises, etc (see section 3.1).

#### 4.1.1 Use a market systems approach to analysis

One of the greatest strengths of the market systems approach is its conception of business environment reform as a market that can be made to function through catalytic action by donors rather than long-term support. Many of the individual strategies listed below are emphasised by the market systems analysis conducted by the Springfield Centre and ASI in Nigeria, although most have been used by traditional practitioners as well.<sup>46</sup>

#### 4.1.2 Prioritise sustainability

A successful transition away from donor support requires sustainability to be a priority throughout, and proposed interventions even at the beginning of the process must be analysed in terms of how they might make transition easier or more difficult.

ENABLE offers some of the strongest examples of how this can be implemented in practice.

- The project doesn't provide core funding to BMOs (e.g. to recruit additional staff) but does partially fund activities that will enable BMOs to achieve more without permanently increasing their costs (e.g. by co-funding training).
- ENABLE doesn't provide free research, but helps BMOs to build the skills necessary to commission research (including polling members, writing terms of reference, evaluating proposals).
- They specifically support BMOs in increasing revenue, by electronically automating collection of membership fees and by selling access to its membership to relevant advertisers.

<sup>45</sup> Springfield Centre and ASI, 2011, pp5–7.

<sup>46</sup> Springfield Centre and ASI, 2011 and 2013a.

- This approach is not appreciated by all BMOs, and ENABLE required the flexibility to suspend partnerships where BMOs were not prepared to collaborate without direct financing or to co-fund capacity building activities.<sup>47</sup>

Membership development is an important component of sustainability and core activity of all BMOs. It is made up of three elements.

- **Recruitment:** donors can offer manuals and training on new marketing strategies such as member-to-member self-recruitment and branding techniques.
- **Retention:** as well as the maximisation of value to members (discussed in section 4.1.3), donors can assist BMOs to establish member satisfaction surveys and ensure that members' questions and complaints are given adequate priority.<sup>48</sup>
- **Administration:** in addition to the use of electronic payments exemplified in ENABLE, there are other ways in which established technology can be used to improve membership administration. For example, an important administrative tool for managing BMO membership and timely collection of fees is a user-friendly database and clear guidelines and responsibilities for its maintenance. The Confederation of Danish Industries (DI) developed a generic membership database that can be customised for use by different organisations. In Ghana, with DI support, the Association of Ghana Industries (AGI) increased the proportion of members paying their subscriptions from 43 to 95 percent over a 3-year period. This increased their annual revenue from fees by 128 percent.<sup>49</sup>

#### 4.1.3 Provide private services

One strategy to overcome the free-rider problem is for BMOs to offer private services to their members. These could include training sessions, socialising and networking opportunities, and events enabling members to lobby government directly such as business environment roundtables.<sup>50</sup> For instance, as part of the BRICK programme in Kenya, the Kenya Private Sector Association (KEPSA) charged members to attend a presidential roundtable for the first time in 2014.<sup>51</sup>

#### 4.1.4 Create partnerships

Because of donors' preference to support poor and vulnerable people's access to PPD, early on the ENABLE programme attempted to establish links with a range of grassroots organisations. These efforts proved difficult. The grassroots organisations targeted were very small and lacked organisational structure. They were too small to institutionalise knowledge

<sup>47</sup> Springfield Centre and ASI, 2011, pp4–7; 2013a, p19.

<sup>48</sup> IFC, 2005, p58.

<sup>49</sup> IFC, 2005, case study 8, p63. The project was funded by Danida as part of a twinning arrangement (see section 4.1.4).

<sup>50</sup> Springfield Centre and ASI, 2011, box 3, p7 and p4. "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." (Bannock, 2005a, p20.)

<sup>51</sup> DFID, 2015b, p14.

— the departure of a single member of staff was enough to reverse all progress. It was equally difficult to strengthen the revenue base of these organisations, as the firms they represent are tiny, informal and diffuse.

ENABLE piloted an SMS solution with two grassroots BMOs in an attempt to address this problem, but both organisations lacked the capacity to manage the service (a classic Catch-22), and the margins were too low for the service provider to have an incentive to roll-out the service.<sup>52</sup>

Instead, the most successful strategy that the project found was to encourage partnerships between the larger, urban BMOs who were the primary recipients of ENABLE support and other organisations that were harder to reach directly, either because they were small grassroots organisations or based in more remote rural areas (or both).

In other contexts, twinning arrangements have been successful. Under this model, a donor provides finance to a BMO from a developed country to implement an assistance programme for a target BMO.

Experience proves that cooperation between twinning partners can go beyond the project's scope and often continues after the project ends.<sup>53</sup>

#### 4.1.5 Use lower-cost research methods<sup>54</sup>

New mobile data communication (MDC) methods<sup>55</sup> create the opportunity to gather data from members or generally from private sector firms. This can be used to provide evidence of the demand for reform in priority areas, or of the current situation that the private sector faces. Collection and analysis can be conducted in-house by a BMO, or contracted out to dedicated research organisations.

While this represents a much more cost-effective means of collecting information than was previously available, it is important to recognise that this process is not costless and generally represents an expansion in capacity and resource requirements. Very few BMOs in SSA were previously using other methods to gather this data, so the use of MDC tools to survey members represents an *expansion of scope* rather than a *cost-saving measure*. It should not be considered a priority strategy for improving the sustainability of a BMO. It is more appropriate for a BMO that has already consolidated its financial position and has strong institutional capacity.

The human resources and technical capability required to design and implement such systems are considerable. They include the programming capacity to establish the MDC system, the analytical capacity to collate and present the results and the market research expertise to design the content of the questions to put to members.<sup>56</sup> These are scarce capabilities in

<sup>52</sup> Springfield Centre and ASI, 2013a, p19.

<sup>53</sup> IFC, 2005, p86.

<sup>54</sup> World Bank, 2015c.

<sup>55</sup> These are briefly summarised in Appendix 2.

<sup>56</sup> In many contexts, it can be challenging to obtain sufficient responses, and the use of enumerators to interview businesspeople in person may be required in order to gather a usable quantity of data. Even when enumerators are used, MDC tools can still

developing economies and expensive to retain in-house. Where this type of research would contribute to advocacy, donors may support BMOs to develop MDC tools as they build the revenue streams of the BMO in parallel, or consider working with established research organisations to develop these skills and to learn how to market an attractive product to BMOs, if this is considered more sustainable.<sup>57</sup> MDC tools have a wide range of applications that can appeal to government and donors,<sup>58</sup> so the ability of domestic research organisations to master these technologies and market products based on them to a variety of clients has the potential to be a successful business model.

In turn, research organisations are likely to want to consider subcontracting some of the software-related components of their offering, for instance by using open source or software-as-a-service (SAAS) products rather than developing software in-house. SAAS products have the additional benefit of minimising the need for scarce systems administration expertise. Where open source projects are found to be beneficial to domestic research institutions, donor support to their developers may represent very high VFM, since the software needs of institutions in many developing countries is likely to be similar.

#### 4.1.6 Sustainable reform through a time-bound mechanism

Atypically, the PPD Handbook presents termination of the PPD mechanism as one of the four options it presents for a donor’s “sustainability/transfer/exit phase”. This does not mean that a donor-supported BMO would cease to exist after the donor’s withdrawal, but it may mean that a set of donor-funded activities would end, so that the BMO would revert to a state similar to its condition prior to the start of the project.<sup>59</sup>

It should be emphasised that a time-bound process still aims to achieve sustainable business environment reform. The implicit assumption is that once a PPD has induced improvements to the investment climate, these will remain in place once the dialogue has ended. Countries vary in the likelihood that government will introduce new measures that undermine the business environment in the absence of a permanent consultative mechanism in which the private sector can challenge such reform.

There are a number of reasons that a time-bound mechanism may be preferable in certain circumstances.

- A lack of concern for financial sustainability gives a donor a freer hand in the options available for support to the PPD process.
- Donors can provide (and pay for) evidence-based research at each stage of the process, which evaluations have repeatedly shown is lacking in most PPDs.

provide great cost savings in collecting, collating and validating data. However, the availability of a large number of trained enumerators for a short period of time is also a considerable organisational challenge.

<sup>57</sup> Refer to discussion of the market systems approach in Appendix 2. Such analysis typically implies support to research organisations as a critical component of the PPD ecosystem rather than allowing donors or BMOs to take over their role.

<sup>58</sup> Many MDC tools were originally developed for use in the health sector in developing countries, and have a range of applications in monitoring the implementation of government and donor projects in remote locations (World Bank, 2015c, pp1–2).

