

# **An Enabling Environment and Economic Zones for Private Sector Development in Bangladesh**

Public Sector Capacity-Building for  
Enhanced Regulation

Dhaka, Bangladesh  
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# 1 Introduction

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This paper addresses the challenge that public service administrators face in becoming *leaders* of tomorrow's public institutions. More specifically, this is the challenge faced by traditional public sector administrators to switch from administering daily, business-as-usual activities in traditional environments to becoming *leaders* in creating tomorrow's public administration institutions that are process-improvement-based, customer-oriented institutions that deliver timely, quality goods and services that satisfy their customers' demands.

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This paper focuses on how to translate those same organizational change concepts into reality. Much importance will be placed on institutional capacity-building, either for public institutions or for private companies and businesses, aimed at achieving the same end result of improved institutional performance that satisfies customers' demands. Efforts are also directed towards highlighting the need to incorporate the private sector into the regulatory process.

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## 2 Key Considerations related to Public Sector Capacity to Regulate the Private Sector

PUBLIC SECTOR CAPACITY-BUILDING FOR ENHANCED REGULATION¶ SEZ AND REGULATORY REFORM ROUNDTABLES¶ Dhaka, Bangladesh¶ December 14-15, 2004¶

Building institutional capacity for enhanced regulation of the private sector refers to the challenge a regulatory agency has in building its employees' and the institution's performance up to the level where they can balance *servicing* their differentiated customer bases with also obtaining customer *compliance*. For this process to occur, it is vitally important for a regulatory agency to know who its customers are, to be able to distinguish and balance between its *compulsory* and *voluntary* customers, and to know how it is going to get (willing) compliance from its customers.

Paper by¶ Jonathan Smith¶ Senior Change Management Advisor¶ Nathan Associates, Inc.¶ Aqaba Zone Economic Mobiliza... [1]

These and other key considerations related to public sector capacity are essential to understand, and are described below:

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### (i) Basic Differences between Regulatory Agencies and their Customers

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The process of enhanced public sector capacity to regulate the private sector begins with the recognition of the differences between regulatory agencies and their customers. What sets apart regulatory agencies and their customers? The mission and customer base of regulatory agencies are what distinguish them from non-regulatory public institutions and from private sector businesses. While there are other factors that differentiate regulatory agencies from other types of public organizations and private businesses, the key distinctions are outlined below:

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- A first fundamental difference is that unlike other “ordinary” public institutions, private sector organizations and private businesses, *regulatory organizations are uniquely challenged by the requirement to achieve compliance.*
- A second fundamental difference is that *regulatory agencies have both compulsory and voluntary customers.* The private sector and private businesses, on the other hand, has only voluntary customers.

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To build up “balanced” regulatory agency capacities is a different proposition from building up the capacity of a “normal” public institution to deliver goods and services more effectively and efficiently to their customers. This is because, unlike many public institutions, regulatory agencies often serve all citizens, thus making all members of the public their potential customers. For example, any citizen in the U.S. who consumes clean air and safe food uses the services of Environmental Protection Agency (EPA) or the Food and Drug Administration (FDA). In addition, a regulatory agency must also achieve a balance between exercising its authority and power, and serving the interests of its customers by effectively and efficiently delivering needed products and services.

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With these two above-mentioned fundamental distinctions in mind, it is still a challenge for most traditional public institutions to realize that they have customers, just as private businesses do; and it is often quite a challenge for traditional public institutions to see and admit that they exist to *serve* their customers, clients and constituents. By extension of this logic, a traditional public institution with more than one mission has an even greater challenge in arriving at the above realization and in defining who *their* customers are.

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These differences aside, what all organizations and businesses have in common is the requirement to balance meeting their customers’ requirements with meeting their shareholders or stakeholders expectations. Government organizations cannot achieve their mission by managing in a vacuum any more than can the private sector.

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(ii) ***Assessing Public Sector Capacity, and how it is Structured***

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Unfortunately, in most countries, public sector regulatory institutions are not particularly well-known or well-suited for their ability to understand and undertake their jobs well. *A regulatory agency will have organizational and functional issues with respect to capacity when an agency’s structure and functions follow a traditional “fill-in-the-functional-structure-boxes approach,” instead of functions defined by optimized customer-focused business processes.* In practice, such an approach is more oriented towards the interests of the regulator in preserving its own ability to use discretionary authority rather than regulating on the basis of a clearly understood customer-focused rationale.

