



The Donor Committee for Enterprise Development

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Lessons for Donor and Development Agencies
Supporting Business Environment Reform;

Results of a Review of Donor-Supported Business
Environment Reforms Programmes and Practices in
Bangladesh, Kenya and Rwanda

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Executive Summary

This report details the findings of a review into the practice of supporting business environment reform (BER) in Bangladesh, Kenya and Rwanda. The review was conducted on behalf of the Donor Committee for Enterprise Development (DCED) and was designed to contribute to the improvement of donor and development agencies' policies and practices in private sector development (PSD) in general and business environment reform in particular, as well as to encourage a better understanding of the various approaches, processes and mechanisms donor and development agencies use to support PSD-BER. The review was guided by the 2008 DCED publication, entitled *Supporting business environment reforms: practical guidance for development agencies*, which contains a distillation of the lessons learned by donor and development agencies in their support of business environment reforms in developing countries.

The findings are presented within four main themes of donor-supported BER programmes, summarised below.

Theme 1: Frameworks for the support of PSD-BER

This theme of the review focused on the national frameworks that shape PSD-BER interventions. The reviews sought to identify the major frameworks that were used to guide donor-supported PSD-BER programmes and to understand how agencies work within these. In all three countries, most agencies appeared to reflect an understanding of the systems in which private enterprises operate and the role that BER can play. In a few cases, this led to broad BER-support programmes that integrated a range of activities. While all donor and development agencies were able to describe the various ways they respond to local demands for reform, there were instances where this demand was too general, not clear or overly biased. In Bangladesh, for example, donors were aligned to the broad frameworks for economic and social development, but there is no framework for PSD. In addition, government involvement in the PSD and Trade Local Consultative Group has been relatively poor. In Kenya, a PSD strategy encouraged alignment, but even within in this, some agencies expressed a frustration with the "shopping lists" for support presented to them by government or the business community. In Rwanda, although a PSD strategy is yet to be finalised, most BER-support programmes are aligned with the Economic Development and Poverty Reduction Strategy. There is also evidence that donors have responded to specific government demands for assistance, such as a request to work on specific *Doing Business* Indicators or other specific demands from the Ministry of Trade and Industry or the Private Sector Federation.

The political economy of BER presents a challenge for all donor and development agencies that participated in these reviews. This issue affects all programmes, especially reform programmes. However, it is often difficult for donor and development agencies to deal directly with those factors that appear to promote the status quo and resist reform efforts. In recently years, agencies appear to have used the World Bank *Doing Business* indicators as a means of stimulating reforms, and in some case the World Economic Forum's *Global Competitiveness Index* was cited as being useful. Support for more frequent, more inclusive and more informed public private dialogue (PPD) was also a common means that donor and development agencies used to stimulate reforms.

In Kenya, this included support for the Business Advocacy Fund, which helped business organisations research and prepare reform proposals.

The reviews were also concerned with the ways donor and development agencies coordinated with one another and the extent that they participate in donor coordination mechanisms at headquarter and field levels. The presence of a donor coordinating mechanism was a criterion for the selection of the three countries under review. However, the quality of government engagement and leaders in these mechanisms varied: in Rwanda, government provided strong leadership, while in Bangladesh this was relatively weak.

An interesting aspect of the review was the role that pooled or basket funding facilitated donor coordination and collaboration. Good examples of this included the Bangladesh Investment Climate Fund (BICF), the Kenya Investment Climate Programme (KICP), the Catalyst Fund in Kenya, and the Rwanda Investment Climate Reform Programme (RICP). In both Kenya and Rwanda a challenge to donor coordination appears to be with donors that are not members of the coordinating structure and are non-residents. Across all countries donor coordination tends to improve when agencies share their ideas and draft programmes in the early stages of programme design, rather than leaving this kind of consultation to the end of the design process.

Lessons for donor and development agencies: aligning programmes with national framework:

The reviews sought to identify how donor and development agencies support BER and to distil the key findings into lessons for donor and development agencies. Below are the lessons from aligning programmes with national frameworks in the three countries reviewed.

- Lesson 1: There is a growing awareness among many agencies of the systemic nature of PSD and support for BER is often one element of an agency's broader portfolio of activities in this field.
- Lesson 2: There are a number of multi-donor or basket-funding facilities established to focus on supporting BER and these tend to focus on the broader systems associated with increasing investment and the development of markets.
- Lesson 3: Because not all demand is expressed clearly or strategically, responding to local demand generally requires a close and constructive dialogue between donor and development agencies and their programme partners.
- Lesson 4: Donor and development agencies can refine local demand through research and assessments that are done in partnership with their programme partners.
- Lesson 5: While government is the principle actor in the reform process, other actors have an important role to play in articulating their own needs and priorities, especially the business community. Donor and development agencies need to find ways to ensure that business concerns are connected to the government reform agenda.
- Lesson 6: The use of research studies, surveys and competitiveness bench-markings contributes to a stronger demand for reform, as do programmes that strengthen the voice of the private sector and the mechanisms for PPD.

- Lesson 7: Business advocacy funds have proven to be an effective mechanism for stimulating private sector demand for reform.
- Lesson 8: Where the appetite for reform at the national level may be weak, stimulating sub-national demands for reform may lead to broader, economy-wide reforms in the longer term.
- Lesson 9: Governments can influence the representation and role of business membership organisations. While this is not necessarily a problem, it raises questions regarding how donor and development agencies can find strategic and politically acceptable ways to support the balancing of reform priorities across government, the business community and civil society.
- Lesson 10: Many donor and development agencies recognise the political dimensions of reform, but are hard-pressed to deal directly with these issues. Strong government leadership of reforms helps agencies to achieve their programme objectives, but on its own, does not necessarily deal with all the challenges of creating a conducive business environment.
- Lesson 11: It is easy to get caught up in the debates over the technical aspects of a desired reform and to overlook the big picture. Donor and development agencies can help programme partners to have a broader, economy-wide perspective on the reform process and the desired outcomes of reforms.
- Lesson 12: A weak private sector and poorly organised, misrepresented BMOs can undermine attempts to promote PPD. Donor and development agencies must find creative and strategic ways to support the development of BMOs and representative of the private sector.
- Lesson 13: Donor and development agencies can support the broadening of national PPD processes by supporting and facilitating dialogue at the sub-national level.
- Lesson 14: Donor and development agencies can support the quality of PPD through activities that help dialogue partners to access more relevant and up-to-date data and information. It is more likely that PPD processes will lead to better and more sustainable BER outcomes if it incorporated the use of sound and objective evidence.
- Lesson 15: A useful starting point for donor and development agencies to support more effective PPD can be within specific sectors or at the sub-national level. These dialogue process can then be encouraged to bubble-up to a national, economy-wide platform.
- Lesson 16: While governments often demand “one voice” of the private sector in PPD, it is important to accommodate the diversity of the business community in PPD processes.
- Lesson 17: Strong government leadership aids the coordination of donor and development agency. Indeed, the lack of direct government involvement makes effective donor coordination and government alignment difficult.
- Lesson 18: Support for PSD can be a broad and multi-dimensional topic involving many donor and development agencies, government line-ministries, and

business and civil society organisations. Thus, a single committee structure is not always enough. BER may require a specific focus amongst participating donor and developing agencies and their partners.

Lesson 19: Collaborative programmes and basket funding provides a very practical and effective way of ensuring donor coordination in BER-support programmes.

Lesson 20: It can be difficult for non-resident donor and development agencies to participate effectively in national coordination structures. Processes and mechanisms need to be found to improve this.

Theme 2: Designing BER-support programmes

This theme examined the ways in which agencies design their BER-support programmes. It examined how agencies responded to requests from government and other actors, and sought to identify the information and processes they used in the programme design phase.

All donor and development agencies were found to align themselves with government frameworks. However, these frameworks were sometimes too broad and without specific details on PSD-BER priorities. In some cases, such as Kenya, the downside of government alignment was a lack of flexibility by donors to respond to emerging issues once these frameworks are in place. The BICF in Bangladesh appeared to be a mechanism that was able to align with development frameworks, but respond more quickly to new and emerging demands.

The reviews sought to determine the extent to which donor and development agencies focus on the binding constraints to business growth and scope their reform supports accordingly. Across the three countries, donor and development agencies tended to support reforms that focused on the “low hanging fruit” and achieving “quick-wins”. In some cases it was argued that problems with the policy, legal and regulatory framework were, indeed, significant barriers to growth and that these reforms can trigger larger reforms. Dealing effectively with the binding constraints requires an improvement in public governance and the development of more transparent, evidenced-based decision-making processes within government. Thus, these donor-supported reform programmes help to prepare government more effectively address the binding constraints. However, it appears that not all governments recognise this process of sequencing.

In Kenya, no growth diagnostics were found, except for those that focused on specific sectors. In Rwanda, the BER agenda has largely been defined by shorter-term reform priorities of the government and the current priority is to deepen these reforms. This was referred to as a “Doing Business Plus” agenda.

Lessons for donor and development agencies: designing BER-support programmes

Below are the lessons identified for designing BER-support programmes:

Lesson 21: Not all binding constraints are found in the business environment. Many binding constraints to PSD and economic growth are found in the investment climate. Thus, many BER-support programmes are limited in their scope to address these constraints.

- Lesson 22: Many BER-support programmes have not yet come to dealing with the binding constraints to PSD and economic growth. While this may be because these constraints go beyond the business environment (i.e., to other elements of the investment climate), it also appears that many programmes are still focused on the “quick wins” and short-term outcomes.
- Lesson 23: While BER-support programmes can trigger the demand for further reforms and build the capacity of government manage these, this takes time and changes of government or government priorities can undermine sequencing.
- Lesson 24: Aligning PSD and BER-support programmes with government often requires more than a what is offered in broader economic and social development plans, such as poverty reduction strategy papers or long-term vision documents. Support for PSD and BER requires more precise prioritisation of reforms in a phased manner. Thus, a PSD strategy or BER agenda that is adopted by government may improve donor-government alignment.
- Lesson 25: A critical challenge for donor and development agencies is how to go beyond first-order reforms and to deepen the reform process and help programme partners become more focused on the key reform topics. Linking first-order to second-order reforms requires careful and honest analysis and evaluation of what programmes have achieved in their first phase and the design of subsequent phases that take these achievements further.
- Lesson 26: The automation of regulatory administration can be a good starting point for reform processes that can be built upon once knowledge, awareness and confidence have been increased. Often automation can be achieved quickly and without the immediate need for changes in policy and law.
- Lesson 27: Because reforms take time, effective sequencing of reform processes often requires a periodic refocusing of BER-support programmes. Thus, BER-support programmes need to accommodate the need for flexibility and adapting to changing circumstances.

Theme 3: Managing BER-support programmes and projects

This theme examined the way agencies manage their BER programmes. It sought to understand the ways in which agencies promoted local ownership and accountability, and the extent to which sustainability was ensured. It was clear in all countries that not enough attention has been given to supporting a communications strategy and making strategic use of the media. As one respondent in Bangladesh put it, “every programme needs a communications strategy these days.”