<sup>59</sup> Herzberg and Write, 2006, section A.2.3, pp15–18.



- Donors may be able to achieve better VFM from interventions when they can provide time-bound capacity directly rather than operating through existing institutions.
- A disregard for sustainability makes it easier for donors to achieve significant early results which build momentum. Evaluations have shown that early successes are very important in convincing stakeholders to commit their own resources to the process.<sup>60</sup>
- Donors are free to lobby government, including at high levels, in order to obtain a strong mandate for action to implement decisions made during the PPD.
- Donors can provide a “neutral space” for dialogue without the political difficulty of establishing an institutional (and financially sustainable) basis on which this can be maintained without undue influence from any one party to the dialogue (see section 4.4.1).
- Donors are free to subsidise the participation of groups that would be unable or unwilling to meet the costs of doing so themselves, such as rural and female-headed firms, and poor informal self-employed workers, with no need to consider how this participation could be maintained.
- A process that establishes and communicates a clear, finite timescale is likely to be perceived more favourably than one that attempts to achieve sustainability but fails to do so.
- The memory of a successful time-bound programme can make participants more amenable to supporting further ad hoc dialogue arrangements in future.

## 4.2 Other sustainability issues

Under the traditional approach often associated with the IFC, PPD sustainability is composed of three components.

- **Operational sustainability** of a secretariat established to provide a neutral forum for dialogue. This may be compromised if the secretariat is moved to an institution, such as a government ministry, that threatens its perceived neutrality.
- **Financial sustainability**, primarily of BMOs, but also of the secretariat.<sup>61</sup> This is the focus of section 4.1.
- **Sustained mandate** and implementation capacity. For instance, when a donor leaves the process, government participation may be shifted from the prime

<sup>60</sup> See, for example, Bannock, 2005a, p16: “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”.

<sup>61</sup> Concern for the financial sustainability of domestic research institutions is an innovation of the market systems approach that does not appear to have been considered in traditional programmes.



minister's office to a line ministry, with a consequential reduction in administrative resources and political influence backing reform.

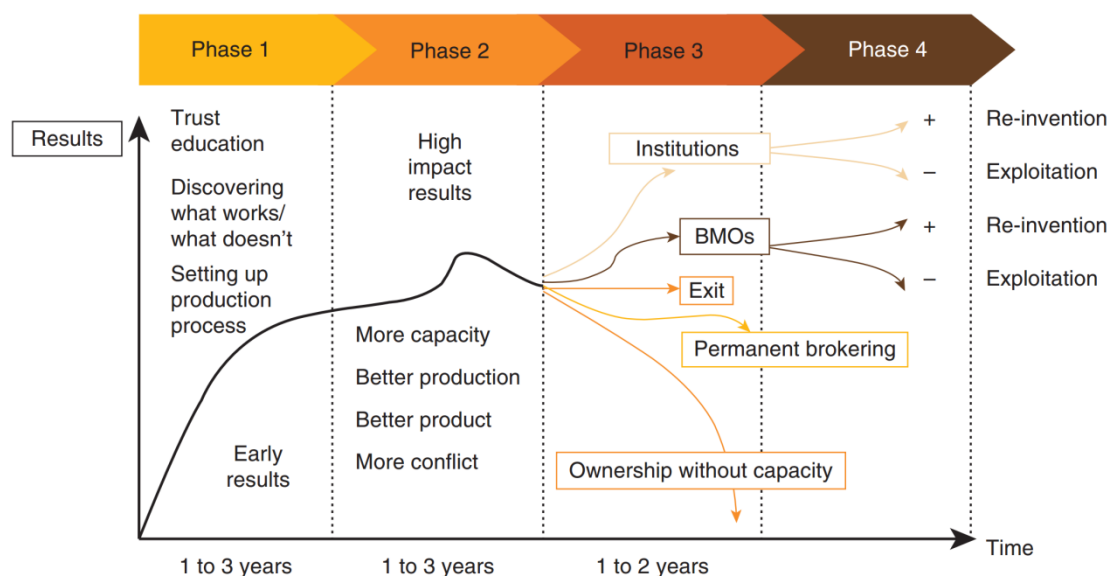
Under the market systems approach, the first and third of these elements are deemphasised. Rather than being the donor's job to micromanage the dialogue process through a new or heavily supported secretariat (which may be hosted by a donor), the market systems approach lays more emphasis on building the private sector's capacity to demand reform and the government's capacity to supply it, trusting that the effectiveness of these market forces will ensure that necessary institutional arrangements are created and maintained.

The actions most often advised for improving the transition are obvious in theory but difficult to achieve in practice.

- Plan the transition early (during the "setup" and "maturity" phases).
- Negotiate the most appropriate transition parameters with stakeholders both privately and in plenary (e.g. whether the secretariat will be moved to an existing ministry, BMO or become an independent organisation).
- Communicate the transition plan as early and often as possible.<sup>62</sup>

Figure 3 illustrates the World Bank's conception of the life cycle of a traditional PPD mechanism, through setup and maturity to a transition phase with various possible outcomes.

**Figure 3: "Life and death of a PPD mechanism"**



Source: Herzberg and Sisombat, 2016b, figure 1.1, p3.

<sup>62</sup> Herzberg and Sisombat, 2016b.

### 4.3 Inequitable representation

Inequitable representation refers to the reality that some firms have a greater capacity to represent themselves within dialogue processes than others. Typically, large, urban, formal sector, male-managed firms will have greater financial and organisational capacity to participate, and most existing PPD markets will have developed historically to cater primarily to these firms' needs. It is less clear-cut whether domestic- or foreign-owned firms are advantaged.

On the one hand, inequitable representation is an initial condition that donors will encounter in almost all developing economies. On the other, it is a likely side-effect of striving for greater financial sustainability among BMOs (see section 4.1). Any attempt to solidify the financial base of a BMO will tend to target firms that are more able to pay for services, which will tend to reinforce this inequality, both in participation in PPD and in firm productivity (see section 2.2.1).

This is perhaps the area in which the economic case for long-term donor support is the strongest. Intervention is justified both on the grounds of pure redistribution to the poorest members of society, and also because representation of poor entrepreneurs is a coordination problem dominated by high transaction costs. While government intervention would be easy to justify, there are serious dangers in government supporting organisations that are there to lobby government. The preservation of an independent and critical voice requires that government not be a major source of funds, at least in the early stages until rules and norms have been established. This presents an opportunity for donors, although there are obvious institutional barriers to establishing long-term support that has no medium-term prospect of transitioning to a self-financing model.

#### 4.3.1 Commercial radio and newspapers

Business reporting is weak in many developing countries, especially independent, investigative reporting on issues of interest to small and rural businesses. Donors' involvement with media outlets is frequently limited to purchasing a channel through which to communicate their own messages. However, the ENABLE programme has demonstrated that good, independent reporting can be so popular with audiences that advertising revenue can make it profitable for private media outlets. The programme worked to build this capacity within four media organisations, but subsequently both partner and competitor organisations have made additional investments in order to exploit this market.<sup>63</sup> Under this model, investigative journalism largely takes the place of BMOs in servicing certain sections of the market for private sector advocacy (albeit sections that were previously underserved).

<sup>63</sup> Springfield Centre and ASI, 2013b.

### Box 1: Examples of issues investigated by commercial media in Nigeria

The *Daily Trust* running an ongoing series of penetrating reports on the reality of government subsidy and distribution of fertiliser. Lack of access to fertiliser is one of the major constraints to improved agricultural productivity and rural incomes in Nigeria.

Exploring issues facing market traders, including highlighting the cost to traders of Lagos state government’s unannounced and forced temporary closure of the huge Mile 12 market in Lagos.

Broadcast media providing a platform for debate on the introduction of the “Cashless Economy” and its implications for small traders.

Supporting the advocacy of Okada drivers (motorcycle taxi drivers) in their drive to reduce the impact on their business of new Lagos traffic laws.

Source: Springfield Centre and ASI, 2013b, p2.

#### 4.3.2 Indirect representation

Bannock summarises the challenge succinctly by stating that

There is a fundamental trade-off between “representativeness” and “capacity for dialogue” in private sector institutions.<sup>64</sup>

Their pragmatic advice is to search for private sector voices that are familiar with issues facing underrepresented groups, without worrying whether these voices have a mandate to formally represent them. Such voices could be:

- “visionary” larger-scale entrepreneurs, or those with frequent dealings in rural areas
- international companies that rely on extensive domestic supply chains.

