

Making Markets Work for the Poor

Case Studies Series*

Improving the environment for small businesses in Indonesia and Russia: Experiences from Swisscontact

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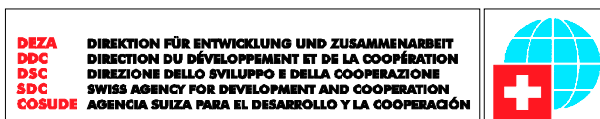
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Summary

Improving the environment for business is a key priority by many governments and development agencies across the globe. Indonesia and Russia are certainly not favourable places to do business, ranking 115th and 79th respectively (out of 155 countries) in the World Bank's "Doing Business" assessment in 2005/06. This case examines Swisscontact's experience in stimulating a more conducive environment, particularly for small businesses. Learning from its own experiences and that of other agencies, Swisscontact sought to depart from conventional approaches and in doing so, has intervened in a way which is consistent in many respects with a making markets work for the poor (M4P) approach. These differences are shown in terms of Swisscontact's rationale for intervention, understanding of market systems, interventions and ultimately the sustainability of their impact on local systems.

Market understanding

Guided by a systemic view of the business environment, a number of key constraints to making business environment reform work for small and informal businesses were identified, including mechanisms for dialogue, weak public and private sector capacity, and organisation and lack of support functions such as, research, information and communication. Knowledge of these specific local systems and constraints increased in an iterative manner for both for Swisscontact and the local stakeholders with which they worked during the course of interventions.

Interventions

Swisscontact conducted an array of interventions guided by their emerging understanding of the local systems in which they were intervening. Key interventions included business environment assessments with stakeholders, strengthening of private sector representation organisations, specific capacity building for government, involvement of other specialised stakeholders such as the media and universities in reform processes and support for new mechanisms for public-private dialogue. In contrast with conventional approaches, Swisscontact's approach:

- § emphasised process, intervening *with* stakeholders to encourage ownership;
- § concentrated on supporting functions and rules – the system – for environment reform, rather than trying to deliver specific reforms directly;
- § was guided by an ethos of sustainability: that capacity and commitment for reform should reside within the local system after Swisscontact had withdrawn;
- § built on a reputation of independence and credibility as a result of an established presence on the ground, through a variety of other areas of private sector development intervention.

Impacts

Swisscontact's experiences span numerous locations and interventions over many years, often subsumed within multi-faceted private sector development interventions. For this reason, and the fact that the impacts of enabling environment reforms are notoriously difficult to assess, Swisscontact's information about the impact of its interventions is not comprehensive. However, several encouraging dimensions of change have been observed:

- § Evidence of sustained change, commitment and practice within the system
- § Perceptions among the stakeholders have improved due to frequent interaction
- § Anecdotal evidence of positive impact on public services and their users

Whilst Swisscontact's impact has been relatively modest, their experience in applying the M4P approach to enabling environment reform offers valuable insights into how agencies can encourage sustainable and appropriate EE reform processes which respond to and are driven by local ownership and, in particular, the needs of small and informal businesses. It is from the "how to" dimensions of this experience that other agencies can learn and build.

1 Introduction

The International Donor Conference "*Reforming the Business Environment*" in Cairo in 2005 emphasised that reforming the business environment is an important area of the international development agenda, as an important aspect of private sector development and encouraging pro-poor growth. In reviewing recent international experience of efforts to improve the business environment, a number of observations and challenges have emerged:¹

- § There is no common understanding of what constitutes an enabling environment. Conventional enabling environment interventions have targeted policy, legal and regulatory reform, usually at the macro level.
- § In general, agency efforts have focused on delivering reform rather than strengthening local institutions that can conduct reform processes on an on-going basis. This has been compounded by a narrow focus on government rather than on the wider spectrum of supporting actors who influence the business environment and reform processes (media, business representative groups, legislators). Consequently, local ownership has been neglected with the result that reform processes have often proved unsustainable. There is increasing recognition of the need to build local ability to conduct reform and to rethink the role of development agencies in doing this.
- § Enabling environment interventions have been criticised for their generic focus on private sector development and their failure to understand why the business environment is not conducive for the poor or particular disadvantaged groups.
- § Some agencies have found it difficult to move from analysis to intervention. Information collection has tended to describe the symptoms of rather than address the underlying reasons for an adverse business environment.
- § Many interventions have (unsuccessfully) attempted to import or replicate models and mechanisms, which are inappropriate for prevailing local conditions.

The main lesson from this experience is that the success and sustainability of reforms can only be ensured if they are integrated into specific cultural, social and economic contexts. Business environment reforms work best when they are designed based on a sound understanding of specific national and sub-national contexts and build on the ownership and involvement of local stakeholders.

A consideration of enabling environment issues features prominently in "making markets work for the poor" (M4P) approaches, where an understanding of the "rules of the game" influence whether markets are pro poor or not is the starting point for intervention.

This case study draws on a range of small-scale and pilot activities by Swisscontact in Indonesia and Russia to improve the business environment. The case provides some insights into how M4P-oriented ways of implementing improvements in the environment for businesses can overcome some of the problems mentioned above and illustrates what M4P can mean in practice. That said it should be recognised that the interventions described in the following sections were neither comprehensive nor

¹ Ref White et al; Donor Committee and DFID

designed explicitly to serve as M4P interventions. They were evolutionary and reflect learning in the real world, which is consistent with M4P thinking and practice.

Table 1: Project information

	Indonesia	Russia
Project Name	Small and Medium Enterprise Promotion Programme	SME project
Location	Different locations in Java, Indonesia	Nizhny Novgorod, Russia
Implementing agency	Swisscontact	Swisscontact
Funding agency	Swisscontact/ SDC	SDC
Timescale	1989 – ongoing	May 2002 - April 2006
Funds	CHF 6.7m (across whole project)	CHF 3m (across whole project)

2 Rationale

Indonesia and Russia have little in common other than their size and diversity population. There are however certain commonalities in terms of their business environment: there is little tradition of dialogue between government and citizens, especially small businesses, institutional weaknesses are pervasive and official attitudes towards enterprises historically have been negative. Indonesia and Russia are certainly not favourable places to do business, ranking 115th and 79th respectively (out of 155 countries) in the World Bank's "Doing Business" assessment in 2005/06.

