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## DAC Network on Poverty Reduction

### KEY POLICY THEMES OF THE TASK TEAM ON PRIVATE SECTOR DEVELOPMENT -- ADDITIONAL DESCRIPTION

4-5 November 2004  
OECD - La Murette - Room 3

*This note presents a DESCRIPTION, prepared by the Netherlands, of the theme "Institutions and enabling environment". This theme is mentioned briefly in the full list of key policy themes circulated as DCD/DAC/POVNET(2004)11 (see paragraph 15).*

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## KEY POLICY THEMES OF THE TASK TEAM ON PRIVATE SECTOR DEVELOPMENT

### **Reforming institutions aimed at improving the enabling environment for pro-poor private sector development: How do donors work towards institutional reform? What triggers institutional change? What do we know so far? – The Netherlands**

In chapter 3 of the working document "Accelerating pro-poor growth through support for private sector development", some elements are described of the dynamics of policy making and agenda setting in the field of economic development and private sector development. These dynamics can be looked at from roughly three angles corresponding with stakeholder groups: Governments, Civil society and the Private sector (figure 2). These groups are not homogeneous aggregates; they are subdivided and organised internally and among each other in different ways, whereas their interaction is also influenced by institutional elements such as norms and informal rules. The whole set of rules and organisational structures concerned with agenda setting and creation of opportunities for private sector development, the "soft side of PSD", is extremely important, especially for the empowerment of the poor, in order to take their considerations into account and make growth more pro-poor.

Donors pursuing poverty reduction as an objective of their support, try to influence the growth agendas of developing countries in different ways, through Governments, by supporting NGOs, firms, and their organisations. The choice of aid modalities is, among other things, determined by an assessment of the relative strengths of the different stakeholders, and the way they interact. PRS dialogues at national and decentralised levels, are windows of opportunity to initiate institutional change. Donors are involved in the these processes (alongside local investors and the local public sector), and therefore also their behavioural rules are at stake.

In order to overcome the constraint of "absorption capacity" for aid and investment, taking into account, at the same time, the interests of the poor, requires thorough analysis of both formal and informal institutions, and using change agents to improve their performance and interactions. Such analyses are essential in any program or process in which donors, and other actors are involved, for instance PRS processes. Similarly tools such as PSIA can be improved accordingly.

This "Hot topic" exercise will describe and evaluate actual practices that resulted in new institutional arrangements (including new norms, rules, regulations)<sup>1</sup> that stimulate private investment, growth, and sharing the benefits of growth (the Growth Agenda; cf. chapter 2 for key factors). This description will include the analysis of the negotiation/consensus building/conflict reconciliation processes that lead to such arrangements. Special attention will be given to PRS development and, linked to it, decentralised planning processes. It will evaluate in which ways (organisations of) the poor, the private sector, governments and donors have participated, and which tools have been used. It will be based on the analysis of such processes in two countries that are relatively "advanced" with their PRS approach, such as Uganda and Tanzania. It will include a workshop with local stakeholders: Government, Private sector, Civil society, NGO, and Donor representatives. This will lead to a "best thinking" paper on possibilities for improvement.

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<sup>1</sup> For instance Adherence to formal rules, protection of property rights (both traditional and formal), trust, preparedness to compromise, etc