The same report notes frequent weaknesses in SME associations’ desire to represent their members, and the difficulty small local firms often have in understanding the “bigger picture” of investment climate issues.<sup>65</sup>

#### 4.4 Lack of trust between government and the private sector

Trust between government and the private sector is often weakest in FCAS, but there are a wide variety of other reasons that building trust may be a significant early challenge in a PPD process, including the legacy of socialist or authoritarian rule, ethnic differences between

<sup>64</sup> Bannock, 2005a, p32.

<sup>65</sup> Bannock, 2005a, pp32–33.

government and private sector communities, and corruption.<sup>66</sup> Across countries, the quantity of government regulation is strongly correlated with general distrust within society.<sup>67</sup>

#### 4.4.1 Neutral space

Establishing the PPD process in “neutral space” is one of the most important strategies to build trust between participants. This neutrality can cover the following aspects.

- A **secretariat** or **facilitator** to host dialogue that is financially and politically independent of government and the private sector, or governed transparently by representatives of both. Unfortunately, the easier ways to establish such a secretariat (such as donor-funding and capacity-building) tend to introduce barriers to the long-term sustainability of the PPD. However, the importance of strict neutrality may decline as trust is built, so the secretariat may not need to be a permanent institution (refer to discussion of time-bound processes in section 4.1.6).
- A secretariat may be able to provide **evidence-based research**, which can focus dialogue and can counteract the dangers of an accusatory atmosphere or an unwillingness of participants to be frank about their concerns.
- Alternatively, research can be provided through **independent trusts**. DFID has had success in establishing trusts such as FinMark (South Africa) and ComMark (SACU).<sup>68</sup>
- **Champions** who are perceived as neutral by all participants. In FCAS, these may be difficult to find; in these environments it may be appropriate to select a larger number of champions, who between them represent the various interests of stakeholders.<sup>69</sup>
- An **inclusive approach** that is perceived not to be excluding any important groups is important, even though it may be necessary to limit participation to make true dialogue practical.

<sup>66</sup> Bannock, 2005a, p18–19; Pinaud, 2007, p60.

<sup>67</sup> Aghion et al, 2010.

<sup>68</sup> Bannock, 2005a, pp15–16 and 19–20.

<sup>69</sup> World Bank, 2014, pp11–12.



## **Box 2: Examples of establishing neutral space from DFID programmes in Malawi, Nigeria and Kenya**

The National Action Group (NAG) 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.

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.

The **Kenya** Institute for Public Policy Research and Analysis (KIPPRA) has been used both to facilitate dialogue within DFID’s Enabling Environment programme, and to provide evidence-based research to strengthen the dialogue.

Source: Bannock, 2005, pp15–16.

### **4.4.2 Transparency**

Some of the techniques discussed in section 4.5.4 in the context of FCAS are also applicable to other environments in which trust is weak. For instance, measures to enhance transparency in the process can also help to build trust beyond direct participants, such as publishing meeting minutes and decisions. Public tracking of actions that have been agreed is also helpful in establishing the credibility of government to follow through on its promises and demonstrate commitment to PPD.

## **4.5 Political fragility and post-conflict environments**

Supporting PPD in fragile and conflict-affected states (FCAS) poses many challenges that are different from or more severe than in other contexts, but at the same time it presents additional opportunities. PPD can be a contributory process within wider peacebuilding efforts — it can provide a platform to excluded groups and resolve economic and social issues that would otherwise trigger conflict. Consequently,





establishing a successful PPD process is just as, if not more, important than the reforms or economic results.<sup>70</sup>

However, there are certainly particular challenges in FCAS, including:

- greater risk of derailment if the domestic political situation is misunderstood
- greater cultural understanding is needed to persuade stakeholders to participate
- inclusivity can be harder to achieve, and may require ongoing efforts to bring additional participants in over time
- finding willing, competent champions who are perceived as neutral is generally harder
- progress is usually *much* slower<sup>71</sup>
- financial (and organisational<sup>72</sup>) sustainability is much more difficult to achieve
- lack of trust is more widespread and harder to overcome (this challenge is handled generally in section 4.4).

Pinaud<sup>73</sup> considers the question of whether democracy is necessary for effective PPD. He concludes that electoral democracy<sup>74</sup> is not critically important. In fact, although there are obvious reasons that it is helpful, there are also reasons that it can hinder PPD. The electoral cycle can reduce the ability of the government to make credible medium-term commitments. Bureaucratic administration by civil servants is arguably less feasible. And the private sector's influence on an elected government may be more diluted than would be the case in a more authoritarian environment.<sup>75</sup>

On the other hand, institutional democracy<sup>76</sup> is very important for successful PPD, and must be real rather than theoretical.

<sup>70</sup> World Bank, undated, p6.

<sup>71</sup> World Bank, undated, p6: "At the initiation of the PPD project in Nepal, World Bank Group staff members and consultants estimated that the task of conducting the PPD diagnostics and holding workshops to engage stakeholders would take two weeks. Irina Niederberger, Nepal program manager from 2008–10, estimates that the diagnostic phase actually took about two years."

<sup>72</sup> World Bank, 2014, p16: there is a strong "temptation to become heavily involved in the management of the PPD platform in the beginning. Directly managing the secretariat that implements the platform, or hiring a coordinator as a formal project staff member, creates the possibility of speeding up achievement early on and bringing the PPD platform instant credibility. The temptation is especially great for PPD projects in high profile countries where there is pressure to show quick results. However, giving in to the temptation has a big downside. In particular, it can make transitioning the project to local ownership difficult, especially when a client has become used to receiving the platform's management as a service paid for exclusively by international donors."

<sup>73</sup> 2007, pp45–48.

<sup>74</sup> "Electoral democracy" is defined as "free and transparent elections with universal suffrage, multi-partyism, and... freedom of expression and freedom of the press" (Pinaud, 2007, p45).

<sup>75</sup> Pinaud, 2007, citing Geddes (1990), Mason et al (1980) and Przworski (1995).

<sup>76</sup> Defined as "separation of powers, the rule of law (respect for the rights of individuals and legal entities) and the responsibility of state institutions", including "monitoring the constitutionality of laws, ensuring the defence of citizens against the state (administrative judicature) and overseeing government accounts to see that public money is properly used" (Pinaud, 2007, pp45 and 50).

The government can possess no credibility, and dialogue cannot be productive, unless the private sector feels that property rights are guaranteed, that the state’s arbitrary power is limited, and that its promises can be relied upon.<sup>77</sup>

This is not to say that PPD under such circumstances is impossible, but that “PPD will remain essentially vulnerable and precarious”.<sup>78</sup> Strategies to build trust may help (see section 4.4), but the private sector is unlikely to forget that “the risk that a state will not only break its commitments but resort to outright predation cannot be entirely ruled out”.<sup>79</sup>

#### 4.5.1 Begin with conservative expectations

Given the wide range of adverse conditions in FCAS, practitioners advise a focus on issues that can be resolved relatively quickly and easily, especially during the early stages of a programme. Lower ambition reflects not only the greater difficulty of addressing controversial issues in FCAS, but also the relative importance of a positive PPD process relative to tangible reform. The following specific strategies are recommended.

- Focus on subnational or sector-specific reform rather than cross-cutting national issues.
- Prioritise process-oriented improvements over legislative changes.<sup>80</sup>

#### 4.5.2 Conduct extensive context analysis

Context and political economy analysis must be much more thorough in FCAS, and there will be a greater bias towards general political and social conditions rather than on technical aspects of the business environment such as legislative review.

### **Box 3: World Bank advice on context analysis in FCAS**

Conduct four types of stakeholder assessment.

- Power and interest analysis.
- Importance and influence analysis: define the importance of satisfying the needs of each stakeholder group versus each stakeholder group’s influence over the project.
- Roles and relationships analysis: identify many roles each stakeholder has and how a stakeholder relates to his or her superiors, subordinates, and peers.
- Networks and coalitions mapping.

<sup>77</sup> Pinaud, 2007, p47.

<sup>78</sup> Pinaud, 2007, p48.

<sup>79</sup> Pinaud, 2007, p28.

<sup>80</sup> World Bank, 2014, p5.



#### Research clients and counterparts.

- Conduct internet and news searches on the counterparts and their institutions. Understand their histories and issues they face.
- Talk to trusted local sources. Understand their strengths and weaknesses; identify potential issues that could derail the project.
- If the World Bank Group has an office in the country, interview staff who have previously worked with the client.
- Talk with other donors and implementing partners.

