A - PUBLIC-PRIVATE DIALOGUE
Backgrounder on the benefits and risks of PPD

B - DIAGNOSTICS
Mapping tool for diagnosing the status and potential of PPD

C - DESIGN AND IMPLEMENTATION
Based on the Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development

D - MONITORING AND EVALUATION
Introducing a new standardized evaluation framework for PPD

RESOURCES AND ANNEXES

A.2. BENEFITS, RISKS, AND LIFESPAN OF PUBLIC-PRIVATE DIALOGUE

Dialogue between the public and private sectors is not a new concept. It has been a feature of public life for decades in some countries. But recent years have seen an upsurge in interest in PPD as a means for promoting private sector development.

PPD has become an important part of the private sector reform process, and is here to stay. This means it is increasingly necessary to promote understanding of what PPD is, and what it can and can't achieve.

PPD comes in many forms. It can be structured or ad hoc, formal or informal, wide-ranging or focused on specific issues.

It can be initiated by forward-thinking governments, frustrated entrepreneurs, or third parties such as international donor agencies. Sometimes it involves only a few private sector representatives, sometimes it includes labor unions and civil society groups.

It can take place at local, national, or international level. It can be organized by industry sector, cluster or value chain, or it can cover cross-cutting economic issues.

This handbook draws from studies of PPD experiences around the world. It offers practical guidance on identifying and avoiding common pitfalls and maximizing the payoffs that dialogue can bring.[1] The authors aim not to promote a single way to conduct PPD but rather to expose practitioners to a variety of implementation options to choose from.

A.2.1. Benefits of PPD

The main potential benefits of PPD include:

- Facilitating **investment climate reforms** by supporting champions for reform, creating momentum, and accelerating the reform process.

Public-private dialogue has a range of potential impacts, but it do not achieve anything on its own – it works by facilitating, accelerating, or cementing other ongoing initiatives, ones which without the boost of stakeholder pressure would falter or fail.

The most tangible benefits of PPD are the policy reforms it can precipitate. These can include new legislation, the

PPD has led directly to policy reforms around the globe. A few examples:

In **Malawi**, the National Action Group has been instrumental in tax reforms and measures to improve electricity supply.

In **Vietnam**, the Private Sector Forum led to the elimination of a dual-pricing system to level the playing field for domestic and foreign companies.

In **Ukraine**, local-level PPD led the city administration of Krasnodon, Luhansk Oblast, to create a one-stop shop for permits and regulation.

In **Bosnia and Herzegovina**, the Bulldozer Initiative, an SME outreach effort sponsored by international community, succeeded in improving business regulation at a rate of 50 reforms in 150 days.

[1] This chapter is largely abstracted from the longer article *Competitiveness Partnerships: Building and Maintaining Public-Private Dialogue to Improve the Investment Climate*, Benjamin Herzberg and Andrew Wright, The World Bank Group, Policy Research Working Paper Series, no. 3683, August 2005. This paper and other lessons learned synthesis work are available online at www.publicprivatedialogue.org/papers.

amendment or scrapping of existing legislation, removal or simplification of regulations and controls, standardization of procedures across different jurisdictions, and establishment of new institutions.

While the structured consultation of a public-private dialogue mechanism can have an immediate effect in improving the quality of particular reform efforts, its deeper benefit lies in building a sustainable constituency for investment climate reform.

- Promoting better **diagnosis** of investment climate problems and **design** of policy reforms. Governments that listen to the constraints of the private sector are more likely to devise sensible prioritization plans and workable reforms.

This, in turn, can encourage investors to take a longer view and cooperate with laws and regulations. When governments and businesses are mutually mistrustful and uncommunicative, investors lack confidence and are disproportionately drawn to short-term returns and the informal sector.

- Making policy reforms easier to **implement**. When entrepreneurs understand what a government is trying to achieve with a reform package, they are more likely to accept and work with the reforms in practice.

All too often, legislation may get onto the statute book but have little effect in reality because of lack of follow-through. PPD can help to ensure that reforms actually take effect on the ground, by helping disseminate awareness of the changes, feed information back, and keep up the pressure for action.

- Promoting **transparency**, **good governance,** the taking of a **broader view** by setting an example of openness and rigorous cost-benefit analysis, and by creating pressure of public scrutiny.

