Five priority actions to build a more effective government-private sector partnership

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Abstract

In the context of increasingly constrained government resources and growing demand for government support to companies, we identify five priority actions for governments to promote private sector development.

First, governments need to focus on creating business-enhancing institutions. Second, they should involve the private sector in the policy-making cycle. Third, they should build their capacity to constantly identify business needs. Fourth, the quality and range of government services to businesses should be improved. Finally, governments need to optimise the private sector's role in the provision of public goods and services. We conclude that to unlock future growth and employment, governments need to change their culture and processes to embrace all opportunities that exist in a full partnership between governments and businesses.

Key words: *governance, private sector development, public policy*

Introduction

Businesses are increasingly turning to governments for support, demanding more transparent regulations and high-quality services to meet their rapidly evolving needs. The role of government in attracting investment has never been so important. As competition for FDI intensifies and emerging countries open their borders to external markets, globalisation is allowing businesses to re-locate

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faster to the most business-supportive environments.[3] Government policies have a major impact on businesses.

Regulation, subsidies, guaranteed loans, better infrastructure, education and the provision of services directly or indirectly related to private sector development have a major impact on companies' balance sheets. Good infrastructure reduces transaction costs and enhances revenues through access to larger markets. Effective labour market policies reduce the costs related to searching for workers, and increase productivity through the hiring of more competent employees. A transparent and efficient administration minimises scope for rent-seeking and reduces the time companies spend on non-productive administrative tasks.

However, national governments have a declining scope for action. Although the share of public expenditure accounts for almost half of GDP in OECD countries, the global crisis has significantly reduced governments' room to manoeuvre due to growing public debt and lower fiscal revenues. At the same time, the private sector has a growing role to play in helping public administrations become more effective. In this context, governments and the private sector are becoming increasingly dependent on each other in the pursuit of societal and economic objectives.

Modern public administrations are progressively becoming more responsive to these challenges, and are making efforts to develop effective and innovative relationships with the private sector. Governments are striving to permanently build, review and improve their capacity to manage regulations and their budget in order to respond to the needs of businesses in a constantly evolving economic environment. They are intensifying their interactions with businesses and are increasingly involving the private sector in policy-making and in the provision of public services.[4] Governments are also working to improve and diversify the services they provide to companies by taking greater account of business needs when designing and delivering services.

[3] *A number of indices measuring business-supporting environment exist (e.g. the OECD SME Policy Index, the World Bank's Doing Business Index, or the World Bank/EBRD's Business Environment and Enterprise Performance Survey).*

[4] *Sen and Te Velde (2009) find that effective government-business relations contribute significantly to economic growth – countries which have shown improvements in government-business relations have witnessed higher economic growth, controlling for other determinants of economic growth and independent of other measures of institutional quality.*

Yet, current government capacity to support businesses remains inadequate in most countries around the world. In developed countries, governments are still perceived by most businesses as too bureaucratic and unable to cope with the fast-changing business environment, while in developing countries, governments often fail to provide even the basic institutional structures needed for the private sector to operate.

In this paper we identify five priority actions for governments to promote private sector development. We conclude that, to unlock future growth and employment potential, governments must take a wider and more systematic approach to government-private sector interactions and to the development of private sector policies.[5]

First: Focus on creating business-enhancing institutions

There is now a growing understanding that good institutions, particularly in the public sector, can positively affect countries' long-term growth perspectives. The increasing importance of good economic governance towards businesses therefore brings forward several policy issues of significant relevance to policy makers.[6]

Institutions[7] determine transaction costs, affect firms' total factor productivity,[8] and influence incentives for investment, technology adoption and human capital accumulation. Good institutions can create incentives for a growth-enhancing environment and can

[5] *We follow WB/IBRD (2008) who describe the important role of government, public goods, and institutions in economic development. We argue that government capacity is instrumental for good institutions and thus economic growth. We also build on Williamson (2005), the author of "The economics of governance", who concludes that (1) institutions matter and are susceptible to analysis, and (2) public policy towards business needs to be informed by a broad understanding of the efficiency purposes served by complex contracts and economic organisation.*

[6] *For example, Williamson (2005) notes that use of the word governance (excluding corporate governance) has increased significantly in economics, business/management, sociology/organisation, and political science journals.*