*A second signal of potential problems occurs when inappropriate and unscrupulous persons indulge in personal and/or politically-influenced agency hiring practices, especially when they could have hired smart, high-*

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*performance, merit-worthy persons with the core competencies required to succeed in implementing agency functions.* When regulatory organizations set themselves up for sub-optimal performance from the start, they may engage in unethical practices with customers. This will negatively affect customer compliance, trust and respect. Ultimately, a poorly-performing regulatory body will produce numerous direct and indirect costs, which in turn will affect the economy at large.

To avoid these problems, regulators need to establish optimal public sector capacity. In this context, it should be remembered at all times that policy formulation remains a core government role through which the government can delimit the direct and indirect activities of all stakeholder groups. The government can be a direct provider or it can regulate and support other providers. Either way, it needs to have the capacity in place to be effective.

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To get the process right, a regulatory agency *should first possess the capacity for ensuring customer compliance right from the moment the agency is created.* Its first pre-requisite should be equipping the agency with the right skills and competencies for optimum organizational performance and customer compliance.

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A second important organizational goal to achieve is creating functions defined through optimized customer-focused business processes, and then getting the right competencies for the right functions.

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*A third important goal to achieve in the capacity balance of regulatory agencies focuses upon correctly benchmarking the compliance performance needed to achieve and correctly measure performance.* This measure indicates how successful a regulatory agency is in achieving compliance targets from its compulsory and voluntary customers, allowing a regulatory body to determine if it is “*measuring the right thing, then measuring it right.*”

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### ***(iii) Core Competencies for Enhanced Regulation***

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To achieve compliance, regulators must clearly define in what core competency areas they need high-capacity skills. The regulatory agency must have highly-skilled personnel with the legal and business acumen to deal with a highly-complex and varied range of private sector business questions, such as monopolies, international trade tariffs, transaction costs, and so forth. Some of the specialized skills will vary, according to the type of business or sector the regulatory agency is in. The organization must also know what core competencies their current managers and staffs actually possess so as to succeed in their regulatory functions.

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To enhance its regulatory policy-making qualities, the agency should have a range of skills capacities for working effectively on a number of technical and managerial levels. These include:

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- *participatory management skills* for ensuring participatory policy and decision making;

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- *negotiating skills and conflict resolution skills*, with respect to systems and procedures for consensus building and managing conflict;
- *macro-economic and socio-economic modeling skills* for determining questions such as customer's ability to pay for services, and for providing incentives to customers;
- *sustainable development of skills*, for regulating private business exploitation of public domain resources for corporate profit;
- *understanding the dynamics of how development of policies leads to laws, rules and regulation*;
- *estimating costs of policies and identifying who pays what for financing them*.

**(iv) *Types of Regulatory Instruments to be used by Regulators***

Regulatory and enforcement agencies work in areas such as credit regulation, allocation of rights (such as forestry reserves and water rights), environmental management related to air pollution, land-use planning and development, and management and exploitation of combined national and local resources for local community economic development. To undertake their task, almost all regulators must possess highly-competent skills in the four basic kinds of regulatory instruments listed below, failing which the regulatory agency will be unequal to the functions and responsibilities in its mandates, and thus lack credibility:

- *Direct regulations*, which refers to laws and rules that service providers and users must follow;
- *Economic or market regulation*, using economic instruments such as unit pricing, and transparent subsidies;
- *Self regulation*, where professional bodies and industry groups establish their own rules of conduct;
- *Social regulation*, involving behavior change through information dissemination, education and so forth.

**(v) *Institutional Capacity Building-Developing Human Resources***

The success of all capacity-building programs and actions a regulator might undertake hinges on the institution having competent persons who possess the minimum core competencies for doing so. Success also hinges on the ability of management to know, or admit, that they do not have the persons with those core competencies. The organization must ask itself a series of very basic questions, the answers to which may require a substantial assessment and evaluation for making crucial decisions concerning hiring, firing, training and other actions such as systems re-engineering. At a minimum, a regulating agency must ask itself:

- Are there sufficient human resources for adequate enforcement, and for conducting quality assessments?
- Do staff have knowledge of, and do they practice good governance?
- Is there sufficient budget to hire the kinds of skilled persons and pay for the operations required to enforce regulations?