Table 2: Indonesia and Russia: basic figures

	Indonesia	Russia
Population	230m	143m
GDP growth rate	5.5%	6.4%
GDP / capita	US\$ 800	US\$ 9,800
Provinces	32	7
Districts	450	87 (oblasts)
Surface area	2 Mio. Km ²	17 Mio. Km ²
Population density	111 inhabitants / Km ²	8,4 inhabitants / Km ²

Recently, this situation has begun to improve. Decentralisation (in Indonesia more than in Russia) and increasing pressure on national and local governments have fostered greater recognition and willingness to improve the business environment. This has been accompanied by recognition of the need for a shift in governments' roles. Nevertheless, governments and other stakeholders remain challenged to actually deliver on this new level of commitment. Development agencies can play a role in overcoming this challenge by engaging with local partners to stimulate new or more appropriate practices and mechanisms, which transform reform from an aspiration on paper to reality on the ground.

2.1 Indonesia

Decades of the Suharto hegemony stifled all forms of public dialogue, left governance mechanisms weak and resulted in huge power imbalances: between the centre and the regions, government and business and large and small enterprises.

The financial crisis of the late 1990s exposed the weakness of this governance structure and caused instability, conflict and recession. However, the crisis also demonstrated the importance of small businesses to Indonesian economy and the poor in particular: during the crisis these businesses proved to be the economy's backbone. This changed policy-makers' perceptions and willingness to support small businesses has grown enormously as a result.

In spite of this positive change, the historical legacy of the Suharto era, combined with a rapid process of decentralisation and regional autonomy (as part of the new

democratic era), has created a business environment, which is hostile, especially for small businesses. Although this problem is widely recognised government and other stakeholders appear unable to respond effectively. There has been a tendency to roll out standardised models such as “one-stop-services” (OSS) facilities, which are inappropriate for local contexts and which do not address the root causes of the business environment problem.

However, decentralisation has also generated an opportunity for agencies like Swisscontact. New and rejuvenated local administrations feel more accountable to local people and appear willing to depart from conventional ways of doing things: an appetite for reform exists which has permitted Swisscontact to make multiple interventions in numerous locations over time

2.2 Russia

Like Indonesia, Russian society is changing. It has undergone a transformation towards a market economy, necessitating a shift in the respective roles of businesses and government. The business sector is trying to respond to challenges of doing business in a new era with new types of customers, markets, technologies, attitudes and expectations. In responding to these challenges, businesses are increasingly affected and frustrated by an institutional environment, which has yet to catch up with their evolving needs. The regulatory system is generally unsupportive of small business and administrative functions are distorted by a culture of suspicion of business, arising from a perception of business’s growing ascendancy over government.

In Nizhny Novgorod, a disjointed, anti-competitive and anti-business stance is apparent at different levels of regional government. This stance is caused by government’s lack of understanding about its role and its lack of capacity to fulfil an appropriate role. From the business side, there is increasing awareness of the impact of regulatory costs on business, as effects of government’s general hostility towards business on investment decisions, business performance and growth. In spite of this awareness, the business community’s capacity to engage with government is weak, as result of a minimal degree of organisation and limited capacity to advocate effectively for change within those business organisations that do exist. However, government recognises the fact that small businesses are starting to organise themselves and express interest in coming together with regional government to tackle business environment constraints.

At the federal level, there are government directives about the challenges for government and business to work together in partnership to meet outstanding issues (see insert). There is also a positive impact of the Federal Ministry of Small and Medium Enterprises (SME) investing in operations in the Nizhny Novgorod Oblast, formally tasking local authorities with an agenda to promote business, particularly small enterprises.

I would like... to repeat once again – in my opinion, both public authorities and business are equally reluctant in solving many of the problems and travel reluctantly enough their paths toward each other... the Government was given the commission to develop measures improving essentially the conditions, under which enterprises have to operate “at start”. It is also obvious that the existing underhand practice of issuing licenses as well as unjustified delays in exhibiting privatized enterprises for sale limit the scope of energy and capital application by the Russian entrepreneurship... The State has to provide business with predictable working conditions, protect against administrative arbitrariness and monopolists pressure.

V. V. Putin., March 24, 2005
Meeting of the Government of the RF with representatives of Russian business community

These dynamics – that is, government recognising the importance of small businesses and small businesses beginning to engage with the government – created an opportunity for SC (already present in the region) to engage with government on business environment reform issues.

2.3 A pro-poor rationale for enabling environment reform

Swisscontact's engagement in EE in Indonesia and Russia has been driven by the explicit consideration of how EE adversely affects small businesses and poor households specifically, and in particular, are the constraints at the local level, where small businesses and the poor have the most contact with formal public bodies. This differs from conventional business environment intervention which, as noted earlier, have often tended to not to focus on the local level, nor sought to understand how the business environment affects specific disadvantaged groups. In particular, reform processes fail to include the poor because of their lack of visibility, organisation and representation.

Swisscontact's perspective was to understand the wider picture of the business environment and what was required for it to be more conducive for small businesses. The problem lay not only within the nature of interaction between local governments and small businesses, but also because of what surrounded that interaction: the supporting functions and rules governing behaviour and lastly shaping the incentives of local stakeholders. Understanding why the existing "rules of the game" were not fostering effective dialogue between public and private actors meant looking at the wider system of the business environment reform.

3 Understanding specific market system constraints

3.1 General approach adopted by Swisscontact

Swisscontact's approach to understanding the business environment was defined by a number of features: (a) focus on the wider system for business environment reform; (b) the centrality of information; (c) identifying why systems do not work for the poor specifically and (d) on-going process.

The business environment as a system

In both Indonesia and Russia, SC has – in different ways – come to recognise the importance of looking at and understanding the enabling environment as a "system", in a way which is consistent with M4P, rather than just pursuing a specific reform measure. The two experiences are different. In Indonesia, a systemic view emerged over a period of time, based on SC's experience. In Russia, SC's picture of the system was arguably more complete from the outset.

