USAID
FROM THE AMERICAN PEOPLE

February 7-8, 2012 | Washington, DC

CREATING AN ENABLING ENVIRONMENT

PRESENTERS:

Russell Brott, Fintrac, Inc.
Wade Channell, USAID
Ronald Greenburg, USAID
Benjamin Herzberg, World Bank Institute
William Kedrock, Booz Allen
Bryanna Millis, DAI (February 7th only)
Doug Muir, DAI (February 8th only)

Moderator (Russell Brott): Mr. Brott described the overarching challenge of the session. The three goals for the session as laid out by USAID were to: (1) help participants see that the BEE is part of a larger ecosystem; (2) disseminate some of the most essential lessons learned about improving value chain competitiveness through enabling environment reform; and (3) enable participants to access resources to design and implement programs that take these approaches into account.

While most people accept the complexity of the system in which we operate, relatively few have demonstrated a clear approach to dealing with this complexity. This is probably because experts tend to be specialists in one area and to see problems—and solutions—through the lens of their specialization. As many of you know—agronomists tend to see the problem (and solution) through the lens of production, lawyers, through law, nutritionists through diet, etc. To more effectively deal with complex development problems we need to: (a) recognize our own backgrounds and biases (b) utilize the breadth of expertise available to provide meaningful multidisciplinary analysis/recommendations and implementation and (c) evaluate our time horizons for success with an eye towards sustainability instead of project life cycles.

Neither productivity increases nor policy reforms alone will cause the firm-specific or sector-wide transformation sought by donors. There is a substantial body of evidence that suggests firm-level improvements are necessary but not sufficient to catalyze national or regional development. Instead, a sound business enabling environment must be in place to ensure the viability of existing investments and the future for those not yet considered. For institutions such as USAID with a double bottom line, value chain-focused interventions (including support to increase productivity) + business environment reform (including reforms to create better incentives and lower the costs of doing business) are essential pieces of a larger puzzle of catalyzing sector or national-level development.

A systemic approach to development interventions recognizes the very real connection between enterprise potential and regulatory quality. The coffee market in Ethiopia is a good example: while most analysts agree that the number one most important thing the sector needs is increased firm/farm-level investment for improved product quality, until the regulatory environment is improved, the sector failed to reach its growth potential. Neither a business environment nor value chain approach would be able to truly succeed in isolation.

Wade Channell – Sr. Legal Advisor in USAID/EGAT, joined by video and discussed the "ecosystem for growth" which included lots of subsystems to frame thinking.

1. Markets – trade policy, customs brokerage, licenses
2. Infrastructure – roads, electricity, comm., water
3. Finance – equity (inc savings) credit
4. Policy EE – laws, regulations
5. Capacity – education training skills health
6. Governance – participation, transparency, accountability

Roadblocks: if we think through these 6 areas, and identify constraints, we may not be able to fix all of them, but we may redesign; coordinate with other donors, etc.

Bill Kedrock, Booz Allen Hamilton

There is more that we don't know than what we do know. Projects are experimenting, and are generally not yet in the replication phase. Sometimes the approach is replicable, but the ecosystem differs significantly, which makes replication difficult. Engaging the private sector on the EE is particularly challenging since private sector agricultural enterprises and associations are largely immature, struggling MSMEs who have less time to think about EE since they have so much urgent work to survive. Three questions surfaced:

1. How to decide when private sector dialogue is appropriate? Not always. We might be better leaving them alone. As an example, if we know it takes 60 days to start a business, and that this is a constraint to firm growth, then aren't we better off just addressing that and not sending them surveys about it?

2. (Related to point 1) How can we engage private sector without overtaxing them?

3. How can we better prepare the private sector to play a meaningful role without donor assistance? Lot of work to do here. You essentially depend on volunteers, so how do we bring them in in a sustainable fashion?

Benjamin Herzberg – World Bank Institute:

Benjamin Herzberg discussed the importance of building public-private dialogue (PPD) for successful policy project programming and as a means for stakeholders to discover priorities within the most competitive sectors.

His talk focused on the "how" as opposed to the "what" to reform. He argued against value chain work, since the work is often supply-driven from the donors, who lack the market and industrial engineering knowledge to advise private sector actors on how to improve their business processes—which explains the high failure rate of value chain projects, as pointed by USAID itself; even where successful, scaling such work up is near impossible unless they are ready to proportionally scale their cost.

He also refuted the claim made by other panelists that there is not enough evidence from the field on the positive impact of business environment on growth and competitiveness, re-emphasizing "what gets measured gets done"—and pointed to impact assessments available at the World Bank (WB) on the Doing Business approach and impact of Public-Private Dialogue and Investment Climate policy approaches.

While Wade Channel's "ecosystem" included market strategies as a key component of his ecosystem approach, Herzberg argued that one should not look at current market strategies to identify a sector's potential—rather, these should be studied second to the potential for a sector's competitiveness, based on current endowment when it relates to five foundation factors, namely: 1) policy/regulatory issues, 2) access to finance, 3) infrastructure, 4) skill development, and 5) environment for innovation, R&D and technology adaptation.

Herzberg said that the question of sector selection should not be seen in terms of "selection of one sector at the exclusion of another," but of "potential of one, which should be capitalized on as a priority," arguing that "sectors" are large and what matters at the business level are market segments. The World Bank and DAI produced the Sector Competitiveness Analysis Tool (SCAT), a step-by-step approach to identify sectors and products with the most competitiveness potential, and on public-private dialogue to analyze the gaps to a sector's environment and come up with public, private and public-private action items.

