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Addressing Red Tape at the Local Level: Options and Tools

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Summary

Addressing red tape is an important building block of a local economic development (LED) initiative. LED practitioners in many locations started to realise this some time ago, and, in a convergent process, practitioners in Business Enabling Environment (BEE) projects working at national level, have begun to notice that changing rules and regulations at national level is not sufficient, since it is at the local level that the public sector interacts with the private sector on a day-to-day basis. Against this background, the question arises as to what is the most promising approach to address red tape at the local level.

In our paper, we will argue that there are four fundamentally different constellations that require different intervention approaches. Two factors shape the setting of a local red tape intervention: The experience of local stakeholders with prior local development interventions, including the degree of trust that exists among key local players, and the credibility of the external actor (e.g. in a technical assistance project) that is promoting or supporting the red tape intervention. The following matrix summarises the possible constellations.

	Local stakeholders have experience with LED		
External actor has no or little credibility with local stakeholders	[4]	[1]	Local stakeholders regard external actor as credible
	[3]	[2]	
	Local stakeholders have little or no experience with LED		

We will outline what we regard as the most promising intervention approaches for each of the four constellations. Our argument is based on experience in South Africa, Sri Lanka, Indonesia and Vietnam.

1 The context and scope of local red tape initiatives

Red tape is commonly understood as rules and regulations that create unnecessary obstacles or costs for businesses. This may be because a given rule or regulation is outdated but has never been adjusted, or because it is being implemented in an unnecessarily complicated or inefficient manner, or because it is not explained properly to businesses that have to cope with it. Red tape is often addressed as a problem of the public sector, though it is also frequently found in the private sector. Efforts to address red tape, mostly in the public sector, have spread for some time to the extent that government recognised that red tape may defeat economic development objectives and initiatives.

Addressing red tape is an important building block of a local economic development (LED) initiative.¹ LED practitioners in many locations started to realise this some time ago, and also practitioners in Business Enabling Environment (BEE) projects have begun to notice that changing rules and regulations at national level is not sufficient, since it is at the local level that the public sector interacts with the private sector on a day-to-day basis. Against this background, the question arises as to what is the most promising approach to address red tape at the local level.

The approaches to local red tape initiatives that are presented in this paper have emerged in the context of an approach to LED that can be characterised as follows:

- The focus of LED is to initiate or strengthen local level collective action to strengthen the competitive advantage of producers and companies, clusters of companies, and ultimately the location as a whole. The ultimate purpose of LED is to raise the income of local people and of local government (so that it can provide better services), and the main means of achieving this is through an effort that lets companies grow faster so that they can create more and better paid jobs, and that creates new opportunities for local producers and entrepreneurs.
- LED is based on interaction between local government, the local business community and other relevant stakeholders. A key ingredient of LED is communication between stakeholders who do not necessarily have a habit of engaging in topical discussions. Management of an LED process, thus, has to put a strong effort into facilitating communication through the use of skilled facilitators and specific communication tools.
- LED is a process, not an event. In many localities, LED evolves into a change process, as stakeholders begin to understand that the way some organisations work and different organisations interact needs to be fundamentally changed. It is safe to assume that this in particular holds for local BEE efforts. In this regard, LED can draw important lessons from the change management body of knowledge.

1 For an overview of the discussion on LED and red tape reduction, see Doug Hindson and Jörg Meyer-Stamer, *The Local Business Environment and Local Economic Development: Comparing Approaches*. Mesopartner Working Paper 11, Duisburg 2007.

Taking these considerations into account, we suggest to conceptualise LED as a task that requires a consistent communication and facilitation approach, rather than an activity that is primarily technical in nature. A sound LED effort needs to constantly engage and involve local stakeholders, rather than just keeping them informed through the occasional briefing. The drivers of an LED process need to carefully consider to what extent they delegate responsibility to specialised consultants, especially if those consultants are not familiar and comfortable with participatory approaches.

2 Explaining the four different constellations

In local and regional economic development initiatives, there are four fundamentally different constellations that require different intervention approaches. Two factors shape the setting of a local red tape intervention:

1. The prior experience of local stakeholders with local development interventions, including the degree of trust that exists among key local players,
2. the credibility of the external actor (e.g. a donor-supported technical assistance project) that is promoting or supporting the red tape intervention.

The following matrix summarises the possible constellations and introduces a name for each of them.

	Local stakeholders have experience with LED		
External actor has no or little credibility with local stakehold- ers	Hell [4]	Paradise [1]	Local stake- holders regard external actor as credible
	Love it or leave it [3]	Eager Participants [2]	
	Local stakeholders have little or no experience with LED		

Let us briefly summarise the main features of each scenario:

- 1) Paradise: This scenario describes a situation where a donor organisation or other external actor (e.g. a national development bank or a provincial ministry) has been working with a given location for some time and established a robust relationship with local stakeholders. Both sides have gone through a learning process on how to run local economic development and have decided that reducing Red Tape at the local level is a priority intervention. We call this scenario “Paradise” since whoever is tasked to facilitate a BEE initiative is not distracted by issues like stakeholder mobilisation, management of expectations, and alignment of perspectives.
- 2) Eager participants: This scenario describes a situation where local stakeholders have not yet engaged with the topic of economic development, yet are keen to do so, and agree

that reducing Red Tape is a promising starting point. Relations between key stakeholder groups, such as public sector and private sector, are not too conflict-ridden. Resistance to change exists to the usual extent, but is not insurmountable. The external actor, which may be a donor, has credibility with local stakeholders, for instance due to successful earlier interaction around some other topic. Regarding the design of the intervention, issues like developing a shared understanding of local / regional economic development need to be properly reflected. For instance, some people conceptualise LED primarily as a social intervention, while we argue that it primarily has a business focus.

- 3) Love it or leave it: This is a scenario where local stakeholders have no experience either with economic development or with the external actor. In this case, the intervention has to start with a rapid assessment in order to avoid wasting time and money, and the result may well be “leave it”, i.e. address a different issue in a given location or work in a different location. For instance, this would be the case if the assessment uncovers antagonistic relationships between public and private sectors, weak local leadership, or a fundamental resistance to change.
- 4) Hell: This is a scenario where an external actor has to confront, and to convince, a set of local actors who have a pretty clear idea of what they expect from local economic development activities, be it in a positive or in a negative sense. In this case, the external actor has to work hard to build credibility quickly, and thus has to come up with an intervention design that promises quick and convincing achievements.