A system for reform consists of different actors with different interests and incentives, formal and informal institutions such as regulations or culture and supporting functions such as information and knowledge that facilitate the interaction between the different actors or that create awareness of specific regulations. The enabling environment as a system can only be genuinely improved if change is triggered from within the system. Furthermore, the need to reform the enabling environment is not an isolated event. The Actors should be able to repeat change processes in the context of an ever-changing business world. For this, actors within the system need appropriate capacity to engage in reform.

SC recognises the need, therefore, to understand the alignment, incentives and capacities of key players in the system, to identify opportunities needed to strengthen more appropriate capacity and ownership of the reform process once Swisscontact has exited.

Analysis and diagnosis: the importance of information. Locally available information has been used to identify appropriate entry points for intervention: understanding the specific political economy and governance structures of a region, town or municipality helps to identify champions and to work with rather than against prevailing incentives. Experience has taught Swisscontact that information generation also serves as a tool of intervention in its own right and not just as a means of *defining*

intervention. For example, to highlight perception gaps between different actors as basis for establishing dialogue or as a way of strengthening the roles of different players (e.g. institutional mapping for government or analysis services by the private sector or universities and media). An example is the *Regulatory Impact Assessment (RIA)* that SC uses to raise government's awareness on regulatory impact on small businesses.

Box 1: Regulatory Impact Assessment (RIA)

Regulatory Impact Assessment (RIA) is an analysis of impact of regulation on businesses and households and is commonly used in enabling environment interventions. Swisscontact uses RIA as a tool to raise the awareness of local governments and to stimulate public-private dialogue for improving the environment for businesses. Because of assessment, specific regulations to be reformed are identified and jointly selected by government and other stakeholders.

Swisscontact does not regard RIA as a static tool, but part of a continuous process of reviewing new and existing regulations and the impact of any changes made. RIA-like methodologies have to be embedded within local governments if they are to deliver appropriate policy and regulations over time. Swisscontact adapted RIA to be appropriate and affordable for the resources of governments in low income countries – something that had not always been the case when RIA has been used in conventional interventions. Swisscontact develops the capacity of relevant parts of local government for RIA, promotes links between government and local technical specialists and raises awareness of regulatory good practices amongst influential stakeholders (such as media and legislators) to ensure that pressure for the use of RIA continues to be applied after Swisscontact has withdrawn.

Information also can lay the ground for public-private strategies for the improvement of the local environment, such as common action plans. An innovative method that combines participatory analysis with the development of local strategies is the *Triple A approach*.

Box 2: Triple A approach

SC has supported local governments since the start of decentralisation processes in Indonesia and Russia and has gained experience in regulatory reform issues and the use of instruments for stakeholder participation. However, it became increasingly obvious that such instruments – in order to be effective and have a strategic value – need to be combined with a strategic orientation for local economic development, which is shared, by government, the private sector and other stakeholders. Such joint strategic orientation is missing in most Indonesian and Russian local environments, resulting in scattered local economic development interventions by government.

To overcome such problems the Triple A process was developed:

- § **Atlas:** A mapping of the local areas assets in terms of infrastructure, education, health, economic indicators etc. was created, conducted by the public and the private sector. The atlas utilises data which is already locally available but typically not brought together in an accessible manner.
- § **Agenda:** An overview of existing investment and developments plans, which is jointly put together in a common and accessible format, laying the ground for common development strategies and more coordinated actions.
- § **Aturan Main (rules of the game):** This is a description of Triple A processes, how decisions are taken, disputes resolved and collaboration between government and other stakeholders conducted.

The key success factor for Triple A is having an accessible and continually updated information resource, established in transparent way and owned, resourced and shared by all stakeholders.

SC's experience illustrates information and intervention are inextricably linked. There is a strong feedback loop from generating information to developing interventions and vice versa: information can be an intervention and an intervention can be a source of information. This means that understanding a market system is an iterative process not given to large-scale, formal and one-off assessments, but more regular, quick and iterative assessment.

SC uses different tools that utilise locally available information and knowledge to ensure participation and ownership for system change. SC applies a combination of relatively rapid business climate surveys and adapted consumer research-style surveys of different stakeholders (e.g. to understand perception gaps), regular interaction/informal interviews with key informants, focal group discussions, institutional appraisals, secondary sources, information from SC's other fields of intervention, etc.

Information and analysis as part of the system

It is important to recognise that systems are dynamic and that the actors within systems change or adapt their behaviours and plans according to this dynamism. Therefore, analysing the constraints of the business environment is an ongoing. Swisscontact tries to ensure that the local stakeholders have the necessary capacities and competences to continue analysing and improving their environment after SC has already exited the system.

It is important to recognise that many of SC's interventions with local partners were explicitly about enhancing their capacity to collect information and conduct analysis about the business environment. Therefore, development of understanding goes hand-in-hand with local partners. For example, interventions to develop ombudsmen or complaint centres have generated information about the local environment constraints, which have further informed SC interventions, as well as the actions of local actors. Local ownership and local capacities to ensure changes in the enabling environment are therefore the main drivers of systemic change and need to be in SC's focus when intervening to improve the environment of small businesses.

Identifying why systems do not work for the poor

In focusing on where the poor are in the business environment and how it affects them, Swisscontact has found that its analysis has to go beyond the conventional enabling environment focus on formal macro policy, legal and regulatory constraints. Applying participatory tools that put the poor at the centre of analysis can lead to surprising conclusions. For example, complaint centres that were established in Indonesia report that 41% of all complaints received in 2005 related to basic services: water, waste collection, maintenance of public spaces, public market infrastructure and basic legal documents, like land or birth certificates. On a day-to-day basis, these issues often matter more to micro and informal entrepreneurs than formal or sophisticated matters like licence- or finance-related issues (32% and 21% of complaints respectively). Focusing on such issues helps ensure that business environment reform is more pro-poor.