In terms of sector governance, and where value chain development would need to start, one should differentiate between market leader firms that benefit from unfair advantages (e.g. monopolies) from truly competitive firms.

Herzberg listed three elements that can promote reforms: 1) level of dialogue between public actors to set up industry-specific reforms; 2) level of collaboration/competition between private sector firms, e.g. joint investment and trade promotion projects, venture capital, etc.; 3) level of coordination between public and private sector, e.g. PPPs, joint investment, partnership with academia, innovation partnerships, etc.

In promoting economy-wide or sector improvements through public-private dialogue, designing, maintaining, and exiting such discovery institutions is more science than art. Creating working groups, establishing selection criteria for reforms (to prevent the capture of the agenda from public or private actors), and doing monitoring and evaluation are all tools used to build successful PPD (a toolkit is available at www.publicprivatedialogue.org along with case studies and good practice material).

He also pointed to the work of the World Bank Institute on collaborative governance; he leads the Private Sector Engagement for Good Governance (PSGG), which has resulted in strong governance improvement along sector competitiveness or sustainability improvements. The PSGG program contends that good governance is intrinsically linked to well-functioning sectors and one cannot be achieved independently from the other.

Sector development and sustainability are dependent on a set of imperatives which relate to governance imperatives: 1) Strong *coordination* between sector stakeholders to coordinate sector initiatives and policies means increasing *inclusiveness*. 2) Streamlined and effective *regulations* establish a level playing field, where clear rules and procedures create a *fair* sector environment. *3) Transactions* between the private sector and government need to be *transparent* to ensure against the risk of capture and to ensure delivery of services through increased accountability. 4*) Information* needs to be accessible to stakeholders to ensure fact-based decision-making and guarantee decision makers are held *accountable* for their actions.

Inclusiveness, fairness, transparency and accountability at the sector level are means to unlock sector development through the promotion of an open governance environment. Tools to establish a multi-stakeholder engagement process that ensures open governance practices and the necessary conditions for sector development and sustainability should complement product-specific value chain programs. Only the establishment of these fundamental conditions will ultimately lead to inclusive and sustainable growth, which is itself an essential condition necessary to alleviate poverty.

<u>Ron Greenberg, USAID Bureau of Food Security</u> – Mr. Greenberg started by asking how we made mistakes in donor projects that distorted the development market? Why do we see the same projects over the last 20 years? Projects that distorted markets and didn't have broader transformation effects may come back in other countries. This occurred in three ways: 1) Productivity distortions: Some projects focus on increasing production without taking into account market demand. There are many examples of production and productivity projects that significantly increase supply that exceeds market demand or processor use, which then results in price collapses, and everyone is worse off. Over the past 30 years, this type of project has tended to be repeated in many countries. To be successful and sustainable value chain projects, countries and donors need to focus on processors and aggregators and form backward linkages to producers, which guarantees that processors are linked to market demand. 2) Some donor projects subsidize a particular investment. For example a grant to give TA is provided to help SMEs grow. Collateral damage is that donor grants, often to US suppliers, provide immediate benefits to these SMEs, but they crowd out private sector BDS, and local service sectors can't grow. The same crowding out effect happens in projects that provide grants to SME and farmers, which undercuts the sustainable growth of microfinance institutions or bank lending to these borrowers. 3) Trade policy: for example, WTO insistence to liberalize trade regime can result in a country being flooded by imports with little benefit for exports, because of the lack of competitiveness. 4) In too many cases, donor projects support policy research, but don't work on growing local capacity. As a result, local skills, advocacy, and country-based consensus skills are not available after a project ends. 5) Policy and agriculture projects are not linked. As a result, projects don't lead to transformational change, are not scaled up, nor adopted by countries. It would be useful to marry the policy analysis and VC project to identify other constraints that were not seen or addressed that may be a greater

binding constraint to expanding, replicating, and scaling up value chain investments beyond the scope of a project.

Doug Muir, DAI – Mr. Muir talked more specifically about the nature of failed programs, and why there is a lack of uptake for good analysis. What a country wants vs. needs (for example, all countries think the answer is to focus on IT & tourism) often differs. The HealthCLIR analysis (which never took off because public health vs. private sector perspectives never came together effectively) in the Philippines highlighted the constraint of expensive drugs, so we looked at the sector to find the problem. Each level cartelized, with one actor dominating. When a sector doesn't take off, it is often a combination of market and culture problems. For example, in Ethiopia the government wanted to improve sesame exports to China. The GOE pushed for more processing/pressing the sesame locally in order to add more value. But there was a cultural constraint, which is that Ethiopian firms believe that Asians will not accept African products; as well as a market issue, in that the end buyers—the Chinese—don't want competition on the process side, as they feel threatened.

5 questions and challenges:

1. In terms of ecosystems for growth: a framework that makes a problem more complex isn't useful. Need longer time frame, needs to be differentiated per sector.
2. Linking policy projects with VC projects: yes, but the way they are linked depends on the context. Unidirectional: VC projects often feed into policy, not the other way around. Advocacy can be bottom-up, but for top-down advocacy, there is much to consider. "It's complicated."
3. Public/private dialogue: why do we want it, and when? Generally, it is important either to agree on actions, or to get implementation going.
4. Strategies for effectively engaging the private sector
5. How to properly assess and understand the impact of donor programs.

This event was hosted by USAID with funding from the Accelerated Microenterprise Advancement Project (AMAP) Knowledge and Practice II task order, implemented by ACDI/VOCA.