In the next section, we will look at the opportunities and challenges involved in launching a local red tape reduction initiative in each of the four constellations.

3 Sequencing red tape interventions in each constellation

3.1 Paradise

The fruits are hanging low in this scenario – the pastures are green, the scenario inhabitants are hospitable and live in peace and unity among themselves. In such as constellation, procedural aspects such as building a relationship of trust between stakeholders are less of an issue. There is a sound foundation to focus on the main task of a red tape intervention – the actual improvement of rules, regulations and procedures hampering the local business environment.

Experience shows that a red tape process in a paradise scenario is a relatively quick, low cost exercise. A four-step rapid appraisal process sequence involving 1) contracting, 2) fact finding, 3) an assessment workshop, and 4) follow-up sessions to energise and monitor implementation, is likely lead to a promising outcome.

- 1) As a starting point, **contracting** involves the definition of clear objectives, roles and responsibilities in a contract or charter among the major stakeholders. Due to the common learning experiences and the evolved relationships of trust, it will be relatively easy to motivate the participation of a local chamber of commerce and individual business people and get the buy-in from the political and administrative levels of local government.

2) As there is no substantial controversy surrounding factors influencing the local business environment, a rapid **fact finding mission** to identify local red tape issues might be the most effective and efficient way forward. Rather than investing in an expensive and time consuming business environment survey, a quick interview phase with local businesses and government officials can reveal the major red tape issues and who is involved. Indeed, a red tape intervention in such a setting could even be a sub activity in a wider LED process.

3) This quick interview and fact finding mission is likely to be enough to mobilise a wide spectrum of private and public stakeholders for a major **red tape assessment workshop**. Due to the past experiences with action-oriented, successful LED processes, public officials will not be afraid of being confronted with demands from the private sector. Businesses, on the other hand, will join the session because they know that there will be substantial positive outcomes.

A multi-issue, multi-stakeholder workshop with a large number of stakeholders can serve as an introduction to the concept of red tape reduction. At the same time, it can be used to analyse, unpack and find solutions for the red tape issues at hand. The established working relations on the local level might even make it possible to tackle red tape issues which are not solely defined at the local level. Public and private sector champions will readily form task teams on the identified red tape issues and define clear objectives and timeframes for implementation. The solutions can involve quick wins just as well as short and medium term processes – if one finds enough credibility in the process and enough motivation on the part of stakeholders to guarantee successful implementation.

4) The involvement of the external facilitator – be it a donor organisation or local development agency – is likely to be relatively small in such a process. The financial resources required are modest and consist mainly of the salary of the facilitator, which may involve around 20 consultant days. The local stakeholders will themselves drive the implementation process. A few **progress reporting sessions** are enough to sustain the momentum. Furthermore, quick wins and short term solutions will easily motivate public and private sector representatives to engage in a second round of red tape issue identification, solution finding and implementation without the involvement of an external facilitator.

While the paradise metaphor indicates that success comes relatively easy in such a constellation, it also suggests that we live in a dynamic, ever changing context. Even in “paradise”, the external facilitator or process host should take care to analyse and monitor the local context well. A local red tape intervention can reveal sensitive issues and can have far reaching impacts on the organisational structure of a local municipality. It is unlikely that a process will not trigger at least some heated debates or unveil vested interests that generate at least some resistance to change.

3.2 Eager participants

In this scenario, the donor or external facilitator will already have established a relationship with key local actors in business and local government and have some knowledge of the economy and business environment in the region, but we are assuming that the local actors have no prior experience of LED. For this kind of situation, we suggest the following sequence:

1) Given the lack of prior experience of LED, it would be too soon to establish a contract, as suggested in the “paradise” scenario, although something like a local compact to pursue Red Tape Reduction could emerge at the end of the process to bind the actors to continuing the process. The first step for the facilitator is to gain the practical commitment of those local actors who are likely to host and champion the Red Tape Reduction project. If relationships between local government and business are already good, this would mean bringing together leadership from the two sides at an initial meeting to endorse the idea, and, if possible, to commit to providing resources (staff to participate in a local team, venues for activities, secretarial assistance) and a timetable for the first stages of the project.

2) Since local stakeholders have not yet engaged with LED, a useful next step is to establish a basic profile of the area during the preparatory phase. The donor/facilitator draws up a list of questions on the local economy and the business environment for the hosts. The responses they give to this early request will provide a good indication of just how committed they are to the process and what resources they are likely to put into it. The information gathered provides an early indication of the state of the local economy and the environment in which business operates. This will enable the external facilitator and, once it is formed, the local team to develop initial hypotheses about the main obstacles to business activity and local economic growth, which will inform the design of the Red Tape Reduction process and be used as a basis for testing findings at the end of the assessment phase. In fact, it may also emerge at this stage that Red Tape is not perceived as a high priority problem by local business.

3) In a locality in which actors are keen, but have little experience of LED, it is important to carry out field work, i.e. a participatory process of assessment of red tape that also serves to mobilise local actors. Preparations for this phase will take place well prior to the field work itself, through the involvement of the hosts and one or more local champions, in communication with the donor/external facilitator. The exercise should begin with training for the local team which provides both an understanding of the concepts and how to use the participatory assessment methodologies. (A suitable training format is discussed in Annex 3.) We suggest that a carefully structured and skilfully facilitated process then follows, starting with a kick-off workshop for stakeholders, followed by interviews and mini workshops with carefully selected local actors in business and government, all conducted by the team. The field work is followed by a findings workshop for the team in which findings and possible proposals are assembled, a presentation workshop for local stakeholders in which these findings and tentative proposals are presented to local stakeholders and, finally, a way-forward workshop for those champions and others who will take up specific actions and keep the process going.² The way forward workshop launches the initial implementation phase of the Red Tape Reduction initiative.

4) If the assessment phase has gone well and momentum and commitment have been built up, it is possible for local stakeholders to fully take over the process and run with it at this stage, using and, if needed, developing the partnership structures already created to ensure continuity. In order to encourage continuity a monitoring and review process is build into the

2 This methodology follows closely that of the Participatory Appraisal of Competitive Advantage (PACA). See www.mesopartner.com.

planned actions to enable feed back to the host structure. The M & E system also assists with the integration of learning into the process and identification of larger challenges in further rounds of red tape reduction. Keeping an external facilitator involved is an option; local actors may appreciate to have a neutral person involved, and for an external agency it is an efficient way of assuring progress of the local process.

