



Review of Donor-Supported Business Environment Reforms Programmes and Practices in Bangladesh

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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. 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 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 Review Team's 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 in Bangladesh. The Review Team sought to identify the major frameworks that were used to guide donor-supported PSD-BER programmes and to understand how agencies work within these.

Most donor programmes in Bangladesh were found to be aligned to government development plans and frameworks. This includes Vision 2021, the Poverty Reduction Strategy Plan (PRSP) and the forthcoming Sixth Five-Year Development Plan, which will replace the PRSP when it is finalised. However, there is no direct budget support provided by donors to the Government of Bangladesh.

The Bangladesh Investment Climate Fund (BICF) is the main BER-support programme operating in the country. The International Finance Corporation (IFC) manages this fund and two donor agencies fund it: the Department for International Development (DFID) and the European Union (EU). The programme covers a range of interventions focusing on business environment and investment climate reforms and displays a clear understanding of the systems private enterprises operate in. Other programmes operating in Bangladesh appear to be more narrowly focused. The BICF is seen as a mechanism for responding relatively quickly to demands for reform and many respondents indicated that it was responding to local demand.

The Local Consultative Group (LCG) 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. Under the LCG are a number of sector specific and thematic working groups, which include the PSD and Trade Working Group. This group aims to improve the understanding of donor-funded programmes and issues affecting private sector development in Bangladesh and to promote more effective coordination among various donor-supported private sector development programmes. The PSD and Trade Local

Consultative Group Working Group has been largely driven by donor agencies in recent years, except for its latest meeting, which the Ministry of Commerce chaired.

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. While donors responded to the increased appetite for reform found within the “Caretaker Government” (2007-2009), a major concern is that the reformist nature of the Caretaker Government has created a reaction against an over-enthusiastic approach to reforms. Thus, while the current government is worried about reform for the sake of reform, it has its own agenda in this field. This has led the BICF, for example, to take care how they brand their programmes; “regulatory reform”, for example, is now referred to as “regulatory simplification”.

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 government’s desire for budget support.

The BICF’s support for public-private dialogue (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. There is a strong emphasis among donors for the need to improve dialogue between the government and the business community. A Better Business Forum was established principally for this purpose. However, overall there appears to be little direct donor engagement with BMOs. 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. A number of respondent indicated that the quality of PPD could be improved by basing discussions on better evidence and research on the options available.

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

Because the review sought to identify how donor and development agencies support BER in Bangladesh, it sought to distil the key findings into lessons for donor and development agencies. Below are the lessons from Bangladesh in aligning programmes with national frameworks.

- Lesson 1: BER-support programmes that focus on investment and markets tend to have a more systemic nature and field of analysis.
- Lesson 3: Not all programme partners adopt a system approach to PSD and BER. Thus, donor and development agencies are required to find ways to respond to local demand, but also to guide and support the analysis of these demands so that they can be diagnosed in a more systemic manner.
- Lesson 4: Government interest in sector- or budget-support can be a powerful motivation for reforms in government administration and accountability.
- Lesson 5: 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 6: Some actors in the business environment prefer the status quo or only marginal changes. In these cases, a broader range of actors should be included in PPD and reform discussions.
- Lesson 7: 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 8: Donor and development agencies can support the broadening of national PPD processes by supporting and facilitating dialogue at the sub-national level.
- Lesson 9: 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 10: The lack of direct government involvement by the appropriate line-ministries makes effective donor coordination and government alignment difficult. Donors need to engage in these structures and ensure that their programme partners are equally engaged.
- Lesson 11: Collaborative programmes and basket funding provides a very practical and effective way of ensuring donor coordination in BER-support programmes.

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.

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. While this has been done to address policy, legal, regulatory and administrative barriers, it has also sought to better prepare government to more effectively address the binding constraints to economic growth. However, government does not necessarily recognise this process of sequencing and in the past few years, reforms have been relatively staggered. Donor support for the Better Business Forum and the Regulatory Reform Commission, both of which have since been disbanded, is an example of this.

The BICF has provided a practical mechanism for donor and development agencies to collaborate on business environment reform support programmes. 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.

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

Below are the lessons from Bangladesh in designing BER-support programmes:

- Lesson 12: 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 13: 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 and priorities undermine this sequencing. Government often deals with reform as a way of “putting out fires” than following a phased, long-term reform strategy.
- Lesson 14: 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 15: 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 16: 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.

The IFC have used the *Doing Business* rankings to initiate public discussion on the business environment. These events appear have been successful and have highlighted the importance of promoting public awareness of reform and the value of engaging public opinion leaders and journalists in this process. The BICF has also supported a “Core Group” of reform champions within government, which has proved to be successful in promoting the ownership and sustainability of local reforms.

Most business environment reform support programmes in Bangladesh have been focused at supporting agency level improvements and, as a result, there appears to be a strong ownership of reforms within these agencies. However, a whole-of-government perspective on the Bangladesh business environment appears to be lacking. Donor agencies, through the BICF, initially supported the establishment of the Regulatory Reform Commission (RCC) in an effort to lead reforms. However, while the RRC was a government entity, created by an executive order of the Caretaker government in 2007, it was an independent commission under the Prime Minister’s Office (PMO) and did not

operate under any line ministry. The current government did not support it. However, this was not a straightforward termination. Indeed, on many occasions the prime minister and the finance minister said the government would continue the RRC. However, it appears they were not very comfortable with the chairman and some of the commission members and the commission faded away once the tenure of the commissioners expired.

The automation of regulatory and administrative processes has provided a useful means of identifying weaknesses in the implementation of reforms and the need for capacity building. 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 what needs to be done to achieve reform objectives. Many programme partners referred to the considerable time required to build local ownership of reforms, emphasising the importance of “building a consensus”. Within this context, donors were sometimes accused of being too hasty and not allowing the time required.

The BICF has been 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 over-reliance by donor and development agencies on international consultants appears to be a sensitive issue in Bangladesh. However, while some local programme partners and service providers argued that Bangladesh has a good local research and consultancy capacity, a number of donor agencies did not agree and argued that international consultants were necessary when a highly technical issue had to be addressed or when an external opinion, unbiased by local alliances, was necessary.