Without the structure imposed by PPD, business advocacy tends to find a narrower outlet: one sector lobbies for a specific reform, which then has unwelcome effects in other sectors, which lobbies for its reversal, and so on. The monitoring and evaluation systems put in place by a PPD initiative promotes a culture of compliance and entice governments to perform regulatory impact assessments.

At its best, PPD can save time and effort by establishing checks and balances for private sector demands, allowing the ramifications of measures to be discussed before they are implemented, and ideally nurturing in the private sector a more rounded view of what's good for the economy as a whole.

The example of openness and scrutiny set by a PPD can have ramifications for governance of both public sector agencies and corporations, by seeking to set a standard to which the media and public may hold the participants in their other affairs.

- Building an atmosphere of mutual **trust** and **understanding** between public and private sectors, improving social cohesion and civil society.

Less readily quantifiable, but no less significant, are the effects sustained engagement between the public and private sectors have had in numerous locations in creating improved levels of trust, understanding, and cooperation.

In many countries, mistrust and misunderstanding between the public and private sectors needlessly hampers reform efforts. PPD can build consensus, trust and understanding between the public and private sectors simply by bringing people together on a regular basis and allowing them to get to know each other.

A.2.2. Risks of PPD

However, PPD is not a panacea. When done badly, not only can it waste the time and resources of participants, it can actually worsen the problems it is intended to solve. Notably, six principal risks have been identified, as well as strategies that can be applied to mitigate them.

Risks and mitigation strategies for PPD

- If not sufficiently transparent and broad-based, PPD can reinforce vested interests and create opportunities for **rent-seeking behavior**.

PPD creates both an opportunity and a risk when other lines of communication between government and society are weak. Done well, it can enable the voices of stakeholders to be heard by a government that would otherwise be deaf to their concerns, and can give governments a sounding board, which will improve the quality of their policymaking.

But done badly, it can give unhealthy influence to an unrepresentative group of stakeholders, reinforce links between politicians and lobbyists, and provide a veneer of legitimacy for bad policies.

Strategies for tackling this risk include an explicit commitment to transparency, numerous working groups to ensure a broad base, and the incorporation of monitoring and accountability mechanisms. Another way of tackling cronyism is to ensure that no topics are off-limits for discussion.

- If PPD initiatives do not make special efforts to include small and medium enterprises (SMEs) and those based in provinces, they can be **dominated by big businesses** or businesses based in a capital city.

There are obvious reasons why it is easier to engage with representatives of a small number of large organizations than with a large number of small organizations – it is simpler to organize, and they are more likely to speak with a unified voice. Given the difficulty of establishing dialogue between the government and the private sector, the path of least resistance is for the government to focus on consulting a relatively small number of relatively large firms.

This unavoidable dynamic has often led to the interests of SMEs being under-represented in PPD. SMEs can also find themselves effectively excluded from consultation because business associations, which theoretically represent their interests, in practice listen more to their larger members.

Strong business associations that genuinely speak for SMEs are helpful in making sure that the concerns of SMEs can be heard in dialogue.

An alternative or complementary strategy is to pursue outreach programs that bypass business associations and seek input directly from individual small business entrepreneurs. The new advocacy base thus created can then be retrofitted into existing business membership organizations.

- If poorly planned and unfocused, it can degenerate into a **talking shop,** which leads to disillusionment, disengagement and loss of credibility, giving strength to opponents of reform and slowing down the reform process.

"Talking shop" is a phrase that recurs often in the literature about PPD – discussions are long and unfocused, no concrete results are achieved, people lose interest and attendance declines.

Developing goals, strategies, and priorities for the PPD venue or for the dialogue will lessen these problems. Meetings are less likely to degenerate into talking shops when the agenda is strict and clear and communicated well in advance, and when there are concrete proposals on the agenda that require decisions. An experienced and resourceful organizer can head off the risk of meetings getting diverted into tangents by managing expectations in private conversations beforehand.

A media strategy that involves setting public objectives can put pressure on participants. Another solution to talk shops is to change the composition of working group committees, or close down some working groups and start new ones. Or, more radically, to wind up one particular PPD mechanism, and establish another.

- If built too closely around a particular individual, a PPD can risk becoming a **one-man show,** which collapses when the key person loses interest or moves on.

