

PART II

Chapter 11

**Constructing Inclusive
Public-private Dialogue**

What is the issue and why is it important for pro-poor growth?

Whether economic growth is pro-poor depends on the extent to which the rate and pattern of growth provide opportunities for the poor and the degree to which they are able to take advantage of these opportunities. Governments in developing countries have a responsibility to ensure that a favourable business environment exist for **all** private sector actors. They therefore need to be aware of the key constraints for different private sector entities in realising their potential to contribute to pro-poor economic growth. Targeting services to poorer entrepreneurs, mostly composed of micro, small and medium-sized enterprises (MSMEs), informal firms and workers and smallholder farmers, is one approach towards accelerating pro-poor growth and generating employment (OECD, 2004).

It is increasingly recognised that private sector development is an integral part of poverty reduction strategy programmes (PRSPs). The process of conceiving the second generation of PRSPs has therefore aimed to include a wider range of private sector representatives in consultations. Nevertheless, problems that hamper pro-poor private sector development from the grassroots perspective can still be insufficiently addressed in the resulting PRSP document. Clearly, consultation of the private sector during PRSPs is not enough and needs to be accompanied by mechanisms for regular public-private dialogue (PPD) by sub-sector or at the appropriate policy level, combined with bottom-up communication processes to ensure that local-level issues are fed into higher level policy processes. Making private sector development policy more responsive to private sector needs depends on the way in which PPD is organised, especially with respect to approaches and mechanisms that ensure that MSMEs, informal firms and workers and smaller agricultural producers can voice their concerns.

PPD is an institutional arrangement that brings together a group of public and private sector actors. PPD discussion forums range from highly formal and structured to more informal and *ad hoc*, and initiatives may last from only a few hours or continue over several years (Bannock, 2005). Objectives of PPD include building trust and bridging gaps to laying the foundation for a joint problem analysis and identification of policies and institutional reforms that contribute to a more conducive environment for private sector development. Governments that engage in PPD are more likely to promote sensible, workable reforms, while enterprises participating in meaningful PPD processes are more likely to support these (Bannock, 2005; Herzberg and Wright, 2005). Without a more equitable dialogue, governments tend to follow the loudest, most powerful voices, which rarely speak in the best interest of broad-based private sector growth, let alone poverty reduction. The policy process should not be limited to a small elite with privileged access to political and governance structures, but must build on structures and process that are deliberately set up to elicit citizen participation in policy formulation and implementation, and promote accountability of policy makers (Hertzberg and Wright, 2005).

Although not the only condition for accelerating pro-poor growth, PPD can be a first, important step in an institutional reform process aimed at improving the business environment for all. Most likely, a number of the bottlenecks identified will be known and

will already have been voiced before. Reform may be blocked because “inefficiencies” can be a source of income to some, offering opportunities for corruption or political patronage. Firms may also defend anti-competitive or rent-seeking interests. On the other hand, parts of the public sector may not understand the private sector and may not believe that dialogue is useful. At most, it may regard the private sector as a useful cash cow. Moreover, a coherent formal policy making process is lacking in many countries. For these reasons, PPD can be effective where and when there is an explicit commitment and willingness to act on its outcomes by the public and private sector. This paper explores how, in such conditions, PPD can be organised and how donor organisations can contribute to it.

A framework for institutional analysis regarding PPD

Pro-poor private sector development cannot be achieved by focusing interventions on either the private or the public sector alone. Moreover, many constraints that the private sector faces can only be resolved in collaboration with the public sector. Private sector development and governance programmes should be integrated into one comprehensive intervention strategy. In such a holistic approach, PPD is a prerequisite for arriving at broadly supported institutional reform.