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- Are there resources for training?
- Does the agency have effective legal education and awareness-building programs for both regulators and customer groups, to expand the use of regulatory instruments beyond specialists and to enhance the chance of regulations being put into practice?

(vi) *Building Integrity and Skills*

While it is particularly crucial for regulators to develop the capacity to ensure that the business enablers required for private sector business to operate efficiently are in place, it is also important to establish a minimum level of integrity that will give credibility to the agency. At its most basic level, regulatory agencies need customers' credibility to simply apply ordinances and to get compliance from them. Such credibility comes largely from the institution and their employees being accountable. If the regulatory agency acts in isolation of its customers, an atmosphere of distrust between the regulators and their customers can easily develop, particularly in government administrations, known more for corruption than for good governance. Furthermore, when government regulators put themselves above the law, they simply create cynicism, disdain and distrust from the private sector. When this happens, customer compliance is often low, even when applicable laws make non-compliance punishable by heavy fines or jail sentences.

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It is imperative to differentiate between the need to build a regulatory agency's capacity and the need to build its integrity. While there is an important overlap in the techniques and tools to address both, each must be treated uniquely:

- *Capacity refers to the ability to perform any given task.* The building blocks of capacity are skills.
- *Integrity refers to the willingness of an individual or an institution to do things well,* including not seeking "rents." The building blocks of integrity are values. Much of "good governance" has to do with integrity and values.

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While this distinction is important, the success of both these dimensions of institutional development is defined by the incentives institutions and individuals confront. In the public institutions of many countries, the level of institutional integrity is in direct proportion to the incentives available in the public sector. While many countries afflicted with this problem have institutions that seek to build up their "capacity," most traditional technical assistance does not address the fundamental incentive and institutional structure, or values to motivate staff to develop and apply skills.

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It should also be noted that many regulatory agencies in developing countries provide both regulation and enforcement. As a result, their responsibilities and authority are not separated by clear lines of reporting that avoid possible internal conflicts of interest. Such "dual-function" agencies need to target their efforts towards building integrity in order to not fall victim to corruption in their dual roles as regulators and enforcers. This is especially true for regulatory enforcement activities which involve attaining compliance through fines, taxes, penalties, closures, withdrawing permits and licenses, etc., and

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which require high integrity in developing countries where the individual and institutional incentive systems are low-to-non-existent.

In the context of Bangladesh, it is necessary to build integrity as a vital component of an overall capacity-building program for a regulatory agency which also acts as an enforcer. Five actions that can be effective in building such capacity for integrity systems are outlined below:

- allowing bad administrations and governments to fall;
- making public information public;
- increasing public participation;
- establishing administrative structures that promote transparency and reduce discretionary power, as well as the “propensity” to be corrupt; and
- addressing human resources requirements.

Fortunately, there is an increasing effort by donor groups to help governments build up capacity for good governance, and to build integrity systems. Customs, budget and fiscal reform programs in many countries stand out in this regard, as do programs for building capacity in integrity which help regulate (eliminate) child labor and human trafficking practices.

The case of Aqaba Special Economic Zone, where many of these above action points were implemented, is highlighted below:

#### **Box 1: The Case of the Aqaba Special Economic Zone Authority (ASEZA)**

Until recently, ASEZA was the owner of Aqaba SEZ land assets, land developer and regulator of land development of the Aqaba Special Economic Zone. In December 2003, in recognition of the need to reduce its discretionary power, ASEZA divested itself of its development functions for the Aqaba Special Economic Zone (ASEZ). It created a separate Aqaba Development Corporation, which was mandated to be in charge of the land assets and for developing the SEZ. ASEZA transferred its land assets over to the ADC, and retained only its regulatory mandate. The separation of ASEZA’s development and regulatory functions is a visible action, similar to that which other reform-oriented regulatory institutions are taking, to distinguish revenue earning and shield themselves from political influence.

While it has made laudable first steps regarding the separation of functions, ASEZA must now begin to develop efficient and transparent information reporting systems and create a fully-professional HR management system.