3.2 Indonesia: From SME organisations to market systems

Swisscontact has long history in small enterprise development in Indonesia, originally focusing on skills development and then business services. This involvement on the ground, at the local and enterprise level led Swisscontact to recognise that it also needed to focus on the wider environment for enterprises, as this was the source of many of the constraints enterprises faced. The development of Swisscontact's understanding of the business environment has been evolutionary:

Initial focus on the private sector

Original assessments, derived from experience on the ground, focused more on the private sector,² and concluded that small businesses lacked the recognition, organisation and information to be taken seriously and make their case in a constructive manner towards local government authorities. One of Swisscontact's initial strategies therefore was to strengthen informal groups of 30-150 enterprises known as FORDA (local SME forums), 72 in 21 provinces. A key feature of the approach was to work with FORDA on preparing and conducting a 10-city survey that helped to raise awareness within the FORDA and to ensure that better information was at the disposal of FORDA for more informed dialogue with other stakeholders, as well as, a source of information for SC itself.

The FORDA implemented an *SME Environment Rating System* (with indicators for bureaucracy, access to credit and services, access to input and output markets, and infrastructure) in 10 different cities (based on samples of 25-30 entrepreneurs per city). The key constraints identified were: excessive bureaucracy, no access to finance, no access to markets, missing supporting services such as research institutions or training facilities. The result of making this information available to the public was higher levels of recognition of FORDA. Further self-help groups emerged and the survey instrument became widely accepted by BMO, government and development agencies.

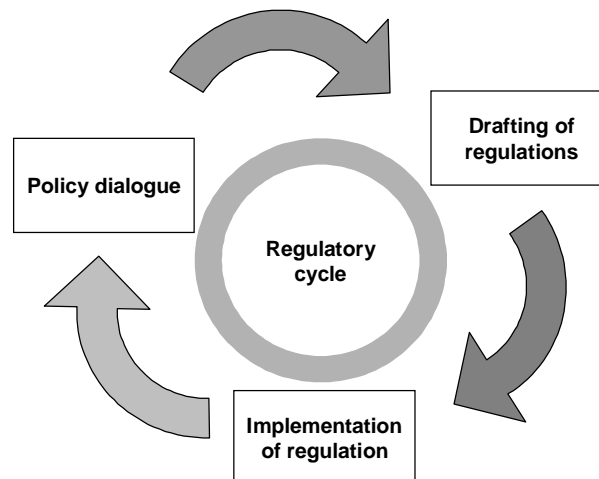
Understanding the wider system

Further assessment and experience indicated that whilst better, small business self-organisation, combined with better access to information, was vital (and business representation strengthening remains an important focus of Swisscontact's work), it was concluded that Swisscontact's original assessment and focus was imbalanced. In particular, issues articulated by FORDA were not being addressed by government. Further investigation led Swisscontact to build up a more nuanced assessment of constraints in the system, which revealed the following key constraints:

- § A lack of understanding of all stakeholders for the structures and regulatory regimes involved in specific areas of reform, in a dynamic and evolving context.
- § The mechanisms for dialogue, complaint and redress between SME, government and other stakeholders were either absent or weak.
- § Government practices in terms of information gathering, regulatory consultation and review, coordination were rudimentary.
- § The awareness and attitudes of all stakeholders with respect to the business environment were limited, contradictory (due to perception gaps) or even hostile.
- § There was limited availability of local information and limited research capacity with regard to business environment.
- § Other stakeholders who were potentially important in the business environment, among them media, parliament and other supporting functions and actors (such as consultants, universities and IT consultants) were not particularly well informed or active (being often neglected by other reform efforts).

Figure 1: Regulatory Cycle

² This private sector emphasis reflected SC's strong orientation and experience towards SMED at the time: engagement with government, for example, was not perceived as their core competence.



3.3 Russia

The Russian experience was less evolutionary than in Indonesia. From the outset, SC was clear that reform is a process involving multiple players and that Swisscontact must therefore understand players individually and collectively in terms of the way they interact: their incentives and capacity. Therefore, SC commissioned an institutional research project “*Interaction of Authorities and Business: Overcoming Administrative Barriers*” which was conducted at the beginning of 2005. Methods used included a survey of BMO leaders, focus group discussions with representatives of SME and secondary research drawing on studies of administrative barriers in Russia prepared by other technical specialists.

The research showed that in the context of the present political and economic situation BMO, to which authorities would delegate some of their control, supervision and licensing functions, can be the most effective instrument of overcoming administrative barriers. The results indicated a variety of public, private and public-private constraints:

Private sector weaknesses

Legislation was passed 2002 allowing the creation of BMO. Their emergence has been steady. Between 1999 and 2002 the number of public organizations of entrepreneurs in the Nizhny Novgorod region grew more than 10 times: in 1995, there were 4 BMO; 14 more by 2000, and another 17 formed by the end of 2002. However, organisations were, inevitably, weak because of their relative infancy and prevailing conditions in Nizhny Novgorod. In particular, they struggled to raise membership fees for advocacy issues, as entrepreneurs are already paying fees (in the form of bribes) directly to officials – an alternative mechanism for resolving regulatory issues. This was undermining the sustainability of BMO.

Public sector weaknesses

Furthermore, the analysis showed strong institutional weaknesses in the public sector:

- § A lack of understanding of all stakeholders of the institutional structures and regulatory regimes within a constantly changing context.
- § Multiplicity of players, all reporting to different parts of government (local, regional and national): for example, it was estimated that there were more than 30 institutions employing more than 600 people directly on business issues.
- § A lack of government capacity generally with respect to understanding and responding to business needs.

§ A lack of organised routes into government to specifically tackle business environment issues (there were no signs of an appropriate government unit with the explicit mandate of tackling business enabling reforms being established).

Lack of effective mechanisms for public-private dialogue

In principle, formal dialogue channels were established through:

- (a) The Council on Entrepreneurship and Business Initiative Development, within the Trade Chamber of the Nizhny Novgorod region and
- (b) The members of the special structure created under the Governor of the Nizhny Novgorod region named 'The Council on Entrepreneurship Development in the Nizhny Novgorod Region', created based on a decree of the regional government in 2002.