Institutions. In this paper, institutions are taken to be the rules, organisations and social norms that facilitate co-ordination of human action.¹ Thus, interventions to develop institutions not only address constraints resulting from the performance of organisations, such as business licensing agencies, tax revenue authorities, government ministries, chambers of commerce or producer organisations, etc., but also focus on the formal and informal “rules of the game” and social norms that influence private sector development. For example, to what extent can resource-poor entrepreneurs access business organisations and networks, do they experience barriers to access to financial services, markets, licences, information and contacts with policy makers, are these barriers different for men as compared to women?

Institutionalising PPD. PPD, as a mechanism for diagnosing the problems and opportunities for private sector development, is useful at all levels where public and private sector entities meet, be it at the national, sub-national, local or sub-sector levels. Misunderstanding, uneasy relationships and distrust between public and private sector actors is common in many countries, resulting in limited responsiveness of public sector institutions to requests voiced by some parts of the private sector. Suspicion and non-co-operation leads to inefficiency and waste, which inhibits growth, investment and poverty reduction (Herzberg and Wright, 2005). This needs to be overcome effectively before any sustainable reform can take place (Jütting, 2003). Key challenges for PPD are therefore promoting sub-sector and horizontal dialogue processes and improving vertical linkages and communications to ensure that issues that have to be addressed at a higher policy level are indeed taken up.

Dealing with the diversity of the private sector. The private sector includes a multitude of different actors varying from international companies, (privatised) state-owned enterprises, business of different size, active in different sub-sectors and locations. Their goals are not necessarily the same: there is self-interest, mutual suspicion and some are severe competitors. Others are prepared to co-operate to defend their interest via a business organisation. (Former) state-owned enterprises, some international companies and larger firms might find it easier to maintain informal dialogue with government officials, while looking for one-to-one deals. The interests of (former) state-owned

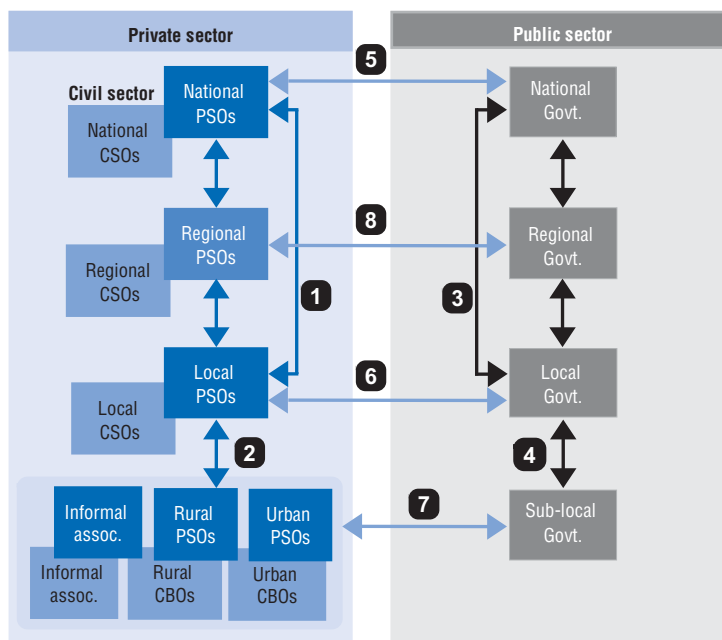
companies may dominate decision-making on private sector development, which can run contrary to the interest of privately owned enterprises, faced with a different set of constraints than (former) state-owned companies.

Organisational set up of the public sector. The public sector also consists of many different actors, and it may be difficult for an outsider to know to what department or agency a certain private sector development-related question should be addressed. The position of government officials differs with respect to the level of operation, authority and resources at their disposal. Moreover, elected officials such as mayors, councillors, parliamentarians and other politicians play an important role in policy making and implementation. The difference between private and public sector is not clear cut, as government officials and politicians may have business interests of their own or may have previously worked for private enterprises.

PPD structured in time. Four stages of policy reform can be distinguished in which PPD is essential: i) assessing and agreeing on problems; ii) designing and legislating solutions; iii) implementing reforms; and iv) monitoring and evaluating the impact of reform. Even when PPD is taken into account in the first two phases, neglect of private sector participation during implementation can still derail promising initiatives (Bannock, 2005), whereas the monitoring and evaluation phase must guarantee continuity.