#### Identify common, valuable elements of the political economy.

- A description of different political parties.
- A description of the party in power as well as its path to power.
- An explanation of how leaders are determined in government and ministries.
- A description of private sector political affiliations.
- Assessment of triggers of conflict in key sectors, such as extractives.
- A good understanding of basic economic issues and dynamics, including informal structures.
- Information on the country's constitution and how it structures the government and economy.
- A summary of how stakeholders' names or backgrounds might be connected to their political alliances and power relations.
- A description of how decisions are made, both formally and the cultural norm for decision making.

Source: World Bank, undated, pp3–4. See also World Bank, 2014, pp3–5 for additional explanation.

#### 4.5.3 Place greater emphasis on political understanding when hiring

Local staff members who understand PPD participants are invaluable, and softer skills such as leadership will be relatively more important than technical knowledge compared to non-FCA environments. Adaptability is also an important attribute for all members of staff, and it is worth retaining a political economy analyst as a permanent member of the team.<sup>81</sup>

#### 4.5.4 Emphasise communication, transparency and accountability

Providing public information and commitments is particularly important for building trust in FCAS. The following practices are recommended.<sup>82</sup>

- Publishing minutes of all meetings and decisions.
- Publicly tracking the progress of reforms.

<sup>81</sup> World Bank, 2014, p6.

<sup>82</sup> World Bank, 2014, pp6–10.



- Using a neutral party to facilitate the process, especially at the beginning.
- Using “road shows” to enable the participation of stakeholders in rural areas.
- Using traditional media (radio, TV, newspapers) to reach rural stakeholders, and social media in particular to communicate with youth groups.
- Using SMS to plan meetings in remote areas.

However, donors should be cautious about giving the media direct access to dialogue as this can stifle honest debate.

#### 4.5.5 Place less emphasis on champions

Traditional World Bank/IFC methodology places considerable emphasis on the role of “champions” in driving PPD and business environment reform. It is one of the four principal ingredients incorporated in the PPD diamond (see Figure 4 on p47). However, for a variety of reasons the use of champions is more problematic in FCAS. Competent champions are generally harder to find, and the importance of selecting individuals that are perceived as neutral narrows the field further (champions perceived as neutral are often intellectuals, professors, accountants or lawyers). It can be difficult to assess how potential champions are perceived in complex political environments, and there is a risk that they will be hijacked by elite groups. The general instability of the environment makes it more likely that champions will leave the process early. Instead of one or two key champions, a larger number makes the project less vulnerable to turnover, and makes it less likely that some groups will be excluded by an individual champion’s affiliations. It may also be beneficial to address some initial straightforward issues before recruiting a champion.<sup>83</sup>

#### 4.5.6 Devote more resources and time to capacity building

The capacity of BMOs (if they even exist) and MDAs is generally much weaker than in other environments, and capacity-building components of PPD projects start from a lower baseline, take longer and require more resources. The number of donors present in FCAS can also create greater competition for limited administrative talent, which can increase staff turnover. It can also place great strain on the government’s administrative resources, even in governments with good levels of capacity and education. An early assessment of staff capability can be useful to ensure that project objectives and timescales are reasonable.<sup>84</sup>

<sup>83</sup> World Bank, 2014, pp10–12.

<sup>84</sup> World Bank, 2014, pp13–15.

## 5. Recommendations

### 5.1 Recommendations on Zimbisa's challenges

This section summarises the most relevant challenges for Zimbisa in 2016 and highlights the strategies already discussed that are the most appropriate for consideration if DFID support is extended.

#### 5.1.1 Financial sustainability of BMOs and newly developed capabilities in research and media organisations

Whilst Zimbisa has been very successful in improving the capacity of a range of organisations to engage in new activities, the financial sustainability of many of them is not yet secure. This is a principal concern within the market systems approach (see Appendix 2) and is discussed with particular reference to BMOs in section 4.1. Several strategies may be useful for Zimbisa.

- Consider private services that BMOs could provide to their members to increase the perceived value of membership (to retain members, expand membership and potentially raise fees or charge members for supplemental services). Such services can include attendance at roundtables that grant access to senior members of government, opportunities to advertise to the membership, socialising and networking events, and training sessions addressing members' priority skills gaps. BMOs may be able to negotiate discounts for members purchasing from other members. Depending on the context and brand image of the BMO, measures to capitalise on the identity and status of members may also enhance the perceived value of membership.
- Given the perceived oversupply of BMOs in Zimbabwe,<sup>85</sup> collaboration will be an important strategy, from joint commissioning of research through to campaign coalitions and formal alliances. Rationalisation of the sector may be desirable but it may to be a politically risky agenda for Zimbisa to pursue.
- The delivery of low-cost research that provides strong VFM will be important for the PPD process, and Zimbisa is well placed to consider where this capacity is most likely to be sustainable. Although research based on canvassing members (and other members of the private sector) through MDC tools is perceived as a "low-complexity" replacement for sector research,<sup>86</sup> long-term support for MDC tools require a number of specialised skills that are scarce in developing economies, which translate into significant fixed costs for organisations that retain that capacity (see section 4.1.5). If Zimbisa supports BMOs to develop the capacity to use such tools, then it would be useful to also consider how long-term support and maintenance can be provided. One possible model would be to provide parallel

<sup>85</sup> DFID, 2016, p10.

<sup>86</sup> For example, DFID, 2016, p14 suggests "a natural division" is emerging in research in Zimbabwe, "with BMOs commissioning more complex sector research to be done externally while turning internal capacity to conducting low complexity internal membership and polling".

support to research organisations, who may be in a position to use this capacity to sell support and research products to various BMOs (and MDAs and donors, because the technology is highly versatile and has many research applications). BERF includes a component (Activity E) specifically designed to support innovation in stakeholder engagement and could be used as a delivery mechanism for this support, whether to BMOs or to other actors.

- Although contrary to the market systems approach, it can be valuable to recognise that not all desirable interventions can sustainably self-finance, especially if donors want to target beneficiaries that are least able to pay (poor people, women, youth, rural communities, informal firms, etc). Sustainable business environment reform can be achieved through dialogue processes that themselves are not financially sustainable. Zimbisa should be open to the possibility of incorporating programme elements that are acknowledged to be unsustainable, where sustainable options are not feasible. A strategy that is acknowledged to be time-limited from the beginning can use higher VFM strategies, achieve reform more quickly, and carries less credibility risk than one that aims unrealistically at sustainability and fails (see section 4.1.6).
- Encouraging partnerships between BMOs that receive direct support through the programme and rural grassroots organisations that are difficult to reach directly can be a cost-effective and practical means of increasing representation of poor and marginalised constituents, including women-headed firms and the informal sector.
- Zimbisa could seek opportunities to twin Zimbabwean BMOs with counterparts in developed countries (or in South Africa where BMOs are well developed and relatively well resourced), and potentially to deliver capacity development support through such counterparts. Such partnerships have often led to sustainable relationships in other contexts (see section 4.1.4).

#### 5.1.2 Equitable representation of disadvantaged groups

Inherent to the market systems approach is the likelihood that a system driven by constituents' ability to pay will deliver greater representation of wealthier constituents. In the ENABLE programme in Nigeria, one mitigating strategy was to develop investigative capacity within media organisations, which effectively enabled poor constituents to pay for representation by consuming advertising. However, in order to achieve the audience growth and loyalty that attracted advertisers and established economic sustainability, tactics were developed that would not be advisable in all political environments (see section 4.3.1 and Box 1 in particular). Political economy analysis in Zimbabwe should determine whether it is advisable to attempt to replicate such success, or whether the risks outweigh the benefits at this stage.

The indirect representation approach may be more feasible, in which a BMO targets large, urban firms for membership who have an economic interest in advocating on behalf of more vulnerable groups due to backward and forward linkages.





### 5.1.3 Consolidating trust and building inclusivity

Zimbisa has achieved considerable early success in building trust between the private sector and government, and lessons from this experience will be a valuable feature of future case studies.<sup>87</sup> This enables the programme to progressively incorporate more contentious issues, and those that will take longer to resolve such as legislative change. One measure that can be used to further consolidate trust is to increase transparency by publishing more of the content of discussion and decisions. This measure can also help to build inclusivity by giving non-participants access to more of the content of dialogue, both directly and through media coverage.