In practice however, these channels were not effective, as findings from two business reports indicate. Firstly, there were no forms of interaction open with government: *"There are no forms of interaction and cooperation with the local authorities. We tried ourselves to get in contact with them having developed definite proposals but useless. The authorities consider small business to be a vice (the expression of the head of administration)..."* And secondly, if there is dialogue it yields no results: *"We take part in all the meetings with the authorities on all the levels. If there is any important activity or event organized in the region on the SME support topics or foreign investors come to the region, then we are also invited. However, there are no practical results out of all that, simply nothing."* (Guild of Bakers and Confectioners)

What emerged from both Swisscontact Indonesia and Russia's efforts to understand the system was that there was a lack of basic *understanding* of the regulatory challenge (which actor is responsible for what in the system? What are specific causes of adverse impacts on businesses?), a lack of basic capacity within government on its *role vis-à-vis* businesses and a lack of *routes* into government for providing businesses' perspectives and weak business representation and organisation. This leads to SC's conclusion that multi-faceted interventions adapted to specific contexts are required to address these constraints.

3.4 Understanding systems for business environment reform

These experiences demonstrated to SC the importance of understanding the business environment as a system, one where in effect there is supply, demand, supporting functions and rules, performed by multiple players (see diagram below). This starting point is different from many EE efforts, which tend to be narrower in their definition.

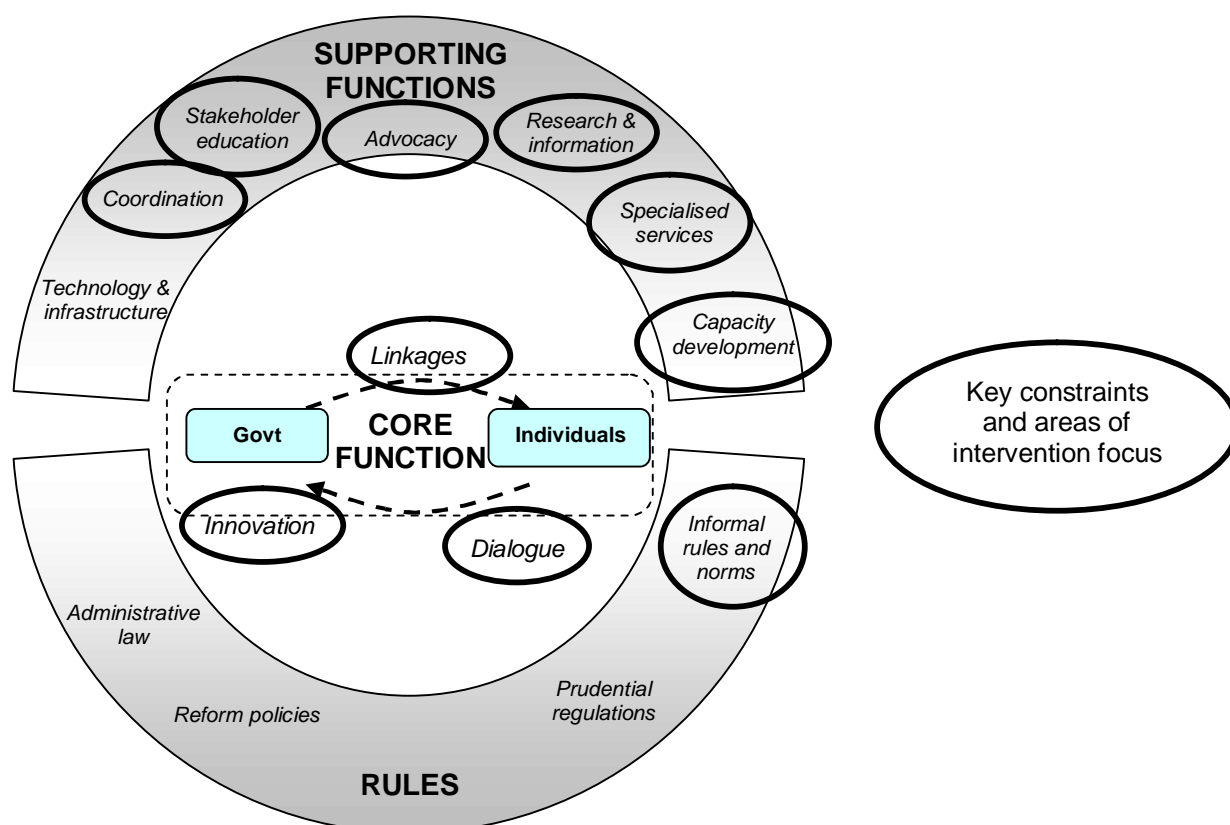
There are benefits of this wider understanding of the picture:

- § This systemic understanding helped give a more realistic view of sources of problems and potential solutions and more options in terms of interventions in a specific context.
- § In particular, understanding the balance of incentives (the political economy of the enabling environment) and specific institutional mechanisms is vital, if local ownership and therefore sustainability wants to be reached.
- § This approach avoids working with a singular perspective and with a single partner, reducing the risk of imbalance and bias.

SC recognizes that information is a critical and integral part of the system. As will be discussed in the next section, it is important to think carefully about how to go about information collection and provision – working through appropriate local players to ensure sustainability. This contrasts with many EE interventions, which tend to see information and analysis as the role of the project. For example, White suggests that enabling environment interventions need to *"offer sound analysis"*. While it is certainly the case that projects need to have information to be credible to partners, their key role

is assisting appropriate partners to develop capacity to conduct such analysis themselves and stimulate other stakeholders to “demand” such information. For example, the so-called “bulldozer approach”³ would conduct the analysis and stimulate the reform process itself. In the case of the BMO weaknesses cited above, their role would be further marginalised rather than strengthened by such an approach. With the M4P approach, one would ensure that BMO or similar player are the driver and capable of conducting or commissioning such analysis themselves.

Figure 2: Key constraints and areas of intervention focus



However, such an approach has practical implications. Multiple assessment instruments are required that are regular, quick and dirty, rather than extensive studies. There are many different ways of getting information, some of which require pilot interventions. Such an iterative and participative approach is time consuming.

To summarise, the analytical tools that SC applies in assessing the constraints of a business environment are mainly participatory and build on local knowledge and involvement. By working through relevant local stakeholders as far as possible, local ownership is ensured. In this respect, clear and tangible contributions are vital for all parties: Swisscontact contributes its staff time and expertise; local stakeholders contribute their time, information, knowledge, networks and infrastructure; financial requirements – typically modest – should be matching where possible. Most importantly, even at this analysis stage, it is important that the implementing agency has a clear exit strategy, explicitly signalled and constantly reviewed. This requires an iterative process, with regular feedback loops.