Public-private dialogue framework. Figure 11.1 proposes a PPD framework-tool that can be used for identifying and analysing the different levels of dialogue and decision making on private sector development, both vertically within the private and public sectors respectively, as well as horizontally between these different sectors (van der Poel et al., 2005). It is inspired by the institutional setting in Tanzania, and may require adaptations when used in other countries.

Figure 11.1. **Public-private dialogue framework**



The PPD framework-tool consists of two vertical columns, each showing the different levels of the public (grey) and the private (blue) institutional structure. The private sector column also pictures civil society organisations (CSOs) involved in private sector development for each level. The framework shows eight numbered key dialogue or communication interactions.² These four vertical and four horizontal lines each depict a particular intra or inter-sector dialogue process. Of course, many diagonal communication lines may exist as well, *e.g.* between a particular local level private sector organisation (PSO) and a sector ministry at the national level, but this type of interaction tends to be incidental and informal.

The public sector column shows the administrative set up of a country: from central government via sub-national or provincial level to local level, such as district or municipal councils, and further down to sub-local level, *e.g.* divisions, wards or individual villages. The presence and status of these various entities, and the degree to which the vertical relations are hierarchical, varies from country to country. Bureaucratic procedures and social norms can seriously affect the ability to communicate with superiors at higher levels.

The private sector column presents formal and informal linkages between private sector organisations (such as the national chamber of commerce), sub-national level business organisations (district branches of the chamber of commerce), and sub-sector or product organisations (*e.g.* local organisations of coffee producers or livestock owners). In both rural and urban areas, many formal and informal associations exist at the grassroots level that are often organised around a certain trade in a particular location, *e.g.* informal associations of local fruit vendors, farmer organisations, savings and credit groups or a local association of shop owners. At this level, the distinction between PSOs and CSOs is often blurred as objectives may overlap.

The lack of horizontal dialogue processes between public and private institutions at different levels (lines 5 to 8, Figure 11.1), in combination with limited capacity for analysis and weak bottom-up communication, all contribute to a limited understanding of the real constraints to pro-poor private sector development and economic growth, which may lead to inadequate policies and programmes that sometimes even aggravate the climate within which the private sector operates. In addition, policy makers can only learn from local experiences when functional, bottom-up vertical communication processes are in place (lines 1 to 4, Figure 11.1).

Pro-poor public-private dialogue: Good practice and challenges

The aims

A structured and inclusive public-private dialogue is needed to identify bottlenecks, opportunities and possible interventions for private sector development. The way in which such a dialogue is organised, facilitated and institutionalised and the quality of participation and commitment to the process largely determine the outcome and thus its potential contribution in guiding reforms. The PPD process has three aims, which can be seen as outcomes of and preconditions for different stages in the process:

- i) Awareness of those representing PSOs and the public sector of the root causes underlying the identified constraints on pro-poor private sector development and economic growth at various levels.

- ii) Ability to transfer these issues to the appropriate decision making levels in both private and public sector organisations (horizontal as well as vertical, bottom-up dialogue and communication).
- iii) Translation of these issues into appropriate policies, strategies and plans (design of reform) to resolve them effectively.

However, PPD remains important during the stages of implementation and monitoring and evaluation of reform and should be institutionalised accordingly.

Good practice

Essential steps in preparing a specific PPD. Obviously, the way a PPD is designed has to be context specific and adjusted to prevailing institutional arrangements, as shown in Figure 11.1. Issues that need to be considered carefully are: what will be the first issue for discussion, with which participants, level and structure, focus, communication strategy and also the role of donors (Herzberg and Wright, 2005; Bannock, 2005). Good planning is vital, such as the preparation of clear and concise agendas in advance, timeframes that show milestones for each specific outcome, good chairing of meetings and ensuring that all present can participate, agreement on minutes and accountability of the secretariat to the participants (Bannock, 2005). A number of experiences with PPD have been documented recently and analysed for good practices and pitfalls. Most cases refer to PPDs set at the central level, but sub-sector PPDs and processes at district or municipal level have also taken place (Bannock, 2005; Herzberg and Wright, 2005). The next few paragraphs focus on issues that need to be considered in particular for making PPD pro-poor.

