



Business Environment Working Group

5 June 2018

MasterCard Foundation, Toronto

Minutes of the Meeting

PRESENT

Farid Hegazy (Chair and ILO, by telephone)	Siobhan Kelly (FAO)
Stefanie Springorum (BMZ/GIZ)	Henrik Vistisen (Denmark/Danida)
Andreja Marusic (World Bank Group)	Jim Tanburn (Secretariat)
Juergen Reinhardt (UNIDO)	Simon White (Consultant to BEWG)
Toru Homma (JICA)	Kåre Johard (SIDA, by telephone)
Dragan Radic (ILO)	Arjan de Haan (IDRC)
Anastasia de Santos (USAID)	Liliana de Sá Kirchknopf (SECO)
Michelle McKenna (DFID)	Yuzuru Ozeki (Consultant to JICA)

APOLOGIES

Fulvia Farinelli (UNCTAD)	Alain Bühlmann (SECO)
---------------------------	-----------------------

1. Opening and welcome

Farid Hegazy joined the meeting by telephone as the chairperson for the last time and opened the meeting.

2. Introductions

All participants introduced themselves.

3. Appointment of a Chairperson

Farid Hegazy reiterated his need to, reluctantly, resign from the position as chairperson. As agreed in the last meeting, Farid had discussed with Stefanie Springorum (BMZ/GIZ) and Andreja Marusic (World Bank Group) the preparedness of both to act as co-chairs. Stefanie and Andreja confirmed their willingness to share the role of chairperson. Other members were asked to express their interest in chairing the group.

AGREED: It was unanimously agreed that Stefanie Springorum and Andreja Marusic would jointly co-chair the Working Group.

Stefanie led the meeting in thanking Farid for his years of work as chair for the group and wished him the very best in his future endeavours.

4. Minutes of Last Meeting (30 April 2018)

The draft minutes had not been circulated for approval previously. The draft was reviewed and approved.

AGREED: The Minutes of the Meeting (Teleconference) of 30 April 2018 were approved.

There was no business arising from the minutes of the previous meeting.

5. 2017-18 Work Item Updates

5.1 BER and Investment Promotion

Toru Homma (JICA) provided an introduction to the work item, providing background and an overall status of the project and its timeline.

Yuzuru Ozeki, the lead consultant on this project, gave a presentation on the interim findings of the study. Following this, there was discussion, during which the following points were raised:

- Are there not any indicators showing a correlation between macro-economic growth and BER? These appear illusive, but this does not mean the correlation does not exist. There does appear a lot that BER can contribute to, through greater integration and coordination between BER and investment promotion. The operationalization of this is a great challenge. Determining the causal relationship between BER and investment levels is difficult.
- We have long known that BER on its own is not enough to increase private investment.
- It will be important to distinguish between the links that connect BER and investment and BER and investment promotion. This is an important distinction to make, and our interest is with investment promotion (i.e., public efforts to increase private investment in developing economies).
- It is very difficult to fully understand growth dynamics. In addition, the data on growth and investment is hard to get — better for FDI than for domestic investment. Thus, it is important to improve the data in this field and this could be an area of future donor intervention. The World Bank Group is working on this.
- World Bank Investment report highlights the role of regulatory reform in improving growth and investment, second to peace and security.
- Some countries (e.g., Macedonia) are doing well with BER, but poorly with growth and investment. These countries often introduce short-term reform that address immediate constraints, but are less inclined to introduce harder, longer term reforms.
- This work can be used to strengthen the call for BER as a critical prerequisite for growth and investment.
- Put the hypotheses, headline comments and findings in simple terms. Improve the 'readability' of the report so that lay readers can understand it and its implications.
- FAO has not provided inputs into the study yet, but hope to.
- Is Ethiopia an outlier in terms of its success in BER and growth? May need to keep this in focus. However, others indicated that all countries are outliers in some way.
- A clearer distinction between FDI and domestic investment could be done. Are current private (domestic) investors expanding?
- Is the theory of change for BER, as proposed by DCED, relevant?

- In terms of Hypothesis 4 and coordination: don't forget PPD and the role of the private sector (private investors) in the reform process.
- Recommendations coming out of the study should extend beyond the case study countries to be relevant to other countries.
- The introduction of the report should contextualise the study and who why this is important.
- The Decent Work agenda, as well as the SDGs, is very relevant in terms of the policy context and development outcomes.
- Please include a clear Executive Summary.
- General appreciation and thanks to the study team for their work.