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

Below are the lessons from Bangladesh in managing BER-support programmes:

- Lesson 17: 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 18: Nurturing a core group of change-makers within government can pay long-term dividends and contribute to a more sustainable reform capacity.
- Lesson 19: 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 20: Care should be taken when establishing 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 21: Creating a reform-oriented “mindset” within government can improve the implementation of reforms.

- Lesson 22: 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 23: 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 24: Donor and development agencies can skew the market in which local consultants operate. This can encourage consultants to provide what donors want rather than specialist advice that addresses the concerns of the business environment and its reform.

Theme 4: Monitoring and evaluating BER-support programmes

This theme considered the use of monitoring and evaluation mechanisms and processes within BER-support 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.

Most agencies supporting business environment reform in Bangladesh appear to have clear monitoring and evaluation frameworks in place that are linked to the programme's logical framework. In the case of the BICF the three funding agencies share a common monitoring and evaluation framework. The BICF has its own monitoring and evaluation unit and a local consulting firm has been commissioned to provide monitoring and evaluation reports directly to the donors.

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 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. A number of other examples were given of where donor clients or partners were engaged in the discussion of programme monitoring reports.

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.

Finally, 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 has supported the Economic Research Group to promote and ensure the quality control of independent local research and has supported the national companies registrar to join and participate in the international Corporate Registrars Forum.

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

Below are the lessons from Bangladesh in monitoring and evaluating BER-support programmes.

Lesson 25: Monitoring and evaluating BER-support programmes can involve local agencies.

Lesson 26: 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 27: 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.

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List of acronyms

BBF	Bangladesh Business Forum
BER	Business environment reform
BEPZA	Bangladesh Export Processing Zone Authority
BEWG	Business Environment Working Group (DCED)
BICF	Bangladesh Investment Climate Fund
BMO	Business membership organisation
DCCI	Dhaka Chamber of Commerce and Industries
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development (United Kingdom)
EDPRS	Economic Development and Poverty Reduction Strategy
GIZ	<i>Gesellschaft für Internationale Zusammenarbeit</i> (German International Cooperation)
IFC	International Finance Corporation
NBR	National Board of Revenue (Government of Bangladesh)
PPD	Public-private dialogue
PSD	Private sector development
RRC	Regulatory Reform Commission
SMEs	Small and medium enterprises
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development

1 Introduction

Development agencies support the programmes of partner governments. While there are diverse views regarding the role development agencies can play in reducing poverty through private sector development, much can be gained by coming to agreement on key principles and practices.

– Donor Committee for Enterprise Development (2008) *Supporting Business Environment Reforms: Practical Guidance for Development Agencies*, p. 1.

Supporting economic growth, employment creation and poverty reduction through private sector development (PSD) has become a major focus of many donor and development agencies. Within this field, increasing attention has been given to supporting developing country governments in their efforts to improve the business environment in which private enterprises operate. To this end, the Donor Committee for Enterprise Development (DCED) established the Business Environment Working Group (BEWG) in 2001 to examine the ways in which donor-supported business environment reform (BER) programmes are designed, implemented and monitored. This led to the publication of guidelines for donor and development agencies in 2008. The donor guidance, entitled *Supporting business environment reforms: practical guidance for development agencies* (hereafter referred to as the “Donor Guidance”), presents a distillation of the lessons learned by donor and development agencies in their support of business environment reforms in developing countries.¹

In 2010, the DCED initiated a pilot project to review BER support programmes and practices in three countries: Bangladesh, Kenya and Rwanda. This report presents the findings of the Bangladesh BER programme and practice review conducted in June 2011. The reviews in Kenya and Rwanda were held in November 2010 and May 2011 respectively. Simon White, a consultant to the BEWG, Shahnila Azher and Masarrat Quader, both Private Sector Advisors to the United Kingdom’s Department for International Development (DFID) in Dhaka, and Md. Azad Rahman, an Associate Operations Officer with the Bangladesh Investment Climate Fund (BICF) formed a review team, which produced this report.

The team wishes to thank Catherine Martin, Senior Private Sector Advisor to the DFID in Dhaka and Md. Masrur Reaz, Programme Manager with the BICF for their assistance in organising the review and responding to the initial findings.

1.1 Defining BER-support programmes and practices

BER-support programmes are donor and development agency programmes that help developing country governments, and other programme partners, to improve the business environment in which private enterprises operate. The DCED donor guidance defines the business environment as “a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence

1 The guidance is available from:
<http://www.enterprise-development.org/download.aspx?id=586>

the way key actors operate (e.g., government agencies, regulatory authorities, and business membership organisations including businesswomen associations, civil society organisations, trade unions, etc.)”. Along with other PSD initiatives, the business environment affects the performance of private enterprises in both the formal and informal economies. BER promotes the development of markets that encourage competition and enhance the effectiveness and sustainability of other development interventions.

A conducive business environment is one of the pre-requisites for economic growth and poverty reduction. While poverty reduction requires more than just economic growth, growth is an essential ingredient. However, in many developing and transition countries, the business environment is hostile to market-led growth; private enterprises suffer excessive regulatory barriers and in most respects regulatory costs are higher than in developed economies. Poor business environments are also more likely to have a disproportional negative impact on women-owned businesses, which are more likely to remain informal. However, it is recognised that good regulations are necessary to secure benefits, protect workers, consumers and the environment and to promote the rule of law and for the efficient functioning of market economies.

There are four levels at which business environment reform can be supported (i.e., regional, national, sub-national and sectoral). Reforms can also address key functional areas that affect business activity. See Box 1.

Box 1: Function level of business environment reform
<p>Reforms can also address key functional areas that affect business activity, including:</p> <ul style="list-style-type: none"> • Simplifying business registration and licensing procedures; • Improving tax policies and administration; • Enabling better access to finance; • Improving labour laws and administration; • Improving the overall quality of regulatory governance; • Improving land titles, registers and administration; • Simplifying and speeding up access to commercial courts and to alternative dispute resolution mechanisms; • Broadening public-private dialogue processes with a particular focus on including informal operators, especially women; and • Improving access to market information.
<p>Source: DCED (2008) Donor Guidance</p>

1.2 Purpose of the review

The Bangladesh BER programme and practice review was conducted for two reasons:

- 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 PSD-BER.