### 5.1.4 Handling political instability

Zimbisa already has a good record in risk analysis and management, and it appears that appropriate strategies from other contexts are already being employed.<sup>88</sup> It will provide valuable lessons about how to manage the risks associated with weak institutional democracy, which has previously been argued to be extremely challenging (see section 4.5).

Two strategies previously discussed may enable Zimbisa to consolidate this success.

- Placing greater emphasis on political understanding than technical expertise (relative to the balance in a more stable environment) when hiring new staff. This could also mitigate the challenge of extending inclusivity: local members of staff with knowledge of constituents that are proving difficult to integrate are an important asset.
- Emphasise communication, transparency and accountability through the range of measures described in section 4.5.4.

In unstable political contexts it is also beneficial to remain aware that the process of PPD itself contributes to improved political stability. Although difficult to quantify, this benefit should be valued as a tangible result of the intervention.

## 5.2 Achieving Zimbisa's additional aims

In addition to addressing the foregoing challenges, DFID has also expressed interest in pursuing the following goals through Zimbisa.

### 5.2.1 Shift to a greater whole-economy focus

This accords with wide experience that sector-specific dialogue is easier to establish in adverse environments, particularly where distrust and political instability are challenges. Given the clear progress in these areas, this is a good time for Zimbisa to be open to addressing more cross-cutting challenges when they are raised by dialogue participants.

<sup>87</sup> DFID, 2016, p5: "Significant momentum has developed around the Zimbisa intervention and a deep level of trust in the programme is evident across MDAs and BMOs."

<sup>88</sup> DFID, 2016, p5.

### 5.2.2 Focusing on the finance, agriculture and property rights

DFID Zimbabwe has expressed the desire for Zimbisa to place greater emphasis on DFID's priority areas.<sup>89</sup> On the surface, this would appear to be contrary to most advice on PPD,<sup>90</sup> and also to the principles of the market systems approach, in which priorities are set by the private sector through BMOs (see Appendix 2). DFID should be cautious about attempting to influence the content of PPDs or the prioritisation of issues to address.

### 5.3 Effective strategies in SSA

| Strategies that have been successful or recommended in SSA |   |  |                       |
|--|---|--|-----------------------|
| Strategy   | Description   | Challenges it can address  | Further details       |
| Use market systems analysis                                | The market systems approach provides a theory of change that emphasises sustainability and catalytic interventions  | Financial sustainability of BMOs, research institutions and media outlets providing investigative coverage | 0                     |
| Co-fund one-off costs (avoid core funding)                 | Providing core funding to BMOs and other partners can make them donor-dependent and attract the wrong partners  | Financial sustainability of BMOs, research institutions and media outlets providing investigative coverage | 4.1.2                 |
| Do not provide free research                               | Donor-provided evidence undermines the domestic market for research products, making PPD unsustainable  | Financial sustainability of research institutions  | 4.1.2 (but see 4.4.1) |
| Support BMOs' revenue raising                              | Build capacity in recruitment, retention and administration of membership   | Financial sustainability of BMOs   | 4.1.2                 |
| Help BMOs to provide private services                      | BMOs can provide material benefits and solidarity benefits to members, which increase the perceived value of membership and improve retention and recruitment   | Financial sustainability of BMOs   | 4.1.3                 |
| Foster partnerships between BMOs                           | Linkages between larger urban BMOs and rural or grassroots organisations can enable a project to provide support to BMOs that would be impractical to reach directly<br><br>Twinning arrangements with BMOs in developed countries can deliver support with good VFM and sustainability | Including underrepresented groups in PPD<br><br>Financial sustainability of BMOs                           | 4.1.4                 |

<sup>89</sup> DFID, 2015, p6: "DFID Zimbabwe has a strong focus on financial sector deepening, agriculture sector development and property rights, these sectors should be prioritised by the Zimbisa programme going forward." These priorities are also referenced on pp1 and 5, though they are not mentioned in BERF, 2016.

<sup>90</sup> Bannock, 2005a, p36: "donors are often 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." The exact same text appears in IFC, 2006, p128. IFC, 2005, p51: "the decision to select services should be taken by the BMO, [so] donors should only play a minor role during this phase."

| Strategies that have been successful or recommended in SSA         |  |   |                       |
|--|--|---|-----------------------|
| Strategy   | Description  | Challenges it can address   | Further details       |
| Support research organisations to master low-cost research methods | MDC tools enable cheaper collection of data from BMO members or from the private sector, and can ensure more even representation<br>BMOs may well be able to use these tools themselves with help in setting them up and training staff, but they will still require assistance with long-term support<br>BERF Activity E can provide this support | Including underrepresented groups in PPD<br>Financial sustainability of research institutions<br>Use of evidence in PPD | 4.1.5                 |
| Use unsustainable methods where necessary                          | The objective of PPD is primarily sustainable reform, so an unsustainable dialogue mechanism that achieves sustainable change is preferable where sustainable processes cannot be established  | Including underrepresented groups in PPD  | 4.1.6                 |
| Investigative reporting on business environment issues             | Build capacity of commercial radio and newspapers to conduct independent, investigative reporting of business environment issues to build large, committed audiences that are attractive to advertisers<br>Build capacity of media organisations to market advertising space without editorial influence   | Including underrepresented groups in PPD<br>Government corruption   | 4.3.1                 |
| Indirect representation  | Support BMOs to attract a membership that is able and willing to indirectly represent groups that cannot be reached directly, e.g. by targeting large firms with critical linkages to small, rural enterprises   | Including underrepresented groups in PPD<br>Lack of representativeness of SME organisations                             | 4.3.2                 |
| Establish a neutral secretariat                                    | A neutral secretariat or facilitator that is not beholden to the government or private sector can overcome initial distrust, although sustainability can be a challenge  | Distrust between government and the private sector  | 4.4.1                 |
| Deliver evidence-based research                                    | A secretariat can focus dialogue by providing evidence-based research to support discussion, but donors should be wary of undermining the market for domestically provided research  | Distrust between government and the private sector<br>Use of evidence in PPD  | 4.4.1 (but see 4.1.2) |
| Establish an independent trust that can deliver research on demand | DFID has had success in establishing independent trusts in South Africa and SACU to provide evidence-based research in support of PPD  | Distrust between government and the private sector<br>Use of evidence in PPD<br>Timeliness of donor response to demand  | 4.4.1                 |

| Strategies that have been successful or recommended in SSA |  |  |                 |
|--|--|--|-----------------|
| Strategy   | Description  | Challenges it can address  | Further details |
| Recruit PPD champions                                      | “Champions” that are considered neutral by participants can help to overcome distrust and accelerate progress<br>This strategy is less appropriate in FCAS | Distrust between government and the private sector   | 4.4.1, 4.5.5    |
| Champion inclusivity                                       | It is important to ensure that a dialogue process is perceived to be open to all interest groups, even though this may take time to achieve                | Distrust between government and the private sector<br>Including underrepresented groups in PPD   | 4.4.1           |
| Communication, transparency and accountability             | Publish minutes, decisions, publicly track reforms, use road shows and the media to inform the public, and use SMS to plan meetings in remote areas        | State fragility, political instability and the aftermath of conflict<br>Distrust between government and the private sector<br>Including underrepresented groups in PPD | 4.4.2, 4.5.4    |
| Begin with simpler reforms, and expand as trust is built   | In FCAS, or where trust is weak, focus initially on sector-specific, subnational and process-oriented reforms to build trust and momentum                  | State fragility, political instability and the aftermath of conflict<br>Distrust between government and the private sector   | 4.5.1           |
| Conduct context analysis                                   | In FCAS, political economy and other context analysis is indispensable in managing risk  | State fragility, political instability and the aftermath of conflict<br>Project failure<br>Reputational risk to donors   | 4.5.2, Box 3    |
| Take political understanding into account when hiring      | In FCAS, deep technical understanding is relatively less important than understanding of the political situation   | State fragility, political instability and the aftermath of conflict<br>Project failure<br>Reputational risk to donors   | 4.5.3           |

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## Appendix 1      Terms of Reference

### Overview

Zimbabwe's economy is expected to achieve zero growth in 2016, from 1.5% (estimated) in 2015 and 3.2% in 2014. Despite ongoing political uncertainty, discretionary application of rule of law and a worsening macro-economic environment, the country is considered by leading development partners and potential investors to be one of Sub-Saharan Africa's most promising economies. According to the World Bank,<sup>91</sup> the country's strengths lie in its 'relatively well-educated work-force, abundant natural resources and developed, though ageing, infrastructure'. These advantages provide a credible foundation for future growth prospects and validate efforts to reduce poverty around an inclusive agenda which has the backing of policymakers, local and international investors, Business Membership Organisations (BMOs), academic institutions and civil society.

