Public – Private Dialogue in Developing Countries: Risks and Opportunities

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Working Paper[1]
Synopsis

The involvement of civil society – consumers, entrepreneurs, workers, citizens, and non-governmental organizations – in the process of policy making addresses the need of the State and the government to broaden their *legitimacy* by enhancing the *transparency*, the *quality* and the *efficiency* of their policies. In the specific case of economic policies, corporations and the business community – the central role of which in national wealth accumulation gathers a broad consensus nowadays – have full authority to be associated to the policy-making process. Yet, regarding private – public dialogue (PPD) as a "panacea" would be utterly excessive. This Working Paper precisely aims to pinpoint, as accurately as possible and on the basis of numerous examples, the institutional prerequisites (effectiveness of the bureaucracy, organization and maturity of the local private sector, political environment) for a dialogue which avoids the pitfalls of an hazy and economically sub-optimal interaction between the State and the business milieu. Based on a specific investigation into the conditions of such a dialogue in sub-Saharan Africa, this paper sketches a pragmatic approach to the complex working and use of the PPD instrument for donors' use.

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Public-private dialogue, that is, consultation between the private sector and government[2], is increasingly recommended as a way to improve public policy in developing countries. Indeed, because this type of dialogue is generally weakly developed or poorly structured, more official development assistance (ODA) is being allocated to it. The abundance of concrete PPD

[1] Forthcoming.

[2] In this document, 'public-private dialogue' is understood in broad terms : it relates to all forms of interaction between the State and the private sector dealing with the elaboration of public policy, including for example, improvement of the business environment, short-term macroeconomic policy, mid/long-term national development strategies, sector-based regulations, etc. It can also be more or less institutionalized (e.g. advisory councils of investors that make recommendations to government, institutionalised discussion forums between civil servants and the business sector, informal social networks of top civil servants, policy makers and company directors).

initiatives bears witness to the growing interest of multi and bilateral donors in mechanisms favouring interaction between local authorities and the private sector in developing countries.

Although growing, this interest is relatively recent. The idea that the design and implementation of public policy is better thanks to a participatory approach between public and private sectors was not always so obvious[3]. Public-private interaction has been widely addressed, since the 1970s, and even more so in the 1980s, in political-economy through the prism of rent-seeking behaviour, collusion and corruption. In this context interaction between the State and private sector was considered as suspicious and in a practical way which lead to recommendations in favour of both a drastic reduction of the state in the economy and an insulation of bureaucrats from society in general, and the business milieu in particular.

Research, at the beginning of the 1990s, on the conditions and the success factors of certain South-East Asian economies, called the earlier analysis into question whether it is on the role of the State in the economy or the role of interactions between political elites, bureaucracy and the private sector which have actually turned out to be fruitful from an economic perspective. The influence of increasingly important civil society actors in industrialized countries as well as some emerging and less developed economies has strengthened this critique of earlier theories : whether we support a restrictive or extensive role for the State, it is clear that the State – bureaucrats and political powers – can not develop public policy on political economy, for example, if it is cut off from its administrators and social actors, and especially the business sector in this case. The stake is as political, that is, the legitimacy of public policy, as economic and social, where the legitimacy of a policy also stems from its effectiveness in improving socio-economic conditions. How can a State, even if it is democratic, claim to impose public policy on a society? Society is far from being the sum of 'individuals-citizens' (and sometimes electorate) which are isolated from face-to-face relations with the State: it is in fact made up of multiple, different allegiances, the complexity of which a system of democratic representation will never be able to fully grasp. This context - though not particularly new but which has come to the forefront over the past decade - appeals for a consultative approach to making public policy – especially economic…thus making the case for engaging the business sector in the design as well as the implementation.

Should PPD therefore be the new 'recipe for success' for development in the least developed countries? This Working Paper demonstrates the point at which this ambition could be excessive. Like with many other new/relatively innovative approaches that emerge, the virtues associated with PPD have sometimes been overestimated and the risks that come with it partially overlooked. The high willingness to use and promote this instrument in a context where governance and private sector development are priorities has sometimes led to mistaken assumptions about the conditions for a healthy and fruitful public-private dialogue that actually improves the business environment.