The review aims to benefit participating donor and development agencies at headquarter and field levels. At the field level, the review highlights 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 is not considered an evaluation of BER programmes or specific donor agencies. 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 focussed on the practice of supporting reform in developing countries. Thus, the focus of the review 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 BER outcomes and impacts.

While examining these practices, the review endeavoured 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.

While the central focus of this review was on the donor programmes and practices in supporting BER, there are times when the broader issue of donor support for PSD was included. Some agencies believe it is not useful to distinguish too much between BER and PSD. PSD is a broader development theme for many agencies in which support for BER is but one approach. It is for this reason that reference is sometimes made to PSD-BER.

1.3 Review approach and methodology

Simon White led the review, which was conducted from 6 to 9 June 2011 in Dhaka. Shahnila Azher, Masarrat Quader, and Md. Azad Rahman participated in many of the consultations and discussions. In addition, Catherine Martin and Md. Masrur Reaz were involved in discussions and responded to the initial findings.

Unlike the reviews in Kenya and Rwanda, the Bangladesh review tended to focus on the work of the Bangladesh Investment Climate Fund (BICF), which is the main BER-support programme operating in the country. The International Finance Corporation (IFC) manages this fund and three donor agencies fund it: DFID, the European Union (EU) and the IFC. The programme covers a range of interventions focusing on business environment and investment climate reforms. General BER-support programme information is summarised in Annex 1. Annex 2 lists the people consulted and Annex three outlines the methodology used.

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 Bangladesh.

Chapter 3 deals with designing BER-support programmes.

Chapter 4 deals with managing BER-support programmes and projects.

Chapter 5 deals 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 PSD-BER programmes and to understand how agencies work within these.

To investigate this issue, six questions were asked:

- 1 To what extent does the agency adopt a systemic approach to reform (refer to DCED Principle 1)?
- 2 To what extent do the agency's programmes respond to local demands for reform (refer to the first part of DCED Principle 3)?
- 3 To what extent does the agency's programmes stimulate a demand for reform and work with drivers of change (refer to the second part of DCED Principle 3)?
- 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 (refer to DCED Principle 2)?
- 5 To what extent does the agency focus on what the private sector needs through public-private dialogue (refer to DCED Principle 6)?
- 6 To what extent does the agency participate in donor coordination mechanisms at headquarter and field levels (refer to DCED Principle 13)?

The findings are presented in the sub-sections below.

2.1 Systemic approaches to supporting BER

The BICF 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 in investment and broad business environment issues, rather than sector specific issues or firms of a particular size, such as small and medium enterprises.

Other programmes operating in Bangladesh are more focused in the design and implementation, although this does not necessarily suggest they are not aware of or responsive to the systemic nature of private enterprise development. These include:

- South Asia Enterprise Development Facility (International Finance Corporation, see Annex 1)
- Katalyst²
- SME Foundation (Government of Bangladesh)
- USAID Job Opportunities and Business Support (JOBS) programme (see Annex 1)

² For more information go to: <http://www.katalyst.com.bd>

Box 2: DCED Donor Guidance Principle 1: Adopt a systemic approach to reform

As far as possible, development agencies should adopt a systemic approach to business environment reform. They should consider the whole system, including all the relevant formal and informal institutions, the “rules of the game”, cultural and social norms and other key elements, such as the existing stock of regulations and the processes of reform in each case. In an interactive system of reform change in one area influences the possibilities of reform in other areas. Reform is not a one-off act, but a process of adapting to new challenges and changes. Such reform includes relatively specific or narrowly focused reforms, those that involve a degree of trial and error (e.g., pilot reforms), as well as more comprehensive reforms of a grander scale. There is often pressure on development agencies to reform one part of this system in order to achieve rapid and measurable outcomes, yet in reality, other parts of the system may be just as important. The implementation and enforcement of reforms is an important element that is often not emphasised enough in support programmes. While development agency support for reforms that achieve quick wins can be useful to build support for larger reforms, these piecemeal efforts are wasted if they do not take into account a systemic and integrated approach. Success and sustainability in reform is often the product of an integrated approach to dealing with the problems faced by the private sector.

LESSONS FROM PRACTICE

Lesson 1: BER-support programmes that focus on investment and markets tend to have a more systemic nature and field of analysis.

2.2 Responding to local demand

The BICF is seen as a mechanism for responding relatively quickly to demands for reform. Many respondents, including those from government and business, indicated that the BICF and other donor working in the business environment reform field were responding to local 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 (LCG) is the formal coordinating mechanism for donor support in this sector. See Section 2.6 for more details on this mechanism. The group has been largely driven by donor agencies in recent years, except for its latest meeting, which the Ministry of Commerce chaired. The ministry has encouraged the group to focus on the manufacturing sector in line with government development plans. However, the group members have 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. Thus, the dialogue between government and the donor community regarding the priorities and focus of PSD has generally been extremely passive.

The Dhaka Chamber of Commerce and Industry was very complementary of the support it received from donor agencies. While the review was limited in the number of business membership organisations it could meet with (see Annex 2), it was found that most representatives of business were closely aligned with government. For further discussion, see Section 2.4.

Box 3: DCED Donor Guidance Principle 3: Respond to and stimulate the demand for reform and drivers of change

Development agencies respond to domestic demand for reform by adding value to reform processes through technical assistance, financing, training and other forms of skills transfer, as well as information and experience sharing. They can also influence the direction and pace of change by mobilizing and exploiting drivers of change. These are forces that expand the opportunity for reform within the political economy of the country. Drivers of change include strong political leadership, the emergence of political or economic crisis, the processes of globalization, and the demand for increasing competitiveness. In most cases, there is a mix of drivers that contribute to change and not a single event. The strategic exploitation of successive drivers of change is key to the success of sustainable reform.