In Bangladesh, most BER-support programmes are focused at supporting reforms within specific government agencies. Thus, while these agencies appear to have improved their appetite for reform, a whole-of-government perspective on the Bangladesh business environment appears to be lacking. In Kenya and Rwanda, a lack of capacity in the government often affects the extent that the government can own all reforms. While Rwanda displays strong government leadership in the reform process, it is unclear how

deep this goes in the public sector. Furthermore, there were concerns expressed about the leadership of non-government and private sector organisations, which were largely considered to be weak.

In Bangladesh, the coordination of reform efforts across government is a major challenge. Government leadership in donor programming and implementation has previously been passive. There is no single lead agency leading reform efforts. The BICF supported the establishment of the Regulatory Reform Commission in an effort to lead reforms, but this was not a government entity and the current government has not supported it. In Kenya, many donor agencies indicated that dealing with only the lead agency is often insufficient, since some agencies often don't have the political clout to lead reforms and there are often turf wars between government ministries, departments and agencies. While in Rwanda, government is generally a very strong and effective leading agent, it is also small and the skill gaps between senior levels and lower ranks are significant.

In all three countries under review, the limited capacity of government and the business sector, as represented by formal BMOs, was a major challenge to implementing BER. A number of respondents in Bangladesh highlighted the importance of changing the "mindset" of government officials, where officials come to better understand why reforms are important and needs to be done to achieve reform objectives. Donor and development agencies in all three countries reported difficulties in adequately finding ways to build capacity in a relevant and sustainable manner. In Bangladesh, for example, donor and development agencies have focused their support for capacity building within specific government agencies. However, the rotation of civil servants is a challenge to the sustainability of reform process. Indeed, this problem was also found in Kenya and Rwanda. The BICF has developed a successful method of capacity building through its Core Group of about 30 civil servants. The Core Group went through an awareness raising and training programmes, and helps to identify and respond to opportunities to reduce administrative burdens in the institutions and agencies in which group members work. The BICF has also supported partnerships with academic institutions through a small grants programme. It has also commissioned local agencies such as the Economic Research Group to manage research programmes and provide some quality control of domestic research projects. In Kenya, BAF works with relevant Kenyan BMOs to own the reform effort by providing the capacity (through the hiring of technical expertise) to effectively engage with the government in order to lobby for and implement reforms. In Rwanda, many donor programmes were found to either integrate capacity building within their programmes or run specific capacity building programmes.

The over-reliance by donor and development agencies on international consultants was generally a sensitive issue among local programme partners in all countries. Many local partners argued that there was sufficient capacity in the local consulting sector, but this was often contested by donor and development agencies. A few agencies still follow the policy of tied aid or conditionality in which consultants must be sourced from the donor country.

Lessons for donor and development agencies: managing BER support programmes and projects

Below are the lessons identified in managing BER-support programmes:

Lesson 28: Many donor and development agencies overlook the important role of communications and the media in their BER-support programmes.

However, there is growing awareness that such oversights should be quickly addressed.

- Lesson 29: Donor and development agencies can help their programme partners to design and implement their own communication strategies, focusing on both internal (i.e., staff) and external (i.e., clients, the business community) audiences.
- Lesson 30: Nurturing a core group of change-makers within government can pay long-term dividends and contribute to a more sustainable reform capacity.
- Lesson 31: Building a consensus for reform within and among programme partners is important. Donor and development agencies should take care not to push for change too quickly without nurturing a broader demand for reforms.
- Lesson 32: Domestic ownership of reforms must go beyond government ownership. While governments must own and be in control of the reform process, there are many other domestic actors that should be involved in pushing for reforms. Donor and development agency support for BER should include support for an open and more pluralistic society in which a range of actors can participate in social dialogue.
- Lesson 33: Care should be taken when attempting to establish specialised lead agencies for BER. While weaknesses in government institutions and coordination may be used to justify the need for a specialised agency, it may be better to support improvements within existing structures than create new ones.
- Lesson 34: Limited capacity within government can reduce the capability of government to lead reform process.
- Lesson 35: Government leadership of reform processes requires good government coordination. It is important that there is clarity within government and its development partners as to which government ministries, departments or agencies have the mandate to lead reforms.
- Lesson 36: The challenge for implementing reforms and achieving long-term sustainability often revolves around the capacity of programme partners, especially government partners. While implementation can be enhanced through programmes that apply proven models (such as one-stop facilities) and awareness raising activities, ultimately it is the capacity of the key actors to manage reforms that directly influences a successful and sustainable outcome.
- Lesson 37: Creating a reform-oriented “mindset” among government officials can improve the implementation of reforms.
- Lesson 38: Reforms that automate and streamline regulatory and administrative processes can help to develop an organisational robustness over time. This provides a basis for sustainability in the long-term.
- Lesson 39: Building the capacity of programme partners remains a challenge for donor and development agencies. It requires generic skills and organisational development programmes and specialised BER-related skills

development. These programmes can be standalone activities or they can be integrated into a range of other BER-support interventions.

Lesson 40: Often, capacity building for effective BER needs to go beyond the usual partners (i.e., government institutions and their staff, BMOs) and include actors such as academia and local research organisations.

Lesson 41: Balancing the use of national and international experts requires sensitivity. While donor and development agencies want to access to international best practice and up-to-date expertise this has to be balanced by local perceptions and contexts.

Lesson 42: The use of national consultants can build national capacity. Many agencies recognise this and link national consultants with international consultants on specific assignments.

Lesson 43: Where national experts or consultants can't be found, donor and development agencies should consider finding these in other countries of the region before seeking them from further afield.

Theme 4: Monitoring and evaluating PSD-BER support programmes

This theme considered the use of monitoring and evaluation mechanisms and processes within PSD-BER programmes. It sought to understand how agencies monitored and evaluated their programmes, the extent to which they involved programme partners in these processes and how they attempted to measure the impact of their programmes.

In all the review countries, BER-support programmes were found to have a monitoring and evaluation frameworks in place, which are linked to the programme's logical framework. In many of the jointly funded or basket-fund programmes these frameworks had been designed to meet the needs of all these. Some of the larger programmes (e.g., BICF, TMEA) had their own monitoring and evaluation units.

BER-support programmes typically used a range of indicators to measure outputs and outcomes. This included firm-level productivity, firm-level cost savings and economy-wide savings and investments. In Bangladesh, BICF programme indicators are linked directly to reductions in time and cost of regulatory procedures, which are directly related to the findings of the diagnostic studies carried out in the design phase of the programme. Typically, these indicators measure the reduction of regulatory compliance costs at the firm level. These savings are then aggregated across the number of clients or sector participants. In Rwanda, all donor and development programmes are inserted into the Economic Development and Poverty Reduction Strategy, which are monitored in the context of the twice-yearly Joint Sector Reviews. The fulfilment of the CPAF indicators constitutes the basis for the budget support disbursements.

While aware of the problem of attribution, the BICF measures its long-term impact in terms of levels of investment and number of new jobs created. In Kenya and Rwanda, very few agencies attempted to measure impact in terms of increased investment, economic growth, employment creation, or poverty reduction. While many agencies use *Doing Business* assessments to generate discussion and interest in reform issues, these assessments are generally not used as overall measures of the programme's performance.

Not all donor and development agencies provide opportunities for the private sector to discuss their programme's progress or achievements. While programme partners are usually involved in these discussions, this is not always extended to the broader private sector or other civil society representatives.

Finally, while donor and development agencies appear to be recognised for the international best practice they can bring to business environment reforms, and not just for their financial support, few specific mechanism for quality assurance within BER-support programmes was found beyond those that are used by most programmes (e.g., appraisal and review mechanisms, internal and independent evaluations). Many agencies described how they used international experts or headquarter-based specialists to check on the quality of their BER support programmes and a few agencies described how they involve international standards or professional bodies in their programmes to ensure quality.

Lessons for donor and development agencies: monitoring and evaluating BER-support programmes

Below are the lessons learnt from the three countries in monitoring and evaluating BER-support programmes.

- Lesson 44: Monitoring and evaluating BER-support programmes can involve local agencies.
- Lesson 45: The DCED Results Measurement Standard should be promoted and applied by more BER-support programmes.
- Lesson 46: Linking development programme indicators with government development goals are a valuable first-step. However, BER-support programmes need to design indicators that are more closely aligned to reform priorities and the binding constraints of PSD and economic growth.
- Lesson 47: Technical advisory committees provide a useful means through which the achievements of a BER-support programme can be discussed with programme partners and representatives of programme beneficiaries. However, reliance on this means alone may not be enough.
- Lesson 48: In most cases the monitoring and evaluation of BER-support programmes appears to be focused on internal (i.e., agency) needs, rather than on reporting back to domestic programme partners or the broader community.
- Lesson 49: Donor and development agency programmes are rarely assessed in terms of their long-term impact. Greater effort should be invested in this area.
- Lesson 50: Donor and development agencies can support quality assurance by engaging local auditing or research groups that can monitor and oversee work within the BER-support programme.
- Lesson 51: Collaborative or joint programming can help agencies to apply their various strengths in support of BER. This can improve the quality of advice provided by donor and development agencies.

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1 Introduction

1.1 Efforts to improve business environment reform in developing countries

In 2008, the Donor Committee for Enterprise Development (DCED) published guidelines, entitled *Supporting business environment reforms: practical guidance for development agencies*. The Business Environment Working Group (BEWG) prepared this guidance, which presents a distillation of the lessons learned by donor and development agencies in their support of business environment reforms in developing countries.¹

Following this, the BEWG sought to better understand how donor and development agencies were supporting BER in developing and transition economies and what challenges it was facing. In 2009-10 the group conducted a mapping of BER-support programmes. This mapping found, among other things, that the vast majority of BER-support programmes integrate BER into other PSD elements. All respondent agencies reported that responding to partner needs was the most common rationale for programme formulation. However, programmes were also designed in response to agencies' targets and strategies and based on the outcomes achieved by earlier projects or programmes. The majority of respondent agencies supported policy and legal reforms, while many supported regulatory and administration reform. Most agencies reported the use of training, capacity building and technical assistance as their main instruments for BER-support.

In 2010, the BEWG conducted a user survey of the Donor Guidance. Many of the respondents of this survey indicated they had significant experience in BER-support programming, with 85 percent working in PSD for six or more years. Most were using the guidance as a reference and many were referring it to colleagues. About seventy-five percent of respondents indicated it was "useful" or "very useful".

Following this, the BEWG considered conducting peer-reviews of how donor and development agencies are supporting BER. The review process used by CGAP to investigate agencies support for financial services was seen as a model for this. However, after some consideration, it was decided that a review of country-level programmes and practices would be more useful. This would attempt to obtain the perspectives of donor and development agencies and their programme partners on how BER was being supported in selected countries.

Three countries were selected: Kenya, Rwanda and Bangladesh. These were selected according to the following criteria:

- Presence of a donor PSD coordinating structure
- Presence of a significant number of donor and development agencies engaged in BER support
- Agency involvement in BER-support was commenced at least three years ago
- Presence of all agencies currently under review in the 2009 pilot

1 The guidance is available from:

<http://www.enterprise-development.org/download.aspx?id=586>

1.2 The review process

The review was essentially designed as a stakeholder analysis of the work of donor and development agencies in BER support. There were two broad reasons for conducting the review in these countries:

- 1 To improve donor and development agencies' policies and practices in private sector development in general and business environment reform in particular; and
- 2 To improve donor coordination through a better understanding of the various approaches, processes and mechanisms donor and development agencies use to support private sector development and business environment reform.