AGREEMENT: It was agreed that members would provide further comments to the consulting team on or before 30 June 2018. Comments will include agency contacts in Ethiopia and Myanmar.

October 2018: First full-draft report will be provided.

End-November 2018: Completed, final report will be submitted.

5.2 Creating Better Business Environments for MSEs

Simon White presented the first draft report on this work item. Following this, there was discussion, during which the following points were raised:

- Does the report provide general advice to countries that are considering BER with the MSE sector in mind or would this advice vary based on national circumstances? Is there clear advice provided?
- The question is not what do MSEs contribute to national development, but should BER favour MSEs.
- The size of firms may not be a relevant factor for economic growth; other factors may be: age of firm, willingness to grow, etc. It may be that focusing on firm size is a distraction.
- There are many sub-groups within the MSE sector.
- It may be useful to include reference to 'necessity entrepreneurs', which are not growth-oriented.
- Many new firms are born global; how can the business environment affect this? How can BER be used to stimulate innovation in the MSE sector?
- Does a large MSE sector reflect a poor economy (p. 28)?
- USAID is doing work on the theory of change in BER and would like to respond to the agency survey.
- In agriculture, the 'missing middle' is very relevant as these firms drive market changes toward sustainability and green growth.
- The growth trap referred to in the report is very relevant.
- A clear message: stop treating the informal sector in the same way. There are many drivers to informality and responses to informality require clear segmentation and targeting.
- Where possible, highlight practical examples of how reforms have been used to promote MSEs.

AGREEMENT: The draft was accepted as a good document and the group was looking forward to the final version, based on the feedback provided. Members agreed to provide further comments on or before 18 June 2018.

5.3 Business Environment Reform Webinars

Stefanie Springorum and Simon White presented an update on the BER webinar series and screened the now four-minute DCED video on business environment reform. The meeting expressed its satisfaction with this progress.

On the video, the following comments were made:

- The video refers to the businesswomen employing part-time workers, which is not ideal. While the video ends with 'Ayesha' being able to employ more workers (because of a better business environment) it may be useful to see if this message can be made more clearly.
- Is it possible to add agency logos? This would be difficult because all agencies would be required to specifically endorse this.
- The website address provided at the end of the video is the general DCED address and it might be better to use the BER page address instead.

On the webinars, the following comments were made:

- Members were asked to express their interest in specific webinar topics.
- All future BEWG work items should include the presentation of the outputs in a webinar format.
- Should develop a more effective marketing and promotions strategy for webinars, in collaboration with the DCED Secretariat.
- Anastasia de Santos (USAID) expressed an interest in joining the webinar Task Team.

AGREEMENT: It was agreed that the DCED Secretariat would be consulted to determine more effective way of marketing and promoting webinars among DCED Members and other relevant and interested target groups.

6 BEWG Work Plan and Budget 2018-19: review of draft items

6.1 Promoting structural and economic transformation through BER

The Meeting welcomed members of the Market Systems Development Working Group (MSWG) to discuss this topic.

Michelle McKenna (DFID) provided an introduction. This work-item explores the role BER can play in promoting structural and economic transformation. It investigated the ways this can be done and whether it is possible to combine broad, cross-cutting BER programmes with specific investment promotion in 'new' sectors that have potential for job creation.

Objective: To better understand how donor and development agencies can use BER, and other complementary programmes, to support the transformation of new, strategic industry sectors.

Activities (2018/19): Commission a consultant to lead the research, which will include consultations with donor and development agencies; mapping of donor programmes, including the use of diagnostic instruments for selecting strategic sectors and identifying binding constraints to growth; and reviewing the published literature on interventions that ignite transformative growth in the private sector in developing and emerging economies.

Work Item Outputs: Technical Report

Task Team: Kåre Johard (SIDA) and Michelle McKenna (DFID), Stefanie Springorum (GIZ/BMZ) and Andreja Marusic (WBG), Juergen Reinhardt (UNIDO, to be confirmed), Siobhan Kelly (FAO)

Following the BEWG a separate meeting was held with the MSDWG to further discuss this work item. Notes from this meeting are attached.

AGREEMENT: This work item was agreed.

Possible financial support from DFID, GIZ/BMZ is still to be confirmed.

6.2 Strengthening poverty reduction linkages in BER

Many BER programmes have an outcome or impact level ambition to increase quantitative investment generation. However, for most donor and development agencies, this is not an end in itself. Rather, the intention is to reduce poverty. This work item will explore which types of BER and private investment is more likely to produce 'pro-poor' outcomes. It is anticipated this work will take further the results of the current work item on BER for MSEs.