Reform support programmes should maximise the opportunities that stem from broader calls for reform, such as when a new government has been elected. Indeed, political change and some forms of political crisis can provide opportunities to push through bold business environment reforms. However, there are times when this demand is not apparent or weak. In such a situation, development agencies can stimulate a demand. However, they must be careful not to be too prescriptive or imposing. Some of the most effective ways of stimulating a greater demand for reform include:

- Commissioning research and assessments of the business environment and facilitating broad public discussion of the results;
- Benchmarking and comparing business environments across countries as well as across sub-national areas (e.g., cities) - creating a competitive environment that highlights the need for reform;
- Building the capacity of domestic stakeholders such as private sector representative organizations, consulting firms and research agencies to identify priorities for reform in the business environment and advocate for change;
- Identifying the economic impact of business environment defects can add tremendous leverage to informing the policy dialogue process, while supporting the prioritization of the policy reform agenda;
- Helping policy makers to learn from the experiences of other countries through study tours, training programmes, regional networking and the exchange of information;
- Creating opportunities for public-private dialogue that allow the business community to describe their experiences of the business environment; and
- Creating opportunities for foreign investors to present their experience of the business environment to government policy makers.

It is often necessary for development agencies to recognise the importance of individuals as change agents, whether they be representatives of the government or the private sector. Working with individuals who can motivate and mobilise reform efforts is important, but it is advisable to broaden and institutionalise this engagement as quickly as possible.

LESSONS FROM PRACTICE

Lesson 2: Not all programme partners adopt a system approach to PSD and BER. Thus, donor and development agencies are required to find ways to respond to local demand, but also to guide and support the analysis of these demands so that they can be diagnosed in a more systemic manner.

2.3 Stimulating a demand for reform

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 current Awami League-led government, it appears that government’s reform agenda has changed. Some donors are concerned with the direction of broad public governance issues, such as the weakening of the Anti-Corruption Commission and the release of prisoners previously found guilty of corruption. However, it is clear that the government has acknowledged the importance of increasing private investment and the need for reform.

A major concern is that the reformist nature of the Caretaker Government has created a reaction against an over-enthusiastic approach to reforms. Thus, the current government is worried about reform for the sake of reform. This has led donor agencies to revise the ways in which they engage with government and to better understand their needs and priorities for reform. In the case of the BICF, there has been a rebranding of some programmes where, for example, “regulatory reform” is now referred to as “regulatory simplification”.

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. To date, donors have not agreed to government requests for budget support. While plans were being made to improve the government’s governance and administration systems to accommodate these supports, these were recently put on hold due growing concerns among the international community.

The BICF’s support for PPD within sector associations and at the district level have been found, through a recent mid-term evaluation, 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.

LESSONS FROM PRACTICE

Lesson 3: Government interest in sector- or budget-support can be a powerful motivation for reforms in government administration and accountability.

Lesson 4: 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.

2.4 Incorporating the political dimensions of reform

The political economy of Bangladesh appears to have had a strong affect on its development since Independence in 1971. Donor agencies appear 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.

It is also interesting to note the close relationship that appears to exist between government and the business community. There are two interesting aspects to this relationship.

The first is that the leaders of the business community appear closely connected to government. These connections can take different forms. In some cases they are based on party affiliation, in other cases they are based on peer relations and social status.

The second is that the business sector is powerful and has strong political connections. Business support of elected officials has become more common and, as a result, the voice of business has been heard more clearly within government and among the political elite.

Box 4:	DCED Donor Guidance Principle 2: Understand and respond to the political economy of reform
<p>Business environment reform processes are intimately connected with the political economy of change. This includes the system of accountability and governance exercised within and on the state, the extent to which the state is open or captured, and the extent to which its policy-making processes are open to influence. Because business environment reform is fundamentally a process of political contestation, there are no formulas that may be imported from elsewhere. Each society needs to determine the political settlement that best accommodates its competing interests and then find the appropriate technical solution that suits that political settlement. Development agencies can support these processes with lessons from other countries that can be adapted, as well as by encouraging the process to be transparent (i.e., no secret policy making), evidence-based and equitable so that those who represent the interests of the poor are able to influence it as much as those who represent the interests of the rich and powerful.</p> <p>There will be times when key local stakeholders resist proposals for reform because they do not understand the benefits of the proposed reform, are used to things as they are and fear change, or because they benefit from the status quo. Thus, the challenge of the reform is building effective reform coalitions to get the best possible reform past that opposition. Development agencies can respond to resistance to reform by understanding where the resistance comes from and why; raising awareness and promoting the benefits of reform; recognising that those who are doing well in a poor business environment (e.g., where competition is reduced) may have something to lose; promoting coalitions of those who support reform – that is building constituencies for change; using regional organisations to support change; and promoting broader and deeper levels of public-private dialogue. Activities to discuss and design reforms should be seen in the wider context of the political economy – they release reform energies and reinforce a growing demand for reform. These kinds of changes help developing and transition country governments overcome governance bottlenecks. While development agencies cannot change the political economy of a country, a better understanding of these issues will improve the design and execution of reform programmes.</p>	

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. While there appears to be general, if not constant, support for private sector development and

increased investment, the arguments appear to focus on the technicalities of proposed reforms, i.e., on what is the best path for reform.

This is not to suggest that business regularly calls for major reforms. In some cases, business appears cautious of reforms that may unduly create too much competition or create conditions that may challenge the position some businesses have enjoyed for many years. This raises the issues of inclusiveness, which is discussed in the section that follows.

LESSONS FROM PRACTICE

Lesson 5: Some actors in the business environment prefer the status quo or only marginal changes. In these cases, a broader range of actors should be included in PPD and reform discussions.

Lesson 6: 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

Bangladesh has a wide range of business membership organisations (BMOs) of all shapes and sizes. 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 Better Business Forum was established principally for this purpose. However, overall there appears to be little direct donor engagement with BMOs.

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. The aim is to expand this to some 25 regional areas. However, this initiative is currently on hold until a national PPD platform is established.

It was interesting to note during the review the emphasis local programme partners (i.e., government and business) gave to seeking a collaborative consensus between government and business, rather than contesting issues. This was seen as a more time-consuming, but effective approach to achieving successful reforms.

A number of respondents indicated that the quality of PPD could be improved by basing discussions on better evidence and research on the options available. The BICF is attempting to link BMOs with research agencies and think tanks.