[7] *Acemoglu in IBRD/WB (2008) distinguishes three types of institutions. First, political institutions of a society evolve as the process of collective decision-making and include the checks on politicians, and powerful interest groups. Second, the capacity of the state represents the capability to provide public goods in diverse parts of the country. Third, regulation is a broad institution that determines how much the state intervenes in economic activity.*

[8] *Total Factor Productivity (TFP) growth is the portion of output growth not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely inputs are utilised in production.*

be a solution to asymmetric information problems[9] as they secure property rights, competition, access to finance, and trust in political institutions (Matos, 2005). Poor institutions, on the other hand, can "encourage rent-seeking activities or the unfettered pursuance of personal gain at a great cost to the rest of the society" (WB/IBRD, 2008).

The importance of good institutions and efficient policies for private sector development goes beyond traditional economic policy channels.[10] North (1990) describes institutions as the "rules of the game". These include both formal rules and informal norms. It is often wrongly believed that changing formal rules (i.e. adopting a new regulation, changing a law, or a issuing a decree) will be sufficient to deliver the desired economic outcome. However, as North (1997) notes, merely changing "formal rules will produce the desired results only when the informal norms are complementary to that rule change, and enforcement is either perfect or at least consistent with the expectations of those altering the rules". Thus, when policy-makers adopt business-enhancing regulations, they need to put at least as much effort into enforcement.

The capacity and readiness of governments to promote good institutions play a crucial role in investors' decision-making. Businesses seek to avoid unpredictable and overly complex institutional environments, preferring to invest in countries with hard and fast rules that are easy to follow and comply with.[11] Governments must provide a transparent and standardised regulatory framework to facilitate companies' compliance with laws and minimise costs and time spent on administrative procedures.

In addition, businesses expect the provision of transparent and easy-to-access information regarding regulations and the availability of government financial support. Modern public administrations need to be capable of quickly and effectively delivering this information. For example, governments can provide information to the private sector via media campaigns, events organised for businesses,

[9] *This is a situation where there is imperfect knowledge. In particular it occurs where one party has different information to another, leading to inefficient or undesirable market outcomes. Asymmetric information can, for example, impact on borrowing and lending practices in financial markets.*
[10] *As institutions "place restrictions on undesired kinds of individual behaviour" (Roland, 2001), they reduce uncertainty in the economy, which is an important prerequisite for investment.*
[11] *This is one of the reasons why many governments are establishing simplified requirements for low-risk installation (most of SMEs), including simplified permitting.*

publications on their website, or through civil servants in local government offices.

In sum, governments need to create institutions that actively support private sector development, build a transparent business environment, guarantee property rights, and provide a sound regulatory framework[12].

Second: Involve the private sector in the policy-making cycle

The financial crisis has placed additional strain on government budgets and underscored the need for efficient and targeted policy making. If they are involved in the different phases of the policy-making cycle, businesses can play an important role in helping governments to reduce the administrative burden and increase private sector competitiveness.

Governments can involve the private sector at the design stage of the regulations and during budget-making cycles by creating formal consultation mechanisms. These mechanisms include establishing regular meetings of public-private boards to discuss existing and future regulations and budget programmes, soliciting feedback from businesses on draft regulations and budget programmes by posting them on government websites, raising awareness through traditional and new media, and circulating surveys about existing or proposed regulations and budget programmes.[13]

Once companies have access to information on budget programmes and regulations, fast and transparent procedures allow them to comply more effectively with new requirements or apply to new funding programs, thus helping these mechanisms reach their objectives. This fosters confidence in government activities and encourages companies to work with the government and expand their activities.

[12] *For example, Sweden has moved from an emphasis on deregulation associated with the market liberalisation in the 1990s to the improvement and simplification of rules. The policy has also broadened from simplification and cost reduction to a renewed interest in making ex-ante impact assessment work.*

[13] *In some OECD countries, businesses have created organised structures to lobby the government. In Sweden, the Board of Swedish Industry and Commerce for Better Regulations represents a third of local businesses and advocates for more business-friendly regulation (OECD, 2010). Governments need to make the regulatory environment friendly to the activities of business associations and lobbyists, while ensuring that their activities are sufficiently regulated.*

Sound monitoring and evaluation systems of private sector policies also support governments in preparing, adjusting and implementing regulations and budget programmes. These mechanisms should provide key quantitative information on private sector activities, as well as useful qualitative feedback from businesses, and take stock of progress in implementation reported by government institutions and agencies. Transparency in monitoring also fosters the confidence of businesses in government policies and programmes.