Objective: To identify donor and development agencies experiences and review results from BER-support programmes in terms of their impact on reducing poverty.

Activities (2018/19): Commission a consultant to lead the research, which will include consultations with donor and development agencies; mapping of donor programmes; review of results (including published evidence on BER and poverty reduction).

Work Item Outputs: Technical report

Comments: Feels a little abstract and not as focused as other work items. It is a good topic, but does not feel as focused. May be contingent on financial support from UNCTAD.

Task Team: Fulvia Farinelli (UNCTAD), Alain Bühlmann (SECO), Kåre Johard (SIDA)

AGREEMENT: This work item was agreed. However, this item would be removed from the work plan if an item must be dropped due to budgetary considerations. The Task Team should ensure the scope of the work is more focused.

Possible support from UNCTAD is still to be confirmed.

6.3 Use of new technologies in regulatory delivery

Andreja Marusic, and a colleague (Goran Vranic) who called in from Washington DC, gave a presentation on the context and focus of this work item.

Recent technology advancements and the availability of cloud-based solutions offer many opportunities for developing countries to cost-effectively leverage new technologies to augment regulatory delivery activities. These applications mainly include use of Internet of Things, big data and artificial intelligence, to increase transparency and reach of regulatory information dissemination and decision-making.

Objective: Research and analyse cases of using new emerging technologies in regulatory delivery activities, identify benefits SMEs and government have, and develop a maturity model for applying new technologies in regulatory delivery domains (e.g. regulatory rulemaking, business registration, business licensing/permitting, inspection management)

Activities (2018/19): Commission a consultant to do the research and prepare analysis covering the areas set in the objectives.

Work Item Outputs: Case studies of cases applying emerging technologies to augment regulatory delivery activities, and the maturity model.

Comments:

- There was a lot of interest in this item, which was considered quite innovative.
- There was a question regarding how the case studies would be identified. The World Bank is familiar with a number of cases. It would be important to ensure these cases are drawn from developing economies. Issues related to trade and e-trade may be relevant. In the Philippines, block chain in the food sector could be relevant.
- There should be a good mix in the case studies, both in terms of country selection and technology selection.
- The contribution this can make to improving compliance and to formality would also be interesting.
- Would need to avoid a conclusion that becomes exclusionary (e.g., excluding those without access to the Internet).

Task Team: Andreja Marusic (World Bank Group), Alain Bühlmann (SECO), Stefanie Springorum (GIZ/BMZ), Toru Homma (JICA), Dragan Radic (ILO to be confirmed), Juergen Reinhardt (UNIDO to be confirmed)

AGREEMENT: This work item was agreed.

Possible financial support from the World Bank and GIZ/BMZ is still to be confirmed.

6.4 Webinar series

In 2018/19 the BEWG will conduct three webinars.

Budget and Sources: financial support has been indicated by Germany (BMZ/GIZ) and is currently being confirmed/explored.

Task Team: Stefanie Springorum (GIZ/BMZ), Anastasia de Santos (USAID)

AGREEMENT: This work item was agreed.

6.5 Private sector trust and public institutions effectiveness

Andreja Marusic described how, in many developing economies, there is a lack of trust between the public and private sectors that undermine the success of BER. In addition, behavioural economics provides interesting insights to how behaviour psychology can be used to support reform processes.

The purpose of this projects is to gather evidence to better understand the relationship between private sector's trust and public institutions effectiveness. This evidence will help inform the implementation aspects of policy reforms to maximize their credibility, effectiveness, and induce the desired behavioural changes among businesses.

Objective: Provide an evidence base to inform advisory work on business environment reforms to improve private sector's trust and improve effectiveness of reforms in low trust environments.

Activities (2018/19): Commission a consultant to prepare a literature review.

Work Item Outputs: A literature review paper.

Budget and Sources: Additional support from World Bank Group is currently being explored, as is the possibility of FAO.

Task Team: Andreja Marusic (World Bank Group), Siobhan Kelly (FAO)

AGREEMENT: This work item was agreed.

Possible financial support from the World Bank and FAO is still to be confirmed.

6.5 BER and Investment Promotion (possible Annex or Policy Brief)

This work item commenced in 2017-18 and will be completed in December 2018. Based on the findings, the BEWG will consider the possible formulation of an Annex to the DCED Donor Guidance or a Policy Brief on this topic.

Objective: Preparation of an Annex to the Donor Guidance or Policy Brief.

Activities (2017/18): Preparation of an Annex to the Donor Guidance or Policy Brief through a consultative process with BEWG members.