5) Although, the locality in this eventuality becomes “paradise”, provision should be made for two kinds of less desirable eventualities. The first is that local actors have insufficient expert knowledge in a particular field, for example legal expertise on the change of local byelaws and regulations or expertise on commodity standards for external markets, for example health and environmental standards for food products. In this case, the donor may assist by sourcing such expertise, either nationally or internationally. The second relates to a loss of momentum due, for example, to a change of local leadership or the emergence of conflict between the hosts or champions. In this case, the donor may call in the external facilitator to undertake a short review exercise to diagnose blockages and re-mobilise local actors. At this stage, it may also be helpful for the facilitator to provide guidance on the appropriate institutional structures need to help ensure sustainability of the process.

3.3 Love it or leave it

“Love it or leave it” is a scenario where local stakeholders have no experience either with local economic development or with the external actor who is suggesting a local red tape reduction initiative. This is not the kind of situation where an external actor is contracted to facilitate a red tape reduction exercise, but rather where a donor or a domestic development organisation sends in consultants / facilitators without much prior consultation with local stakeholders.

The term “love it or leave it” highlights the fact that it is somewhat unpredictable in this constellation whether a local red tape reduction initiative is an appropriate intervention. While red tape tends to be an issue virtually everywhere, in a given location it is not necessarily the most urgent issue. Thus, two things can happen. Local stakeholders may find that red tape is indeed a critical issue, and that it is worthwhile spending effort on reducing it. On the other hand, local stakeholders and the external actor may determine that red tape is not really a burning issue, and that a developmental effort should focus at other issues.

In this constellation, the intervention design has to consider two elements:

- 1) The intervention has to start with a rapid assessment. If it is uncertain whether local stakeholders ascribe a high relevance to the red tape issue, it is unwise to spend a lot of time and money on a local red tape analysis that is conducted by external consultants. It is advisable, instead, to engage local stakeholders in a swift, efficient exercise that renders a robust picture of the red tape situation. In our experience, this can be done through a series of brief workshops, for instance the format described in Annex 4. Why do workshops have to be brief? This is primarily because of the low credibility of the external actor. In this situation, it is unlikely that local stakeholders will make themselves available for workshops that take many hours or even days. A brief workshop that takes about an

hour is more likely to attract a fairly representative group of local stakeholders, in particular from the private sector. Our experience has shown that it is advisable to run a series of such brief workshops, each one with actors from a given sub-sector.

- 2) If the workshops reveal that red tape is indeed an issue, the focus of the subsequent work would be on quick wins, both to build credibility for the external actor and to generate quick learning processes and alignment among local stakeholders. The analytic effort of the rapid assessment is sufficient to highlight pressing issues around red tape. The challenge is then to find ways of addressing these issues that render quick results. While it takes some time to change the laws and regulations that underlie red tape, it is possible to make their application less cumbersome in much less time. Businesses often complain that a given administrative process is not properly explained, that they don't know who is the person in charge, and that forms are not available or difficult to understand. Such issues can in principle be sorted out in a matter of days.

Another issue that is worth considering in this constellation is the fact that red tape is an issue not only in the public sector. Private companies, in particular medium-sized and large companies, tend to generate a substantial amount of red tape for their suppliers, and sometimes even their customers. Highlighting and addressing this fact avoids a dynamic in which businesses present themselves as victims and the public administration as culprits, something that can create or reinforce a process of confrontation and antagonism between public and private sector.

3.4 Hell

“Hell” is a scenario where an external actor has to confront, and to convince, a set of local actors who have a pretty clear idea of what they expect from local economic development activities. This can have a positive or a negative connotation.

In the **positive case**, we are talking about a location where local economic development is thriving. There is a good degree of alignment among local stakeholders in terms of what LED is supposed to achieve, LED activities have been going on for some time, and they have rendered tangible results. This is a kind of setting that donors will be attracted to, as they expect that their money will be spent effectively there. When they send their representatives to the location, local stakeholders will inquire about the value they can add. The donor will tend to respond by pointing at one or more of the following resources it can offer:

- Funds. However, unlike, say, infrastructure development or the strengthening of the local innovation system, red tape reduction is not an activity that is very cost intensive, so that offering funds that are earmarked for red tape reduction is not necessarily an attractive proposition. An exception would be a situation where the external actor can raise the interest of local stakeholders in conducting a business climate survey, which can be a costly exercise.
- Technical expertise. This can be a rather attractive proposition, provided that local stakeholders at that moment are seeking the specific kind of technical expertise around red

tape reduction that the external actor can offer. If that is not the case, the external facilitator contracted by the donor tries to give an answer to a question that nobody has asked, and it is thus unlikely that anybody will listen.

- Facilitation expertise. This may or may not be an attractive proposition, depending on the facilitation know-how that is locally available. To make it attractive, it would have to be closely aligned with the technical expertise, including in change management, since a sustained red tape reduction effort will involve change not only in government organisations but also in private companies that are plagued by internal red tape.

In this constellation, the external actor may detect that local stakeholders are not interested in a red tape reduction initiative. To reduce the risk of this happening, the external actor would be well advised not to pre-select target locations but rather to communicate that it is willing to support local red tape reduction initiatives and that it calls on people in these locations to apply. Yet even with this approach the consultants / facilitators sent in by the donor will have to work hard to build credibility quickly, and thus have to come up with an intervention design that promises quick and convincing achievements. Local stakeholders who have experienced effective development interventions will resent it when an external facilitator wastes their time. Thus, the external facilitator would have to run a very quick fact finding exercise combined with intense dialogue with local leaders and intermediaries, and with a clear message and consistent management of expectations. Based on this, one would negotiate an intervention design that would be very much driven by the preferences and needs of local stakeholders, rather than dictated by the external facilitator and her masters. The critical success factors in this constellation would be the facilitator's ability to appear as genuinely responsive and flexible, as well as highly competent and efficient.

In the **negative case**, we are talking about a location where local economic development has been struggling to make much headway. Several external facilitators have come and gone and have left a legacy of discontinued or failed projects and frustrated and disappointed local stakeholders. Whereas the "positive case" constellation is challenging but can be handled by competent development organisations, this constellation is genuine hell.