Focus of PPD. For a PPD to be effective, it has to focus on problems that include those of MSMEs, that are not too sensitive or politicised, and have the prospect of attainable results in the short term. Business registration may be more neutral than land registration; improving tax administration is less controversial than revising tax rates. PPD is most effective at the lowest level at which entrepreneurs and government services interact (van der Poel *et al.*, 2005). Sectoral dialogue has been the most effective in producing results, but central-level PPDs are rarely conducive to MSME participation (Bannock, 2005). Most of the constraints that MSMEs and informal firms and workers face are likely to concern local-level situations that have to be solved there and not at the central level (Figure 11.1). Generally, for MSMEs, the level of urban or rural local government, or the lowest interface with line ministries for certain sub-sector issues, are the most relevant. Still, some of the constraints they face may need policy changes at higher levels.

The weak enabling environment for MSMEs – in terms of overly complex legal and regulatory frameworks, registration, licensing and tax regimes, corruption and limited provision of support – are an obvious area for dialogue. At the same time, this situation is the reason why these entrepreneurs are reluctant to trust the government in the first place. For many, their only contact with government is through the police over regulations and with tax collectors. Before a PPD can be fruitful, local government authorities first need to understand that by collaborating with the private sector they stand more chance of achieving their development objectives and improving their revenue base, while the private sector should understand its obligations but also its right to demand accountability and better services, such as good infrastructure.

Challenges

Importance of strong private sector organisations. The presence of well-organised, accountable and capable private sector organisations organised at various levels makes PPDs more relevant. A lack of such organisations is one of the biggest challenges to be addressed. National-level umbrella or apex organisations would be the best way for the private sector to express its voice, but few such organisations exist that truly defend mutual interests. Most chambers of commerce and business organisations bring together only a small part of the private sector. Membership fees can be high in comparison to the perceived immediate value of services delivered, especially for MSMEs. Few poorer entrepreneurs are members of business organisations and, when they do join, their specific interests may carry limited weight. In all-inclusive organisations, even if most of the membership comes from MSMEs, the small group of larger companies tends to run the show. However, some opportunities for collaboration may exist, in particular when larger firms have many backward and forward linkages with MSMEs in a certain sub-sector.

A shortage of associations that represent the diverse issues of specific sub-sectors or product groups is apparent at all levels. When such organisations do exist, they often lack capacity and resources to effectively voice the opinions and concerns of their constituency and become a serious dialogue partner. Moreover, many grassroots-level private sector organisations are not linked to apex organisations such as chambers of commerce at the regional or central level, which potentially could have taken care of their interests in national-level dialogue processes. This situation hampers dialogue at all levels, vertical as well as horizontal.

A level playing field. An inclusive PPD process requires a level playing field. Even when MSME organisations are invited to a PPD, the effectiveness of their participation may be limited. Small businesses' voices can be drowned out, even in well-established PPD systems with formal structures. Larger firms will always have better informal links to policy makers, so MSMEs need to be well-organised and focussed to make a difference. The design and quality of the PPD can prevent the process and the issues covered being dominated by larger, more powerful businesses. Moreover, convenors cannot limit their work to just inviting the associations and organisations that claim to represent MSMEs. Before starting the PPD, they may have to organise a broader consultation process with MSMEs and assist them in selecting representatives for the PPD, provide training and coaching to these individuals so that they can make their case effectively and assist them with the design of mechanisms for consultation and feedback.