It was anticipated that the review would benefit participating donor and development agencies at headquarter and field levels. At the field level, it would highlight the challenges faced in supporting BER, identify best practices and lessons learned, and improve collaboration between agencies and with programme partners, such as government partners and business representatives.

The review was not treated as an evaluation of BER-support programmes. Where an evaluation would typically examine the outcome and impact of programmes, the review focused on the practice of supporting reform in developing countries. Thus, its focus was on how donor and development agencies go about the processes associated with:

- Assessing the business environment and identifying reform priorities;
- Designing and managing business environment reform programmes; and
- Monitoring and evaluating business environment reform outcomes and impacts.

While examining these practices, the review also sought to identify how donor and development agencies are:

- Working with programme partner, such as developing country governments, business membership organisations and other civil society organisations;
- Collaborating with other donor and development agencies engaged in BER at the country level;
- Harmonising their programme interventions with key national development plans and frameworks;
- Measuring the results of their programme interventions and benchmarking change; and
- Promoting sustainability of reform efforts.

Annex 1 provides more details on the approach and methodology used in the reviews.

The reviews were conducted as follows:

- 1 Kenya (15-19 November 2010)
- 2 Rwanda Rep (23-27 May 2011)
- 3 Bangladesh (6-9 June 2011)

Simon White coordinated the reviews in each country and was the principal author of the three country reports.

In each country a Review Team was formed. These teams were as follows:

In Kenya:

- Simon White (Consultant)
- Liz Winton (DFID London)
- Stefan Engles (UNDP Kenya)

In Rwanda:

- Simon White (Consultant)
- Corinna Küsel (GIZ)
- Melina Heinrich (DCED Secretariat, Cambridge)
- Farid Hegazy (GIZ Rwanda)
- Adot Killmeyer-Oleche (UNIDO Vienna)
- Amos Wanyiri (DFID Dar es Salaam)

In Bangladesh:

- Simon White (Consultant)
- Shahnila Azher (DFID Bangladesh)
- Masarrat Quader (DFID Bangladesh)
- Md. Azad Rahman (IFC Bangladesh)

The DCED definition of the business environment, as presented in the Donor Guidance, was applied during the reviews as were the principles of successful BER. Four themes of BER-support were investigated.

- 1 Frameworks for the support of PSD-BER: This theme focused on the national frameworks that shape PSD-BER interventions. The review sought to identify the major frameworks that were used to guide donor-supported PSD-BER programmes in each country and to understand how agencies work within these.
- 2 Designing BER-support programmes: This theme examined the ways in which agencies design their BER-support programmes. It examined how agencies responded to requests from government and other actors, and sought to identify the information and processes they used in the programme design phase.
- 3 Managing BER-support programmes and projects: This theme examined the way agencies manage their BER programmes. It sought to understand the ways in which agencies promoted local ownership and accountability, and the extent to which sustainability was ensured.
- 4 Monitoring and evaluating PSD-BER support programmes: This theme considered the use of monitoring and evaluation mechanisms and processes within PSD-BER programmes. It sought to understand how agencies monitored and evaluated their programmes, the extent to which they involved programme

partners in these processes and how they attempted to measure the impact of their programmes.

This comparative report provides a synthesis of the findings of the three country reports. It also aims to identify the similarities and differences found across the pilot countries. It also endeavours to distil key lessons that come from the experiences of donor and development agencies in these countries so that this might be of value to the donor community as a whole and toward better BER-support programming.

1.3 Doing business in the pilot countries

Before assessing the results of the reviews a brief scan of the three pilot countries provides a basis for contextualising and interpreting the findings of each review.

Figure 1, below, shows the current rankings for the pilot countries in 2011 and the change from 2010. Due to changes in the Doing Business methodology it is not possible to compare the rankings and change prior to 2010. Annex 2 provides more details and comparisons.

The figure clearly shows the high volume of reforms that have recently occurred in Rwanda and how this country ranks the highest in the Ease of Doing Business Index. It also shows how Kenya has dropped in its ranking, while Bangladesh as improved as much as Kenya dropped.

Figure 1: Change in Ease of Doing Business Rankings 2010-2011

| Economy | Year | Ease of Doing Business Rank | Change |
|------------|--------|-----------------------------|--------|
| Bangladesh | DB2010 | 111 | |
| Bangladesh | DB2011 | 107 | +4 |
| Kenya | DB2010 | 94 | |
| Kenya | DB2011 | 98 | -4 |
| Rwanda | DB2010 | 70 | |
| Rwanda | DB2011 | 58 | +12 |

SOURCE: World Bank Group (2011)

Figure 2, below, shows the changing rankings in the nice Doing Business domains in 2010 to 2011. It shows major improvements in Rwanda in Getting Credit, Dealing with Construction Permits, and Trading Across Borders, as well as improvements in Bangladesh in Starting a Business and Closing a Business. Very few positive reforms occurred in Kenya among these fields in this time. In fact, the cost and process associated with Closing a Business became more difficult when compared to the other economies ranked.

Figure 2: Change in Doing Business Indicator Rankings 2010-2011

| Doing Business Indicator | Bangladesh | Kenya | Rwanda |
|-----------------------------------|------------|-------|--------|
| Starting a Business | +19 | +1 | +3 |
| Dealing with Construction Permits | 0 | -3 | +6 |
| Registering Property | +5 | +1 | +4 |
| Getting Credit | -3 | 0 | +29 |
| Protecting Investors | 0 | -1 | -1 |
| Paying Taxes | -6 | +1 | +3 |
| Trading Across Borders | -2 | -1 | +10 |
| Enforcing Contracts | 0 | -1 | +1 |
| Closing a Business | +6 | -5 | 0 |

SOURCE: World Bank Group (2011)

The above figures show how Rwanda and Bangladesh, to different degrees, have made some progress with reforms as assessed by the World Bank. Each of these countries has been able to claim some success, with Rwanda being the standout reformer in 2011. Kenya, on the other hand, has not made much progress. While the events following the Post Election Violence of 2008 have probably played a role here, this review shows that other factors may also have contributed to this.

1.4 Report structure

This report is organised around the four main themes of the review. The next chapter deals with the frameworks for the support of PSD-BER in the three countries reviewed. Chapter 3 deals with designing BER-support programmes, Chapter 4 with managing BER-support programmes and projects, and Chapter 5 with monitoring and evaluating BER-support programmes.

2 Frameworks for donor support

This chapter focuses on the national frameworks that shape PSD and BER interventions. The Review Team sought to identify the major frameworks that were used to guide donor-supported programmes in the countries under review and to understand how agencies work within these.

2.1 Systemic approaches to supporting BER

The reviews sought to better understand the extent to which donor and development agencies adopted a systemic approach to supporting BER. This was based on the first principal contained in the Donor Guidance.

Most agencies in all three countries had programmes that appeared to reflect an understanding of the systems in which private enterprises operate and the role that BER can play. In a few cases, this led to broad BER-support programmes that integrated a range of activities:

In Bangladesh, the Bangladesh Investment Climate Fund (BICF) programme, funded by the UK Department for International Development (DFID) and the European Union (EU) and managed by the International Finance Corporation (IFC), is a programme that covers a range of interventions focusing on business environment and investment climate reforms. This broad perspective makes it relatively unique in Bangladesh and displays a clear understanding of the systems private enterprises operate in. Indeed, the BICF focuses more on investment, than sector specific issues or firms of a particular size. Other programmes were more focused in their design and implementation, although this does not necessarily suggest they are not aware of or responsive to the systemic nature of private enterprise development.

In Kenya, the Danish Agency for International Development (Danida) supports the Business Sector Promotion Programme (BSPS), which aims to assist in alleviating poverty by creating an enabling environment for the private business sector to facilitate economic growth, improve competitiveness and ensure long-term employment generation. In addition, the EU supports the Kenya Investment Climate Programme (KICP), which the IFC manages. This programme focuses on reducing regulatory costs and risks for businesses and on building regulatory reform capacities in the public and private sectors. The World Bank has a programme addressing cross cutting areas of reform which all affect the *Doing Business* Indicators.

In Rwanda, support for BER is generally one element of the portfolio of many agencies. Other fields include value-chain development and programmes that support the integration of regional markets. Thus, many agencies appear to be working across different levels, particularly macro and meso levels, as well as at regional, national, district and local levels. The German Development Cooperation agency (*Gesellschaft für Internationale Zusammenarbeit*, GIZ) runs the Promotion of Economy and Employment, which includes support for public private dialogue (PPD), the introduction of regulatory impact assessments, capacity building and value chain development. DFID and the Netherlands support the IFC managed Rwanda Investment Climate Reform Programme (RICP).

A systemic approach to supporting BER is clearly illustrated by the TradeMark East Africa (TMEA) programme, which includes Kenya and Rwanda. This programme is currently supported by DFID and Danida with other donors expected to participate soon. It has been designed based on a growing awareness of the need for reforms to move beyond the local and national levels to address regional concerns. This is based on an appreciation of the ways in which regional markets and the regional business environment affects firms in the region.²

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 1: There is a growing awareness among many agencies of the systemic nature of PSD and support for BER is often one element of an agency's broader portfolio of activities in this field.

Lesson 2: There are a number of multi-donor or basket-funding facilities established to focus on supporting BER and these tend to focus on the broader systems associated with increasing investment and the development of markets.

2.2 Responding to local demand

The reviews sought to understand the extent BER-support programmes respond to local demands for reform. This is in line with Principle 3 of the Donor Guidance.

In Bangladesh, the BICF is a mechanism for responding relatively quickly to demands for reform. Many review respondents, including those from government and business, indicated that the BICF and other donors supporting BER were responding to demand. While some suggested that agencies occasionally prodded them and proposed specific programme interventions, this was accompanied by comments such as “we need donors to push us”. The PSD and Trade Local Consultative Group is the formal coordinating mechanism for donor support in this sector, but this has largely been driven by donor agencies. Recently, the Ministry of Commerce encouraged the group to focus on the manufacturing sector in line with government development plans. However, group members argued that this should not be the only focus of the group and that PSD is best achieved through a broader, more integrated approach that includes the manufacturing sector.

In Kenya, donors described how programmes were formulated based on a request from government. In some cases, the business community has requested support through business membership organisations or through their participation in various PPD events, such as through the Prime Minister's Roundtables. Donor and development agencies responded to the Government of Kenya's Private Sector Development Strategy (PSDS) by identifying the pillars of the strategy they would help address and followed this up with dialogue with the government in order to develop programmes. Some respondent agencies expressed a frustration with the “shopping lists” for financial support presented to them by government or the business community. However, most agree that the PSDS has been a useful framework for prioritising and organising PSD-BER efforts. Donor and development agencies also expressed a frustration with the myriad of government ministries, departments and agents they are often required to deal with and who will often approach them with requests. This trend became more challenging

² The Canadian International Development Agency (CIDA) supports PSD at the regional level, although does not support BER.

with the formation of the Grand Coalition Government, which led to a further increase to 42 ministries.