In this kind of setting, the most promising approach is based on the donor or contracted facilitator approaching local government and pointing out the possible gains that a local red tape reduction initiative can bring, especially if it involves quick wins. A key challenge is to overcome the negative attitude, or even cynicism, of local stakeholders. Red tape reduction offers local government the opportunity to highlight its determination to create a more business-friendly local environment. If it launches a red tape reduction initiative, this will come as a surprise to the private sector. An important challenge is to make sure that it is a positive surprise. It would not be advisable to start the process with workshops where a variety of stakeholders from different sectors meet, since this would hold the risk of generating mutual accusations and thus reinforce the negative attitude. Instead, one would initiate a process where individuals from the same peer group (a given sub-sector of the local economy; different local government departments; community representatives) meet, share their experiences on red tape, analyse the problems and suggest solutions. In our experience, the perception of problems tends to be very similar across different groups. Pointing this out, i.e. sharing the results of initial brief workshops with all stakeholders, is a possible starting point

for a joint effort. Alternatively, local government can unilaterally respond to the suggestions by reducing red tape in a highly visible way, thus signalling its determination to improve the enabling environment for business.

4 Outlook: The relevance and reach of red tape reduction in LED

How important is it that local government and other stakeholders reduce red tape at the local level? There is more than one answer to this question.

1) Any effort to reduce red tape needs a local component. If a given country ranks low in, say, the World Bank's "Doing Business" report, reducing red tape is an urgent issue. Government procedures and services are primarily delivered at the local level. Businesses rarely have to register with national authorities, and building permits are rarely provided by national government. Therefore, a country will only succeed in reducing red tape if it manages to change things at the local level. A well-meant national initiative to simplify regulations will have only a limited impact if the simplified regulations are executed in a clumsy way at the local level. Vice versa, local governments can achieve significant successes in red tape reduction by simplifying administrative processes, by making them more transparent, and by simplifying local by-laws and regulations.

2) The purpose of local economic development is to build a locality-based competitive advantage. Does red tape reduction contribute to this? The answer is yes and no. Reducing red tape can temporarily establish a competitive advantage for a given location vis-à-vis other locations in the same country, especially when it comes to attracting investors. However, even an exceptionally successful red tape reduction effort in a location in, say, Nicaragua would not mean that, say, Intel would even consider that location for its next factory. Locational quality involves many more factors than the presence or absence of red tape.³

3) Even if it does not directly build a sustained competitive advantage, local red tape reduction can play a critical role in locational upgrading. If local government shows a determined and sustained effort to reduce red tape, this builds credibility and thus prepares the ground for partnerships in other areas, in particular activities that will indeed create a sustained competitive advantage.

Thus, one conclusion is that reducing red tape is an activity that should be fairly high on the agenda of local governments. The other conclusion is that there cannot be a one-size-fits-all recipe on how to do it. Efforts to reduce local red tape will often emanate from higher levels of government, sometimes supported by foreign donors. They need to carefully analyse the constellation in which they operate in any given location and tailor their approach according to the considerations outlined in this paper.

3 Doug Hindson and Jörg Meyer-Stamer, *The Local Business Environment and Local Economic Development: Comparing Approaches*. Mesopartner Working Paper 11, Duisburg 2007.

Annex: Overview of tools to be employed in local red tape reduction initiatives

5 GTZ's Local Red Tape Reduction tool (South Africa)

5.1 Background and context

Responding to the growing demand for practical approaches to reduce Red Tape, GTZ's South African LED Programme has developed a facilitation model for Red Tape reduction at the local level. The model aims at supporting local stakeholders in the reduction and avoidance of bureaucratic costs both for the public and the private sector by facilitating a multi-stakeholder discussion and a joint action process in a locality.

GTZ developed a facilitator manual as a guide for LED practitioners who wish to implement the Red Tape facilitation model. It addresses public sector LED officials, private LED consultants and members of private or public sector LED support institutions alike. The document aims to generate a profound understanding of the aim, the logic and the structure of the model. Furthermore, GTZ and InWEnt supported the development of training materials primarily targeted for public sector LED officials, which can be used as stand-alone or preparatory trainings prior to a red tape reduction process.⁴

5.2 Main features of the tool

Local Red Tape Reduction (LRTR) is a structured change facilitation instrument, which aims to improve the competitiveness of a locality by reducing the cost of doing business and improving local governance. The reduction of local Red Tape directly contributes to improvement of the local business and investment climate by reducing the monetary and time costs of doing business in the locality. Public and private resources are released and incentives are created for new investments. As a result, the reduction of Red Tape helps to increase public and private efficiency, productivity and competitiveness, leading to an improved environment for business in the area.

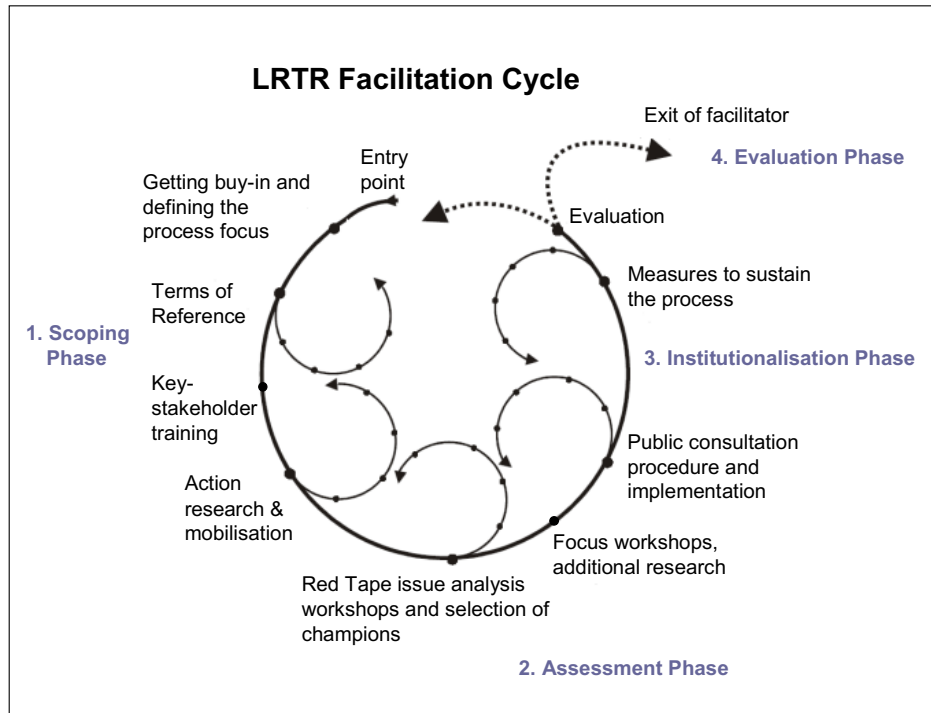
LRTR is a process that connects the public and private sector of a locality. In a structured series of multi-stakeholder workshops during which public and private stakeholders identify and solve red tape issues concerning either the public-private interface (e.g. business licensing) or their own domain (e.g. municipal organisational structures, interactions of the formal and informal private sector).