Representation and champions. The composition of a PPD and the quality of the dialogue determines whether the process can make a meaningful contribution to private sector development. The number of participants in a PPD is limited in order to make dialogue possible and the issue of whom to invite and who decides is crucial, particularly when starting up the process. Commitment to the process of respected PSO representatives with a broad support base as well as influential representatives of the public sector are an important condition for arriving at a successful dialogue. Individuals may play an important role in driving such a process (or blocking it). Finding the right "champions" for a PPD is an important factor for a successful PPD. Some successful PPDs have been driven by handpicked individuals (the "champions") but who were not necessarily perceived as accountable to a constituency. The PPD will have to demonstrate legitimacy in order to contribute effectively to reforms, and therefore it can be useful to arrange public awareness and education campaigns related to PPD activities.

Box 11.1. Value added taxes in Tanzania: An example of a PPD that failed to take account of implications of a new policy for poor entrepreneurs

Tanzania adopted a VAT system in 1998 under strong pressure from the international development community, and in consultation with private sector representatives. This consultation took place at the national level and mainly involved larger firms. The new VAT system is acceptable for medium and large firms but causes problems for MSMEs and agricultural producers for two reasons. First, many small enterprises are not VAT registered and can therefore not claim back taxes paid on purchases. To alleviate the VAT burden for farmers, agricultural inputs such as fertiliser and seeds are VAT exempt but other production factors such as transport are not. This has led to an increase in production costs of 10%-20%. Second, Tanzania adopted a VAT system based on monthly instead of yearly summaries, which is a major constraint for seasonal businesses (van der Poel et al., 2005). It has been claimed that introduction of the VAT system is one of the main reasons why the realised economic growth has not benefited the poor (Tanzanian Vice President Office, 2005). However, most development partners, government officials and business organisations at the national level were unaware of the costs of the VAT for poor entrepreneurs, suggesting inadequate bottom-up communication processes in both the private and the public sector column in Figure 11.1.

Quality and effectiveness of participation. There is a trade-off between “representativeness” and “capacity for dialogue”. General business associations tend to have many members (in some cases membership is compulsory) and should have a broader perspective of the business environment. However, they have less in-depth knowledge of key sectoral issues and very limited grasp of MSMEs concerns. Sectoral organisations and specialised organisations have a deeper understanding of their areas of work, but this may lead to tunnel vision. They may be effective in informal dialogue, but their narrow mandate is a drawback in formal dialogue.

The quality of the PPD, including at the local level, may suffer from the inability of participants to contribute effectively to the analysis of root causes and to developing evidence to support requests for policy reform. Such PPDs tend to produce laundry lists of symptoms. Approaches and tools that facilitate participatory analysis of problems and identify opportunities by local actors exist and can be adapted to local level PPDs.

Facilitation by third parties, providing a neutral space and tools. Third parties who are perceived as impartial and able to provide a neutral space and to facilitate processes play an important role in PPDs. Their contribution is particularly important where there is a history of lack of co-operation and distrust. They may also initially host PPDs by setting up independent secretariats. Ultimately, a public sector organisation should become the convener, to ensure that the outcomes of PPDs will indeed influence public policy, planning and implementation (Bannock, 2005). Apart from providing a neutral space, specialised organisations may also be better equipped to help apply participatory tools for analysis and planning, such as tools for identifying opportunities and risks, and indicators determining the quality of the business environment as perceived by local entrepreneurs and potential entrepreneurs.

Costs and benefits of participation, and danger of allowances. Since structured dialogue processes and mechanisms have a greater financial and time burden, these tend to disproportionately penalise smaller firms and their organisations. Larger enterprises can more easily afford to invest in processes as they are better resourced and often have more capacity

at their disposal. Simply providing *per diems* and fuel allowances to individual participants can undermine a PPD as this has often led to attendance but not to commitment. A more structural approach is, on the one hand, providing support to PSOs and, on the other hand, ensuring that the participants in a PPD experience the benefits. Government officials, however, may prefer a series of formal dialogue events simply to secure the *per diems* and fuel allowances on offer and many of them may be less inclined to participate in more informal gatherings. This attitude may also extend to private sector participants if they too start receiving such allowances. A danger of paying allowances is the potential emergence of private sector organisations (or other types of membership organisation) growing rich on donor funding whilst losing touch with their membership base.