Spending reviews[14] are also a valuable monitoring tool to examine certain aspects of government expenditure and can be performed in collaboration with private sector representatives. Spending reviews can be conducted on the full range of government expenditures, on government expenditures impacting businesses specifically or on budget programmes for private sector development.

Third: Enhance government capacity to constantly identify business needs

Governments often lack the capacity to understand private sector constraints while businesses can place unrealistic demands on governments. The resulting incongruence can lead to ineffective policies, hampering private sector development and straining government budgets. More specifically, the interests of the weakest sectors and types of businesses (e.g. SMEs) can be overlooked in the policy-making process due to structural disadvantages, such as their limited resources to participate in the policy-making process.

While some governments are taking steps to develop more sophisticated strategies and better identify the needs of the private sector,[15] many others still have relatively few mechanisms that

[14] *Boyle (2011) reports that spending reviews should be periodic (roughly triennial) reviews, linked to the Medium Term Economic Framework. Boyle reports that spending reviews are large-scale exercises, and should be based on the following criteria: Should the Government be involved in funding this activity? Is the funded activity meeting a Government priority that provides economic value and serves a public interest? Can the activity be provided by alternative means, such as the private sector or NGOs, another level of Government or joint provision? Can the activity be provided more efficiently and at lower cost? Is the range of services provided affordable, and if not, what elements should be dropped?*

[15] *For example, the Ministry of Trade and Industry in Singapore launched the Pro-Enterprise Panel (PEP) as a public-private partnership set up to help businesses overcome problematic regulations (MTI, 2011). The PEP is chaired by Head of Civil Service with mainly business leaders as members, and supported by a network of senior public officers. The PEP regularly surveys the private sector to improve its capacity to serve business needs.*

involve the private sector. Moreover, the mechanisms already in place could often be improved by developing a more strategic approach to public-private dialogue.

Effective public-private dialogue helps to achieve more effective policy making and implementation. Dialogue reduces the information gap between government and the private sector and helps build trust between the two parties. It provides a platform for the private sector to voice its concerns and provide feedback. This dialogue improves the investment climate and the efficiency of government resource allocation. Finally, consulting with the private sector increases the chances of successful policy implementation.

In many countries, consultation with the private sector is one of the key tools employed to improve the transparency, efficiency and effectiveness of regulation. Consultation allows beneficiaries to have input in the discussed regulation so that they understand why it is important.

To reap the benefits of dialogue with the private sector, governments need to use a variety of tools:

- Surveys are a useful and cost-effective tool for gathering information on business satisfaction with government policies and services, as well as about business needs.
- Private sector interviews are useful for in-depth discussion in order to explore business priorities and stimulate suggestions on policies.
- Government-private sector boards provide a forum for structured debating and brainstorming.
- Traditional media (*e.g.* TV, newspapers) are useful to disseminate information about government policies and help improve policy implementation by spreading awareness.
- New media (*e.g.* internet, e-Government) are cost-effective tools for seeking feedback from the private sector and allow information to be shared almost instantaneously.

For the dialogue to be successful, it should be carried out in an atmosphere that promotes transparency and accountability. In particular, companies that are part of the dialogue should provide effective representation of the country's private sector. Potential conflicts of interests from both government officials and private sector representatives should be closely monitored.

Fourth: Improve the quality and range of government services to businesses

Governments generally use two important levers to create and sustain a business-friendly environment: the regulatory (legislation and institutions) framework and budgetary (spending) instruments. However, there is another lever, which remains often underused – government's services to the private sector.

Services delivered by governments are traditionally concentrated around administrative procedures, such as registration and business licensing. However, private sector companies have a multiplicity of other needs that have to be met for them to effectively do business. For example, companies need to obtain capital and thus have access to external financial credit in order to invest in their business activities. They also require good infrastructure to access suppliers and the wider market, and a competent local workforce to attain expected production volumes quality standards. In addition, enterprises benefit from government services that help them attract high-quality foreign direct investment, and translate these investments into knowledge transfer and sustainable growth.

Targeted and efficient services in these areas can help businesses to start, grow and thrive through reduced costs, time and effort, helping them to better focus on their operational activities. Modern governments therefore need to ensure that they are continuously improving their services across a wide range of policy areas.