BER-support programmes in Kenya also respond to local demands from business as well as government. In 2008, the Kenya Private Sector Alliance (KEPSA) submitted a *National Business Agenda* to the Government of Kenya on behalf of the business community, which sought to provide government with a set of clear business priorities that apply to ensuring the private sector plays its role in wealth and employment creation.

In Rwanda, donor and development programmes contribute directly to the reform priorities under the Economic Development and Poverty Reduction Strategy. There is also evidence that donors have responded to specific government demands for assistance, such as a request to work on specific *Doing Business* Indicators or other specific demands from the Ministry of Trade and Industry or the Private Sector Federation. The Government of Rwanda was mainly responsible for expressing its demands to donor and development agencies for support with reforms. However, there was very little evidence of business-driven demands for reforms, largely because of the pro-active approach government takes to these issues, as well as to the relative weakness of the organised business sector.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 3:** Because not all demand is expressed clearly or strategically, responding to local demand generally requires a close and constructive dialogue between donor and development agencies and their programme partners.
- Lesson 4:** Donor and development agencies can refine local demand through research and assessments that are done in partnership with their programme partners.
- Lesson 5:** While government is the principle actor in the reform process, other actors have an important role to play in articulating their own needs and priorities, especially the business community. Donor and development agencies need to find ways to ensure that business concerns are connected to the government reform agenda.

2.3 Stimulating a demand for reform

The reviews investigated the ways in which donor and development agencies stimulated a demand for reform and worked with drivers of change. This also corresponds with Principle 3 of the Donor Guidance.

In Bangladesh the demand for reform by government and the business community appears to have varied in recent years. This has led to a corresponding shift in the way donor agencies have worked with their programme partners. Donors responded to the increased appetite for reform found within the “Caretaker Government” of 2007 to 2009. A number of donor-supported reforms were instituted in this time. However, with the election of the new government, it appears that government’s reform agenda has changed and many donor agencies are unsure how to respond. The use of the World Bank’s *Doing Business* indicators and rankings has contributed to a demand for reform by government and business. Indeed, there appears to be a general awareness in government of the need for a more “business friendly” policy, legal and regulatory framework. An additional stimulus for reform has been the governments desire for budget support. The BICF’s support for PPD within sector associations and at the district level have been found to strengthen awareness of the importance of a better business enabling environment and the need for regulatory and administrative simplification.

BICF-supported advocacy and awareness activities appear to have increased the demand for reform. These activities included the nurturing of a “core group” of public officials, academic partnerships with five universities, research teams that accessed a small grants programme, and communications and outreach work with the media.

In Kenya, a number of donor and development agencies working in Kenya exhibit a willingness to stimulate the demand for BER. For example, Danida supports for the Business Advocacy Fund (BAF), which provides grants to business membership organisations (BMOs) in their efforts to advocate to government for reform and to participate in PPD. The BAF also supports building of capacity among selected BMOs in order to promote sustainability of these organisations and enhance their involvement in BER over the long-term. Many agencies referred to the increasing importance assigned to international benchmarks and assessments such as the annual *Global Competitiveness Index* and *Doing Business* reports. These promoted competition among neighbouring countries and created a stimulus for reform. The IFC stimulated private sector demand for reform through its support of the Prime Minister’s Round Tables. It also funds the position of the chief executive office in the Kenya Private Sector Alliance as well as a consultant. KICP attempted to showcase government agencies that had successfully completed a reform and helped “blow their trumpet”. This created a healthy competition between government ministries, departments and agencies and built up the momentum for reform across government. The United Nations Industrial Development Organisation (UNIDO) also supports study tours and recently sponsored a group of producer associations to visit Italy to understand how to meet international standards in leather processing.

In Rwanda, there was very little need expressed for donors to stimulate the desire for reform within government, as this was already well established. The uses of research and competitiveness indicators were often cited as important elements in the drive from reform. However, the demand for reform appeared significantly less among the private sector. While the PSF is generally recognised as the peak BMO, it is seen as being extremely close to government and generally weak. Some agencies have supported research into the core constraints for the private sector (e.g., GIZ commissioned studies on reducing red tape and supported the Business and Investment Climate Survey). The regional TMEA programme also aims to support the voice of the private sector through its business advocacy component.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 6:** The use of research studies, surveys and competitiveness bench-markings contributes to a stronger demand for reform, as do programmes that strengthen the voice of the private sector and the mechanisms for PPD.
- Lesson 7:** Business advocacy funds have proven to be an effective mechanism for stimulating private sector demand for reform.
- Lesson 8:** Where the appetite for reform at the national level may be weak, stimulating sub-national demands for reform may lead to broader, economy-wide reforms in the longer term.
- Lesson 9:** Governments can influence the representation and role of business membership organisations. While this is not necessarily a problem, it raises questions regarding how donor and development agencies can find strategic and politically acceptable ways to support the balancing of reform priorities across government, the business community and civil society.

2.4 Incorporating the political dimensions of reform

The reviews investigated the extent to which donor and development agencies display an understanding of the political economy of reform how their programmes respond to these. This investigation was based on Principle 2 of the Donor Guidance.

The political economy of **Bangladesh** appears to have had a strong affect on its development since Independence in 1971. Donor agencies are acutely aware of the political economy and how this affects the appetite and capacity of the government for reform. The shifting character of reforms between the Caretaker Government and the current, elected government are good examples of this. Bangladesh also displayed a close relationship between government and the established business community. While this situation does not necessary mean that business has captured government, it does suggest that business has a significant voice in setting the reform agenda. There is a general, if not constant, consensus regarding the reform priorities for PSD. In general the arguments appear to focus on the technicalities of proposed reforms, rather than on the overall need for reform, i.e., on what is the best path for reform.

In Kenya, the political dimensions of reform are extremely significant. The post-election violence that erupted in 2008 was a major disruption in Kenya's programme of reform. The subsequent creation the Grand Coalition Government and the passing of the new Constitution have all been political processes that have direct, immediate and long-term repercussions for BER support programmes. After the election in 2008 the Ministry of Trade and Industry split into two ministries: the Ministry of Trade and the Ministry of Industrialisation. Donors observed a lot of in fighting between the two ministries, which has slowed down the speed of implementation of programmes. There is a sense of donor "paralysis" based on the uncertainties surrounding the introduction of the new Constitution. When implementing BER-support programmes there is a good understanding of political economy issues, for example the KICP has funded a consultant in the Prime Minister's Office to coordinate between ministries and United Nations Development Programme (UNDP) is funding an international expert as a consultant on private-public partnerships in the Office of the Prime Minister.

In Rwanda, most donor and development agencies appear to be very aware of the political economy of reform. While the strong role played by government was seen as an advantage to donor programming, there are concerns that in the field of PSD and BER

this risks the crowding out of the opportunities available to the private sector. Government typically responded to this criticism by indicating that the private sector was small and immature and needed time to develop. However, other referred to this and a “chicken and egg” situation in which the private sector was less able to develop because government had reduced the space available to it.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 10: Many donor and development agencies recognise the political dimensions of reform, but are hard-pressed to deal directly with these issues. Strong government leadership of reforms helps agencies to achieve their programme objectives, but on its own, does not necessarily deal with all the challenges of creating a conducive business environment.

Lesson 11: It is easy to get caught up in the debates over the technical aspects of a desired reform and to overlook the big picture. Donor and development agencies can help programme partners to have a broader, economy-wide perspective on the reform process and the desired outcomes of reforms.

2.5 Supporting and responding to public-private dialogue

The reviews examined the extent to which donor and development agencies focus on what the private sector needs through public-private dialogue (PPD). Principle 6 of the Donor Guidance is concerned with this issue.

Both Bangladesh and Rwanda have a wide range of BMOs of all shapes and sizes. In **Bangladesh**, the major BMOs have a strong voice, are well resourced and well organised. Most appear happy with the access they have to government. There is a strong emphasis among donors for the need to improve dialogue between the government and the business community (i.e., PPD). The BICF supported the establishment of a Better Business Forum principally for this purpose. While many of the key actors in government and business appear to be satisfied with the quality of PPD, there are concerns regarding the representative nature of this. Big business is well represented, but this does not seem to reach down to smaller firms. Thus, there is a challenge to make PPD more inclusive and representative of the broader private sector. The BICF has established PPD mechanisms in four districts in an effort to help local business issues “bubble up” to national forums. A number of agencies indicated that the quality of PPD could be improved by grounding discussions on better evidence and research on the options available.

In Kenya, the national representation of business has been fractured and troubled in recent years. The Kenya National Chamber of Commerce and Industry was established in 1965 as the umbrella body of the private sector. However, it has suffered a number of organisational challenges that have undermined its legitimacy as a voice of the Kenyan business community. The Kenya Private Sector Alliance aims to advocate on behalf of the private sector on high-level issues and coordinate private sector engagement in public-private dialogue. The organisation is also mandated to identify gaps in sector representation, as well as capacity development of BMOs where there are opportunities for improving advocacy. Since 2008, there has been an increase in the attention given to PPD, both within government and in society in general. A number of PPD structures have been established. These include the President’s Roundtable, the Prime Minister’s Roundtable and various sector and locally based PPD forums. The Kenya Private Sector Alliance has taken the lead in facilitating and supporting many of these PPD processes

and has received substantial donor support to this end. Other donor programmes have provided support to PPD at different levels. This includes Danida's support of the BAF, and the World Bank and UNIDO's support of BMOs in the leather sector.

In Rwanda, PPD has been a recent development, which takes place in different forums. In past years, the President of Rwanda has held a dialogue with representatives of the private sector on an annual basis. However, while it was decided that this dialogue format should in future take place twice a year, the last of these events was in 2009. The Rwanda Economic and Social Council has provided a broad platform for PPD. The IFC has recently made a proposal to government to replace the council with a PPD process. However, while the proposal has been formally approved, the concept paper prepared for this purpose is still under review at the Cabinet level. This process would be organized through the Rwanda Development Board and focus on both crosscutting and sectoral issues. Other regular PPD platforms focus on specific thematic areas, e.g., on taxes, and the environment. Donors are supporting specific PPD interventions, and in particular support the Private Sector Federation with technical inputs.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 12: A weak private sector and poorly organised, misrepresented BMOs can undermine attempts to promote PPD. Donor and development agencies must find creative and strategic ways to support the development of BMOs and representative of the private sector.

Lesson 13: Donor and development agencies can support the broadening of national PPD processes by supporting and facilitating dialogue at the sub-national level.

Lesson 14: Donor and development agencies can support the quality of PPD through activities that help dialogue partners to access more relevant and up-to-date data and information. It is more likely that PPD processes will lead to better and more sustainable BER outcomes if it incorporated the use of sound and objective evidence.

Lesson 15: A useful starting point for donor and development agencies to support more effective PPD can be within specific sectors or at the sub-national level. These dialogue process can then be encouraged to bubble-up to a national, economy-wide platform.

Lesson 16: While governments often demand "one voice" of the private sector in PPD, it is important to accommodate the diversity of the business community in PPD processes.