In the short run, facilitating a multi-stakeholder discussion and action around local Red Tape reduction enables several rapidly resolvable local Red Tape problems to be tackled, while more complex ones get investigated as momentum builds up, and issues that lie beyond local control get communicated to higher levels. In the long run, the facilitated process functions as a trigger to kick-start catalytic interventions, increased advocacy activities and the evolution of a relationship of trust between the public and private sector that may even go beyond

4 All materials are available from www.businessenvironment.org

the reduction of local Red Tape. The result is in a continuous and ongoing local process of improving the business environment.

A LRTR process consists of four main phases and a number of steps, summarised in the facilitation cycle below:



5.3 Critical success factors of its application (including transferability to different types of location)

The design and implementation of change processes requires a holistic and systemic perspective and an iterative and participatory approach. Inducing change requires an approach that sufficiently takes the specific dynamics, the complexity and interrelatedness of a locality and its actors into account. Such a systemic approach builds on three critical success factors.

1. Systemic change can only be done by or with the local actors. Correspondingly, there needs to be considerable buy-in from local stakeholders.
2. In order to bring systemic change about, the internal actors must be aware of, and eventually accept the importance of, the factors that inhibit performance.
3. Systemic change is best achieved step-by-step and in a flexible manner and cannot be linearly planned.

The concept of facilitation directly relates to these critical success factors for a systemic intervention. Facilitation as the basic approach to LRTR is understood as a process of decision-making guided by a facilitator who insures that all affected individuals and groups are involved

in a meaningful way and that the decisions are based on their input and made to achieve their mutual interests.

5.4 Reference to 4-Types-Model: In which case(s) is the tool applicable?

It is clear that these critical success factors decisively define the application of the LRTR instrument in the four different constellations of a local or regional economic development intervention.

In principal, the LRTR facilitation model can be applied in all four constellations. Practically speaking, however, the immediate impact on the local business and investment climate is likely to be high(est) in the paradise scenario and – without introducing an exact quantitative ranking – lower in the other scenarios. This is the case because – although for different reasons – the readiness for change is lower in scenarios two to four. Correspondingly, more time and resources will have to be used for process-related purposes and less can be invested in actually reforming rules, regulations and administrative processes.

Where the credibility of the external facilitator is low, continuous expectations management and tedious communication efforts will characterise the process. Progress will be slow because each process step requires extensive consultations with all stakeholders. Both low and high confidence and experience in LED processes are likely to require intensive interaction. Where past experiences on LED are minimal, the public and private sector might not yet be used to working together, which requires a great deal of extra effort around stakeholder mobilisation. Where stakeholders are highly experienced in LED, they might constantly challenge the methodology, requiring extensive reporting and consultations. Last but not least, a focus on quick wins, requiring relatively few procedural changes, will have to be applied in order to build the credibility of the process. At this stage, short term solutions might lead to the questioning of the methodology, the competence of the facilitator or to decreasing motivation of stakeholders. Clearly, all of these measures will reduce the immediate effectiveness of the process regarding the improvement of the business climate.

6 Business climate survey, Indonesia

6.1 Background and context

The first phase of the Regional Economic Development (RED) program of GTZ (2004-2008) aimed to strengthen the economic competitiveness of the geographic area of Subosukawonosraten, in Java (recently renamed 'Solo Raya'), in order to generate income and create jobs in the region. A supportive business climate is regarded as an important precondition for attracting private sector investment. The RED program supports the creation of an enabling business environment through various interventions, among others a Business Climate Survey, Regulatory Impact Assessment (RIA), support for a regional marketing company, SME promotion and others. In 2003, 2005 and 2007, the program conducted Business Climate Surveys (BCSs) in order to assess changes in the business climate.

Under contract by RED, Swisscontact and Mesopartner were involved in conducting the second BCS in 2005. The BCS covered the seven districts in the region Solo Raya that lies in the

South of Central Java province. The BCS addressed the whole range of government-created factors that shape the enabling environment for business, from generic and sector-specific laws and regulations to service delivery including development services, as well as companies' internal efforts to innovate and strengthen their competitiveness. The BCS did not only include information gained from the survey, which builds on the perceptions of enterprises, but also included information gained from hard statistical data. These aggregated figures are the basis for calculating indices to assess and rank the Solo Raya region as whole, each of its seven districts, and each sector. This methodology provides a clear picture on local/regional as well as sector-specific competitiveness, and facilitates benchmarking efforts. The BCS identified a number of shortcomings regarding the business environment and economic dynamics of the region, which need to be addressed jointly by all stakeholders, i.e. the businesses themselves, the government and the supporting environment.

The BCS 2005 and its results gained much attention, not only among the local stakeholders in the seven districts, but also among actors at the provincial and national level. Consequently, in 2007 the BCS has been repeated, but under a different set-up and with a different scope compared to the previous surveys. One of the objectives of the BCS 2007 was to strengthen local ownership of the implementation of the survey in order to increase the chances that surveys will be held regularly in the future. The project had identified a regional newspaper, the provincial planning agency BAPPEDA and Bank Indonesia as the main stakeholders committed to take ownership of the survey for the future. While initially the program was in charge of defining the scope of the BCS and was directly responsible for the implementation of the survey, the BCS 2007 was guided and implemented by a steering committee and an implementation team representing the key stakeholders, including the RED program, again in cooperation with Swisscontact and Mesopartner as technical advisors. The BCS 2007 covered not only the seven districts in Solo Raya region, but all 35 districts of Central Java. Thus, it allowed benchmarking on achievements in cutting red tape among all districts of the province and – in an aggregated form – among the regions within the province.