Through this process, ASEZA has recognized the importance of separation of functions and has acknowledged that it must aggressively strengthen its systems if it is to meet its new functional mandate as the regulating agency for the Aqaba SEZ.

Source: Jonathan Smith.

#### **(vii) Importance of Public Access to Information for Capacity Building**

Capacity-building for enhanced regulation involves building up the capacity of a regulatory agency to collect and disseminate information, and enable the

right of the public and businesses to know. This should be recognized as a major objective of a regulatory agency. This process involves:

- creating budgetary capacity to spend on information dissemination; and
- creating the capacity of the institution to collect, aggregate and disseminate information to all customer bases.

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There is no real formula for balancing the cost of producing and disseminating information, and enabling the right of the public and businesses to know. However, the level and detail of the information should be sufficient to hold the agency accountable for the sources and uses of funds, and efficient delivery of services by the agency.

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The following information should be publicly available in user-friendly formats:

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- executed and programmed annual budget;
- roster of all employees, with total salaries, including bonus;
- disclosure of assets by upper management, the mayor, council members and the relevant minister;
- open tendering procedures;
- mandated unitary costs and standards of public works and public tariffs;
- monthly or quarterly financial position; and
- performance indicators for the delivery of key services

Many regulatory and other public institutions argue that they have poor quality of information and that their customers do not care nor have the time to learn about their information. However, poor quality of data does not justify limiting the public's access to information. Indeed, poor quality of information contributes to the perseverance of deficient information systems.

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Of course, making information public is inadequate to ensure integrity in using public resources. The ultimate objective should be, to the extent possible, for civil society and businesses to become an integral part of the decision-making system of the regulatory agency, and to transform the business community from users to agents of change.

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### **3 Creating a Program to Build Public Sector Capacity in a Regulatory Agency**

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What is the process to build public sector capacity, either for a regulatory agency or a private business? This is best achieved by a balanced *total-systems approach* in creating and in improving organizational performance. The need to use a total-systems approach such as that identified by Box 2 below is borne out by recent US government studies, which have identified lessons learned from best practices:

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## Box 2: Total-Systems Approach for Capacity-Building Programs

*Establish a Results-Oriented Set of Measures that Balance Business, Customer, Organization and Employee Needs*

- Define what measures mean the most to customer, stakeholder, and employee by:
  - having them work together;
  - creating an easily recognized body of measures; and
  - clearly identifying measures to address their concerns.
- Commit to initial change by:
  - using expertise wherever you find it;
  - involving everyone in the process;
  - making the system non-punitive;
  - bringing in the unions; and
  - providing clear, concise guidance as to the establishment, monitoring, and reporting of measures.
- Maintain flexibility by
  - recognizing that performance management is a living process;
  - limiting the number of performance measures; and
  - maintaining a balance between financial and non-financial measures.

*Establish Accountability at all Levels of the Organization*

- Lead by example.
- Cascade accountability, and share it with the employee by:
  - creating a performance-based organization; and
  - encouraging sponsorship of measures at all levels.
- Keep the employee informed via intranet and/or Internet; don't rule out alternative forms of communication.
- Keep the customer informed via both the Internet and traditional paper reports.
- Make accountability work. Reward employees for success. Supplement or replace monetary rewards with non-monetary means, reallocate discretionary funds, and base rewards on a team approach.

*Collect, Use, and Analyze Data*

- Collect feedback data, which can be obtained from customers by providing easy access to your organization;
- Collect performance data by:
  - investing both the time and the money to make it right;
  - making sure that performance data means something to those that use it;
  - recognizing that everything is not online or in one place; and
  - centralizing the data collection function at the highest possible level.
- Analyze data. Combine feedback and performance data for a more complete picture, conduct root-cause analyses, and make sure everyone sees the results of analyses.