Box 5: DCED Donor Guidance Principle 6: Focus on what the private sector needs through public-private dialogue

Reform programmes should focus on the private sector, since they can create demand for reform and can contribute to the design of reform programmes and provide feedback on proposed reforms (e.g., through regulatory impact assessments); it can also provide technical expertise, and organisational and management support. Many private firms express their views through their representative organizations. However, these representative organizations rarely represent the entire private sector and are predominately made up of larger, formal enterprises. Small and/or informal firms, including women-owned enterprises, are often less involved in these kinds of structures; consequently, their views are often systematically neglected. Development agencies can support private sector representative organisations in their efforts to reform the business environment, but care should be taken not to interfere directly in domestic politics. They can also make use of formal facilities established to make possible the involvement of different development agencies and the private sector in the support of business environment reforms.

Public-private dialogue is an essential ingredient to effective and sustained business environment reform. The quality and depth of effective business environment reform is related to the intensity and institutionalization of public-private dialogue. While many developing and transition countries have little tradition of constructive dialogue and cooperation between the government and the private sector, such dialogue changes the political economy by empowering allies of reform and enlarging the “reform space” by increasing awareness of the scope and depth of the problem. While dialogue can take both formal and informal forms, it is important for dialogue to be linked to specific reform agendas. In its early stages, public-private dialogue takes time to develop. It is important to build trust and confidence in the process and all parties need to see the benefits of regular, structured dialogue. Development agencies should support public-private dialogue, but should not drive the process.

It is particularly important for development agencies to help small and informal enterprises find a “voice” in the processes that support public-private dialogue. Public-private dialogue processes that are facilitated or supported by development agencies should include a wide range of the private sector representatives and, where possible, endeavour to obtain the views of the less organized business sector.

LESSONS FROM PRACTICE

- Lesson 7: Donor and development agencies can support the broadening of national PPD processes by supporting and facilitating dialogue at the sub-national level.**
- Lesson 8: 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.**

2.6 Promoting donor coordination

The Local Consultative Group (LCG) is responsible for overseeing donor coordination and government alignment in Bangladesh. The LCG 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.³ The LCG appoints an executive committee and holds plenary meetings designed to review progress on development issues, including poverty reduction strategies, achievement of the Millennium Development Goals and to prepare for and follow-up on Bangladesh Development Forums (BDF).

The last BDF was held in Dhaka on 15-16 February 2010. 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 was well attended by development partners, including 36 development agencies and donors, and more than 80 civil society and private sector representatives. Commitments were captured in a *BDF Agreed Action Plan* outlining 25 actions for government to be supported by development partners.

Under the LCG are a number of sector specific and thematic working groups, which include the PSD and Trade Working Group.⁴ This group aims to improve the understanding of donor-funded programmes and issues affecting private sector development in Bangladesh and to promote more effective coordination among various donor-supported private sector development programmes. The group meets at least once every quarter, or at other intervals agreed to by the members. Special meetings are held when necessary.

The PSD and Trade Working Group is the key mechanism for donor-government alignment. However, this has had limited government engagement. Indeed, it was only at the May 2011 meeting of the group that government participated. This was when the Ministry of Commerce began to chair the group. 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. It has two main donor agencies: DFID and the European Union. The IFC manage the BICF and ensure its services are carefully coordinated. For example, the monitoring and evaluation processes and requirements of participating agencies are consolidated and aligned. Similarly, the Katalyst programme provides a mechanism for some four donor agencies

³ For more information go to: <http://www.lcgbangladesh.org/>

⁴ Currently there are eight sectoral working groups addressing agriculture, food security and rural development, water management, water supply and sanitation, education, health nutrition and population, energy, transport and communication, and urban. There are nine thematic working groups addressing poverty, women's advancement and gender equality, governance, aid effectiveness, PSD and trade, climate change and the environment, information and communications technology – “Digital Bangladesh”, macro-economic and disaster and emergency relief. There is also one region-specific working group for addressing development issues in the Chittagong Hill Tracts.

to collaborate and coordinate their interventions designed to make markets work better for the poor. See Annex 1.

LESSONS FROM PRACTICE

Lesson 9: The lack of direct government involvement by the appropriate line-ministries makes effective donor coordination and government alignment difficult. Donors need to engage in these structures and ensure that their programme partners are equally engaged.

Lesson 10: Collaborative programmes and basket funding provides a very practical and effective way of ensuring donor coordination in BER-support programmes.

Box 6: DCED Donor Guidance Principle 13: Ensure good donor coordination

Development agencies should avoid duplication of reform efforts and coordinate their programmes with other development agencies. Collaboration among development agencies engaged in business environment reform shares risks and provides access to a larger pool of expertise. Even small steps, such as information sharing, can contribute to the more effective delivery of development resources. Where possible, multi-agency mechanisms should be used to support business environment reform and to promote agency coordination. Key elements to successful coordination are:

- A commitment by all parties to coordination and collaboration;
- Recognition at headquarter-level of the importance of coordination in the field - to allow country offices to participate meaningfully in local coordination processes;
- Regular processes and mechanisms for information sharing;
- Leadership and facilitation - this can be provided by the host government or by a nominated development agency;
- Identifying agency competencies and capabilities, and using this as a basis for a clear division of agency responsibilities; and
- Reporting on experiences in the field - successes, challenges, emerging lessons.

Developing and transition country governments can work with the development community to support, enhance and, where necessary, lead coordination and collaboration efforts. In some countries, a high-level government ministry convenes and chairs a development coordination committee; in other countries this role is rotated amongst members. In addition, development agencies should recognise the importance of supporting regional organisations. These organisations demonstrate the value of regional coordination and information sharing that can be used to enhance national reform efforts.

3 Designing BER-support programmes

This chapter examines the ways in which agencies in Bangladesh design their BER-support programmes. It seeks to explain how responsive agencies are to local demands and how they decide which reforms to address.

Three questions were asked of respondents:

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

The findings on these questions are presented below.

3.1 Focus on the binding constraints

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 has recently been encouraged, through its Mid-Term Review, to refocus efforts and not spread efforts too broadly and thinly. However, it was also suggested that problems with the policy, legal and regulatory framework have been significant barriers to growth. The problem with commercial dispute resolution, for example, was an identified issue for foreign investors and that this led to the BICF support for the Bangladesh International Arbitration Centre. Similarly, the BICF support for the improvement of company registrations and reforms of the Dhaka Customs House were considered to be based on assessments of some of the major obstacles to improving investment flows in Bangladesh.

