



Part 2

2.1

How to assess the EESE and identifying priorities for reform

Section 2.1:

Prioritizing the EO agenda



Purpose and structure of this section

This section will assist an EO to prioritize and focus its policy agenda. The first part provides a rationale for a focused approach to policy-making: priority setting. The second part provides tools which the EO can use to arrive at priorities.

Step 1: Taking a focused approach

Step 2: Using criteria to prioritize issues



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Introduction

Constraints on business can be pervasive, each with consequent knock-on effects. Access to finance can be limited, restricting expansion plans of growing enterprises and retarding budding entrepreneurs from starting in the first place. These constraints may affect women even more so. Road congestion affects not only delivery times but also the cost of cargo. Transport monopolies drive up prices but also freeze out potential local exporters; constraints can also overlap onto each other. Moreover, infrastructure is insufficient for the export sector, but accessing construction permits is expensive and onerous in terms of time.

The EO to conduct effective advocacy work therefore needs realistic and targeted objectives that are achievable within a specific period of time.

Step 1: Taking a focused approach

In developing policy priorities, EOs need to start from the premise that governments face administrative and political limitations, and have limited policy-making capital to spend. Even if governments were utterly committed to growth-enhancing strategies, they can only do so much. Providing them with a long list of reforms will lead to frustration and delay –and ultimately and most seriously– major limitations on businesses not getting the policy attention they deserve.

EO strategies require a sense of priorities: the approach is to then focus on a limited bundle of real constraints on the enterprise sector (i.e., *not everything*) that can realistically be addressed within a specific period of time.

This approach ‘the binding constraint framework’¹ is predicated on identifying the most significant bottlenecks in the economy at a given point in time, and focusing efforts on alleviating those few constraints within the EO’s capacity and remit.

This framework² is based on the notion that the basic set of principles – such as respect for property rights, sound macroeconomic framework, investor protection and so on, combined with country-specific growth strategies are more likely to be successful in creating the environment for sustainable enterprise creation, development, and inclusive growth.

1.1 Why does the focused approach to advocacy make sense?

Successful growth policies along with the necessary economic, political, and regulatory institutions to support them, occur over an extensive period of time.

Consider a modern financial system: its functioning depends on a host of categories of people and institutions that, in the aggregate, should enable the efficient allocation of capital and the dispersal of risk. A non-exhaustive list would include securities and corporate lawyers, regulatory institutions, disclosure laws to deal with the informational gaps and asymmetries in many financial markets, securities laws, investment and commercial bankers and banks, portfolio managers, traders, analysts, brokerage firms, risk managers, private equity entities and professionals, government debt markets and traders, and a competent and independent central bank. These institutions and frameworks are created over the course of economic growth and development **and takes decades to achieve**.³

Simply suggesting that developing countries should try and replicate what is done in developed countries, in a compressed time frame and across policy domains has been shown to not work. The effort and political capital required are just too large for what are often very limited political administrations.

The “do-it-all” approach is just too ambitious a reform agenda; moreover, it does not signal to policy-makers “where to start”, often resulting in policy effort being spread too thinly over too many different areas and has also led to sloppy and unsustainable reforms. Practice and legislation from long standing developed countries is lazily put in place with little consideration for its practical application, actual cost, or most importantly, sustainability.⁴

There will always be issues that crop up unexpectedly and which require immediate attention. But

¹ This Framework is adapted from work by Dani Rodrik, Ricardo Hausmann and Andres Velasco John F. Kennedy School of Government, Harvard University: <http://www.hks.harvard.edu/fs/drodrik/GrowthStrategies.pdf>

² Outlined in the ILO/ACTEMP Publication: *Role of the EO in Growth and sustainable enterprise promotion*, 2010.

³ Mohamed El-Erian and Michael Spence: *Growth Strategies and Dynamics: Insights from country experiences*, Washington, D.C., Commission on Growth and Development, 2008.

⁴ Ricardo Hausmann, Bailey Klinger, Rodrigo Wagner: *Doing growth diagnostics in practice: A mindbook*, Center for International Development, Harvard University, September, 2008.

EOs need to resist taking on too many issues at the same time. The danger is that none will get the attention that they deserve and most will fail. Pursuing an issue through to policy formulation and advocacy requires major effort and resources in undertaking research, and in preparing compelling policy proposals, not to mention the effort required to meet and influence public officials and politicians. That is not to say that the EO should drop all other issues as this would also be a grave mistake: the EO still needs to respond to day to day issues. It still needs to address its members' immediate needs; and also needs to take a longer term policy view and the EESE will help the EO with this. Above all the EO needs focus in order to achieve policy results.

1.2 Prioritizing Efforts

The EO needs to focus on the most pressing regulations and legislation, and only target proposals expected to have the largest impact on businesses.

The EO should focus on assessing the nature and the size of the problem that is intended to be solved by the regulation or policy action. This involves identifying:

- Which sector(s) will be most affected?
- Will it impact more on smaller or larger enterprises?
- What is the nature of the impact on each sector?
- Will it impact more on women-owned enterprises?
- How large are these effects?
- How long will these effects persist?

Step 2: Using criteria to prioritize issues

Setting criteria for prioritizing the EO's agenda is a way of making choices more explicit. It also helps to distinguish between reforms that are most practical and achievable, and those that are the most necessary or strategic.

Often policy initiatives are set by EOs without a clear recognition of the trade-offs or relative weight applied to certain criteria. The decision to choose a particular area for advocacy focus can easily be a 'knee-jerk' reaction to some political or economic crisis.