Policy implications

Facilitating pro-poor PPD processes

PPD can provide an important contribution to the PRSP process as well as to more specific reforms aimed at promoting private sector development. Flexible structures (respected convenors, facilitators, resources) need to be in place to accompany PPD processes. A PPD will not automatically promote the specific interests of poorer entrepreneurs unless special efforts are made by convenors and facilitators. It is vital that poorer entrepreneurs are invited and represented, but also equipped to present their interests in a coherent and analytical manner. They may even need research support to gather the evidence that gives credibility to their case (Bannock, 2005). A policy towards pro-poor PPDs therefore needs to include support for facilitators that encourage more effective participation of MSMEs. Approaches and tools need to be made available to MSMEs that enable these actors to see the wider picture, make a diagnosis of their situation and formulate proposals for reform.

Building and supporting organisations representing poorer entrepreneurs' interests

Strong business associations that genuinely speak for MSMEs can be extremely helpful in making sure that the concerns of MSMEs are heard. Two policy approaches are needed: i) encouraging self-organisation by MSMEs and co-operation with apex organisations; and ii) stimulating general business organisations to become more representative (MSME membership) and enhancing awareness and understanding of MSME issues. Policies in relation to existing organisations need to focus on organisational strengthening and promoting mechanisms that enhance accountability and transparency, as well as capacity building on issues such as sub-sector analysis, lobbying and advocacy in order for them to participate effectively in local PPDs.

Strengthening responsiveness of the public sector to private sector development

Before a PPD can have an impact, policies may be needed that change the mindset of civil servants, especially at district/municipal government level, as well as to ensure that the role of government changes from a controlling to a facilitating and service-oriented influence. Accountability and the establishment of mechanisms to resolve complaints and malpractice need to be addressed too. This policy can only be successful when implemented in top-down processes that require continuous, strong leadership and drive over a considerable period of time, and if it is also accompanied by incentives for local government officials to change behaviour (van der Poel *et al.*, 2005).

Decentralisation

Participatory planning and budgeting processes from the village level upwards are being institutionalised in more and more developing countries with the spread of devolution. These bottom-up processes provide an opportunity to promote pro-poor private sector development. Policy support to PPD processes can provide the foundation for such co-operation. Effective local policy making and implementation further requires that the strengthening of local government authority is accompanied by the allocation of sufficient resources by the central government, so that these entities can adequately perform their role and take care of their responsibilities. Fiscal redistribution and equalisation mechanisms may be needed to support poorer parts of the country.

Institutionalising mechanisms that promote bottom-up communication

In many developing countries, vertical communication and dialogue processes (Figure 11.1) are mostly top-down, while mechanisms for meaningful bottom-up communication processes are weak or absent. The policy measures needed to respond to this situation include the creation of effective and efficient communication lines between different sector ministries and their local counterparts. This will also involve better information provision and capacity building at the local level. Many local government officials lack awareness, information and knowledge on private sector development programmes, strategies and policies.

Implications for donors

Overall, donors need to adopt a more daring attitude towards PPD: treat it as a high risk, but highly essential investment, with a healthy tolerance for failure and the flexibility for innovative and experimental ideas, including an exit strategy that allows ownership of the process by the public and private sector entities themselves (Bannock, 2005). It can be accompanied by support for knowledgeable business journalism or international benchmarking of the business climate. Donors can give more weight to PPDs and support their work by referring to these processes in discussions with policy makers, in publications, etc.

However, donors should stay clear of imposing their own agendas on the PPD process or creating a situation that in the end makes public and private sector entities respond more to donor priorities than to those of their constituencies. Donor support has to be in balance with allocations of time and resources by participants in PPDs. “Buy-in” by both the public and private sectors to PPDs is essential for their success.