A number of respondents indicated that 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 BBF and the RRC, 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 response, the BICF now works more closely with governments line agencies in its support of legal and regulatory simplification.

Box 7: DCED Donor Guidance Principle 7: Focus on the binding constraints to business growth and scope reforms accordingly

The success of business environment reforms is not determined by how the government does in reaching an artificial goal such as adopting a law, but by the effect reforms have on the behaviour of existing and potential businesses. Steady focus is needed if firms are actually to see material changes in their environment that induce more risk-taking, more investment, more innovation, and other desirable behaviours. Because there may be many areas of the business environment that require reform, the impact of reform is enhanced by assigning a high priority to those that have a strong bearing on the cost of doing business and the effective functioning of markets. These priorities vary from country to country, as well as across local business environments within the same country and between men and women. The greatest impact of reform will come from focusing on the most binding constraints to business activity. Development agencies often focus on the symptoms – the instruments themselves – of bad regulatory systems only to find that the system is resilient, adjusts and reverses the reform in a myriad of ways. If the same problems are created over and over again, development agencies should take a broad approach that changes wrong incentives facing governments and businesses. Governments that exhibit a pattern of poor regulation require changes to the system of producing regulation, whereas governments that are doing generally well, but have isolated and significant problems could benefit from narrow or one-off reforms in those areas.

LESSONS FROM PRACTICE

Lesson 11: 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 12: 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 and priorities undermine this sequencing. Government often deals with reform as a way of “putting out fires” than following a phased, long-term reform strategy.

3.2 Align with national development plans

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 PRSP 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. The World Bank Group is considering introducing budget support in 2012, but it appears that much work is required before this can be achieved.

While the PSD and Trade Working Group is the key mechanism for donor-government alignment its limited government engagement appears to have reduced its potential. In general donor-government alignment in BER has come from applying the larger development planning frameworks.

Box 8: DCED Donor Guidance Principle 12: Align business environment reforms with national development plans

Development agencies should align private sector development with broader economic, social and environmental policies and include business environment reforms in their efforts to promote private sector development, economic growth, gender equity, and poverty reduction. Similarly, support for reform of the business environment should be integrated into national planning instruments, development policies and global agendas (e.g., Poverty Reduction Strategy Papers, Private Sector Development Strategies, and the Millennium Development Goals). However, care should be taken when applying generic programme planning frameworks as many of these are based on broad poverty reduction perspectives that can be limited in terms of the role of the private sector and the importance of the business environment. Moreover, reform packages that are supported by development agencies should support the integration of policy, legal, regulatory, institutional, procedural, and technological and social solutions. Addressing one element alone (e.g., a new policy) is rarely good enough. While it is not possible to change all elements of the system at once, careful attention must be given to the ways changes in one area (e.g., the review of labour laws and regulations) will affect other areas (e.g., the role of regulatory authorities).

LESSONS FROM PRACTICE

Lesson 13: 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

There is clear evidence of programme sequencing by donor and development agencies over time. However, this 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 there is evidence that donor 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 (BEPZA). 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. For example, the Information and Communications Technology Act of 2006 provides for the use of digital signatures, while the Companies Act needs to be reformed to accommodate digitalised documents. Thus, the automation of regulatory administration has been a common

starting point for reform processes that can be built upon once knowledge, awareness and confidence have been increased.

The BICF has also supported reforms within BEPZA that are intended for testing and piloting. Should these reforms be successful, it is hoped that they can be replicated outside of these zones and applied across the country. An example of this is the BICF's support for PPD in the field of "social management" and environmental protection.

Box 9: DCED Donor Guidance Principle 8: Sequence business environment reforms and allow time

While a focus on the binding constraints to business growth is essential, the design of reform support programmes may not necessarily begin with these. It is often important to consider first-stage reform support programmes that build experience and confidence among reform stakeholders by focussing on those reforms that are the easiest or have the most immediate impact on the business environment and the performance of the private sector. If properly selected and designed, these reforms will demonstrate how reform can create improvements for business, while building competencies and confidence among programme partners. Development agencies should accept that systemic reform takes a long time. They need to be realistic when setting targets and timeframes for business environment reforms, particularly in a country context where the understanding and capacity for good governance are limited.

LESSONS FROM PRACTICE

Lesson 14: 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 15: 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 and projects

This chapter reports on the ways donor and development agencies 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.

Six questions were asked of respondents:

- 1 To what extent does the agency apply a clear communication strategy and make strategic use of the media (refer to DCED Principle 10)?
- 2 To what extent does the agency ensure domestic ownership of reform efforts (refer to the first part of DCED Principle 4)?
- 3 To what extent does the agency work with government as the lead agent (refer to DCED Principle 11)?
- 4 To what extent do agency programmes address the implementation gap by ensuring new or revised policies, laws and regulations are realised (refer to DCED Principle 9)?
- 5 To what extent do agency programmes strengthen the role and capacity of key stakeholders to engage in and manage BER (refer to DCED Principle 5)?
- 6 To what extent do the agency's programmes appear to balance international and national expertise in BER (refer to DCED Principle 14)?

The responses to these questions are presented below.

4.1 Communicating to programme partners and the public

The media 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. A number of respondents to this review referred to the strong and active media in the country.

Box 10: DCED Donor Guidance Principle 10: Formulate a communication strategy and use media strategically

Business environment reform processes should include an assessment of the role communication plays when a new way of doing things is being adopted. Planning a communication strategy requires answers to three key questions: Why is the work important? Which people should be made aware of it? What are the issues that need to be tackled? A sound communication strategy is crucial to developing and maintaining public awareness of business environment reforms and relevant issues. Communication should focus on the benefits of change, rather than on the costs of the status quo; a clear vision of the future system should be presented. Special attention should be given to working with the media. Print and electronic media can become powerful allies for development agencies in their efforts to raise awareness of the need for business environment reform and communicate the broader purpose of reform programmes.
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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 has assisted the National Board of Revenue (NBR) 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.