It is inevitable that competitiveness partnerships will rely to some degree on the enthusiasm and commitment of key individuals, and the personal involvement of top-level government figures is one of the determining features of success. But building the partnership too closely around individuals is a significant risk.

Logic would suggest that outreach and public relations efforts that energize the public to look favorably on competitiveness partnerships can give individual politicians an incentive to be enthusiastic and minimize the effects of changing personnel.

Part of the problem with PPD losing steam when an individual becomes less involved can consist of unrealistic expectations initially raised by that individual's involvement.

☐ If not accompanied by sufficient efforts to build a broad base of support, PPD can become **politicized** by being closely associated with a particular party.

In some countries, leading businesspeople may also be leading figures in opposition political groups, making it difficult to persuade governments to engage or to keep a PPD politically neutral. Governments may be tempted to sideline opposition figures, with the result that PPD stands less chance of persisting across changes of administration.

An effective outreach program can help de-politicize the process by emphasizing the practical benefits to real people. Presentational skills are key here, as battles must be chosen carefully. It makes sense to concentrate on explaining reforms that can be framed simply so that everyone can understand.

Direct outreach to parliamentarians and local politicians – indeed, to decision-makers of any political level who are in a position to facilitate or obstruct the approval or implementation of reforms – can also help to defuse political tensions.

☐ If not sufficiently well coordinated with existing institutions or other dialogue mechanisms, **duplication of efforts** can overburden and confuse participants.

Some PPD mechanisms may, paradoxically, become victims of their own success. Similar organizations may spring up seeking to get in on the act, duplicating the work and diluting the effectiveness of the original by overburdening individuals and confusing lines of communication.

If PPD mechanisms are set up as initiatives, separate from any existing institution, it can be hard for them to avoid competing with institutions. Indeed, one of the reasons a new competitiveness partnership may be needed is that existing institutions are failing to fulfill their theoretical role.

But it is necessary to give careful thought to whether a PPD will be encroaching on ground already adequately covered elsewhere. Sponsors and donors must take care not to shortcut existing institutions, both on the government and private sector side, unless it is unavoidable. Transparency of process and inclusion of all relevant parties are the key factors in bringing this about.

These risk factors are raised not to suggest that competitiveness partnerships are fraught with danger, but to show how awareness and careful planning can help participants to avoid potential pitfalls.

A.2.3. Lifespan of PPD

Considering PPD initiatives in phases can be a useful approach while trying to address sustainability issues. The natural life of a partnership may be looked at in three separate phases.

☑ **Phase 1 is the discovery phase**. This phase, which may last from six month to three years depending on the situation, is focused on building trust between the public and the private sector, educating the actors on how to behave with one another, and discovering what works and what does not in term of reform proposals submitted and processed through the partnership.

It is during this initial time that the dialogue process is set up, and that a reform "production process" is put in place, with options being tested in term of working groups, secretariats and logistics, scope of the proposed reforms, political sensitiveness of the agenda being put forward, and leadership of relevant actors.

This Phase 1 should not be expected to yield groundbreaking returns in term of economic impact of the partnership. Early results and easier quick-wins are more likely to be on the agenda during that time, as they represent less contentious issues that the actors in the PPD can "break their teeth" in. Issues are meant to be small, so that they can be successfully processed as they represent fewer risks for the partners.

Bringing bigger ticket items on the agenda during this phase could work in certain cases, but this strategy carries a high risk of failure and negative consequences for the PPD. Businesspeople could get easily disillusioned if their too high expectations are not fulfilled; and government officials could take offense at what they perceive to be unwarranted demands from the private sector.

In contrast, although many will fail, the number of issues proposed and the number of processed reform proposals is likely to be high. Participants will have a tendency to use the new forum to forward a large backlog of problems (e.g. on transport, tourism, visas, red tape reduction, standards harmonization, etc.) which are known to all, but which could not be pushed through in the previous institutional context.

☑ **Phase 2 is the high impact phase.** This Phase, which may last from a year to two to three years, is more productive than Phase 1, as partners are motivated by early results and more experienced at designing reform proposals that get successfully processed, accepted and implemented.