Donors can contribute to making PPDs more pro-poor by encouraging PPD organisers to take MSME participation seriously, supporting independent facilitators who have the knowledge and skills to get MSME representatives prepared for a PPD and ensuring a level playing field during the PPD process. MSMEs and representatives of informal firms and workers can be supported with capacity building, guidelines and tools for policy analysis, lobbying and advocacy.

Supporting the emergence and strengthening of private sector organisations representing the interests of MSMEs and informal firms and workers is another important issue that donors may decide to support. However, too much cash can undermine these organisations, by making them lose touch with their membership base. It is therefore

recommended that donors concentrate on developing capacity, while using their influence to ensure that PSOs are included in the policy dialogue.

Development partners can assist with the design of support mechanisms that ensure that PPD processes will be sustained over longer periods of time instead of depending on large one-off financial contributions. In addition, sudden opportunities for constructive dialogue with the public sector may present themselves. It is therefore important that mechanisms are in place that can seize such opportunities for PPD. Experience exists with establishing independent and flexible trust and challenge funds, which are made available to PPD processes. These funds have offered critical flexibility and responsiveness to PPD processes that cannot be provided through donor aid processes (Bannock, 2005). Moreover, donor experience has shown that it is more effective to build capacity for setting up inclusive PPDs at central, sub-sectoral and local level in response to needs and opportunities, rather than to focus on a specific PPD process.

Better co-ordination of reforms for private sector development, and PPDs in particular, is required to prevent overlap, omissions and conflicting programmes. Lessons learned and best practices generated in the many different interventions should be more widely shared and disseminated to ensure incorporation of these into national-level strategies, policies and follow-up programmes. The PRSP process, providing a comprehensive framework for donor support, is one of several on-going reform processes aimed at improving private sector development that is accompanied by a series of PPD-type endeavours. Co-ordination of different private sector development programmes is needed and PPDs may contribute to this.

Notes

1. World Bank (2002), *World Development Report 2003: Sustainable Development in a Dynamic World: Transforming Institutions, Growth, and Quality of Life*, World Bank/Oxford University Press, New York.
2. No specific distinction is made in the framework between informal or formal dialogue, although the focus of this paper is more on formal – and therefore transparent – forms of PPD. Informal dialogue constitutes an important and powerful mechanism too, and may consist of horizontal, vertical and diagonal interactions.

Further reading

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Foreword

Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals, especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The DAC Guidelines on Poverty Reduction, published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. The work of POVNET since then has given priority to addressing strategies and policies in areas that contribute to pro-poor economic growth, with particular attention to private sector development, agriculture and infrastructure. POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and ex ante poverty impact assessment.

This compendium summarises the conclusions and recommendations coming out of POVNET's work on growth and poverty reduction. The key messages are as follows:

- Rapid and sustained poverty reduction requires pro-poor growth, as described above.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient. This compendium provides specific guidance to donors on how to make their support to pro-poor growth more effective in the areas of private sector development, agriculture and infrastructure.



Richard Manning
DAC Chair



James T. Smith
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*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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Acronyms