LESSONS FROM PRACTICE

Lesson 16: 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

Respondents to this review highlighted the importance of local ownership. Without this, reforms are difficult to implement and impossible to sustain.

Most business environment reform support programmes are focused at supporting agency level improvements, such as with the NBR and the Registrar of Joint Stock Companies and Firms. As a result, there appears to be a strong ownership of reforms within these agencies, at least at the senior level. However, 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. The recent BICF mid-term review found that there is a clear sense of ownership of recommendations on administrative reform by the members of the PPD at sub-national level.

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. Donor, government and business respondents shared this view.

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.

Box 11: DCED Donor Guidance Principle 4: Ensure domestic ownership and oversight of reform efforts

Development agencies should be unbiased brokers that bring together different stakeholders in the reform of the business environment. Domestic stakeholders should take full responsibility for the design and management of business environment reform programmes. While development agencies will support and work with these stakeholders, they should refrain from leading reform efforts themselves or usurping the responsibility of their programme partners. To ensure sustainable results in the long run, it is important that the national government and private sector have full ownership of the business environment reform process.

Organisational oversight is key to ensuring domestic ownership of reform efforts. While the presence of a high-level official at the centre of government or a high-level committee accountable to the centre has proved to be a success factor for business environment reform, it is also important that the designated oversight and management authority cuts across the whole of government. Involving representatives of the private sector (including representatives of businesswomen) and other key stakeholders in oversight structures and processes is also important.

LESSONS FROM PRACTICE

Lesson 17: Nurturing a core group of change-makers within government can pay long-term dividends and contribute to a more sustainable reform capacity.

Lesson 18: 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.

4.3 Working with government as the lead agency

As indicated in Section 4.2, above, 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 appears to be no single lead agency, although the Ministry of Commerce's recent chairing of the PSD and Trade Working Group appears to be an indication that this ministry may play a more active role.

Donor agencies, through the BICF, initially supported the establishment of the Regulatory Reform Commission (RRC) 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 (BB). 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.

LESSONS FROM PRACTICE

Lesson 19: Care should be taken when establishing 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.

Box 12: DCED Donor Guidance Principle 11: Work with government as the lead agent

Unlike other private sector development interventions, government is a primary actor in the process of business environment reform. Government and the other organs of the state enact laws and regulations that govern the behaviour of the private sector. It protects the interests of consumers, workers, owners of property, providers of finance, other businesses, and the environment; and it is responsible for discharging the rule of law and raising taxes to invest in public goods. The relationship that is formed between government and the private sector is of critical interest in business environment reform, as is the way government goes about regulating business activities. It can do this in ways that are transparent, predictable and equitable while reducing the burden on business.

Successful reform support requires a close working partnership with government in which development support adds value to government reform efforts. Development agencies should provide flexible support, information and guidance, and encourage government to take full ownership of reform efforts. This is consistent with the Paris Declaration on Aid Effectiveness; Ownership, Harmonisation, Alignment, Results and Mutual Accountability. In situations where government leadership is weak or unresponsive, it may be necessary to support processes that encourage leaders to pay more attention to reform, such as through the support of government think tanks or public-private dialogue.

4.4 Addressing the implementation gap—making reforms a reality

All respondents, including those in government, recognised that the capacity in government to manage and implement reforms is limited. Thus, there is a high demand for capacity building. A change in the “mindset” of government bureaucrats was often cited as a key element in the sustainability of reforms.

The automation of regulatory and administrative processes has provided a useful means of identifying weaknesses in the implementation of reforms and the need for capacity building. It has been interesting to note how reforms that automate and streamline regulatory and administrative processes have helped to develop an organisational robustness, which has improved the management of staffing changes.

Box 13: DCED Donor Guidance Principle 9: Address the implementation gap

Often, business environment reforms focus on policies, laws and regulations, but overlook the specific challenges associated with ensuring reforms are enforced and implemented. Development agencies should emphasise the importance of implementation. This includes a commitment to developing the competencies and capacities of development agencies and their partners to make reforms work – emphasising the need to address the often more complex issues associated with poor governance, organisational weaknesses and corruption.

LESSONS FROM PRACTICE

Lesson 20: Creating a reform-oriented “mindset” within government can improve the implementation of reforms.

Lesson 21: 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

Along with the support of reforms at the agency level within government, donors have focused their support for capacity building within specific agencies (e.g., BEPZA, NBR, companies registrar). However, the BICF has also supported the development of capacity within government through its Core Group. The Core Group helps to identify and respond to opportunities to reduce administrative burdens in the institutions and agencies in which group members work. However, the rotation of civil servants is a challenge to the sustainability of reform process. This is partly addressed by the training of the Core Group, but this training needs to be strengthened in order to embed the process in the particular institutions in which core group members are working.

The BICF has been 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.

Box 14: DCED Donor Guidance Principle 5: Strengthen the role and capacity of key stakeholders

Recognising local stakeholders and developing their capacity to participate in business environment reform is critical for successful and sustainable reforms. This can include strengthening the role and capacity of state agencies, the private sector and other civil society structures, as well as supporting better dialogue and advocacy, and building the capacity or ability of state agencies to manage reform programmes. While capacity development among state agencies can be a legitimate and useful response to the situations created by failed or weak states, working with other programme partners such as the private sector is equally important. Similarly, overly strong and interventionist states often require a counter-balance that is created by the private sector and other civil society groups. It is often necessary to support the embedding of regulatory reform processes into the systems of government or parliament. However, while capacity development is important, agencies should not support the reform of state agencies that artificially substitute self-regulatory market based mechanisms (e.g., accreditation, certification, membership of professional bodies). Development agencies should support a change in the culture in which business reforms occur, such as through the introduction of a client-oriented culture that encourages public agencies to treat their private sector clients in a more professional, accountable and transparent manner.

When building local capacity, development agencies need to disseminate relevant information on the developmental experiences of middle income and developed countries so that developing countries can draw upon historical evidence to make more informed choices about policies and organisations. Development agencies can also learn from the experiences of other agencies and other programme partners located abroad. However, it is always important to remember that solutions that work in one context need to be adapted to suit another.