³ A term coined by some agencies to describe an approach to business environment reform which is more active and direct, with the intention of creating a high profile impetus for reform.

4 Interventions to strengthen the system

Swisscontact's interventions have been guided by two considerations, which emerge from experience in the business environment field and fields, such as business services: first, that a good understanding of the local system is essential; and second, there have to be explicit and realistic objectives for sustainability from the outset. This meant being clear about "where" Swisscontact is intervening in relation to the system, "who" it is engaging with and "how" it is conducting intervention, in terms of the kind of relationships it has with partners, how much support it provides and the type of support provided. These factors are derived from Swisscontact's objectives to "crowd in" local actors, wherever possible, to shape and take ownership of reform, rather than "crowding out" local actors by excessively direct and intensive project interventions.

Interventions have always tried to understand and build on local ownership and norms. The understanding of political economy that Swisscontact has developed and the information generated is used to identify and alter perceptions, create awareness and strengthen appropriate incentives. Interventions have generally focused on the local level (although often requiring a good understanding and networks at the national level): this is where SC's assessments indicated constraints were located, this is where conditions present the best opportunities for intervention (e.g. as a result of decentralisation) and this is where Swisscontact – as a small agency – had the strongest offer.

Swisscontact has recognised that different reform mechanisms prevail in different places. The specifics of interventions therefore depend on analysis of the specific system in question, meaning that a "blueprint" intervention approach is not realistic. However, the general principles of intervention have been similar in all cases. Swisscontact has tried to intervene as sensitively as possible – by "right-sizing" its support, working through others where possible and by being a catalyst rather than a direct actor or financier – to stimulate appropriate solutions which are locally owned and driven.

Swisscontact has undertaken myriad interventions over a period of years in several areas, which are impossible to document in a short case study.⁴ In the following section, only a flavour of main areas and experiences can be described.

4.1 Indonesia

Swisscontact's interventions have focused on strengthening business organisation and representation, improve government capacities and enhance the public-private dialogue, working indirectly where possible in order to strengthen local supporting functions related to business environment reform.

Strengthening private sector organisations (FORDA, BMO, etc.)

The experiences in establishing FORDA (as referred to in Section 3.1) reflect an M4P-like approach that creates local ownership through joint information gathering and awareness building. The approach provided a stimulus for local stakeholders by building their capacities and some matching funding (with local contributions of at least 50%). Furthermore, it improved the stakeholders' access to information and their capacity for system analysis: the know-how to do the city survey has been retained by FORDA, enabling them to do follow up on the improvement of city authorities' regulation of the business environment.

Improving government practices

By introducing instruments such as the RIA, Triple A (see chapter 3.) and business climate surveys, SC introduced not only right-sized techniques into government, but

⁴ It is important to acknowledge that Swisscontact's established presence in a country and its track record were essential preconditions in its ability to intervene in systems characterised by conflicting interests to address sensitive issues such as rent-seeking.

also made sure that other stakeholders such as local businesses were involved, either in the analysis, coordination or oversight roles or the development of local strategies to improve the business environment and facilitate economic growth. The involvement of a variety of stakeholders ensured distribution of awareness and capacity and also some measure of transparency and control.

Enhancing public-private dialogue

The following examples of interventions are the result of an iterative process of assessment and interaction with local partners and have been completely locally driven. Swisscontact's role was to assist partners to formulate their own solutions, link them to other actors and encourage collaboration. Solutions aimed at improving and institutionalising the dialogue between the different stakeholders.

- § *Complaint centres:* Swisscontact assisted city mayors in establishing their own initiative, a hotline placed within and funded by local government, which small business and individuals could call to make complaints or report problems regarding business environment issues (e.g. electricity, water, sanitation, business licenses) and which then directed those complaints to appropriate departments. Areas of Swisscontact support included assisting local administrations to work with IT specialists and develop codes of conduct governing the complaint and response mechanism.
- § *Small business councils.* SC worked with a local think tank to establish SBC as collective (public-private) oversight and coordination organisations that strengthen the complaint centres by monitoring and pursuing actions taken by the government in response to complaints.
- § *Ombudsman.* Swisscontact assisted local government to establish Ombudsmen, a more active version of the complain centre, which act as a bridge between local businesses and government. SC provided technical assistance to the Ombudsman and local government provided the human resources and infrastructure.
- § *Triple A.* This is an other example of enhancing the public private dialogue: the participatory process of mapping economic opportunities and constraints in the business environment leads to the development of a common strategy to take concrete actions for local economic development based on common understanding, agreement and commitment of all (public and private) partners involved.

Stimulating awareness and engagement of rules and supporting functions

In many of its interventions, Swisscontact has endeavoured to include important supporting functions and players. This has included awareness raising and capacity building of legislators that provide the legal basis for reform process and influence government, media orientation towards better business coverage⁵, linking stakeholders to specialist service providers, e.g. for IT or research and analysis and strengthening local service providers to conduct business environment-related work (e.g. University of Flores).

Box 3: Important lessons learnt in facilitating sustainable business environment solutions

- § Openness of government and political endorsement are essential; a local "motor" for reform is particularly critical.
- § Reform takes time: the process to change perceptions and build commitment took one year.
- § From the outset, a clear basis for interaction has to be communicated and maintained: Swisscontact is a project, not part of the local system.

⁵ ILO FIT SEMA in Uganda has been highly successful in stimulating the commercial media to better serve the small business community, particularly in terms of advocacy and scrutiny. GTZ Vietnam has also been effective in including the media in regulatory reform processes.

- § By collecting and disseminating information, local actors are brought together and perceptions, mistrust and differences can be overcome: common understanding can be built by including different perspectives of government, businesses and other stakeholders.
- § Tangible wins are needed at the beginning of interaction with local stakeholders, upon which further activities can then be built. The rationale for pilot activities is to find an entry point and ensure credibility and learning. For example, the hotline was used as entry point for wider engagement on SBC.