To deliver better services to businesses, governments can assess their performance based on a "life events" approach. Life events experienced by businesses are identified moments in the life of a typical business (e.g. starting a business, exporting goods) during which businesses interact with the administration. Life events are easy to understand for users and offer a simple and efficient way of assessing services and contributing to service delivery improvement. Defining a life cycle service delivery strategy helps governments identify the most critical services to businesses, and focus their resources on improving these priority services.

Once services have been assessed and prioritised, governments should focus on improving the content of services (access to finance, infrastructure, investment promotion), and the quality of service delivery channels (e.g. one-stop shops, e- and m-Government).

Fifth: Optimise the private sector's role in the provision of public goods and services

As the private sector's – and citizens' – expectations of the quality of public services continue to grow, governments are looking for more efficient delivery processes. To meet these expectations, many governments increasingly recognise that the private sector will need to play a stronger role in the delivery of public goods and services ranging from education to healthcare and transportation. When well-managed, the involvement of businesses in the provision of public goods and services can help governments to achieve greater efficiency, enhance innovation, share risk, and better target investment. Increasing the involvement of private sector companies will require optimising public procurement practices and systematically defining when a public good or service should be delivered by the private sector.[16]

At the same time, the participation of the private sector in the delivery of public goods and services can also be beneficial to businesses. It can encourage private sector development by offering opportunities for businesses to provide goods that previously were the exclusive domain of the public sector.

To do so, the government has important market-based tools, which remain underutilised in most administrations today. These tools have a large potential to stimulate the economy, and, if properly

[16] *Academic research suggests that the efficient size of government might be in part country/time/culture-specific. For example, Karras (1996) estimates the optimal Government size for several sets of economies by investigating the role of public services in the production. He empirically shows that that government services are productive for the economy. Facchini and Melki (2013) investigate the efficient size of government by analysing the relation between public spending and real GDP for France in the period 1896–2008. Their empirical findings suggest that the optimal government size in terms of efficiency measured by public spending was reached when public spending was around 30% of GDP. Further, Karras (1996) notes that the marginal productivity of government services is negatively related to government size. Acemoglu (WB/IBRD, 2008) notes that the emphasis on limiting various forms of government intervention that lead to distorted incentives in the marketplace is right. Nevertheless, Acemoglu claims that the focus on these problems should not be blind to other important barriers to economic growth, such as infrastructure, education, or law and order.*

framed, can generate new sources of growth and competitiveness. First, through procurement, the public sector can provide important market opportunities for businesses and support constrained sectors. Second, by increasing contracting, governments can stimulate innovation, as private sector entities address the delivery of services with a different mindset, resources and capabilities. Third, partnerships (e.g. public-private partnerships or Triple-Helix schemes[17]) can support countries in boosting growth by facilitating co-operation between academia, business and local government.

Conclusion

Too often, private sector development policies are developed with an overly narrow perspective. They are often reduced to piecemeal regulations that target business development measures or to financial support to specific sectors. With government expenditure representing close to 50% of GDP on average in OECD countries, countries have considerable resources and institutions that could be harnessed for private sector development in addition to their primary public policy objective. By integrating a business-oriented approach into public administration practices, governments will also be able to increase their efficiency and capacity to deliver results.

This paper argues that there is a critical need for governments to widen their view of the government-private sector interface. Public administrations need to seize the opportunity of a changing economic environment and increasing budgetary pressure to involve businesses across the scope of government activity and channel private sector know-how and investment into all sectors, including toward the provision of public goods and services. More than ever before, the efficiency of policy making outside traditional fiscal and monetary channels will mark the difference between successful and less successful countries.

[17] *The Triple-Helix concept argues that the potential for innovation lies in a combination of elements from government, academia, , and business for the production, transfer and application of knowledge. Triple-Helix Partnerships can support countries in boosting innovation by facilitating co-operation between academia, business and local government. The Triple-Helix model advocates the notion that value creation in innovation is accelerated when the actions of these three stakeholders are coordinated.*

There is a critical need for a systematic framework for private sector development policies. First, governments need to find more and better ways to expand the public-private dialogue throughout the policy cycle. Second, governments need to improve the scope and quality of government services to business. Third, they need to think more strategically about ways to systematically involve the private sector in the delivery of services to society. Finally, governments will have to change their own culture to embrace the new possibilities that can be generated by this new paradigm.

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