2.6 Promoting donor coordination

The reviews were concerned with the ways donor and development agencies coordinated with one another and the extent that they participate in donor coordination mechanisms at headquarter and field levels. See Donor Guidance Principle 13. All countries under review had formal donor coordinating mechanisms. However, this is not surprising because the presence of such a structure was a criterion for selecting countries for the pilot reviews.

In Bangladesh, the Local Consultative Group is responsible for overseeing donor coordination and government alignment in Bangladesh. The Group is composed of the Secretary of the Economic Relations Division of the Ministry of Finance and 39 Bangladesh-based representatives of bilateral and multilateral donor and development agencies. The Group organises the Bangladesh Development Forum, the last of which

was held in Dhaka on 15-16 February 2010.³ Under the Group are a number of sector specific and thematic working groups, which include the PSD and Trade Working Group.

The PSD and Trade Working Group is the key mechanism for donor-government alignment. However, this has had limited government engagement. The working group provides a means for information sharing among donor agencies, but is limited in its efforts to achieve donor collaboration and harmonisation. However, in contrast, the BICF has provided a practical mechanism for donor and development agencies to collaborate on BER support programmes.

In Kenya, the Private Sector Donor Group enjoys the participation and support of many donor and development agencies engaged in supporting BER. It is a valuable mechanism for sharing information and experiences, as well as for seeking comments on draft programmes. It has facilitated the establishment of joint donor projects and facilities. Over the last three years there has been a move towards joint funded or basket funded programmes. SIDA, CIDA, Denmark, DFID, Finland and UNDP have all contributed to a basket fund that supports public sector reforms. In addition, the Catalyst Fund is a basket fund supporting BER-support activities.

In Rwanda, donor coordination and harmonisation appear to work well. The government is very clear and direct in setting priorities for development in general. Under the current chair, the Private Sector Development Sector Working Group functions well and there is evidence of good information sharing between members. While some question the extent to which the working group provides for specific collaboration, it is clear that this mechanism contributes, in the very least, to improved opportunities for collaboration through its regular meetings and the sharing of information. However, there is a need for a clearer and more binding framework of coordination, which may be created by the PSD Strategy, which is in the process of being formulated. It is envisaged that a PSD strategy will pave the way for a clearer division of labour among donors. It could also improve buy-in from a range of other actors, including the private sector. In the future, it might also constitute the basis for a sector-wide approach. There also appears to be scope for more thematically focused coordination sub-groups within the overall PSD theme.

In both Kenya and Rwanda a challenge to donor coordination appears to be with donors that are not members of the coordinating structure and are non-residents.

Across all countries donor coordination tends to improve when agencies share their ideas and draft programmes in the early stages of programme design, rather than leaving this kind of consultation to the end of the design process.

³ The objective of the forum was for the government to share and discuss with development partners its long-term plan to reach middle income status by 2021 (Vision 2021); the content of its new National Strategy for Accelerated Poverty Reduction; and its proposed reforms and delivery priorities. The event led to an agreed 25 actions for government to be supported by development partners that are captured in a *BDF Agreed Action Plan*.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 17:** Strong government leadership aids the coordination of donor and development agency. Indeed, the lack of direct government involvement makes effective donor coordination and government alignment difficult.
- Lesson 18:** Support for PSD can be a broad and multi-dimensional topic involving many donor and development agencies, government line-ministries, and business and civil society organisations. Thus, a single committee structure is not always enough. BER may require a specific focus amongst participating donor and developing agencies and their partners.
- Lesson 19:** Collaborative programmes and basket funding provides a very practical and effective way of ensuring donor coordination in BER-support programmes.
- Lesson 20:** It can be difficult for non-resident donor and development agencies to participate effectively in national coordination structures. Processes and mechanisms need to be found to improve this.

3 Designing PSD-BER programmes

This chapter examines the ways in which donor and development agencies in the countries reviewed design their BER support programmes. It sought to explain how responsive agencies are to local demands and how they decide which reforms to address.

3.1 Focus on the binding constraints

The review sought to determine the extent to which donor and development agencies focus on the binding constraints to business growth and scope their reform supports accordingly. This is based on Principle 7 of the Donor Guidance.

A number of agencies have conducted assessments to identify the binding constraints to economic growth in **Bangladesh**, most notably the World Bank and IFC. Indeed, the IFC-World Bank Country Assistance Strategy focuses on binding constraints. In contrast, the BICF has tended to focus on policy, legal and regulatory reforms and argues that problems with the policy, legal and regulatory framework have been significant barriers to growth. Furthermore, reforms of the policy, legal and regulatory framework can trigger larger reforms. Dealing effectively with the binding constraints requires an improvement in public governance and the development of more transparent, evidenced-based decision-making processes within government. Thus, current donor-supported reform programmes help to prepare government to more effectively address the binding constraints. However, it is also understood that government does not necessarily recognise this process of sequencing. Reforms in the past few years have been relatively staggered and it is not clear that the key binding constraints are being or will be addressed. Donor support for the Better Business Forum and the Regulatory Reform Commission, both of which have since been disbanded, is an obvious example of this. Had these bodies remained, they may have been in a better position today to begin tackling some of the more major reform challenges. However, the loss of these institutions has apparently reduced the capacity of government and the private sector to work on these issues.

In Kenya, no growth diagnostics were found, except for those that focused on specific sectors. Most BER-support programmes have been designed to address binding constraints in the long run, but most programmes tended to focus on the “low hanging fruit”. A number of donor programmes focus on achieving “quick-wins” to gain the trust of government and other programme partners. Achieving these quick wins has benefited both the government and the business, and has helped accelerate PPD. There was a strong recognition among donors that achieving quick-wins opens up opportunities through increased trust and government capacity to tackle the bigger, more binding items. A number of donors stated that tight budgets limit the focus on attempting to tackle binding constraints to growth. Programme cutbacks mean that donors often focus on easier targets, which often represents greater value for money.

In Rwanda, the business environment reform agenda has largely been defined by shorter-term reform priorities of the government, partly influenced by the reform steps suggested by international competitiveness rankings such as the World Bank’s *Doing Business*. While the fast pace of development partners appreciated regulatory reforms

and the associated “good press” for Rwanda, there were concerns that improvements of the regulatory environment had not translated into actual increases in private investment. The government increasingly recognises the need to go beyond a focus on laws and regulations, addressing the binding constraints to competitiveness. This was referred to as a “Doing Business Plus” agenda.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 21: Not all binding constraints are found in the business environment. Many binding constraints to PSD and economic growth are found in the investment climate. Thus, many BER-support programmes are limited in their scope to address these constraints.

Lesson 22: Many BER-support programmes have not yet come to dealing with the binding constraints to PSD and economic growth. While this may be because these constraints go beyond the business environment (i.e., to other elements of the investment climate), it also appears that many programmes are still focused on the “quick wins” and short-term outcomes.

Lesson 23: While BER-support programmes can trigger the demand for further reforms and build the capacity of government manage these, this takes time and changes of government or government priorities can undermine sequencing.

3.2 Align with national development plans

The review examined the extent to which donor and development agencies align their reform support programmes with national development plans. This is Principle 12 of the Donor Guidance.

In Bangladesh, most donor programmes are aligned to government development plans and frameworks. This includes Vision 2021, the Poverty Reduction Strategy Plan and the forthcoming Sixth Five-Year Development Plan, which will replace the Poverty Reduction Strategy Plan when it is finalised. There is no direct budget support provided by donors to the Government of Bangladesh. In 2010, there were substantial efforts to support the government in developing systems that would lead to this, but recent concerns with transparency and political interference have prevented this.

In Kenya, there are a number of documents and strategies in place that outline the Government of Kenya’s priorities and strategies on BER. These include the Kenya Joint Assistance Strategy, the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007, Vision 2030, the Private Sector Development Strategy 2006-2010, and the Regulatory Reform Strategy for 2008-2012. The most relevant of these is the Private Sector Development Strategy. However, this strategy is an overly ambitious document and there remain a number of unsupported pillars within the strategy and unfulfilled commitments both on the donor side and from government. The downside of alignment to national plans is a lack of flexibility by donors to respond to emerging issues once these frameworks are in place. A number of government strategies were written prior to 2008, so have been overtaken by new government priorities that aren’t outlined in national development plans. Government officials interviewed during the review called for donors to provide more flexible funding. The Catalyst Fund was seen as a useful tool in this regard.

In Rwanda, there are also a number of frameworks to guide social and economic development. Chief among these are the Vision 2020 and the Economic Development

and Poverty Reduction Strategy 2008 – 2012. In addition, seven sector strategies related to PSD have been produced dealing with issues such as trade, exports, SME development, handicrafts and industry development. A comprehensive PSD strategy is planned.

The External Finance Unit of the Ministry of Finance and Economic Planning coordinates and manages external aid with the support of the Aid Coordination Unit, which is financed by a basket fund of six donors under the United Nations Resident Coordinator's Office. The government and its development partners maintain regular dialogue through the Development Partners Coordination Group. The Budget Support and Harmonization Group monitors the implementation of the Partnership Framework, which outlines commitments in terms of macroeconomic stability, public financial management, and policy formulation. Clusters and sector working groups allow all stakeholders to hold technical discussions with regard to budgeting, (sector planning and prioritization according to strategic plans and policies. The Private Sector Development Working Group is one such group. The Ministry of Trade and Industry is the main government ministry responsible for PSD and it chairs the Private Sector Development Working Group. Implementation of the Economic Development and Poverty Reduction Strategy is monitored regularly through the Joint Sector Review and is based on a Common Performance Assessment Framework. This provides the basis for disbursement of general and sector budget support.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 24: Aligning PSD and BER-support programmes with government often requires more than what is offered in broader economic and social development plans, such as poverty reduction strategy papers or long-term vision documents. Support for PSD and BER requires more precise prioritisation of reforms in a phased manner. Thus, a PSD strategy or BER agenda that is adopted by government may improve donor-government alignment.

3.3 Sequence reforms over sufficient time

Finally, when examining how BER-support reform are designed in the reviewed countries, the reviews sought to consider how donor and development agencies sequence or phase their programmes and if they allow sufficient time for these to be realised. This is in line with Principle 8 of the Donor Guidance.

In Bangladesh, programme sequencing appears to be largely due to responding to the political shifts in government than to a longer-term strategy for sequencing and deepening reforms. Changes in government have changed the direction and scope of reforms. While programmes, such as the BICF, have attempted to deepen and sequence their interventions, national political influences have more broadly affected the opportunity for this. The BICF design phase involved seven different forms of assessment and solution-design processes. This identified priorities for reform and the recent review of the programme has helped to refocus programme interventions. Initially, the programme focused a significant amount of its support on the streamlining of regulatory and administrative processes, such as with the companies registrar and the Bangladesh Export Promotion Zones Authority. This contributed to identifying practice obstacles that constrain efficiency and making changes within the current legal and regulatory framework. Following this, the demand for legal and regulatory change has been identified and is being supported by the programme. The BICF has also supported

reforms intended for testing and piloting. Should these reforms be successful, it is hoped that they can be replicated across the country.