Source: Interagency Work Group on Performance Management Report to the President's Management Council on Managing Performance in the U.S. Government, February 2000

In addition to the Total Systems Approach described above, there also exists a *Change Vision* approach to performance and capacity-improvement. This was the methodological approach used by the Aqaba Zone Project established by the Aqaba Special Economic Zone (ASEZ) in Jordan when planning its 2004-06 program for ASEZA:

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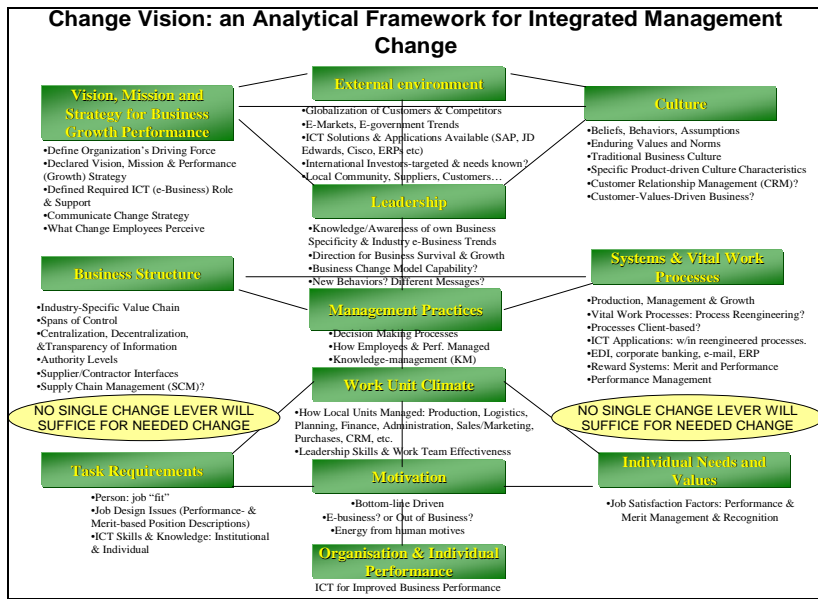
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Source: Interagency Work Group on Performance Management Report to the President's Management Council on Managing Performance in the U.S. Government, February 2000¶

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**Figure 1: Change Vision Framework**



Source: Jonathan Smith-Change Management Series

In addition to the applicable portions of the Total Systems and Change Vision Approach identified above, the following steps and considerations should be included in governance reform programs and regulatory agencies to achieve better regulation:

- assess “as is” institutional systems to understand what to do first to understand who does what for whom, and to whom they are accountable;
- identify conflicting laws, duplication or lack of clarity of mandates for different organizations and jurisdictions, including distinctions of different tiers of authority-local, sub-regional, national and, increasingly, international;
- identify what to reform and in what sequence. Good sequencing of reforms is vital to ensure reform success; and
- redress any/all “information asymmetry.”

## 4 Private Sector Participation in the Regulatory Process

In a healthy legislative environment, there is a partnership between legislators and the private sector. Getting private sector participation into the regulatory process is crucial for a variety of reasons, perhaps the most obvious of which is to help avoid that regulators/service providers and customers meet only when there are disputes to be settled. This is also important for helping ensure

Public Sector Capacity-Building

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willing compliance by compulsory and voluntary customers. The private sector can also help prevent regulators from enacting legislation that would have important secondary negative effects, including those on the business environment and economy at large.

The private sector can become a central partner of a regulatory agency, fully-responsive to and responsible for the management of the regulations in their industries and business environments. To get to that harmonious point, government entities must *enable* and *enhance* private sector participation. Towards this end, they can involve members of the private sector as voters, tax/charge payers, providers of labor, and in other functional capacities where the private sector would have a comparative advantage and/or a stake in the outcome. This could include private sector representation through lobbies, special-interest advocacy groups, associations, union-labor-interest representatives, community/business interest groups, or consultative groups.

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Either way, the inclusionary process might begin with a “participatory management” approach between regulators and the private sector, wherein the government enables and enhances private sector participation in regulatory affairs and activities. This is most successful when all parties are involved, and are aware of the general goals and needs of both regulators and customers. Private business may need some orientation or even formal training in some regulatory activities. This need can be satisfied through informational exchange meetings, special-focus conferences, newsletters, electronic bulletin boards, etc.

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It should be noted that there are various pressures on regulators by business groups. Businesses are focused on giving shareholders a maximum return on their investment, so it is natural that private sector businesses do what they can to find loopholes in the law that allow them to avoid compliance costing them money. *While public - private participation should be managed so as to avoid simply capturing these business special-interest groups, minority interests must not be disregarded either.*

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Literature on the subject of low-regulatory-capacity governments confirms that many of the efficiency benefits that come from involving the private sector stem from competitive pressures. The more the competitive pressures brought to bear on a utility, the less regulation may be needed.