EOs need to think about the many different kinds of criteria that can be used to set a reform agenda and to consider the relative merits of each.

An assessment of the business environment will create a list of possible changes that can be made to the environment to make it more enabling for sustainable enterprises, including those owned by women. The EO will have, through its research and surveys, identified the key areas its members want action on. Focus groups will have helped narrow the ideas further.

However, the 'action list' for the EO may still be long, complex, or both. It may entail dealing with different players (e.g., government ministries, the judicial courts) and different levels (e.g., the need for policy and legal reform, regulatory reform, or administrative reform). Thus, there is a need to determine where exactly to start first. Which reforms are the most pressing, the most needed, and the most important?

There is a range of possible criteria for prioritizing reform agendas. The choice of criteria used in this

process will affect the priorities for reform that are chosen, as different criteria produce different outcomes and different priorities for action.

Possible criteria for prioritizing a reform agenda

- **Maximum impact:** which reforms will create the greatest impact on the development of sustainable enterprises?
- **Immediate impact:** which reforms will create an impact on the development of sustainable enterprises in the next 12 months?
- **Limited resources:** which reforms can be done without much money?
- **Leverage:** which reforms will lever or mobilize support from other stakeholders?
- **Catalyst for change:** which reforms will ignite positive change in other sectors of the economy?
- **Small business perspective:** which reforms will most likely improve the business environment in the eyes of the small businessperson?
- **Employment:** which reforms will have a positive impact on the role of the private sector in creating more jobs?
- **Poverty reduction:** which reforms will have the most impact on the reduction of poverty?
- **Competitiveness:** which reforms will make the sustainable enterprises more competitive?
- **Knowledge:** which reforms will help us better understand the needs, challenges and opportunities facing sustainable enterprises?

2.1 Selecting the right criteria

The choice of criteria will affect the selection of priorities for reform: what are the 'right criteria'?

In most cases, the selection of criteria is not about right or wrong, the main concern is to make the criteria which are used explicit, to ensure everyone understands why certain criteria are used and others are not.

- Each criterion has its strengths and weaknesses, it is not about which is right and which is wrong.
- Choosing which criterion to use will often be a trade-off between competing values and interests.
- To balance this trade-off, it may be useful to apply two or three criteria.

The assessment of the business environment carried out by the EO will produce a list of issues that the EO will then refine and narrow further. Each of these concerns can be addressed by a recommended action. The chart below is an illustration of this.

Assessment Findings	Recommended Actions
Policy and legal issues	
<ul style="list-style-type: none"> ▪ State-owned enterprises have an unfair advantage over small, private enterprises ▪ No uniform official definition of micro and small enterprises ▪ There is no recognition of the special problems faced by women business owner-managers 	<ul style="list-style-type: none"> ▪ Removal of policies that favour State-owned enterprises over small, private enterprises ▪ Establish a uniform government definition for the micro and small enterprise sector ▪ Undertake an assessment of the special issues faced by women business owners/managers
Regulatory issues	

<ul style="list-style-type: none"> Labour laws and regulations contain too much red tape and are difficult for small enterprises to comply with Small enterprises are required to register with too many different agencies using different reporting cycles 	<ul style="list-style-type: none"> Establish a review taskforce to find ways to simply labour laws and regulations Establish a one-stop shop for all small business registrations
Administrative issues	
<ul style="list-style-type: none"> Government agencies are highly centralized, making it difficult for small enterprises in rural areas to comply Government policies, laws and regulations are not produced in vernacular languages 	<ul style="list-style-type: none"> Decentralize government administrative arrangements for small business Ensure all government policies, laws and regulations are available in the vernacular

Creating a chart such as the one above is the first step in the synthesis of the findings of the assessment of the business environment. It shows the problems and concerns, as well as how these might be addressed.

The second step is to decide on which Recommended Actions should be taken, i.e., to decide on which Recommended Actions have priority, this is done by using selection criteria.

2.2 Selecting actions for reform

There are two steps to perform when selecting which Recommended Actions should be taken: the first is to choose the selection criteria, the second step is to score each Recommended Action according to the criteria.

As discussed earlier, there are many different criteria that can be used, each with its own values and interests; try to choose no more than three criteria. For example:

Criterion 1: Maximum impact: which reforms will create the greatest impact on the development of sustainable enterprises?

Criterion 2: Immediate impact: which reforms will create an impact on the development of sustainable enterprises in the next 12 months?

Criterion 3: Limited resources: which reforms can be done without much money?

The chart below shows how these criteria can be used to assess each recommended action.

Sample criteria assessment chart

Recommended Actions	Criterion 1 Score (1 –10)	Criterion 2 Score (1 –10)	Criterion 3 Score (1 –10)	Total Score (1–30)
Removal of policies that favour State-owned enterprises over small private enterprises	9	6	10	25
Establish a uniform government definition for the micro and small enterprise sector	7	6	9	22
Undertake an assessment of the special issues faced by women business owners/managers	7	8	8	23

Establish a review taskforce to find ways to simplify labour laws and regulations	8	9	5	22
Establish a one-stop shop for all small business registrations	9	6	5	20
Decentralize government administrative arrangements for small business	10	4	3	17
Ensure all government policies, laws and regulations are available in the vernacular	10	7	7	24

The sample chart above illustrates how the three criteria chosen as an example can be used together to determine where the priorities for reform lie. In this particular case, it is clear that the top three priorities are:

1. Removal of policies that favour State-owned enterprises over small private enterprises.
2. Ensure all government policies, laws and regulations are available in the vernacular.
3. Undertake an assessment of the special issues faced by women business owners/managers.