In Kenya, there was clear evidence of sequencing programmes in order to establish support and ownership by key stakeholders through achieving quick wins at the early stage of a programme in order to tackle more complex BER issues in the long run. It was clear that to be able to properly sequence, programmes need long timeframes. There is evidence of this through Danida's BAF 1 and 2 programmes and the two phases of DFID's Regional East Africa Integration Programme. However, changes in donor governments often lessen the ability to carry out long-term sequencing. This slowed down the speed of implementation of BER-support programmes and meant that key individuals in government, who donors were engaging with in order to build support for certain reforms, were no longer in position.

Until recently, the Government of **Rwanda** focused on the "low-hanging fruit" as a means to achieve immediate results. According to some respondents, the fast pace of regulatory reforms has helped to build confidence and establish a momentum for future reform. However, other respondents felt that the political will to reform the business environment had always been high. The government and its development partners are aware of the need for further reforms and are shifting their focus to tackle binding constraints such as the quality of infrastructure and skills shortages.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 25:** A critical challenge for donor and development agencies is how to go beyond first-order reforms and to deepen the reform process and help programme partners become more focused on the key reform topics. Linking first-order to second-order reforms requires careful and honest analysis and evaluation of what programmes have achieved in their first phase and the design of subsequent phases that take these achievements further.
- Lesson 26:** The automation of regulatory administration can be a good starting point for reform processes that can be built upon once knowledge, awareness and confidence have been increased. Often automation can be achieved quickly and without the immediate need for changes in policy and law.
- Lesson 27:** Because reforms take time, effective sequencing of reform processes often requires a periodic refocusing of BER-support programmes. Thus, BER-support programmes need to accommodate the need for flexibility and adapting to changing circumstances.

4 Managing BER-support programmes

This chapter reports on the ways donor and development agencies were found to manage their BER-support programmes. It seeks to better understand the ways in which agencies promote local ownership and accountability, and the extent to which sustainability is ensured.

4.1 Communicating to programme partners and the public

Based on Principal 10 of the Donor Guidance, the reviews enquired about donor and development agencies' attempts to apply a clear communication strategy and make strategic use of the media.

The media in **Bangladesh** plays an important role in public life in Bangladesh. While most media houses are owned by a handful of powerful corporations, many Bangladeshis read the papers and are interested in public affairs. The IFC have used the *Doing Business* rankings to initiate public discussion on the business environment. These events appear have been successful and will be continued. The BICF have highlighted the importance of promoting public awareness of the importance of reform and the value of engaging public opinion leaders and journalists in this process through the use of newspaper articles and editorials. Despite this, many donor and programme respondents believe that much more can be done in this field. As one respondent put it: "every programme needs a communications strategy these days."

The BICF assisted the National Board of Revenue to prepare a communications strategy that deals with internal and external stakeholders. Internally, the strategy aims to help staff better understand the rationale behind reform and to build ownership of the reform process across all staffing levels. Externally, the strategy aims to improve the Board's taxpayer education programme to make it more effective and to conduct more effective consultations with the business community. The BICF will also be supporting BIAC to develop a communications strategy in order to raise awareness of its services. This strategy will target the business community, lawyers and government.

In Kenya, many donor and development agencies agreed that communication strategies have not been developed as well as they could have been. It is generally left up to the relevant ministry to communicate changes in reforms. In general, donors tended to use conventional methods to disseminate key messages (e.g., through newsletters, steering committees and workshops). A number of donors use BMOs, such as the Kenyan Private Sector Alliance, as communication channels to disseminate key policy papers.

In Rwanda, the communication of reforms was weak. Very little attention had been given to promoting reforms within government agencies or across the Rwandan business community. Many respondents acknowledged that the process of "deepening reforms" should involve a strong communications process in which government officials, at all levels, were encouraged to understand the purpose and meaning of reforms and for businesses to understand what the reforms mean to them. Within the private sector, the Private Sector Federation identified communication with the business community as a major shortcoming. So far, communications had been ad-hoc and not institutionalised. The only agency that seemed to have developed a comprehensive communication

approach was TMEA, which trains journalists on how to report on regional integration issues.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 28: Many donor and development agencies overlook the important role of communications and the media in their BER-support programmes. However, there is growing awareness that such oversights should be quickly addressed.

Lesson 29: Donor and development agencies can help their programme partners to design and implement their own communication strategies, focusing on both internal (i.e., staff) and external (i.e., clients, the business community) audiences.

4.2 Ensuring domestic ownership

The reviews sought to determine the extent to which donor and development agencies encouraged domestic ownership of reform efforts. This was in response to Principal 4 of the Donor Guidance.

In Bangladesh, most BER-support programmes are focused at supporting reforms within specific government agencies. Thus, while these agencies appear to have improved their appetite for reform, a whole-of-government perspective on the Bangladesh business environment appears to be lacking. The BICF has developed what it calls a “Core Group” of reform champions from different ministries in government, as well as sub-national government authorities. This group seeks to better understand their role as potential catalysts for reform and have a strong sense of ownership of reforms they themselves have initiated.

Many programme partners referred to the considerable time required to build local ownership of reforms, emphasising the importance of “building a consensus” for reform within government and across the business community. These respondents indicated that it is important to agree on “where we want reform to take us”, rather than initiate change for the sake of change. Within this context, donors were sometimes accused of being too hasty and not allowing the time required.

In Kenya, a lack of capacity in the government often affects the extent that the government can own all reforms. Despite this, there was a strong view from government representatives that “home-grown solutions” are essential. Government is unlikely to feel ownership of a reform that has been lifted out of another country, as opposed to a reform, which has been tailored to the local Kenyan economy.

The BAF ensures domestic private sector ownership of reforms by supporting the capacity of BMOs to lobby for reform. The BAF tries to keep a low profile to ensure that the reforms it supports are fully owned by the private sector.

In Rwanda, the strong government leadership in the reform process implies a strong domestic ownership of these reforms. However, it is unclear how deep this goes in the public sector. Furthermore, there were concerns expressed about the leadership of non-government and private sector organisations, which were largely considered to be weak. The weakness in non-government institutions creates an imbalance in which many key partners to reforms and other development processes are less capable of meaningfully engaging in these processes. Some concerns were also raised about the roles played by international non-government organisations, which were running

programmes and were not accountable to the Government of Rwanda or the Rwandan business community.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 30: Nurturing a core group of change-makers within government can pay long-term dividends and contribute to a more sustainable reform capacity.

Lesson 31: Building a consensus for reform within and among programme partners is important. Donor and development agencies should take care not to push for change too quickly without nurturing a broader demand for reforms.

Lesson 32: Domestic ownership of reforms must go beyond government ownership. While governments must own and be in control of the reform process, there are many other domestic actors that should be involved in pushing for reforms. Donor and development agency support for BER should include support for an open and more pluralistic society in which a range of actors can participate in social dialogue.

4.3 Working with government as the lead agency

Here, the reviews sought to determine the extent to which donor and development agencies work with government as the lead agent. This refers to Principle 11 of the Donor Guidance.

In Bangladesh, the coordination of reform efforts across government is a major challenge. Government leadership in donor programming and implementation has previously been passive and most donor support programmes are led by specific government agencies. There is no single lead agency leading reform efforts. The BICF supported the establishment of the Regulatory Reform Commission in an effort to lead reforms. However, this was not a government entity and the current government has not supported it. The programme also worked with the Board of Investment and the Bangladesh Bank. However, clear leadership from these agencies did not emerge. Currently, the BICF is working to strengthen the role and capacity of the Prime Minister's Office and the Ministry of Law to help develop a broader government-wide drive for reform.

In Kenya, government is the designated lead agent in a number of programmes such as the KICP and the Public Sector Reform Programme. However, there was a general view that the government is "amorphous" and the lead government agency on a certain issue is not always obvious. Government officials responded to this point by stating that there is always an allocated lead agency for each reform and that donors simply need to make sure they are liaising with the lead agency. However, many donor agencies have indicated that dealing with only the lead agency is often insufficient, since some agencies often don't have the political clout to lead reforms and there are often turf wars between government ministries, departments and agencies. Government does not always have the capacity to be the lead agent for BER. To overcome this, a number of programmes provide technical expertise to the key government offices involved with reforms, especially in the units which are coordinating reform.

In Rwanda, government is generally a very strong and effective leading agent. However, there was a general concern raised by most if not all respondents regarding the limited capacity of government beyond the most senior levels. Government is small and the skill gaps between senior levels and lower ranks are significant. There is an unclear division of labour between the policy-making institutions for PSD and those involved in

implementation. That is, between the Ministry of Trade and Industry and the Rwanda Development Board. There is also room for improvement in coordination across all ministries involved in PSD.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 33: Care should be taken when attempting to establish specialised lead agencies for BER. While weaknesses in government institutions and coordination may be used to justify the need for a specialised agency, it may be better to support improvements within existing structures than create new ones.

Lesson 34: Limited capacity within government can reduce the capability of government to lead reform process.

Lesson 35: Government leadership of reform processes requires good government coordination. It is important that there is clarity within government and its development partners as to which government ministries, departments or agencies have the mandate to lead reforms.

4.4 Addressing the implementation gap—making reforms a reality

The reviews investigated the extent to which donor and development agencies' programmes address the "implementation gap" by ensuring new or revised policies, laws and regulations are realised. This investigation was based on Principle 9 of the Donor Guidance.

In all three countries under review, the limited capacity of government and the business sector, as represented by formal BMOs, was a major challenge to implementing BER.

In Bangladesh, the automation of regulatory and administrative processes provided a useful means of identifying weaknesses in the implementation of reforms and the need for capacity building. These interventions also helped to develop an organisational robustness, which has improved the management of staffing changes.

A number of respondents highlighted the importance of changing the "mindset" of government officials, where officials come to better understand why reforms are important and needs to be done to achieve reform objectives.

When the review was conducted in **Kenya** it was considered too early to assess the implementation gap. However, it was observed that there are a number of donor efforts in place to address implementation issues especially through the capacity building of ministry staff. For example, donors have provided funding to train inspectors. However, a number of donors mentioned that it can often be hard for ministries to retain these staff in position once they have been trained. Donors recognised the need to keep the momentum and energy going around each reform in order to overcome implementation challenges. There were good examples of donors creating a sense of competition between ministries through showcasing good reform processes in order to reward success and "name and shame" under performing ministries. There was a good understanding among donors that to secure effective implementation of reforms, good relationships need to be established between programme implementers and the relevant ministers, permanent secretaries, directors, and junior officials. There was some evidence that when reform implementation slowed, donors worked with BMOs to build their capacity to push for reforms. The commitment matrixes from the PMRTs were seen as a useful tool for the private sector to publicly hold government to account on any implementation issues concerning a particular ministry.