The actions of a few 'change agents' within key ministries such as the Office of the President and Cabinet (OPC) and the Ministry of Finance (MoF), have also encouraged cautious optimism. These 'reformists' within government, have engaged and promoted dialogue with development partners and the private sector with the objective of improving the business environment.

Zimbabwe's competitiveness performance trails behind comparator countries. For example, it is ranked 155 of 189 countries in the World Bank's Ease of Doing Business and has a Distance to Frontier score of 48.17 in comparison to its closest trading partner South Africa, which scores 64.89. A World Bank-supported 100 Day Rapid Result Initiative to address weaknesses in the business environment and constraints to Zimbabwe's competitiveness, has achieved good results. It now takes 30 days to register a business compared to the previous 90 days; construction permits can be approved in 120 days versus 448 days and paying taxes now takes 160 hours as compared 242 hours before the initiative. It is hoped that these improvements and a further round of reforms currently underway, will create a more attractive climate for the level of investments which the Zimbabwean economy urgently needs. The sustainability of these reforms will rely on the effectiveness of the working groups which have been formed by the government and the extent to which they are able to continue to engage successfully with all stakeholders, building on the momentum of the 100 Day Rapid Results Initiative.

A BERF Report to DFID on 'Future Options for Zimbisa' (one component of DFID's support to Zimbabwe through the Business Enabling Environment Programme (BEEP)) found that the programme has assisted Zimbabwe to improve business advocacy through Public Private Dialogue (PPD). Zimbisa has recorded commendable successes to date and the advocacy system groups being supported - BMOs, ministries and government agencies, research institutions and the media - are on track to achieve all outcomes and outputs, including the

<sup>91</sup> <http://www.worldbank.org/en/country/zimbabwe/overview>

target of delivering six new or amended regulations or laws by January 2017 and ensuring that inclusive growth policies are implemented. Notwithstanding these achievements, Zimbabwe’s return to long term competitiveness beyond the current political cycle, will require deeper investments in promoting and sustaining the advocacy systems already established under Zimbisa.

## Objective

Provide evidence to support the Business Case extension of the current Zimbisa Public Private Dialogue (PPD) programme, including guidance from other donor programmes on what works and doesn’t work in the context of PPDs in Sub-Saharan Africa.

## Link with BER/investment/jobs/poverty (ToC)<sup>92</sup>

Evidence from this report will enable an assessment of the value of public private dialogue (PPD) mechanisms and stakeholder ‘buy-in’ as necessary pillars for successful business environment reform which has the potential to attract and retain investment and generate jobs for women, marginalised groups and the rural poor. An assessment of the benefits of PPD mechanisms especially in fragile political states will help to illustrate how inclusive growth policies can be nurtured even in unfriendly investment climates.

## Client and Beneficiaries

The immediate client for this output is DFID Zimbabwe. The ultimate beneficiaries will be poor people, including women. BMOs across the country, those in new sectors, informal trade associations and sector associations (especially those championing business initiatives by women) are also beneficiaries who will benefit directly or indirectly from jobs which are created as Micro and Small and Medium Sized Enterprises set up operations, or as existing ones expand. DFID’s partners and other development agencies (for example, Danida, World Bank, IMF, IFC et al), government policy-makers, BMOs, research bodies and the media, will also benefit from the evidence on good practice in PPDs and stakeholder engagement researched by BERF.

## Scope

This assignment will produce two outputs as follows:

### a. **Part A (Evidence and Learning Note)**

- A desk review of evidence on BE and investment climate programmes being funded by other donors that have incorporated PPD systems and mechanisms and the benefits that have accrued to the countries in question.

<sup>92</sup> This assignment provides expert external assistance and does not replace the work of DFID civil servants.



- Analysis of desk based research of PPD systems and approaches in Sub-Saharan Africa (and elsewhere as appropriate) to determine the evidence supporting:
  - a. PPD programme performance with respect to the benefits to the economy, that is, the costs vs benefits.
  - b. Impact of PPDs on high-level reforms and the extent to which PPD systems have provided ‘whole economy’ benefits.
  - c. Examples of the use of innovative PPD platforms or solutions to address investment climate constraints and inclusive growth especially as it affects women and poor people in rural areas and BMOs country-wide.
  - d. Examples of effective ‘bridge-building’ solutions used by governments and BMOs including the approaches that have been sustained in difficult political economy situations.
  - e. Financial sustainability strategies, innovative, low-cost solutions employed by BMOs to build capacity, sustain membership and implement outreach activities.
  - f. Examples of strategies that demonstrate models of inclusive stakeholder engagement, (for example SMS, smartphones), which have been used to build the capacity of women and young people to effect change and support an improved enabling environment for foreign and local investments.

**b. Part B (Document Reference/Library on PPD systems and approaches)**

- Desk research to scan and review PPD evidence reference sources that are viewed as most supportive of BER and investment climate programmes, in particular in politically fragile states.
- Annotated table of the best documents/evidence on PPD approaches, systems and mechanisms

**Method**

The consultants/researchers will undertake research to produce the outputs as follows:

**Part A (Evidence and Learning Note)**

- Review existing sources of data including the Annual Review of BEEP (2016) and the BERF Report to DFID titled ‘Future Options for Zimbisa’.
- Review the evidence from PPD mechanisms employed through DFID’s programmes such as BRICK (Kenya) and ENABLE (Nigeria), IFC, World Bank and other donor PPD programmes, especially those from Sub-Saharan Africa and fragile political states.

- Compare PPD programmes implemented by various donors, providing guidance on the ones which have been attributed to recording the greatest results in attracting investments.
- Collate and analyse research findings.
- Draft a formal report highlighting:
  - a. How DFID Zimbabwe should use evidence and best practice from donor PPD programmes to deepen business environment and investment climate reform efforts currently underway through the Zimbisa programme.
  - b. A table of the most effective and innovative PPD mechanisms and approaches to promote an enabling environment for investments in Sub-Saharan Africa.

### **Part B (Document Reference/Library)**

- Collate and analyse sources of evidence from donor PPD programmes on what has worked (and what hasn't worked) in PPD approaches, systems and mechanisms for BER and investment climate programmes.
- Draft a full Document Reference/Library report highlighting:
 

PPD systems, approaches and mechanisms which support investment climate and business environment reform, including donor programmes in politically fragile states.

### **Timeframe and Staffing**

Final delivery of the Evidence and Learning and Document Reference/Library to DFID Zimbabwe is programmed for October 2016 (although this may be earlier, depending on the timing of approvals).

The evidence will be researched and the Evidence and Learning Note and Document Reference/Library report drafted by in-house experts/consultants. A Senior Researcher will draft the Evidence and Learning Note with support from a junior researcher as necessary. A Senior Research Assistant will research and produce the Document Reference/Library report.

The expected level of effort for the PPD Evidence and Learning Note is 12 days. The expected level of effort for the PPD Document Reference/Library is 5 days.

### **Deliverables**

The consultancy will produce an Evidence and Learning Note on *'What works and doesn't work and the benefits of Public Private Dialogue in Sub-Saharan Africa'*.

A Document Reference/Library report on PPD mechanisms and approaches from Sub-Saharan Africa and benchmarks from elsewhere that can be drawn on by DFID Zimbabwe for ongoing research to support learning will also be produced.

## Dissemination

The Evidence and Learning Note will be published and disseminated to DFID Zimbabwe's development partners: Danida, the World Bank, IMF, and IFC among others. Subject to guidance provided by DFID Zimbabwe, it will also be distributed to local stakeholders and delivery agencies.