6.2 Main features of the tool

Internationally, there is wide experience in measuring economic competitiveness among different countries. Private institutes, such as the Institute for Management Development (IMD World Competitiveness Centre) in Switzerland have offered international competitiveness rankings since the late 80s on a commercial basis. In the development context, institutions such as the World Bank have also focused on competitiveness rankings on a yearly basis (the 'Doing Business' report). There are also national initiatives. For instance, in Vietnam, the Provincial Competitiveness Index (PCI) assesses and ranks provinces in terms of their regulatory environments for private sector development on a yearly basis.

However, competitiveness is not only a challenge for national governments, but also for provinces, regions and locations within countries. Competitiveness among different economic regions can vary considerably and has become a focus of local and regional governments. In Indonesia, the local autonomy and decentralization laws promulgated in 1999 empowered district governments to implement economic policies which can directly impact the business environment and local competitiveness within their administrative boundaries.

Compared with the benchmarking of country competitiveness, measuring and ranking local and regional competitiveness is much less advanced. In Indonesia, Swisscontact and The Asia Foundation started the first initiative to measure competitiveness in the late 90s, which was then further expanded with USAID support and has resulted in a kind of local competitiveness ranking among a large number of municipalities (KPPOD Reports).

Within the RED program, competitiveness indicators are important instruments for measuring project impact and supporting policy dialogue. Compared to the first survey conducted in 2003, the 2005 and 2007 surveys have taken up this challenge by testing a methodology for measuring and ranking competitiveness which follows in principle the methodology applied in the international competitiveness ranking introduced by IMD and the provincial competitiveness ranking conducted by VNCI in Vietnam. Competitiveness is measured based on the combination of 'hard' statistical data gained from national sources and 'soft' data on the perceptions of the business environment gained by a survey conducted among micro, small and medium sized enterprises.

The approach combines the perception of the business climate obtained from an enterprise survey with the hard facts on the business climate obtained from district information. These aggregated figures are the basis for a competitiveness assessment of the Solo Raya region as a whole, of each district and some selected sectors.

There are, of course, many ways to measure territorial competitiveness. The methodology applied by the RED program is regarded as 'work in progress'. The fact that certain indicators have been selected does not necessarily mean that these are the most appropriate ones. Rather, they were the indicators which were accessible given time and resource restrictions. For the BCS 2007, some improvements and adjustments of indicators have been introduced. Here, the methodology focused more closely on the issue of inspections, gender issues, usage of business services, infrastructure, export and investment data and outlooks. In 2007, in line with international practice, the project will also combine quantitative and qualitative data in one single sub-index to come up with more solid sub-indices that do not rely solely on perceptions or statistical data (which are not always reliable).

As a starting point in 2005, the following sub-indices were used to assess district competitiveness:

1) Hard statistical data (total 14 indicators)

- Economic performance (4 indicators)
- Government capacity (5 indicators)
- Infrastructure (5 indicators)

2) Perception: Survey data (total 20 indicators)

- Business dynamics (8 indicators)
- Government effectiveness (6 indicators)
- Perception of the business environment (6 indicators)

Figure 1 provides an overview of all categories and detailed indicators.

In contrast to the district indicators, the sector indicators are purely based on the qualitative results of the BCS. Due to the lack of reliable data it was not possible to use any information on the economic performance of the four priority sectors of GTZ-RED (agro-processing, furniture, tourism and textile), such as the growth rate or their contribution to the regional GDP. Sector competitiveness was measured along the following sub-indices (for details see Figure 2):

- Perception of business environment (6 indicators)
- Business dynamics (9 indicators)
- Business innovation (3 indicators)
- Government effectiveness (6 indicators)

In order to make the qualitative and quantitative indicators and the sub-indices comparable and to depict them in radar graphics (using a ten-point scale) a specific formula was applied, in accordance with international practice.

The aggregation of the territorial sub-indices allows the calculation of an overall district competitiveness index, and the aggregation of the sector sub-indices enables the calculation of an overall sector competitiveness index.

Figure 1: Territorial Competitiveness Sub-indices and Indicators (BCS 2005)



Figure 2: Sector Competitiveness Sub-indices and Indicators (BCS 2005)



6.3 Critical success factors of its application (including transferability to different types of location)

First and foremost, the transferability of the BCS methodology to different types of location does not depend only on the stakeholder constellations and their experience with LED, but also on the economic conditions of the location. A BCS certainly only makes sense in places with a critical density of SMEs and possibly also large enterprises and a certain diversity of the economic structure. Locations that are dominated by agricultural production and maybe some basic agro-processing activities do not necessarily call for a BCS.

Moreover, there is a variety of technical and organisational critical success factors:

1. Setting aside 'soft' data on the perception of the business environment obtained by the enterprise survey, a BCS that is based on the combination of 'hard' statistical data extracted from statistical sources, and thus depends on sufficiently reliable statistical data, which is often not always available in developing countries.
2. When designing the questionnaire, a variety of local stakeholders usually come up with specific interests on information to be collected and questions to be asked. To accommodate all those interests while keeping the questionnaire within a manageable size is another challenge. Certainly, the more experienced local public and private stakeholders are in LED issues, the more specific and extensive will be the information needs they articulate.
3. Even if the drafting, pilot-testing and adjusting of the questionnaire and design of the sample size and composition is done by an external donor organisation, the implementation of the survey itself entails a major organisational effort. A survey team with some knowledge on economic issues and some interviewing experience needs to be recruited and trained. A representative number of enterprises have to be selected and contacted. The whole implementation phase needs to be thoroughly scheduled; interviews need to be arranged and coordinated and interviewers supervised. Finally, the collected data need to be validated, entered into a pre-designed software, such as SPSS or SQL, and processed for reporting. Therefore, the availability of a local institution, such as a university, with some experience in conducting systematic collection, processing and evaluation of survey data is a pre-condition.
4. The main organisers of the BCS, e.g. local government in cooperation with a donor organisation, need to have certain credibility among local enterprises. Otherwise, the respondents may not be interested or willing and to spend the requisite hour with an interviewer answering sometimes very sensitive questions.