Work Item Outputs: Annex to the Donor Guidance or Policy Brief

Task Team: Toru Homma (JICA), Andreja Marusic (World Bank Group), Stefanie Springorum (GIZ/BMZ), Alain Bühlmann (SECO), Juergen Reinhardt (UNIDO), Fulvia Farinelli (UNCTAD)

AGREEMENT: This work item was agreed.

6.6 BER and MSE (possible Annex or Policy Brief)

This work item commenced in 2017-18 and will be completed in July 2018. Based on the findings, the BEWG will consider the possible formulation of an Annex to the DCED Donor Guidance or a Policy Brief on this topic.

Activities (2017/18): Preparation of an Annex to the Donor Guidance or Policy Brief through a consultative process with BEWG members.

Work Item Outputs: Annex to the Donor Guidance or Policy Brief

Budget and Sources: Nil

Task Team:

AGREEMENT: This work item was agreed.

Donor Guidance updating

There was a brief conversation around whether the Donor Guidance on BER should be updated, either in its entirety or as an annex, as it has now been ten years since it was published. It was agreed that we wouldn't look to do this in 2018/19, but it should be flagged so that it can be brought up again in a future discussion.

7 Other Business

Danida is organising a conference on youth employment (currently for 4-5 December 2018) in Copenhagen.

8 Next meetings

Teleconference: week beginning 17 September 2018

Next physical meeting: Close to the youth employment event in Copenhagen (Hosted by Danida)

Post-meeting meeting on economic transformation

At 5:15PM, following the BEWG meeting, some members met with the MSWG to discuss the economic transformation work item.

This meeting considered the opportunities and issues surrounding the collaboration of the BEWG and MSWG. This discussion explored the possibilities of jointly commissioning a consultant, or each group undertaking this work separately, but sharing findings. There was substantial discussion on both options.

It was agreed that each working group would formulate its own terms of reference for the study they are pursuing and then share these to examine the opportunities for collaboration.

This would include an elaboration of:

- The key concepts (toward a common understanding);
- The key research questions for each study;
- The elements of a theory of change for BER contributes to economic transformation AND how donor and development agencies support BER that leads to economic transformation;
- What are the most effective practices for donor and development agencies to work with their programme partners to reform the business environment for economic transformation;

It was agreed that a brief TOR for each working group will be produced in two weeks for sharing between the groups before the end of June 2018.

Meeting concluded at 6:20PM

Annex 1: Promoting Economic Transformation through Business Environment Reform:

Draft Proposal for Work Item in DCED's Business Environment Working Group (BEWG)

This document outlines a proposal for a work item on how Business Environment Reform interventions can be utilized to promote economic transformation. It is to be reviewed by members in the Donor Committee for Enterprise Development's (DCED's) Business Environment Working Group (BEWG) during the Annual Meeting in Toronto in June 2018 for possible inclusion in the 2018/19 Work Plan. Any inputs to this proposal are welcome.

The document has been drafted by Sida, DFID and the World Bank Group, after discussions with members (Sida, GIZ and Gatsby Africa) from the DCED Market Systems Development Working Group (MSDWG), who are proposing a work item on applying the MSD approach in promoting Structural/Economic Transformation.

Background and Proposed Focus

During and after the BEWG teleconference meeting on 30 April 2018, several members expressed an interest in looking at how BER could be used to promote economic transformation (ET).¹ The proposal was brought up considering that in recent years, the issue of ET has received increasing attention due to a number of reasons. Firstly, the issues are high on the agendas of many developing countries as a means to promote job creation and diversification. Secondly, recently, a lot of empirical research has been carried out assessing the drivers of ET, why and when it occurs and what the role of development cooperation might be (see e.g. ODI, 2017 and Altenburg et al, 2016). Thirdly, there has also been a development of various tools and methodologies, particularly such that look at diagnostics and how to carry out selection of sectors that might be drivers of ET (see e.g. Lin and Chang, 2009).

This has led to **a number of questions which provide the basis for the proposed work item.** For example:

1. While the particular role of various thematic areas in relation to ET has been looked at (such as trade policy or infrastructure), is there a role for BER to play in supporting ET?
2. How can regulatory reform be combined with components of FDI/investment promotion to specifically promote expansion of "transformative" sectors or businesses?
3. While BER programmes are often – but not always – sector-neutral, can a more targeted approach be justified? If so, how could such selection be carried out?
4. How can various aid modalities be combined for a more transformative outcome, e.g. combining technical assistance with working with Development Finance Institutions (DFIs), Public-Private Partnerships (PPPs) or guarantees?