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[3] The current trend actually represents a 'return to grace' for PPD. This approach - involving the private sector in the development of public policy - was a significant characteristic of South-East Asia's development as well as the indicative planning in certain industrialised countries (e.g. France, see Meisel, 2004)

In fact, the literature analyzing rent-seeking activities remains pertinent in the context of the political systems and economies of a large number of developing countries. The state is simultaneously weak and bloated, whilst the private sector is fragmented, largely disorganized, and often allows for the emergence of powerful rent-seeking lobbies which exert strong pressure on the state. In countries where the rule of law and separation of powers are fairly recent, barely formalized and often non-existent, this leads to collusion and predatory behavior between public and private sectors. The interaction between both sectors, which may formally take the format of a "dialogue", is thus highly likely to constitute nothing more than a cloak for rent-seeking activities, the opposite of what might be expected from a fruitful public-private dialogue: the production of public goods such as economic policies fostering the growth of national wealth.

This working paper underlines the extent to which the quality of the dialogue depends on the structure of participating institutions, be they from the public or private sector. Fulfilling the conditions for a fruitful dialogue is indeed a highly complex challenge. It is particularly difficult to strike a delicate balance between, on the one hand, preserving the respective autonomy of the public and private sectors and, on the other, fostering a level of interaction which is sufficient to constitute true dialogue – i.e. allowing the private sector access to the public administration and government, and allowing the state to bring itself into the national economic fabric and develop its networks there.

Nevertheless, the disconnect – particularly in most of the Least Developed Countries (our analysis focuses on Sub-Saharan Africa) – between the local institutional and economic situation and the conditions for an "optimal" public private dialogue should not lead to skepticism regarding this tool for the elaboration of public policy. Rather, it implies taking an informed, voluntary and modest approach to its use. Merely assembling government representatives, high-level civil-servants and private sector institutions around a table will not suffice to create an atmosphere of trust in which the broad direction of economic policy can be jointly expounded. It is of the utmost importance that the participating actors – notably also donors supporting these initiatives – bear in mind the constraints that are likely to impede public-private dialogue:

- It is equally important to analyze in advance the institutional and economic dimensions of the dialogue, in other words its "political economy", in order to determine whether a dialogue is both feasible and timely. Launching a dialogue prematurely (e.g. the Private Sector Round Table in Ghana in 1993-1994) will not only lead to negligible results, but may end up reinforcing the distrust between actors over a long time period.
  Donors' approach to the PPD instrument should therefore be cautious and pragmatic; in particular they should refrain from substituting for local participants in the dialogue and instead take on the role of go-between and honest broker: they may for instance help spot "policy champions" and "pocket of efficiencies" both within the local administration and the private sector. They could also support the latter by providing analytical and material support, as well as contributing to their organization.

- This contribution, modest though it may appear, can prove critical. The organizational and process dimensions of the dialogue can indeed turn out to be key to its success: this Working Paper argues that private – public dialogue is a "complex transaction" characterized by asymmetries of information and transactions costs. Put differently, mutual distrust, fueled by the impossibility to coerce the partners into sticking to its commitments, if not simply to monitor them, may bring about a non-cooperative equilibrium, i.e. a vicious circle of misunderstanding, distrust and, in due course, of mutually disadvantageous hostile decisions. Breaking this vicious circle of distrust, eliciting a momentum of dialogue which, in the end, would lead to a cooperative equilibrium between the State and the private sector, may require external resources and the intervention of a third party. Donors may be able to take on this role, being the broker who analytically informs the process, share its knowledge derived from best practices and success stories, and come forward as the guarantor of the commitments and sincerity of participants.

Whichever the role of donors however, their intervention must be undertaken with modesty. Some of the constraints which are driving the interaction between the State and the private sector, not least the dysfunctional working of local bureaucracies or the lack of a structured private sector, are both difficult to overcome and to work-out in the short-term: they are institutional features which take generations to be changed (cf. Jutting (2003)). A proper understanding of this set of constraints should pave the way for a realistic and pragmatic approach to public-private dialogue and to what may be expected from it.

References

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