In Rwanda, donor agencies such as the Japanese International Cooperation Agency (JICA) supported specific capacity building activities in order to boost the capacity of government officials engaged in reform processes. However, the rotation of government officials across ministries and agencies was seen as an obstacle to this. In other cases, donor agencies focused on specific infrastructure investments in an effort to focus on specific bottlenecks. These included, for example, one-stop border posts, the introduction of cargo scanning and the development of transport corridors. There were also programmes that sought to raise awareness among government officials and the private sector of the cost of administrative burdens and the need for reforms.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 36:** The challenge for implementing reforms and achieving long-term sustainability often revolves around the capacity of programme partners, especially government partners. While implementation can be enhanced through programmes that apply proven models (such as one-stop facilities) and awareness raising activities, ultimately it is the capacity of the key actors to manage reforms that directly influences a successful and sustainable outcome.
- Lesson 37:** Creating a reform-oriented “mindset” among government officials can improve the implementation of reforms.
- Lesson 38:** Reforms that automate and streamline regulatory and administrative processes can help to develop an organisational robustness over time. This provides a basis for sustainability in the long-term.

4.5 Strengthening the role and capacity of key stakeholders

Based on Principle 5 of the Donor Guidance, the reviews sought to better understand the extent to which BER-support programmes strengthen the role and capacity of key stakeholders to engage in and manage BERs. This issue is clearly related to that of the “implementation gap” referred to above and, again, all countries under review displayed a high demand for capacity building among key stakeholders. This is an essential element to the implementation and sustainability of BER-support programme outcomes.

Donor and development agencies in all three countries reported difficulties in adequately finding ways to build capacity in a relevant and sustainable manner. In **Bangladesh**, for example, donor and development agencies have focused their support for capacity building within specific government agencies. However, the rotation of civil servants is a challenge to the sustainability of reform process. Indeed, this problem was also found in Kenya and Rwanda.

The BICF has developed a successful method of capacity building through its Core Group of about 30 civil servants. The Core Group went through an awareness raising and training programmes, and helps to identify and respond to opportunities to reduce administrative burdens in the institutions and agencies in which group members work. The BICF has also supported partnerships with academic institutions through a small grants programme. It has also commissioned agencies such as the Economic Research Group to manage research programmes and provide some quality control of domestic research projects. The Economic Research Group has recently established a post-graduate university programme in investment management with the American International University Bangladesh.

In Kenya, the IFC's support to the Business Regulatory Reform Unit in Treasury and the Public Transformation Unit in the Office of the Prime Minister were key capacity building initiatives. Similarly, the UNDP fund a public-private partnerships adviser in Office of the Prime Minister. However, it was recognised that simply placing technical experts in government agencies strengthens the ability for reforms to be managed and implemented, but is unlikely to lead to a long-term increase in technical capacity once the technical expert has left. The BAF ensures that the relevant Kenyan BMOs are able to own the reform effort by providing the capacity (through the hiring of technical expertise) to effectively engage with the government in order to lobby for and implement reforms. A number of donors strengthen the capacity of BMOs to engage in BER.

In Rwanda, many donor programmes were found to either integrate capacity building within their programmes or run specific capacity building programmes. Agencies were found to apply different capacity building approaches, such as: twinning with institutions from other countries, matching local and international consultants, trainee and intern schemes, and sending programme partner staff to international training centres.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 39: Building the capacity of programme partners remains a challenge for donor and development agencies. It requires generic skills and organisational development programmes and specialised BER-related skills development. These programmes can be standalone activities or they can be integrated into a range of other BER-support interventions.

Lesson 40: Often, capacity building for effective BER needs to go beyond the usual partners (i.e., government institutions and their staff, BMOs) and include actors such as academia and local research organisations.

4.6 Balancing the use of international and national consultants

Finally, based on Principal 14 of the Donor Guidance, the reviews explored the extent to which BER-support programmes and their sponsoring agencies balance the use of international and national expertise.

In Bangladesh, the over-reliance by donor and development agencies on international consultants was a sensitive issue among local programme partners. Some local programme partners and service providers argued that Bangladesh has a good local research and consultancy capacity. However, a number of donor agencies did not agree. There are concerns that local education in the disciplines related to business environment reform (e.g., finance, taxation, law) is highly theoretical and does not offer practical experience. Donor programmes can be used to build local experience, but there is often a need to bring in international consultants. Indeed, international consultants were necessary when a highly technical issue had to be addressed or when an external opinion, unbiased by local alliances, was necessary. The donor community tended to drive the local consulting sector and many local consultancies have been established to meet the needs of the donor and development community, which has affected the character of the consulting sector.

In Kenya, some donors described how they are restricted from hiring local consultants because of the processes through which their agency procures consultants. In addition,

many agencies draw on their own “in house” expertise, for example from PSD advisers who have previously worked on BER in other countries and are then posted in Kenya and able to apply their experience to programme design in their new posting. Here, too, there was a difference of opinion as to whether Kenya has a sufficient pool of consultants to meet the needs of donors. Very few donors use local consultants as part of a capacity building approach, but in some cases there is the twinning of an international consultant with a local consultant.

In Rwanda, government has a policy to request agencies to make use of domestic consultants wherever possible. Many agencies are eager to balance international and national expertise, but domestic capacity constraints limit the availability of qualified domestic consultants. In practice, therefore, agencies often have to resort to international consultants, also considering government pressure for speedy implementation. A few agencies still follow the policy of tied aid or conditionality in which consultants must be sourced from the donor country. Some agencies recruit consultants from the East Africa region. This provides an outsider perspective, draws on regional experience and encourages advice within a regional context. In some cases, experts from the region were more acceptable to domestic programme partners than those from developed countries.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

- Lesson 41: Balancing the use of national and international experts requires sensitivity. While donor and development agencies want to access to international best practice and up-to-date expertise this has to be balanced by local perceptions and contexts.**
- Lesson 42: The use of national consultants can build national capacity. Many agencies recognise this and link national consultants with international consultants on specific assignments.**
- Lesson 43: Where national experts or consultants can't be found, donor and development agencies should consider finding these in other countries of the region before seeking them from further afield.**

5 Monitoring and evaluating PSD-BER support programmes

This chapter reports on the use of monitoring and evaluation mechanisms and processes within BER-support programmes. It seeks to better understand how agencies monitor and evaluate their programmes, the extent to which they involved programme partners in these processes and how they attempted to measure the impact of their programmes.

5.1 Monitoring and evaluation frameworks

The review sought to consider the extent to which donor and development agencies ensure that a clear monitoring and evaluation framework is in place for all their BER-support programmes. In all the review countries, BER-support programmes were found to have a monitoring and evaluation frameworks in place, which are linked to the programme's logical framework.

In many of the jointly funded or basket-fund programmes (e.g., BICF in Bangladesh, KICP in Kenya, RICRP in Rwanda, and TMEA in East Africa) these frameworks had been designed to meet the needs of all these. Some of the larger programmes (e.g., BICF, TMEA) had their own monitoring and evaluation units.

In Bangladesh, a local consulting firm has been commissioned to provide monitoring and evaluation reports directly to the donor (i.e., separately from the BICF management team). The BICF is supporting this firm in its work.

In Kenya, three general types of monitoring and evaluation were found among:

1. Use of baseline benchmarks, such as changes in the Doing Business and Global Competitiveness Index rankings;
2. Regular monitoring activities, such as the use of consultants or headquarter specialists to undertake mid-term programme reviews; and
3. End-of-programme reviews and evaluations, which are typically performed by international consultants or headquarter specialists.

Across all review countries, very few respondents knew of the DCED Results Measurement Standard. The major exception to this was the TMEA programme where the Standard is being applied.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 44: Monitoring and evaluating BER-support programmes can involve local agencies.

Lesson 45: The DCED Results Measurement Standard should be promoted and applied by more BER-support programmes.

5.2 Linking indicators to the demands for reform

Here the review explored the extent to which monitoring and evaluation indicators in BER-support programmes were linked to identified needs and demands for reform.

In Bangladesh, BICF programme indicators are linked directly to reductions in time and cost of regulatory procedures, which are directly related to the findings of the diagnostic studies carried out in the design phase of the programme. Typically, these indicators measure the reduction of regulatory compliance costs at the firm level. These savings are then aggregated across the number of clients or sector participants. The BICF uses *Doing Business* assessments to generate discussion and interest in reform issues. However, *Doing Business* assessments and changes in Bangladesh *Doing Business* rankings are not used as overall measures of the programme's performance. The World Bank has used the Poverty Reduction Support Credit Service to develop a matrix of activities, outputs and outcomes. It has used this as a basis for dialogue with government around the feasibility of budget support.

In Kenya, agencies reported a range of indicators they used to measure outputs and outcomes: firm-level productivity, firm-level cost savings and economy-wide savings and investments.

In Rwanda, all donor and development programmes are inserted into the EDPRS, which is monitored in the context of the twice-yearly Joint Sector Reviews. The fulfilment of the CPAF indicators constitutes the basis for the budget support disbursements. The PSD Working Group contributes to this by assessing fulfilment of indicators in preparation for the Joint Sector Review, on the basis of the EDPRS indicators. Some agencies have applied EDPRS indicators to their own monitoring frameworks.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 46: Linking development programme indicators with government development goals is a valuable first-step. However, BER-support programmes need to design indicators that are more closely aligned to reform priorities and the binding constraints of PSD and economic growth.

5.3 Involving local stakeholders

The review explored the extent to which donor and development agencies created opportunities for domestic stakeholders to discuss the monitoring and oversight of reform efforts. This issue is related to Principle 4 for the Donor Guidance.

In Bangladesh, a number of examples were given of where donor clients or partners were engaged in the discussion of programme monitoring reports. For example, in BIAC the secretary-generals of three national chambers participate in the centre's technical advisory committee, which receives monitoring and evaluation reports. Within the BICF, the technical advisory committee includes representatives from three donor agencies and four national chambers. This committee also discusses monitoring and evaluation reports on a regular basis.

In Kenya, many BER support programmes have structures and processes in place where government and business jointly receive progress reports and evaluations and discuss these with the programme staff and the supporting donors. Quarterly or six-monthly reporting meetings are often held with all programme partners where the progress reports are presented and programme management issues discussed. There is some concern of the representative nature of the business community in these processes. Most business representatives are from large, Nairobi-based BMOs, which may not necessarily reflect the diverse views of the Kenyan business community. However, it is

acknowledged that this is a difficult concern to address and it is clear that donors and BMOs are aware of it and doing what they can to broaden business representation. The BAF supported rural producer groups to monitor reforms in their specific sectors. This allowed local producers to keep a track of changes in their regulatory framework and how this affects their business.

In Rwanda, only a few programmes appear to ensure participation by domestic stakeholders in monitoring and oversight. The Netherland Development Agency (SNV) made use of local Joint Coordinating Committees to discuss monitoring and evaluation reports on a regular basis and used these reports to plan for the coming phase of the project. TMEA and Access to Finance Rwanda involve domestic stakeholders, including private sector representatives, in their programme oversight committees.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 47: Technical advisory committees provide a useful means through which the achievements of a BER-support programme can be discussed with programme partners and representatives of programme beneficiaries. However, reliance on this means alone may not be enough.

Lesson 48: In most cases the monitoring and evaluation of BER-support programmes appears to be focused on internal (i.e., agency) needs, rather than on reporting back to domestic programme partners or the broader community.

5.4 Measuring long-term impacts

The reviews also explored the donor and development agencies' attempts to measure the long-term impacts of their BER-support programmes.