4.2 Russia

As in Indonesia, interventions were planned with public and private sector players directly. This partnership-based approach aimed at changing the enabling environment through the actions of actors within it. However, experiences were less developed than in Indonesia due to funding restrictions. The intervention approach focused on the different players and their roles and responsibilities.

Strengthening private sector organisations (BMO)

The objectives to support the formation of BMO were to show the potential value of BMO as an effective advocate for change and a reliable interlocutor for district government. Swisscontact's approach was to build good examples of BMO, which deliver on regulatory issues for their members. For example, the formation of the Guild of Bakers was supported, together with matching financial support for awareness raising events. The organisation demonstrated that it could successfully advocate and within only 18 months, more than 60 paying members joined and financial sustainability was reached. There are new BMO emerging and interested in offering advocacy services. To link these new BMO with the local government and to start the public-private dialogue, a major conference on regulatory issues was organised jointly with Swisscontact.

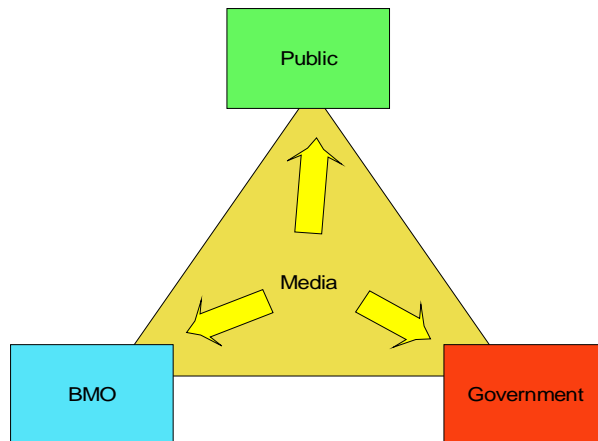
Improving government practices

The objective here is to understand better the capacity and orientation in government as regards to businesses and, in response to this, to strengthen the government's capacity in building support for business. The intervention was based on detailed needs analysis, followed by preparation and delivery of training programmes for government employees. The focus of the training was on raising awareness about business issues, government's role, and building operational capacity specifically related to the training needs analysis. Nine municipalities were involved and the programme was supported by the regional Ministry for SME.

Enhancing public-private dialogue

A public-private dialogue was supported based on initiative of several key actors. Furthermore, Swisscontact supported the establishment of a regular small business column on business environment and regulation issues in leading business newspapers. Partners from small businesses and government were encouraged to engage with the press and a more constructive relationship promoted. For example, a working group was established – under a related initiative to investigate the scope for transferring control and supervision functions from government to self-regulating organisations – which involved journalists, along with officials, businesses, etc. The plan was to mainstream media into reform processes to improve their ability to report well on these issues.

Figure 3: Public-private dialogue in Nizhny Novgorod



The intervention approach focused on the different players and their roles and responsibilities. The BMO as “clients” of the district government were supported to better formulate and express their needs, the government as the “supplier” of public services was supported to better serve the businesses – and the “linking” media was encouraged to interact and communicate more effectively.

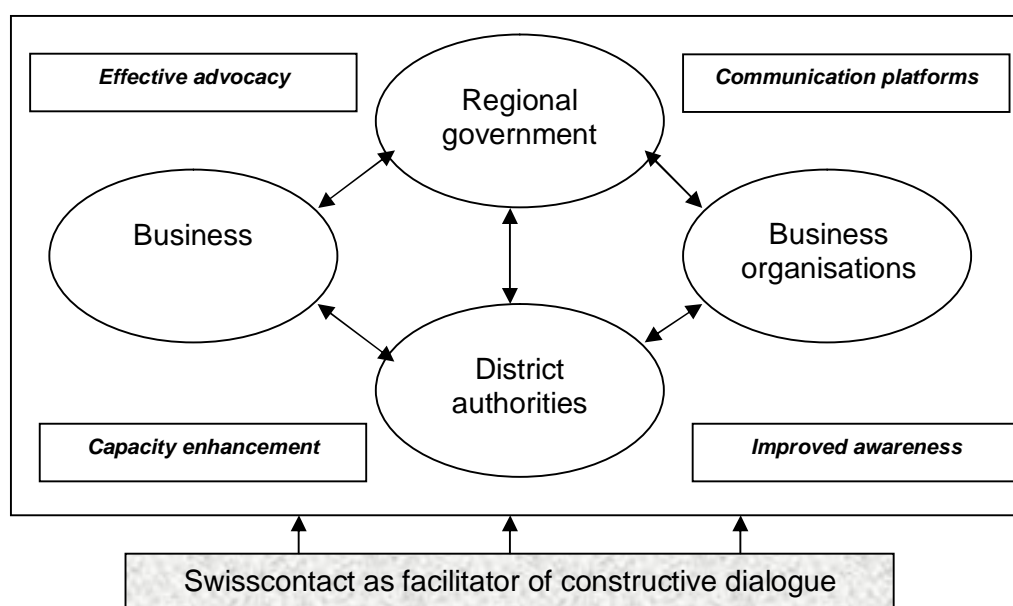
4.3 Intervening in ways that are consistent with objectives for local ownership and sustainability

A number of important points emerge from Swisscontact’s interventions:

- § Typical activities performed directly by conventional interventions were recognised by Swisscontact as supporting functions. Therefore, Swisscontact tried to stimulate local provision, ownership and sustainability. For example, capacity building was linked to local sources of know-how, such as universities, consultants or IT providers.
- § Interventions were designed that tried to stimulate and build on local initiative (e.g. refining existing government plans or ensuring matching investment). Swisscontact’s role was to facilitate processes initiated rather than “getting in there and getting it done”.
- § Swisscontact’s role in any public-private dialogue was temporary. From the beginning of an intervention, a clear strategy of how to get out of the system and how to get others in to ensure local ownership and sustainability. The facilitator’s task is a delicate one: to push and pull within a system in such a way that distortion is avoided. Sensitivity, patience and experience are needed to assess each situation and to gauge how much “pushing”, “pulling” or even “waiting” is warranted.
- § Beyond this temporary stimulation, everything else, especially knowledge and information, should come from the local stakeholders. Available information should be shared and verified by the stakeholders and build the basis for a common strategy to improve the environment for the small businesses. Crucial elements for building ownership of such a process are transparency and accountability.