The more experienced local stakeholders are in LED-related matters, the more likely they are to appreciate the potential impact of a BCS. A properly conducted and disseminated BCS has the potential to attract close attention from a variety of local and external stakeholders, such as higher level government actors, the business community, the media, the donor community and those within location itself. As a result, a BCS can put pressure on local government to improve its regulatory environment and its behaviour vis-à-vis enterprises. This is particularly true for surveys resulting in benchmarking efforts among districts, as was the case in Central Java, or among provinces such as those in Vietnam, which triggered competition among those

localities. This is good news for any initiative to cut red tape, but puts pressure on local government to do something about their performance, and to do it quickly. This all means that prior to conducting a BCS there must be interest on the part of local government to expend the effort to improve the business environment and to streamline regulatory procedures. And there must also be readiness to be exposed to territorial benchmarking efforts.

6.4 Reference to 4-Types-Model: In which case(s) is the tool applicable?

In general, the BCS tool is very flexible and can be adjusted to local circumstances and interests. The sub-indices and indicators can be selected and assembled based on data availability and the preferred focus of the survey. For instance, in contrast to the BCS of RED, some other surveys, such as the Provincial Competitiveness Index in Vietnam⁵ or the Doing Business project⁶ of the World Bank, deliberately neglect competitiveness aspects like infrastructure and proximity to markets, in order to focus on good governance practices only and observable differences in territorial regulatory frameworks, rather than on initial endowments.

A successful BCS depends on careful planning and coordination. The necessary resources need to be allocated and a strong foundation of support developed among all stakeholders prior to beginning work. In general, the preparation of a BCS will follow the procedures of preparing a concept document or general TOR, presentation meetings with a variety of public and private local stakeholders and a draft review meeting with the main organisers. In the scenarios where the external facilitator enjoys credibility (Paradise, Eager Participants) this will be a relatively easy endeavour. Selling a BCS initiative in places where the external actor is regarded as not credible will be more difficult and particularly more time-consuming. On the other hand, a successfully conducted BCS can enhance the external facilitator's credibility in the locality.

Moreover, a BCS that is enriched by both hard statistical data and soft survey data should preferably be conducted in localities with some experience in LED activities. In places where local actors are inexperienced in LED it is unusual to find anyone who has been eagerly and systematically collecting and processing statistical data.

A BCS should not be a one-time event, but should ideally be repeated on a regular basis, e.g. every two years, to enable the monitoring of the successes or failures in improving the business environment and in cutting red tape over time. The external actors, particularly in case of donor programmes, will leave the location after some years. Thus, local actors need to be encouraged to continue organising and financing the BCS in the future. This should be a joint effort, e.g. by local government, business associations, a chamber and possibly enterprises having a commercial interest in the BCS (like a media company in the case of Central Java). The more experienced local actors are in LED and the more credible the external actor, the easier it will be to ensure sustainability.

5 www.pcvietnam.org

6 www.doingbusiness.org

7 A Red Tape Reduction Training Format

7.1 Background and context

InWEnt and GTZ in South Africa produced a training manual on Cutting Red Tape to Improve the Business Environment in 2006.⁷ The manual provides a guide for trainers conducting training exercises

The training in Cutting Red Tape seeks to help local actors understand the importance of improving the business environment in their areas, and in particular the necessity to improve the regulatory framework for enterprise development, notably for small business. The overall aim of enterprise development is to stimulate economic growth and create employment in ways that reduce poverty and improve the quality of life for people within the localities concerned. In addition, the training emphasizes the importance of fostering public-private dialogue (PPD) as a means to sustain continuous improvements in the business environment. The manual is accompanied by a Participant's Manual, a Resource Handbook and a Facilitators Manual for those who take the process beyond training into assessment and red tape reduction exercises. All these manuals form part of a wider offering by InWEnt and GTZ on Local Economic Development promotion in South Africa.

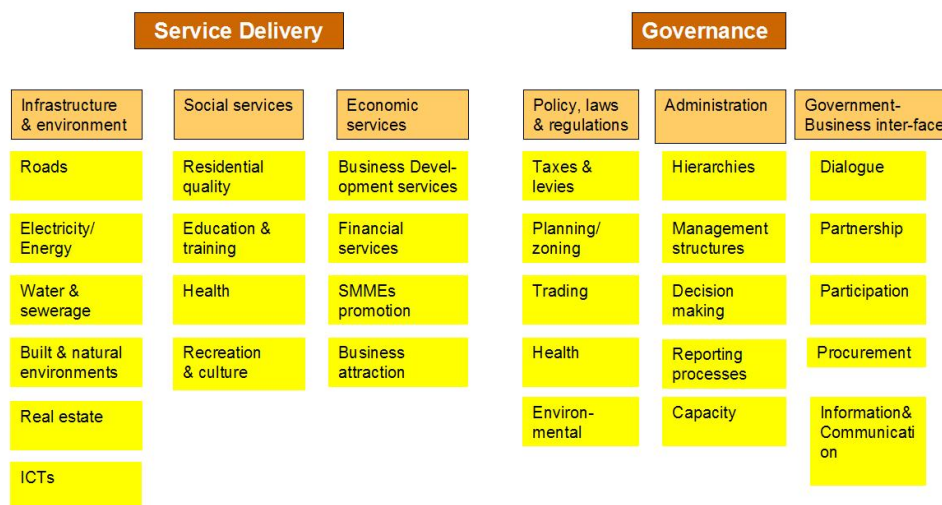
7.2 Main features of the tool

The approach used throughout the training is to foster participatory and experiential learning. A close connection is drawn between conceptual understanding and practical problem solving.

The training module begins with a definition of the concept of "business environment" and then works through the meaning of "red tape" and its impact on business performance. The various elements of the business environment that come under the influence of local government are illustrated, as shown in the diagram below.

7 http://www2.giz.de/wbf/4tDx9kw63gma/red_tape_163.pdf

Elements of the Business Environment influenced by Local Government



In the diagram, a distinction is drawn between the regulatory system and service delivery. Within the regulatory system, a distinction is drawn between bye-laws and regulations, on the one hand, and administrative procedures on the other hand, and the elements that make up each of these is discussed with the trainees. The regulatory system may be the source of red tape, or the way in which the regulations are enforced may be the main source of red tape.