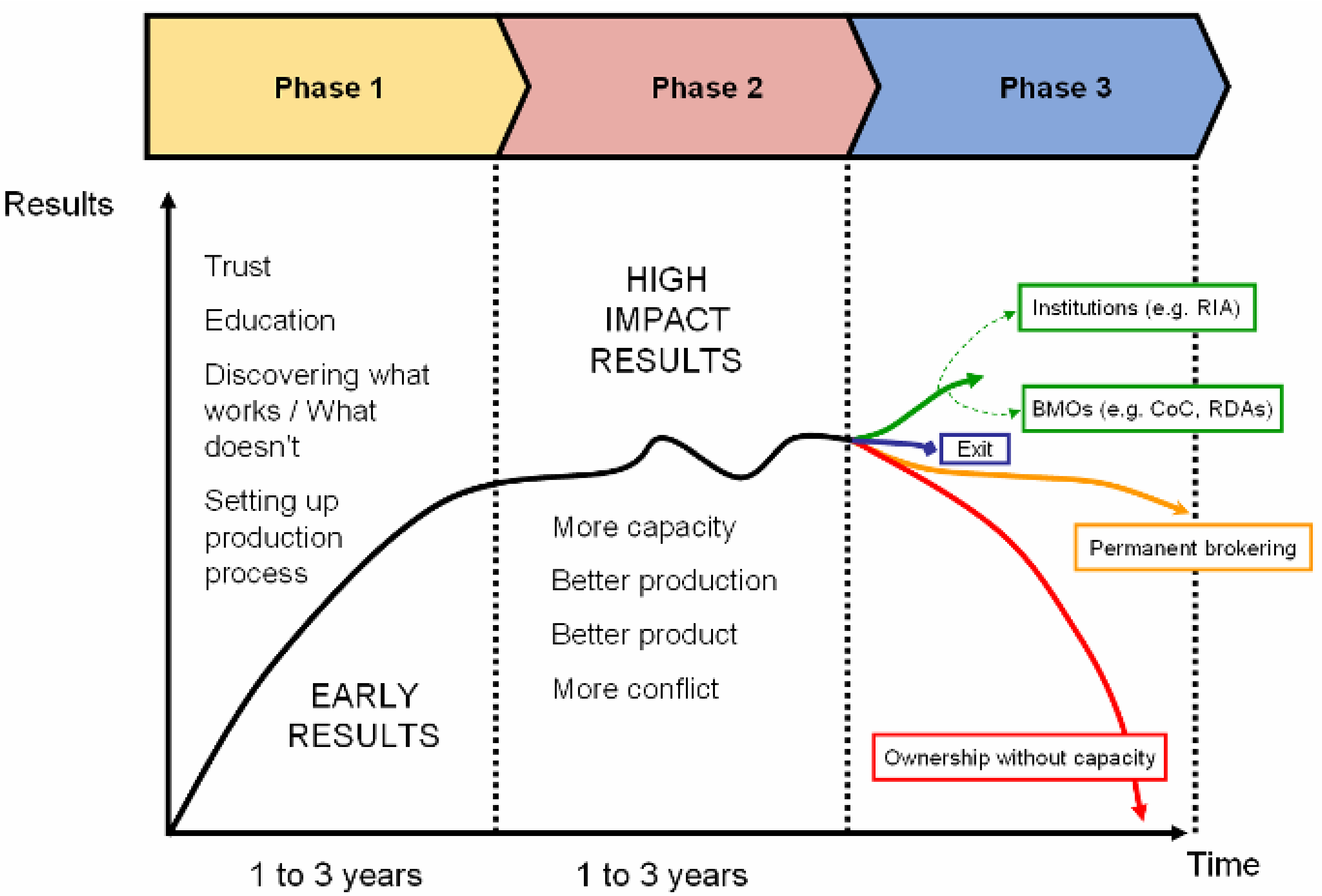
The organizational process functions well enough that issues and proposals benefit from more focused technical input (e.g. technical assistance from development partners). In turn, this translates into the PPD initiative producing more workable reforms.

This second phase of the PPD also benefits from the capacity that was built among government officials and private sector representatives during the first phase. Issues hence are likely to be of higher staking than during Phase 1. Topics such as labor or taxes are often addressed during Phase 2 for that reason. Businesspeople are emboldened by Phase 1 results, and have pushed the boundaries of what is possible to forward to the government. On the government side, while certain limits have been broken with Phase 1 reforms, public officials may not feel the same pressure to agree to private sector demands than in the early days of the dialogue.