It should be noted that the DCED and others have undertaken many relevant pieces of BER research and operational guides on issues that to some extent cover these questions, albeit not always with an ET lens. It is therefore proposed that the first part of the work item

¹ Regarding the concept "structural" vs "economic" transformation: ODI (2017) have defined the first term as a reallocation of resources from low-productivity to high-productivity sectors; and the second as a broader one, also encompassing shifts within sectors, i.e. between low-productivity to high-productivity areas (i.e. between or even within firms). For the present proposal, economic transformation is chosen but could be narrowed down at a later stage.

review and synthesise such material, rather than reinventing the wheel, and that the second part focus on as practically as possible guide donors in applying the evidence.

In this regard, in applying the ET lens to BER programming, **there are also challenges arising from a specific donor and programme management point of view**. On 16 May, Sida convened a workshop with the Overseas Development Institute (ODI), who have a DFID-supported research programme on Supporting Economic Transformation (SET). A number of issues were identified as key when considering how ET could be actively incorporated into donor programming (with some overlap with the above four questions):

1. **Short term** programme lifecycles **vs long term** timeline of achieving economic transformation
2. How a ET approach can be **inclusive** and benefit large groups of the poor
3. **Sector selection** and the need for a long-term lens
4. How to work with the **private sector**
5. How to work with **government**
6. How to address **vested interests and political-economy** constraints
7. How donors can take a **hypothesis-driven and flexible** approach

In addition, it was proposed that a clear Theory of Change (ToC) was needed to synthesise current learning on ET, to offer a logic narrative of why this matters for poverty reduction and to help members communicate the case for ET. While the ToC could be joint for both the BEWG and MSDWG work items, the seven above items should be carefully examined to see to what extent they are relevant in BER programming supporting ET.

To summarise, the work item will look to review the four above-mentioned “thematic” questions and a selection of the seven “programmatic” questions as identified to be most relevant to BER. The ultimate aim of the activity will be to provide evidence on where BER can support Economic Transformation and provide guidance to donors on how to implement reforms, through case study illustrations if available.

Activities and Roadmap

It is proposed that BEWG thereby explore a few **areas of activity and outputs**:

1. Articulate a Theory of Change for ET (in consultation/collaboration with the MSDWG)
2. Synthesise current evidence on the role of BER in promoting ET, drawing on DCED and others (with the above four questions in focus)
3. Engage with members of the DCED MSDWG and BEWG on to what extent ET is for a focus in BER programming, which challenges, and possible solutions have been identified (including collation of case studies of best practice if available)
4. Dissemination of evidence and guidance and continuous engagement with DCED (BEWG and non-BEWG) members and wider interested donor community in the form of a webinar and emphasis on interactive discussions

As for the **roadmap**, the following is proposed:

1. June 2018: DCED Working Group meetings in Toronto
 - a. Discussion during BEWG meeting
 - b. Potential joint workshop with the MSDWG to identify areas of joint working
 - c. Finalization of proposal (and subsequent ToRs) after members’ inputs
2. July 2018 – Jan 2019: Research and drafting of technical report and briefing paper
 - a. Securing of consultant

- b. Drafting of ToC briefing (in collaboration with MSDWG)
 - c. Drafting of technical report and briefing paper (including synthesis of evidence and interviews/survey of members)
3. February 2019: BEWG-MSDWG joint workshop on donors' role in supporting ET
- a. Convene members (DCED members invited widely plus relevant external organisations such as the ODI) for a full-day "in-person" workshop to discuss the findings of the two work items
 - b. Revise reports/briefing papers as needed
 - c. Identify next steps in terms of communication (e.g. future webinars on specific items) and potential additional activities

References

Altenburg, T.; Kleinz, M; and Lütkenhorst, W. (2016). *Directing Structural Change: From Tools to Policy*. Discussion Paper / Deutsches Institut für Entwicklungspolitik. Available (online) at: https://www.die-gdi.de/uploads/media/DP_24.2016.pdf

Lin, J. Y., and Chang, H.-J. (2009). DPR debate: Should industrial policy in developing countries conform to comparative advantage or defy it? A debate between Justin Lin and Ha-Joon Chang. *Development Policy Review*, 27(5), 483-502.

ODI (2017). *Supporting Economic Transformation: An Approach Paper*. Available (online) at: http://set.odi.org/wp-content/uploads/2017/03/SET-approach-paper-WEB_FINAL_MARCH.pdf