The reason why municipal service delivery is included is not only because it represents an important feature of the business environment, but also because there may be a considerable red tape involved in the way in which services are delivered, and this can impact negatively on business.

Various tools are used to enable participants to apply these concepts directly to their local circumstances. These include, for example, prioritisation exercises and role play simulating realistic situations in which local government bureaucracies apply, and businesses face, red tape, for example in business registration. Participants analyse red tape problems in working groups. The working groups are guided through the process of distinguishing between symptoms and underlying causes of red tape problems, using problem trees. From problem analysis, they are guided through proposal formulation for addressing realistic solutions. The Three Criteria tool is used to prioritise actions that can be taken with local resources, within a short time frame and with visible results. The aim of this approach is to encourage choice of actions that build confidence and create a momentum for later, more ambitious actions that will need mobilisation of larger resources and, sometimes, also the involvement of external actors.

Pfeiffer's six questions for planning⁸ are used to demonstrate how actions may be realistically planned and executed. These call for precision on how the action will be taken, who will be responsible, who will collaborate, the resources that will be needed, the starting date and an indicator of when it will be clear that the action has started.

7.3 Critical success factors of its application (including transferability to different types of location)

The InWEnt/GTZ manual on Cutting Red Tape has been designed to serve both as a sensitisation tool to increase the awareness of local actors to the importance of the business environment and red tape, in particular, and as a tool to prepare local champions and teams who will assess red tape and then take action to reduce it.

While the basic conceptual framework has wide applicability, a degree of local knowledge on the part of the trainer is important to provide illustrations and comment helpfully on issues raised by trainees.

7.4 Reference to 4-Types-Model: In which case(s) is the tool applicable?

In all four situations, a training element could usefully be included in a project to assess and act on red tape. In "paradise", elements of the training manual would serve as preparation not only in terms of developing the conceptual grounding of the local team, but also in gathering the team members' initial perceptions on the main sources of red tape that are likely to be found in their locality. In "hell", a carefully crafted and facilitated training exercise could help persuade sceptical local actors of the importance of red tape and the benefits that would be derived from taking action to reduce it. In this case, more than in the other three, it would be critical for the trainer/facilitator to be well informed on the business environment and red tape in the local area. A training element could play a similarly useful role in the two intermediate situations.

8 Rapid red tape assessment workshop format

8.1 Background and context

A workshop format for rapid appraisal of local red tape was successfully tested in Sri Lanka in early 2006 as part of ILO and Swisscontact activities. The purpose was to get an understanding of government regulations and processes that generate a problem for small businesses.

The thinking behind this workshop format is the following. Regulatory issues can only to a limited extent be addressed at the local level. However, delivery primarily takes place at the local level, and often huge variation in terms of quality of delivery is found when comparing locations. Improving delivery of given regulations is thus a promising approach to improving the enabling environment at the local level.

8 The six questions are: 1. How exactly will we do this? 2. Who is in charge? 3. Who has to collaborate? 4. What are the resources that we need? 5. When do we start? 6. How do we know that we started?

Which regulatory delivery issues should be addressed, then? The suggestion implicit in this workshop is that an efficiently facilitated workshop can generate high quality information in a much shorter period of time than conventional research. In this workshop, participants indicate why they interact with local government at all, regarding what issues they have interacted over recently, and what type of interaction is most unsatisfying. This provides a clear prioritisation in terms of issues than can be taken up with the public sector.

8.2 Main features of the tool

The workshop format involves a series of questions. Participants should be from the same sub-sector. They respond to the questions by writing on cards (also known as “metaplan” or “mesocards” or “ZOPP cards”). The questions are indicated in the table below.

8.3 Critical success factors of its application (including transferability to different types of location)

The workshop format is robust. It has been run with different types of participants, including individuals with only rudimentary education. The success of the workshop depends on two factors:

1. The participants must have had interaction with government. In the pilot application in Sri Lanka, we were surprised to find that small businesses in some sub-sectors had no interaction with government whatsoever.
2. The facilitators must be experienced and comfortable with a communication approach that is based on card writing.

8.4 Reference to 4-Types-Model: In which case(s) is the tool applicable?

In principle, the tool is applicable in any kind of constellation. However, it is most appropriate in the constellations “Love it or leave it” and “Hell”. Under “Love it or leave it”, this kind of approach can lead to the “leave it” conclusion very quickly, i.e. in a matter of days, rather than the months it would take with conventional research. Under “Hell”, one main advantage of this approach is that participants are not expected to spend significant amounts of time in workshops, since this workshop format can easily be run in 1.5 hours. Another advantage is that this approach can highlight critical issues quickly. If there is a chance to fix a few of those issues swiftly, local stakeholders and the external actor may start to move from “Hell” to “Paradise”.

Table 1: Sequence of a rapid red tape analysis workshop

<i>Activity</i>	<i>Hints</i>
Question 1: Why do private businesses and producers have to interact with government (at divisional and district levels)?	Look only at mandatory interaction
Allocate cards in columns, eliminate duplicates, leave space to draw three columns on the right-hand side of each column of cards	
Question 2: For which reasons have you interacted with local government in the past 12 months?	Participants tick items off in first column. They do not write on cards, except if they recall occasions for interaction with government they had not thought of before. Facilitator captures information about unknown regulations, i.e. when a discussion erupts about regulations that a few individuals are aware of but most participants have never heard of.
Question 3: Which are the most important reasons for businesses and producers to interact with government?	Pareto (each participant has a number of votes that equals 20% of the responses to Question 1 Participants indicate in second column
Question 4: How satisfied are businesses and producers with the government's service delivery response on this item?	Third column: Participants score from -2 to + 2 (very unsatisfied, unsatisfied, neutral, satisfied, very satisfied)
Question 5: What is root cause of the problem that scored highest during the two steps before? 1. What exactly is the problem? 2. What is the cause of the problem? 3. What is the cause of the cause?	Open discussion, captured on flipchart or mesocards by facilitators If businesses don't interact with government, ask: Why not?
Optional step: Who must do what to address the root cause of the problem? Ask 6 Questions: 1. How exactly should it be done? 2. Who is responsible? 3. Who must collaborate? 4. Which resources are necessary? 5. When do we start? 6. How do we know that we started?	This step is only useful with skilled, well-informed participants who have some idea of how government works. Open discussion, captured by facilitators