As a result, while economic impacts of the partnership are at their maximum during Phase 2, this phase is also a phase of potential conflicts and crises. A number of working groups may be dissolved, and others may come forward. Some contentious issues may fail to be processed through the PPD towards successful implementation.

☑ **Phase 3 is the sustainability / transfer / exit phase.** PPD initiatives often come to birth to fill an institutional gap between the private and public sectors. If confidence and dialogue are established or restored, and if private sector concerns are now taken into account by administrative officials, what future lies ahead for a consultative mechanism? Should the dialogue be maintained in the shape it came to life or should the energy and capacity built during Phases 1 and 2 be transferred to where they should have originally belonged: government institutions and advocacy group?. Each partnership is unique, and this phase is, in a sense, the hardest to predict, with a number of possible scenarios, a mix of four options:

Evolution of a PPD



Option 1: Ensuring sustainability through transfer to institutions and business associations. This option assumes that the first two phases of the PPD have been sufficiently successful, that the country in question has now sufficient capacity in the administration and in the business advocacy community (whether this capacity was built through the PPD or through external factors is a different issue altogether) and that the level and intensity of dialogue will be maintained "naturally" if the PPD initiative is dissolved or "rolled-over". These conditions can be diagnosed at the level of specific working groups that may start to engage in bilateral dialogue early-on, without requiring the brokerage of a PPD secretariat.

Options for such a "roll-over" include setting a high level Regulatory Improvement Agency aimed at enforcing Regulatory Impact Assessment practices at the level of each line ministries, whereas each regulation, before it is outputted by a ministry, will go through a cost/benefit analysis established with direct private sector consultations. There are many other configurations possible, such as setting up an SME Promotion Agency. On the private sector side, transferring competency means integrating both the people and the processes that made the dialogue and the secretariat be productive and efficient into existing or new business associations, Chambers of Commerce, or Regional Development Agencies).

Option 2: Transferring the initiative early on to existing institutions. Short of option 1 above, the sponsors of a PPD project may still be tempted to transfer the initiative to local and existing private and/or public institutions. While the prospect of early ownership is enticing, one should remember that a business forum, a competitiveness partnership, a business council, come to life to fill a gap, and that it takes a while for that gap to be filled.

If a PPD secretariat is transferred too soon to a business association, for instance, which is not ready to handle the load of work and effectively address technical and political issues arising from the initiative, it is likely that outputs will suffer. Participants are likely to rapidly become frustrated with the process, and abandon the partnership with a bitter taste. Rather that holding the PPD as an example of good dialogue between the public and the private sector, this may result in promoting the cause of opponents to dialogue who will only have to point to recent difficulties to denigrate the entire process.

Option 3: Entrust the PPD to fulfill a function of permanent broker, through institutionalization. It may be a good option for a PPD initiative to remain in existence as a permanent institution. If the PPD is not duplicating other existing institutions, it may become the mechanism of choice for re-routing private sector issues into the government and vice-versa. After all, if it works well, why replace it?

This common sense idea is attractive but difficult to implement due to the fact that a neutral broker is supposed to remain neutral and institutionalizing a PPD within a government structure would remove that core benefit. Besides, a PPD needs funds to function, and that funding may be difficult to secure in the longer term. The government may be ready to allocate budget to the PPD initiative, but is likely to ask for more control in return, which may raise the suspicion of the private sector. Businesses may be willing to pay membership fees to sustain the project, but that may collide with the objectives of the local business association network, which would in turn lack private funds to develop itself. As for donors, their involvement may be secured for a few years, but ensuring their permanent funding over the long term is extremely difficult, and at the very least, hard to predict. It is also likely that the agenda of the private sector or the government will end up diverging from the agenda that donors wish to promote, at which point the donors may decide to pull out of the partnership.

If this option is chosen, results may stabilize over the mid term, with a number of "routine" events taking place, such as conferences, forums and the like. Unless a path to option 1 is chosen along the way, the result curve is likely to go descending with time.

Option 4: Termination and clean exit. It may be unproductive to throw energy into prolonging the active life of a specific partnership mechanism that achieved initial successes but seems to be losing momentum. Often, consultative mechanisms accompany a specific reform agenda, and as a consequence have limited lifetimes. The important thing may be the principle of partnership, not the specifics of a particular mechanism of interaction. 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.