In Bangladesh, the BICF measures its long-term impact in terms of levels of investment and number of new jobs created. The programme is aware of the problems of attributing these impacts solely on its interventions, but believes that a correlation between the areas of reform and changes in investment and employment is sufficient.

In Kenya, very few agencies attempted to measure impact in terms of increased investment, economic growth, employment creation, or poverty reduction. Most focused on the outputs and outcomes of their programme interventions. While the difficulty of attributing impact to a specific programme's intervention was often cited as the main reason for this, there appeared to be others. Many donors found that the time lag between the end of a programme and the time required to measure its impact caused problems. However, donor agencies also exhibited a greater interest in designing new programmes or new programme phases, than investing in measuring the impact of an old programme.

In Rwanda, agencies described an increasing awareness of the importance of impact assessment in business environment reform. However, few agencies seem to actually measure results at the impact-level and in particular long-term impacts of BER support.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 49: Donor and development agency programmes are rarely assessed in terms of their long-term impact. Greater effort should be invested in this area.

5.5 Ensuring quality

Finally, based on Principle 15 of the Donor Guidance, the reviews enquired about agencies' efforts to exert quality control and influence on their BER-support programmes and projects.

In Bangladesh, donor and development agencies appear to be recognised for the international best practice they can bring to business environment reforms and not just for their financial support. Donor supported study tours have helped programme partners see how things are done elsewhere and were highly praised by programme partners during the review. The BICF support to the Economic Research Group appears to be a good example of how this programme is attempting to promote and ensure the quality control of independent local research. The BICF has also supported the national companies registrar to join and participate in the international Corporate Registrars Forum, which should provide an avenue for keeping up with international best practice.

In Kenya, many agencies described how they used international experts or headquarter-based specialists to check on the quality of their BER support programmes. This was typically done through mid-term reviews or other assessment processes. A number of agencies referred to international benchmark assessments, such as the Global Competitive Report and the *Doing Business* reports as ways of comparing progress. A few agencies described how they involve international standards or professional bodies in their programmes to ensure quality. JICA, for example, described the annual involvement of the World Customs Organization in their customs reform programme. Overall, there was very little evidence that donor or development agencies are integrating quality assurance processes in their PSD-BER support programmes.

In Rwanda, no specific mechanism for quality assurance within BER-support programmes was found beyond those that are used by most programmes, such as appraisal and review mechanisms, and internal and independent evaluations. Some agencies, such as the IFC, made use of comparative advantages of specialized agencies and programmes.

LESSONS FOR DONOR AND DEVELOPMENT AGENCIES

Lesson 50: Donor and development agencies can support quality assurance by engaging local auditing or research groups that can monitor and oversee work within the BER-support programme.

Lesson 51: Collaborative or joint programming can help agencies to apply their various strengths in support of BER. This can improve the quality of advice provided by donor and development agencies.

Annex 1: BER review approach and methodology

Purpose of the review

There are two broad reasons for conducting a review of BER-support programmes and practices at the country level:

- 1 To improve donor and development agencies' policies and practices in private sector development in general and business environment reform in particular; and
- 2 To improve donor coordination through a better understanding of the various approaches, processes and mechanisms donor and development agencies use to support private sector development and business environment reform.

The review will benefit participating donor and development agencies at headquarter and field levels. At the field level, the review will highlight the challenges faced in supporting BER, identify best practices and lessons learned, and improve collaboration between agencies and with programme partners, such as government partners and business representatives.

A review of BER-support programmes is not considered an evaluation of these programmes. Where an evaluation would typically examine the outcome and impact of a BER-support programme and measure this against the resources contributed to the programme, this review will focus on the practice of supporting reform in developing countries. Thus, the focus of the review is on how donor and development agencies go about the processes associated with:

- Assessing the business environment and identifying reform priorities;
- Designing and managing business environment reform programmes; and
- Monitoring and evaluating business environment reform outcomes and impacts.

While examining these practices, the review will identify how donor and development agencies are:

- Working with programme partner, such as developing country governments, business membership organisations and other civil society organisations;
- Collaborating with other donor and development agencies engaged in BER at the country level;
- Harmonising their programme interventions with key national development plans and frameworks;
- Measuring the results of their programme interventions and benchmarking change; and
- Promoting sustainability of reform efforts.

The above points are just some of the challenges agencies face when supporting BER in developing countries. The 2008 DCED donor guidance lists a wide range of these challenges, which will form the basis of the review.

Criteria for reviewing strategic sectors within participating agencies

The Review Team will meet with donor and development agencies and their programme partners to discuss BER support programmes and practices. The questions below will be used as a guide for these consultations.

1 Frameworks for the support of PSD-BER

The frameworks the agency adopts for its support of PSD-BER will be assessed with the following criteria:

- 1.1 To what extent does the agency adopt a systemic approach to reform (DCED Principle 1)?
- 1.2 To what extent do the agency's programmes respond to local demands for reform (DCED Principle 3a)?
- 1.3 To what extent does the agency's programmes stimulate a demand for reform and work with drivers of change (DCED Principle 3b)?
- 1.4 To what extent does the agency's programmes demonstrate an understanding of the political economy of reform and the capacity to respond to it (DCED Principle 2)?
- 1.5 To what extent does the agency focus on what the private sector needs through public-private dialogue (DCED Principle 6)?
- 1.6 To what extent does the agency participate in donor coordination mechanisms at headquarter and field levels (DCED Principle 13)?

2 Designing BER-support programmes

The way the agency designs its BER-support programmes will be assessed with the following criteria:

- 2.1 To what extent does the agency focus on the binding constraints to business growth and scope reforms accordingly (DCED Principle 7)?
- 2.2 To what extent does the agency align reforms with national development plans (DCED Principle 12)?
- 2.3 To what extent does the agency sequence business environment reform measures and allow sufficient time for these to be realised (DCED Principle 8)?

3 Managing BER-support programmes and projects

The way the agency manages its BER-support programmes and projects will be assessed with the following criteria:

- 3.1 To what extent does the agency apply a clear communication strategy and make strategic use of the media (DCED Principle 10)?
- 3.2 To what extent does the agency ensure domestic ownership of reform efforts (DCED Principle 4a)?
- 3.3 To what extent does the agency work with government as the lead agent (DCED Principle 11)?

- 3.4 To what extent do agency programmes address the implementation gap by ensuring new or revised policies, laws and regulations are realised (DCED Principle 9)?
- 3.5 To what extent do agency programmes strengthen the role and capacity of key stakeholders to engage in and manage BER (DCED Principle 5)?
- 3.6 To what extent do the agency's programmes appear to balance international and national expertise in BER (DCED Principle 14)?

4 Monitoring and evaluating PSD-BER support programmes

The agency's use of monitoring and evaluation in BER support will be assessed with the following criteria:

- 4.1 To what extent does the agency ensure that a clear monitoring and evaluation framework is in place for all its PSD-BER support programmes?
- 4.2 To what extent are monitoring and evaluation indicators linked to identified needs and demands for reform?
- 4.3 To what extent does the agency ensure participation by domestic stakeholders in the monitoring and oversight of reform efforts (DCED Principle 4b)?
- 4.4 To what extent does the agency attempt to measure the long-term impact of its BER-support programmes?
- 4.5 To what extent is the agency able to exert quality control and influence on its BER-support programmes and projects (DCED Principle 15)?
- 4.6 Do you have any good examples or case studies concerning the effectiveness or impact of your BER-support programmes?

Annex 2: Doing business in the pilot countries

Starting a business: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Starting a Business Rank | Change |
|------------|--------|--------------------------|--------|
| Bangladesh | DB2010 | 98 | |
| Bangladesh | DB2011 | 79 | +19 |
| Kenya | DB2010 | 126 | |
| Kenya | DB2011 | 125 | +1 |
| Rwanda | DB2010 | 12 | |
| Rwanda | DB2011 | 9 | +3 |

Dealing with Construction Permits: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Dealing with Construction Permits Rank | Change |
|------------|--------|--|--------|
| Bangladesh | DB2010 | 116 | |
| Bangladesh | DB2011 | 116 | 0 |
| Kenya | DB2010 | 32 | |
| Kenya | DB2011 | 35 | -3 |
| Rwanda | DB2010 | 88 | |
| Rwanda | DB2011 | 82 | +6 |

Registering Property: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Registering Property Rank | Change |
|------------|--------|---------------------------|--------|
| Bangladesh | DB2010 | 177 | |
| Bangladesh | DB2011 | 172 | +5 |
| Kenya | DB2010 | 130 | |
| Kenya | DB2011 | 129 | +1 |
| Rwanda | DB2010 | 37 | |
| Rwanda | DB2011 | 41 | -4 |

Getting Credit: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Getting Credit Rank | Change |
|----------------|-------------|----------------------------|---------------|
| Bangladesh | DB2010 | 69 | |
| Bangladesh | DB2011 | 72 | -3 |
| Kenya | DB2010 | 6 | |
| Kenya | DB2011 | 6 | 0 |
| Rwanda | DB2010 | 61 | |
| Rwanda | DB2011 | 32 | +29 |

Protecting Investors: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Protecting Investors Rank | Change |
|----------------|-------------|----------------------------------|---------------|
| Bangladesh | DB2010 | 20 | |
| Bangladesh | DB2011 | 20 | 0 |
| Kenya | DB2010 | 92 | |
| Kenya | DB2011 | 93 | -1 |
| Rwanda | DB2010 | 27 | |
| Rwanda | DB2011 | 28 | -1 |

Paying Taxes: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Paying Taxes Rank | Change |
|----------------|-------------|--------------------------|---------------|
| Bangladesh | DB2010 | 87 | |
| Bangladesh | DB2011 | 93 | -6 |
| Kenya | DB2010 | 163 | |
| Kenya | DB2011 | 162 | +1 |
| Rwanda | DB2010 | 46 | |
| Rwanda | DB2011 | 43 | +3 |

Trading Across Borders: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Trading Across Borders Rank | Change |
|----------------|-------------|------------------------------------|---------------|
| Bangladesh | DB2010 | 110 | |
| Bangladesh | DB2011 | 112 | -2 |
| Kenya | DB2010 | 143 | |
| Kenya | DB2011 | 144 | -1 |
| Rwanda | DB2010 | 169 | |
| Rwanda | DB2011 | 159 | +10 |

Enforcing Contracts: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Enforcing Contracts Rank | Change |
|----------------|-------------|---------------------------------|---------------|
| Bangladesh | DB2010 | 179 | |
| Bangladesh | DB2011 | 179 | 0 |
| Kenya | DB2010 | 124 | |
| Kenya | DB2011 | 125 | -1 |
| Rwanda | DB2010 | 40 | |
| Rwanda | DB2011 | 39 | +1 |

Closing a Business: Bangladesh, Kenya and Rwanda (2010, 2011)

| Economy | Year | Closing a Business Rank | Change |
|----------------|-------------|--------------------------------|---------------|
| Bangladesh | DB2010 | 107 | |
| Bangladesh | DB2011 | 101 | +6 |
| Kenya | DB2010 | 80 | |
| Kenya | DB2011 | 85 | -5 |
| Rwanda | DB2010 | 183 | |
| Rwanda | DB2011 | 183 | 0 |