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However, private competition does not do away with the need for regulation. Some monopoly power will inevitably remain, even in a competitive environment. As a result, control of monopolistic pricing and monitoring performance against contractual requirements are still very much activities that fall under government responsibility. When regulation is balanced, the end users benefit, and overly-restrictive regulation that would prevent private companies from entering private sector arrangements, or using innovative operating practices, is limited or eliminated.

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Using the example of the utilities sector, once a government decides that private sector participation appears financially and politically feasible, an

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assessment and an in-depth analysis need to be undertaken in order to address the following basic questions:

- What is the state of the existing utility?
- How compatible is the regulatory regime with private sector participation?
- How committed, or opposed to, private sector participation are the key stakeholders?
- What are the main risks that need to be allocated or mitigated, to ensure that private sector participation can succeed?

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Based upon this analysis, the government can explore private sector participation in the regulatory environment, as seen in six different ownership arrangements given below:

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**Box 3: Ownership Arrangements and Features of Private Sector Participation**

Type	Key Feature
1. Service contracts	Simple, but with limited benefits
2. Management contracts	Good first step to increase private participation and useful if main objective is to enhance utility's capacity and performance efficiency
3. Leases	Way to pass on commercial risk
4. Concessions	Route to full-fledged private participation
5. Build Operate Transfer (BOT)	Solution for bulk supply & treatment problems
6. Divestiture-full or partial	Another route to full-fledged private participation

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Source: World Bank

*Service contracts and management contracts* require the least amount of regulation. These are the options in which the government retains full responsibility for operations, maintenance, capital investment, financing and commercial risk. For these contracts, regulation could be limited to ensuring contractual compliance by the private contractors. It is a monitoring activity that should also include ensuring that service standards are delivered and maintained. Attention should be given to ensuring that contracts margins are not so low that they pervert incentives so as to deliver more service without paying attention to the quality of those services.

*Leases, concessions, BOTs, and divestitures* require more attention, to ensure that companies act efficiently, and that regulators adequately respond to inevitable changes that will occur over the life of the contract or license. These are options in which the private sector takes on much more responsibility. It should be noted that even when the private sector takes on full responsibility for operations and financing, as in concessions and asset sales, it does so within the framework created by the government. The most important parts of this framework are regulatory arrangements to protect consumers from monopolistic pricing, enforce health and environmental standards, and so forth, depending on the sector involved.

In practice, private sector participation options are often mixes of the various options described above based upon various factors of asset ownership, operations and maintenance, capital investment, commercial risk, etc. For example, management contracts may have revenue-sharing provisions that

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make them resemble leases. Options might also be used in combination. For example, a Build-Operate-Transfer (BOT) contract for bulk water supply might be combined with a management or lease contract for operating the distribution system.

## 5 Regulatory Capacity and Regulatory Framework - A Final Word

Many regulatory agencies are created without ensuring their capacity to regulate, regardless of the distinction between technical capacity and integrity capacity. Often, it is not specifically the fault of the agency itself that they cannot regulate competently. Frequently, they do not operate within a clear regulatory framework to guide them in customer compliance.

Securing compliance requires human and technical skills with which many institutions are not familiar. Furthermore, monitoring compliance requires equipment, the ability to use it, the ability to discover non-compliance, and the means for dealing with non-compliance. Dealing with non-compliance requires obtaining answers to a whole host of questions, such as:

- Does the agency have the numbers of expert manpower for fact-finding, investigation and collection of reliable data?
- Does the agency have data analysis capability?
- Does the agency have effective/efficient information flow and reporting systems?
- If there is a problem of information flow and reporting systems, is it a technical problem or is it a cultural problem of “asymmetrical information?”

*This paper emphasizes the high importance of strengthening skills, as opposed to knowledge, for enhancing regulatory agency capabilities. It also emphasizes that a regulating agency should ensure that it has the capacity to regulate right from the onset. This reduces the risk of ineffective or poor regulation, which can cause almost irreversible problems.*

In summary, capacity building programs for enhanced regulation must:

- assess current capacity of the agency;
- have in place from the onset key personnel with core competencies;
- be based on effective regulatory instruments;
- establish legitimacy and credibility of regulatory staff, as well as integrity;
- ensure transparent communications and access to information by all; and
- be linked to international, national, regional, and local planning and policy-making structures and environments.