LESSONS FROM PRACTICE

Lesson 22: 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

The over-reliance by donor and development agencies on international consultants appears to be a sensitive issue in Bangladesh. This is recognised by many agencies.

While some local programme partners and service providers argued that Bangladesh has a good local research and consultancy capacity, 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.

Finally, it was also suggested that the donor community tended to drive the local consulting sector. 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. For example, there are few consultancy firms focused on PSD.

Box 15: DCED Donor Guidance Principle 14: Balance international and national expertise

In order to build national capacity, development agencies should encourage and assist their programme partners to work with expert international bodies and consultants that are knowledgeable about good practices used in countries facing similar problems. While development agencies can facilitate access to best practices and cross-country experiences, care should be taken to balance the involvement of international consultants with national consultants. Development agencies and their programme partners should be prepared to spend the time and effort to guide consultants in the local context. They should ensure skilled nationals are engaged in reform programmes and provide incentives to keep them in the country and engaged in reform efforts. However, development agencies should take care to avoid hiring staff from the very ministries or agencies that are trying to lead reforms.
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LESSONS FROM PRACTICE

Lesson 23: Donor and development agencies can skew the market in which local consultants operate. This can encourage consultants to provide what donors want rather than specialist advice that addresses the concerns of the business environment and its reform.

5 Monitoring and evaluating 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.

Six questions were asked of respondents on this topic:

- 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?
- 2 To what extent are monitoring and evaluation indicators linked to identified needs and demands for reform?
- 3 To what extent does the agency ensure participation by domestic stakeholders in the monitoring and oversight of reform efforts (refer to the second part of DCED Principle 4b)?
- 4 To what extent does the agency attempt to measure the long-term impact of its BER-support programmes?
- 5 To what extent is the agency able to exert quality control and influence on its BER-support programmes and projects (refer to DCED Principle 15)?
- 6 Do you have any good examples or case studies concerning the effectiveness or impact of your BER-support programmes?

The responses to these questions are presented below.

5.1 Monitoring and evaluation frameworks

Most agencies supporting business environment reform in Bangladesh appears to have monitoring and evaluation frameworks in place, which are linked to the programme's logical framework.

The BICF is funded by two agencies (i.e., DFID and EU) and has formulated a monitoring and evaluation framework that meets the needs of all these. The BICF has its own monitoring and evaluation unit. 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.

Only staff from DFID were aware of the DCED Results Measurement Standard.

LESSONS FROM PRACTICE

Lesson 24: Monitoring and evaluating BER-support programmes can involve local agencies.

5.2 Linking indicators to the demands for reform

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 (PRSC) 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.

5.3 Involving local stakeholders

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.

LESSONS FROM PRACTICE

Lesson 25: 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.

5.4 Measuring long-term impacts

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.

5.5 Ensuring quality

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.

Box 16: DCED Donor Guidance Principle 15: Promote quality assurance in development agency support of business environment reform

Development agencies should ensure they provide the best possible advice and assistance to their partners when supporting reforms that lead to a better business environment. This requires agencies at headquarter and field-office levels to be familiar with current international best practice and responsive to the needs, capacities and expectations of their public, private and civic partners. Development agencies should encourage the transparent review and assessment of their programmes in collaboration with government, the private sector and other development agencies; they should support and participate in peer review processes and contribute to the improvement of business environment reform programmes through knowledge management, training and seminars, study tours and any other activities that promote the exchange of information and experience toward more effective support programmes.

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.

LESSONS FROM PRACTICE

Lesson 26: 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.

Annex 1: Summary of BER-support programmes

Below is a brief some of the major BER-support programmes currently in operation in Bangladesh.

Bangladesh Investment Climate Fund (BICF)

Aims to create a conducive investment climate in order to make Bangladesh a better place for doing business.

Funders: DFID, EU managed by IFC

Katalyst

Aims to increase the competitiveness of SMEs in selected sectors by improving market access, management and technical skills, quality and production methods. Focuses on working with private business service providers in primarily rural areas.

Funders: DFID, SDC, CIDA

For more information go to: <http://www.katalyst.com.bd/bee.php>

Post Literacy and Continuing Education

The project focuses on community based, need oriented literacy and skills training for employment and employability within the framework of NFE

Funders and partners: SDC, ADB, DFID, and Government of Bangladesh

South Asia Enterprise Development Facility (SEDF)

Targets poverty reduction through SME development in the specific areas of agriculture, RMG, light engineering and information technology. Also looks at financial sector & enabling environment work, focusing more on medium sized businesses.

Funders: IFC, DFID, NORAD

Technical and Vocational Education and Training

Aims to create a market-oriented and flexible Technical and Vocational Education and Training (TVET) system which responds to the demand for competitive skills of the modern sector as well as to the needs of youth and under-privileged groups.

Funders: ILO/ EU/ SDC

Bangladesh and Job Opportunities and Business Support (JOBS) Program

The Job Opportunities and Business Support (JOBS) program is aimed at creating sustainable employment by helping small, micro, and medium entrepreneurs

grow their enterprises. JOBS helps develop opportunities in areas other than ready-made garments to help diversify the production and export base. The approach depends heavily on identifying productive sectors with the potential to grow in export and domestic markets. JOBS seeks to identify entrepreneurs with the attitude and aptitude to move their businesses to the next level of growth. Assistance provided by JOBS includes such areas as: a) business management enhancements; b) introduction of improved production techniques and technologies; c) development of credible business and marketing plans; and d) participation in overseas technology transfer and marketing trade fairs. Firms receiving support have grown and added 5,000 jobs, with 80 percent of the positions having gone to women. This multi-year \$12.1 million project is implemented by University Research Corporation International (URCI) at the University of Maryland

For more information go to: http://www.usaid.gov/our_work/cross-cutting_programs/wid/snapshot/ane/bangladesh/bang_jobs.html

Annex 2: List of respondents

The Review Team met with the following respondents during the review week.

Annex 1: List of respondents

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AKM Mahbubur Rahman Member (Finance) Current Charge, Bangladesh Export Processing	Member-fin@bepza.org

Donor Committee for Enterprise Development

Zones Authority (BEPZA)	
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Annex 3: 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?