Swisscontact’s interventions in improving the environment for small businesses can be summarized with the following figure:

Figure 4: Public-private dialogue and the local environment



5 Results

The experiences described in this case have been small-scale pilot activities and, as noted above, not part of a coherent and concerted programme. Therefore, their impacts have been commensurately small-scale. Moreover, they have not been subject to formal evaluations. However, impact assessment is a wider area of concern in the EE field, even for larger scale interventions, and is a challenge for all agencies engaging in the enabling environment. As White et al observe: *“The measurement of impact of donor-support reforms on the business environment is a complicated issue. So complicated, in fact, that most donors have not undertaken such impact assessments.”*

It was Swisscontact’s intention to demonstrate good examples of public-private dialogue with pilot activities that then can be copied and replicated rather than developing comprehensive enabling environment programmes. As the experiences in Indonesia and Russia show, this goal has been achieved to some extent, with public and private actors “crowding in” and assuming new roles on an independent basis.

5.1 Indonesia

Indications of impact, particularly with regard to local ownership and sustainability, are:

- § Commitment and on-going interest of local actors: governments request for support for replication and willingness to invest in new initiatives. Governments in several other provinces and districts have requested assistance to initiate similar processes.
- § Perceptions among the stakeholders changed due to frequent interaction: there is now an attitude to solve problems instead of pointing the finger of blame as was once common in the past.
- § Government practices have improved: RIA-style assessment is regularly undertaken and tender procedures for specialised services established and implemented.

- § Sustainability of BMO has been demonstrated: practices and mechanisms continue without project support, e.g. of 72 FORDA established, 50% are operating with no further support.
- § Business organisations and their importance in public-private dialogue has been recognised by other stakeholders, especially local government authorities and the media.
- § Public service response times have been improved, e.g. for street light repair and garbage removal from front of shop premises.
- § The disruptive street demonstrations of the past have reduced as people have now alternative and more constructive means of seeking redress.

The following anecdotes of small business owners and local officials show the benefit at business and even household level.

“SBC has made significant contributions in changing the public and local government. Primarily the SBC has changed the performance of government offices. It has opened the government’s eyes to empathy for problems faced by SMEs.” (Idham Ibtly, PKPEK)

“There was no water piping and our staff had to carry water to the shop. We received a letter asking us to pay for piping, but when we paid, there was still no water.” After attending an Ombudsman meeting Sukri approached the SBC for help. They helped Sukri compose a letter to local government. Two weeks after sending the letter water supply was provided. (Sukri, shop owner, Salatiga)

“I approached the local phone company several times and still was not connected.” Via Ombudsman, she finally got the line connected within two weeks. (Yuniata Farida, house wife, from Salatiga)

5.2 Russia

[Impact assessment report released in English at the end of May 2006 and then to be included.]

6 Lessons and challenges

By applying systemic thinking and practices in its work, Swisscontact has been able to contribute to business environment reform in a manner that is more practical, sustainable and oriented to the poor than conventional approaches, particularly given the small-scale nature of its interventions. It has been an ongoing learning process for SC, where staff experience and credibility has grown to the extent needed to successfully interact with local stakeholders. This takes time, but in the long run, Swisscontact believes it is the most effective way to bring about systemic change and a sustainable improvement in the environment for small businesses.

6.1 Lessons

Some of the key findings for Swisscontact in applying the systemic approach to private sector development are:

The benefits of thinking about the system

Looking at the business environment has a number of benefits: (a) it encourages agencies to consider where the poor are in the business environment and why, specifically, it is not conducive for them; (b) it requires enabling environment interventions to be more integrated with other areas of private sector development such as business services or value chains, mutually reinforcing each other; and (c) it involves multiple focal points (e.g. levels, players, functions) which allows multiple lines of work, so that when one line stalls or proves to be a dead end, agencies can pursue other options.

A sound understanding of the system is essential

Information is central to enabling environment work. The challenges in enabling environment interventions are identifying appropriate entry points and agents of change and being well positioned and sufficiently credible to respond – agencies need to understand the system to do this. Information is also part of the business environment, therefore it is important that interventions focus on building awareness and capacity among actors within the system to generate and utilise information themselves.

Focus on sustainability from the beginning of entering a system is essential

Local ownership is the route to sustainability. It is important to create win-win situations for all local stakeholders involved: it helps to overcome initial resistance and creates the incentives to continue engaging in local processes and mechanisms for reform. Agencies must therefore have a clear understanding of their temporary role and how they will exit, leaving the system working more effectively.

How you do things is as important as what you do

Improving the business environment (beyond one-off measures) is a process that requires local ownership. The implication of this is that agencies need to be extremely sensitive in terms of the directness of their actions and the type of support they provide within their interventions if distortion and displacement is to be avoided. This means utilising intelligence and influence, rather than large direct injections of funds.

There is a role for small agencies in enabling environment interventions

Much enabling environment work is seen as the preserve of larger bi-lateral and multi-lateral agencies and comprehensive, macro-level initiatives. However there is a real need for “making reforms work for the poor” on the ground, heightened awareness and understanding of local actors, better capacity and practices and improved and more innovative mechanisms for dialogue and redress. These are areas in which small, flexible agencies are much better suited to address than their larger counterparts.

6.2 Challenges

Swisscontact's experience demonstrates that enabling environment interventions are complex and present agencies with a series of challenges:

- § Interventions are time consuming and require iterative processes if local ownership is to be stimulated. These characteristics are not easily accommodated within standard project constructs.
- § The approach is demanding. Facilitators need a mix of capacities: strategic and systemic thinking, analytical ability, technical competence, political astuteness and mediation. Furthermore, there are clear benefits from having established presence in terms of networks and credibility, which is a barrier to entry for many small-scale agencies trying to initiate enabling environment interventions.
- § Measuring impact, particularly in terms of pro-poor change, is a challenge that the development agency community has yet to resolve satisfactorily.
- § Swisscontact's experience was essentially a series of pilot activities, which lacked the resources or mandate to pursue. The challenge now is how to ensure that these are built upon. This is not about rolling out standard models but somehow replicating the framework and practices for change at the local level, supported by national governments and donors.