ACP	Africa, Caribbean and Pacific countries
ADB	Asian Development Bank
AdI*	<i>Aguas del Illimani</i>
AFD*	French Development Agency – <i>Agence Française de Développement</i>
AKFED	Aga Khan Fund for Economic Development
AU	Africa Union
BDS	Business development service
BLT	Build-lease-transfer
BMZ*	German Ministry for Economic Co-operation and Development <i>Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung</i>
BOT	Build-operate-transfer
BOOT	Build-own-operate-transfer
CAADP	Comprehensive African Agriculture Development Programme
CARICOM	Caribbean Community
CEDAW	Convention of the Elimination of All Forms of Discrimination against Women
CEPA*	<i>Comision Ejecutiva Portuaria Autonoma</i>
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil society organisation
CUTS	Consumer Unity and Trust Society
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFI	Development financial institution
DTF	Devolution Trust Fund
DFID	UK Department for International Development
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIC	Growth incidence curve
GTZ*	German Agency for Technical Co-operation <i>Deutsche Gesellschaft für Technische Zusammenarbeit GmbH</i>
ICN	International Competition Network
ICT	Information and communication technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IGE	Intergovernmental Group of Experts on Competition Law and Policy
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IT	Information Technology
IWRM	Integrated water resource management
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW*	German Bank for Development – <i>Kreditanstalt für Wiederaufbau</i>
MDG	Millennium Development Goal
MERCOSUR*	<i>Mercado Común del Sur</i>
MFI	Microfinance institution
MTEF	Medium-term expenditure framework
SME	Medium, small-sized enterprise
MSME	Micro, small and medium-sized enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD*	Norwegian Agency for Development Co-operation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIA	Poverty Impact Assessment
PIDG	Private Infrastructure Development Group
PIP	Public investment programme
POVNET	DAC Network on Poverty Reduction
PPD	Public-private dialogue
PPP	Public private-sector partnership
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSO	Private sector organisation
RADEEF*	<i>Régie Autonome de Distribution et d'Électricité de Fès</i>
REDI	Recent Economic Developments in Infrastructure
Seco*	Swiss State Secretariat for Economic Affairs
Sida*	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SWAp	Sector-wide approach
TAF	Local Capacity Building Technical Assistance Facility
UEMOA*	West African Economic and Monetary Union <i>Union Économique et Monétaire Ouest Africaine</i>
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization
WFP	World Food Programme

* Denotes acronym in original language.

Pro-poor Growth: Policy Statement

The 2001 DAC Guidelines on *Poverty Reduction* show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. This policy statement focuses on one dimension of that bigger picture – reducing economic poverty through pro-poor growth. In doing so, it looks at the relationship between the economic and other dimensions of poverty and how policies for pro-poor growth and other policy areas need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction.

Three key messages from this work are that:

- Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, i.e. the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long-term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

When implementing the policy guidance on how donors can support and facilitate pro-poor growth, they must bear in mind that the poor are not a homogenous group, that country contexts vary considerably, and that policy implementation must be based on a sound understanding of who the poor are and how they earn their livelihoods. Promoting pro-poor growth requires policy choices to be guided by assessments of their expected impact on the income and assets of the poor.

Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.

- i) **Both the pace and the pattern of growth are critical for long-term and sustainable poverty reduction.** Economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty. For growth to be rapid and

sustained, it should be broad-based across sectors and regions and inclusive of the large part of the workforce that poor women and men make up. Pattern and pace are thus interlinked and need to be addressed together. Policies for sustaining growth such as those aiming at macroeconomic stability, institutional quality, democratic and effective governance and a favourable investment climate should promote the engagement of the poor in economic growth by increasing their incentives, opportunities and capabilities for employment and entrepreneurship.

- ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, *e.g.* by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.
- iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (*e.g.* race, caste, disability, religion).
- iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.
- v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.

In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.

- i) **Policies to tackle the multiple dimensions of poverty should go hand-in-hand.** Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (e.g. economic versus social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty Millennium Development Goal (MDG) facilitates progress on other MDGs and *vice versa*.
- ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

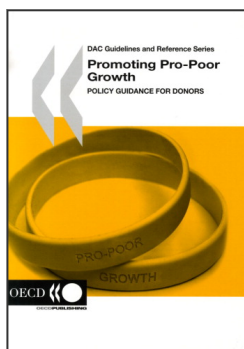
For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy-making process that is accountable to their interests.

- i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRSs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.
- ii) **A well-functioning state is important for responding to the interests of the poor.** Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.
- iii) **Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society.** This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

- i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.

- ii) **Donor support needs to be flexible and responsive to country situations.** The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.
- iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.
- iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.



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