The study will also be made available on BERF's website: [www.businessenvironmentreform.co.uk](http://www.businessenvironmentreform.co.uk)

## Workplan

| Item/Activities   | Timing (2016) |
|---|---------------|
| Draft ToR reviewed by DFID Zimbabwe and comments received   | 29-Aug        |
| ToR revised and submitted to BERF for approval  | 31-Aug        |
| BERF approved ToR, proposed consultant's CV and estimated budget submitted to DFID ICT and DFID Zimbabwe for approval | 02-Sep        |
| Revised ToR received; amendments made as needed   | 09-Sep        |
| Consultants assigned; drafting begins   | 12-Sep        |
| Draft Evidence and Learning Note and Document Reference/Library Report QA'd by BERF/Itad and BERF/KPMG                | 03-Oct        |
| Drafts revised and submitted to DFID ICT and DFID Zimbabwe  | 05-Oct        |
| Comments received from DFID ICT and DFID Zimbabwe   | 14-Oct        |
| Evidence Note and Reference Reports reviewed, finalised and QA'd  | 18-Oct        |
| Evidence Note and Reference Report delivered to DFID Zimbabwe and DFID ICT  | 20-Oct        |

## Competencies Required

Post graduate degree in Economics, Finance, International Business, Public Policy or related discipline. Working experience in investment climate or business environment reform in developing countries:

- Knowledge of Business Environment and/or investment climate reform in developing countries.
- Excellent research, analytical and report-writing skills.
- Sound knowledge of relevant research methodologies
- Good knowledge of the political economy and business operating framework in developing countries in Sub-Saharan Africa, such as Zimbabwe.
- Understanding of how business environment reform influences job creation for women.
- Understanding of the impact of reforms on the growth and viability of Small and Medium Sized Enterprises (SMEs) in Sub-Saharan Africa.



- Excellent communication skills.

## Appendix 2      Traditional and market systems approaches to PPD programming

### Traditional approach

In the traditional approach, PPD is an important component of a wider effort to reform the investment climate. PPD is necessary but insufficient for reform. Effective PPD can achieve the following things:

- generate ideas for reform
- prioritise reform proposals
- sense-check government proposals, to weed out bad ideas before they are taken further, and
- sensitise the private sector, recognising that people are more likely to accept and support reforms if they understand their rationale and have been consulted prior to their imposition.

In this paradigm, a strong investment climate is like a public asset. Investment climate reform is the process of investing resources into the asset, with the result that it will pay greater dividends to all in future. Donors' main role is therefore to contribute resources that the domestic system lacks so that the value of the asset can be improved more quickly.

The threat of reform “backsliding”, with government introducing new rules that reverse progress or worsen the investment climate, is not considered to be particularly important.

Donors often find that they can achieve more reform with fewer resources by participating as a major actor in PPD for investment climate reform. This could involve establishing a new business membership organisation (BMO) (although donors have learnt that this is not sustainable<sup>93</sup>), but almost always involves providing research and analysis products to support the process.<sup>94</sup> Some view donors' privileged access to all levels government as an opportunity that should be exploited to kick-start PPD.<sup>95</sup>

Donors have also learnt that momentum is a critical success factor, and the usual advice is that “PPD should be more intense in the early phases”.<sup>96</sup> Once participants have seen that their early efforts have been rewarded, they will be more willing to commit to longer term and more difficult challenges. Sustainability — in the sense of PPD becoming an ongoing, permanent process without donor support — is either seen as the biggest challenge that

<sup>93</sup> See for example IFC, 2005, p85: “Many interventions by donors... to establish new BMOs have failed. Too many developing and transition countries have BMOs... created by donors that will never achieve a reasonable level of sustainability.”

<sup>94</sup> Bannock, 2005a, pp 4 and 20: “The most successful facilitators under-write evidence collection to focus dialogue”. Herzberg and Wright, 2004, p23: “Donors can help by providing funds and technical advice, putting practitioners in touch with similar initiatives in other countries, and disseminating knowledge about international best practice.”

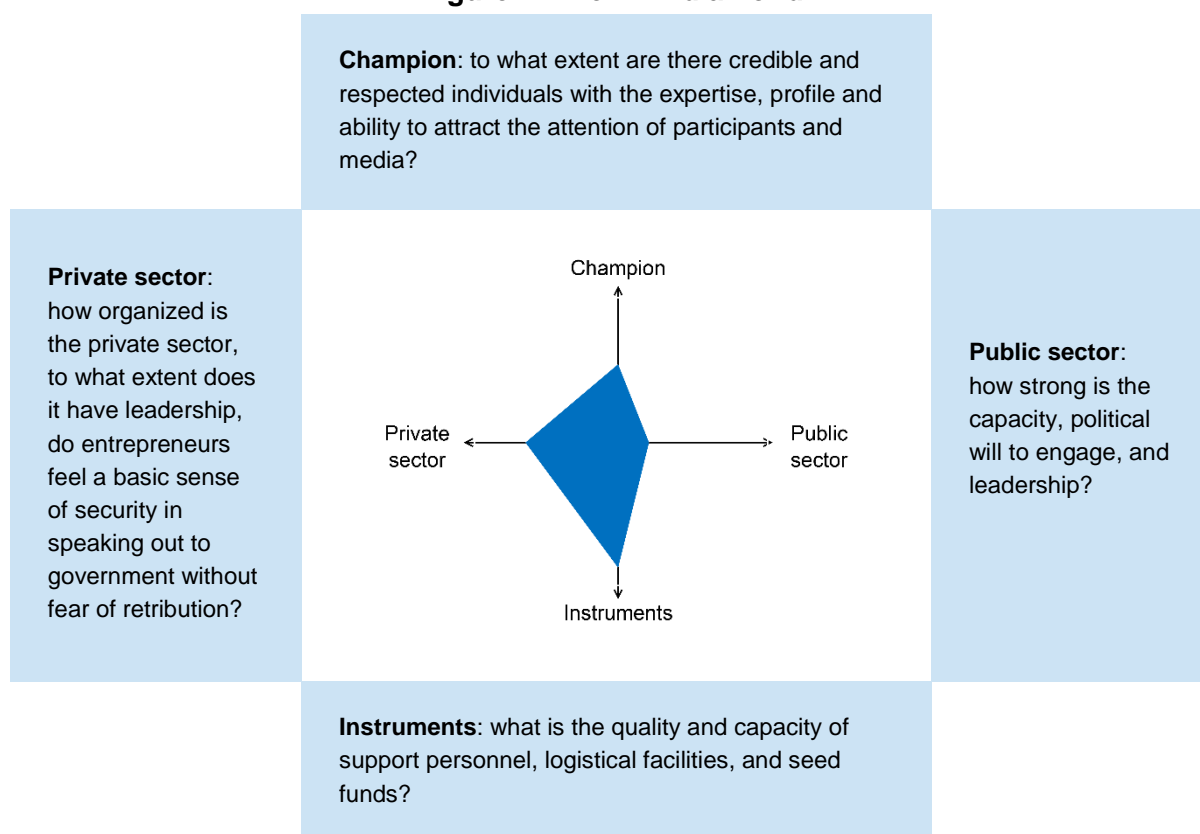
<sup>95</sup> Bannock, 2005a, p41: “DFID’s network of field-based enterprise advisors, most of whom have a strong background in the private sector but who, as donor representatives, have access to all levels of the public sector, is an invaluable resource which has given DFID a comparative advantage in promoting PPD for enabling environment reform.”

<sup>96</sup> Bannock, 2005a, p16. Also on p16: “Without signs of early results it is difficult to sustain interest and confidence in dialogue.”

donors face, or not worth pursuing.<sup>97</sup> They have learned from experience that sustainability is difficult or impossible to achieve, but their advice to themselves is usually to “do sustainability better”: think about it more, think about it earlier and devote more resources to it.

The PPD Handbook conceptualises PPD as being composed of four core elements, which can be illustrated in the PPD diamond shown in Figure 4. It advises that whilst a “balanced diamond” is not necessary for successful PPD, “it is difficult to survive a weakness in more than two dimensions.”<sup>98</sup>

**Figure 4: The PPD diamond**



Source: Herzberg and Wright, 2006, p29.