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# ANNEX 1

## **Main Challenges Faced by Top Management in Enhancing Public Sector Capacity**

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Today's public sector managers cannot be successful by using traditional management practices for "operations as usual", because the public administration, as it is known today in most parts of the world, is poised on the threshold of significant change. Thus, today's public administration top managers must also be poised not only to take on the changes, but also to provide the leadership to their organizations for dealing with it and making it work.

### **The Importance of Goals and Objectives**

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This brings out three basic challenges for management of all levels, but particularly for top management:

1. Keeping focused on the goals not only during the change process, but beyond the implementation phase.
2. Facing the key risks and challenges of change and developing realistic strategies for implementing the changes
3. Creating the environment that facilitates the public administration converting over to one that is performance-improvement-based.

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These three challenges are clearly inter-linked. The last challenge, if not attended to properly, could compromise the success of the other two.

*Top management must take their administrations away from one of adherence to rules and regulations and procedures, to one whose purpose it is to achieve goals and objectives.* To do this, top management needs to leverage at least the following three elements to ensure that the strategy, the tactics and the actions stay focused on the objectives:

1. *publicity*, wherein there is a convincing effort to use communication as a primary tool for carrying out reform efforts
2. *evaluation*, wherein top management must be fully committed to actually *using* the evaluations for making decisions and for creating performance improvements
3. *linking rewards to goal achievement and sanctions to non-performance*, wherein the commitment to change is maintained.

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### **Getting Top Managers to Execute**

*Top managers must be provided with the proper environmental tools and conditions of service so as to fulfill their mandates of leading their administrations through change. This signals two basic conditions:*

1. Creation of modern, central administration support systems, such as personnel and finance administration systems; and

2. Institutional strengthening that is tightly focused on performance and public institution restructuring.

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Top managers involved in leading a government in transition must have unique skills sets and be fully knowledgeable about the institutions they are leading. Experiences of modernizing governments in Latin America and the Caribbean bring out useful information concerning the core responsibilities and competencies that are crucial for public administrations undergoing change:

1. Top managers must take on a committed role of reorganizing their institutions along smoothly-running *vertical* and *horizontal* lines.
2. Top managers need to create and use high-performance teams with the ideal mix of multi-functional individuals.
3. Top managers need to make intelligent strategic choices concerning which reforms their institutions can undertake, inside of the overall reform program of the State.
4. Top managers must be skilled in aligning and linking their operations budget activities with those of their institutional strengthening interventions.
5. Top managers must attend to the needs, expectations and demands of their key stakeholders, customers and clients.
6. Top managers must face inevitable trade-offs that come with HR change actions.
7. Top managers must be fully-integrated and capable of providing solid advice concerning salary improvement policies and programs for public employees.
8. Top management must be capable of focusing their institutions' reform activities.

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In addition to this imposing list of “musts,” there are some core top management competencies needed to develop performance-oriented public services:

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1. Top managers have an obligation to demonstrate leadership by carrying out *real* changes in their organizations, removing corrupt practices and old, archaic, redundant processes that block efficient services delivery.
2. Top managers must create modest aspirations at the initial stages of their change activities, so as deliver as promised.
3. Top managers must have good analytical skills to understand their institutions' strategic imperatives and issues, so that they can correctly select how to move step by step towards correcting the more complex systems of their administrations.
4. Top managers must allow administrative “autonomy” in accordance with proven performance results that demonstrate that empowering their key administrative systems is possible.
5. Top managers need good team leadership skills, because the only way they can ensure that their performance improvement initiatives can survive is by creating high-performance teams.
6. Top management must have an extraordinary amount of analytical and negotiating talent in prioritizing and balancing their institutions'

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strategic issues with those of the State, since they must judiciously select which interventions they can commit their organizations to, while still staying within State's reform framework.

7. A top manager must know how to balance resources, both financial and human resources, well so as to optimally commit adequate operational or development activity resources.