### Introduction to the market systems approach<sup>99</sup>

A “market systems” approach, also known as “making markets work for the poor” (M4P) is a general methodology for analysing the performance of markets to uncover the underlying

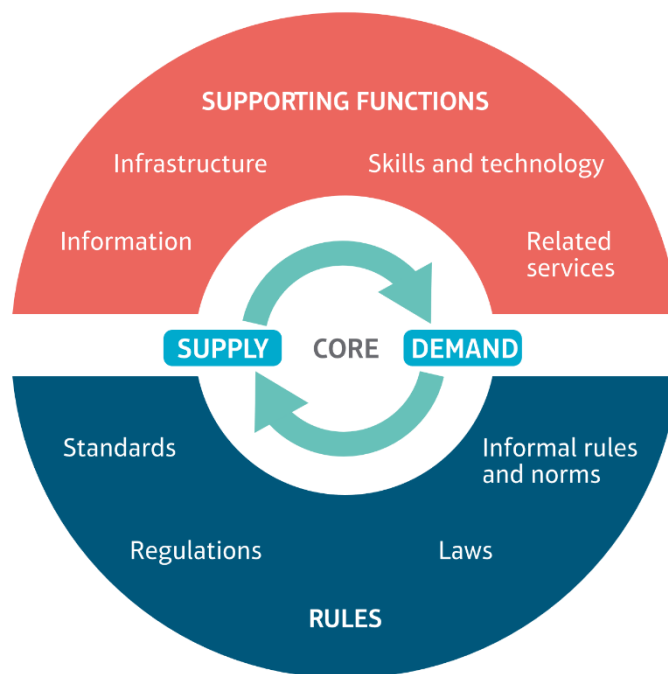
<sup>97</sup> See for example Herzberg and Wright, 2006, p18: “It may be unproductive to throw energy into seeking to prolong the active life of a specific partnership mechanism which achieved initial successes but seems to be losing momentum... Successful but short-lived initiatives which are allowed to die a natural death can gain an iconic value, enabling businesses and government officials to look back on them with pride and as a positive reference point to be cited as an example.” (Also in Herzberg and Wright, 2004, p33.)

<sup>98</sup> Herzberg and Wright, 2006, p29.

<sup>99</sup> For a more detailed introduction to the market systems approach, see Springfield Centre, 2015.

reasons that they do not serve the needs of poor people. The analysis is based on the “market system doughnut” (see Figure 5).

**Figure 5: The market systems doughnut**



Source: Springfield Centre, 2015, figure 1, p3.

This framework places emphasis on three components.

- The **core market**, in which goods or services are traded between a buyer and a seller.
- **Supporting functions** (such as transport infrastructure or information) are necessary for the core market to function properly.
- **Rules**, whether formal or informal, also govern the success and efficiency of the transaction.

Applying the M4P approach involves analysing which of these components is preventing a specific market from benefiting the poor as much as it could, and designing interventions that will counteract whatever barriers have been found, whether they change the core market, or aspects of supporting functions and rules.

A very brief introduction to the market systems approach is given in Appendix 2.<sup>100</sup>

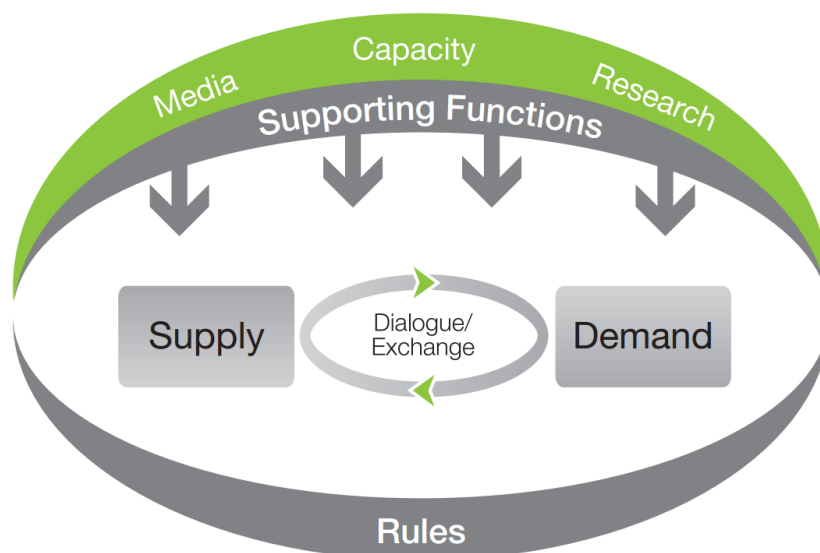
<sup>100</sup> For a more detailed introduction to the market systems approach, see Springfield Centre, 2015.

## Applying M4P to PPD

The market systems approach was first applied to PPD by ASI and the Springfield Centre in ENABLE, a DFID-funded project established in Nigeria in 2008.<sup>101</sup> They analysed the “market” for business environment reform, in which members of the private sector demand reform from government, who in turn supply it. Although the analysis that has been done is tailored to Nigeria, most of the findings are broadly applicable and help to explain many of the challenges that traditional programmes have faced. This analysis emphasises four critical elements within the core market and supporting functions.

- The **demand** is provided by private sector firms through BMOs. BMOs are required as a coordination mechanism to reduce the cost of demanding change, as only the largest firms could afford to do so directly.
- The **supply** is provided by government ministries, departments and agencies (MDAs), who are in a position to design and implement reform.
- There are two critical **supporting functions**.
  - Independent organisations that can provide **research** to both the private sector (to demonstrate the need for reform) and the government (to guide MDAs in implementing reform successfully with an understanding of global best practice and local conditions).
  - **Media** organisations (particularly newspapers and radio) that can provide a platform for debate, investigate business environment issues, and disseminate important information about the need for reform.

**Figure 6: The public–private dialogue doughnut**



<sup>101</sup> For more detailed information on the application of the market systems approach to public–private dialogue in Nigeria, see Springfield Centre and ASI, 2011, 2013a, 2013b, and DFID, 2013a, 2014a, 2015a.

Source: Springfield Centre and ASI, 2011, p2.

Demand is the ability and willingness of a consumer to pay for a product. The market systems approach relies on market transactions, and so the ability of customers to pay for products is critical to its success. In the PPD sphere, this is important not only in the core market (where firms must be willing to pay BMOs to advocate for them) but also in the supporting functions. The ability and willingness of actors to pay for services such as research products are often very important from a market systems perspective. This suggests that the intervention of donors — who almost invariably provide funding as part of any intervention — should be regarded with scepticism. If the overall objective is a system in which all participants pay sustainable prices for the services they need, then the presence of donors who subsidise or replace such functions can easily do more harm than good.

### Comparing M4P to traditional interventions

Radically, the systems approach considers PPD to be necessary *and sufficient* for reform. If PPD systems are functioning as they should, then reform will sustainably follow. An effective market will both demand and supply it, without external support. However, this requires systems — including financing — to function without donor interference. Since finance is one of the most powerful tools available to donors, it takes great restraint for donors to resolve constraints to the effective functioning of the market without replacing or subsidising participants who are not performing adequately. Even apparently benign advice, such as using donor clout to lobby government in support of reform, runs contrary to the M4P ethos. Such lobbying should be done by local actors — and drawing attention towards donors' demands pulls it away from the constituents that government should be listening to.



## Appendix 3      Summary of MDC approaches

MDC can be based on the following underlying technologies:

- USSD is a protocol that enables a user to interact with a menu-driven interface — for instance, give multiple-choice answers to a series of questions — using even a very simple mobile phone.
- SMS messages enable users to send feedback in the form of short free-text messages to a central server, using a basic mobile phone. This protocol has a limited ability to store messages offline until the user is in range of a mobile phone signal.
- Mobile applications require a more sophisticated smart phone or tablet, and also require each user to download the application from an online store. However, the interface can handle complex interactions with the user and store data offline until a mobile signal or wireless internet connection is present. Applications are written for a specific platform, so multiple versions normally need to be created to reach all users in an environment.<sup>102</sup>
- Web-based applications are database-driven websites optimised for mobile devices. They require reasonably sophisticated phones or tablets but can handle a similar level of complexity as mobile applications. They normally require immediate access to a mobile signal or wireless internet to work, but a single implementation will work on all devices, and they do not require the user to download a specific application.

<sup>102</sup> World Bank, 2015c, p3.

## Appendix 4 SBR index for 20 countries in SSA

| An index of state–business relations for 20 countries in SSA |           |
|--|-----------|
| Country  | SBR index |
| South Africa   | 1.0       |
| Botswana   | 0.875     |
| Kenya  | 0.875     |
| Malawi   | 0.875     |
| Mauritius  | 0.875     |
| Senegal  | 0.875     |
| Zambia   | 0.875     |
| Ghana  | 0.75      |
| Tanzania   | 0.75      |
| Ethiopia   | 0.625     |
| Mali   | 0.625     |
| Mozambique   | 0.625     |
| Uganda   | 0.625     |
| Zimbabwe   | 0.625     |
| Benin  | 0.5       |
| Rwanda   | 0.5       |
| Côte d'Ivoire  | 0.375     |
| Nigeria  | 0.375     |
| Eritrea  | 0.0       |
| Madagascar   | 0.0       |

Source: te Velde, 2006, appendix D, pp34–35.

Note: 0 represents weak SBRs characterised by absent institutions and legislation; 1 represents strong SBRs with all institutions and legislation present

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