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# ANNEX 2

## The Political Economy of Reforming Public Sector Capacity

Given that many countries choose politically-appointed top civil service managers, it is necessary to explore briefly what the core political ingredients are for being a successful manager in a public agency within the context of a global government reform program.

### Attending to the Interests of the Interest Groups

Regulatory reform initiatives will fail if top management does not understand the needs, expectations, and demands of all internal and external interest groups. This requires top management to commit time in getting to learn about various interest groups, and involves the ability to negotiate. Undertaking regulatory reform without being able to balance what is technically sound or fiscally necessary, with what the compulsory and voluntary customers will comply to, will eventually result in lost political capital, evasion of regulations (including tax evasion), and other forms of corruption.

### Attending to the Interests of Central Authorities

All top managers need to have allies. To cultivate allies, managers need to be good communicators, and must know the art of selling ideas and negotiating. They also have very high demands being placed on them by central government authorities, many of which cut into their ability to manage their own institution. To deal with these challenges, top managers have to have an excellent ability to delegate within their institution so as to be freed up sufficiently to attend to the interests of central authorities.

### Attending to the Interests of Line Management

An administration undertaking reform activities cannot overlook the interests and needs of line management, since eventually most reform processes will be the responsibility of line management and staff. These individuals will be executing the change activities and managing new financial and human resources systems and processes, and will be responsible in efficiently executing top management's plans to get results. Thus top managers must absolutely know who, when and how to involve line management and staff. They must also have excellent communications skills for dealing with line management on whom they will necessarily rely.

Because managers deal with vertical administrations within which there are trans-functional work processes, top managers must work successfully with all vertical and horizontal work units in the organization and within the process chain. Towards this end, it should be noted that successful administrations today work towards flatter administrative structures, not more hierarchical

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ones. In creating a new cultural context to allow a high-involvement management style, it is absolutely essential that top management and line management mix and mutually support each other as required. Flattening the lines of communication and reporting between technical regulatory experts and their policy-making top managers is vital to the success of regulation.

### **Attending to the Interests of Clients and Customers, Users and Beneficiaries**

*Clients, customers, users, and beneficiaries have a stake in the institution's services and products and how they are delivered. This group can also exert considerable pressure on a regulatory agency's policies and on the ability of the agency to perform. As such, they care about and can demand certain responses from the institution. It is incumbent on top management to not only know who this group is comprised of, but also to incorporate their values and needs into the institution's vision and mission.*

The most effective means by which top management can interface and deal with these many groups is to have and utilize a high level of capacity for regular two-way communications with all the "client groups" of the institution. Failure to build this communications capacity can put the regulatory agency at risk of being perceived to be "the enemy," as opposed to being a community partner. Through this process, top management needs to let clients adequately express themselves letting the institution know how it is performing.

The January 1997 *Blair House Papers*<sup>1</sup> from the US National Performance Review is a useful example here. This document encourages public organizations to:

- *Identify their customers and clients - beginning with why in the first place their organization was created.*
- *Continuously ask their clients what they want.*
- *Establish their operating and performance standards so that clients know what to expect.*
- *Measure and publish their performance results.*

### **Attending to the Interests of Public Employees**

Top managers in the public service must be pivotal individuals in striving to create not only the proper environment for personnel in the workplace, but also to formulate fair and feasible policies that represent fair pay for work. This includes establishing a public sector administrative framework that guarantees that public employees:

1. have strong financial incentives for good performance; and
2. are protected from incorrect political influences or pressures.

<sup>1</sup> Refer also to: Executive Order 12862 (US Government Printing Office: 1993); *Putting Customers First*, 1995; *Standards for Serving the American People*, (USGPO: October 1995). For accessing the extensive library of over 3,000 documents in the US Government National Performance Review (NPR), access the web site: <http://www.npr.gov>.

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**PUBLIC SECTOR CAPACITY-BUILDING FOR ENHANCED REGULATION  
SEZ AND REGULATORY REFORM ROUNDTABLES  
Dhaka, Bangladesh  
December 14-15, 2004**

**Paper by  
Jonathan Smith  
Senior Change Management Advisor  
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**Public Sector Capacity-Building for Enhanced Regulation  
SEZ and Regulatory Reform Roundtables**

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