

MMW4P Programme Summary - Promoting Equity Through Pro-Poor Growth in Nicaragua (PEMCE)

Purpose:

Promoting pro-poor growth by helping to establish an enabling environment for small enterprise.

Dates:

Launched in 2004. Designed for a minimum period of 3 years.

Funding:

DFID has contributed £2.5 million and is the sole funder. Additional resources to achieve the purpose have been raised through influencing Government (GoN), international financial institutions (IFIs) and donor programmes.

History/Environment:

Nicaragua remains one of the poorest countries in Latin America with nearly half the population living under the poverty line. During the 1990s, the country's socialist economic system was transformed into a market economy. Whilst this helped to revive economic growth, it resulted in growing inequality. One of the main reasons was that the country's work force is employed predominantly in small enterprises, formal and informal, that suffer from low productivity and hence provide low incomes. The needs of these enterprises were frequently overlooked by GoN and the programmes of IFIs, the main source of development finance. Donor support to small enterprises mainly took the form of piecemeal and unsustainable projects. The need for a more inclusive pattern of growth and better donor harmonisation in support of it was recognised by GoN, the IFIs and donor community. They were willing to make private sector development (PSD) strategies and policies more responsive to the needs of small enterprise. In addition, the associations representing small enterprise understood that their ability to influence the policy agenda depended on their articulating a clear and consistent set of policy messages and demonstrate how markets could be made to work better for the poor.

The programme's design was influenced by DFID's decision to cut back on its spending in Latin America by reducing national programmes and adopting a regional approach elaborated in its Regional Assistance Plan (RAP). The RAP sets out a strategy

of influencing the IFIs to make their assistance more inclusive of the interests of the poor.

Driver of programme, positioning & timing:

The programme was driven by DFID Nicaragua's aim of reducing poverty through promoting a more inclusive pattern of growth. Its analysis that the cause of poverty and inequality lay in the lack of an enabling environment for small enterprise resonated with the Ministry of Industry and Commerce (MIFIC) who became the main programme partner in GoN. There was enthusiastic support for the programme amongst associations representing small enterprise who had recently formed an apex organisation. The IFIs were coming to recognise the weaknesses of policies that ignored the pattern of growth. Donors were reappraising their PSD assistance and conscious of the need for better harmonisation. PEMCE was therefore able to draw on a broad constituency of support.

Because the programme aimed to influence government, IFIs, donors and the private sector, it was not felt appropriate to position the programme in either the public or private sectors. PEMCE was positioned therefore as a DFID programme but one that worked closely with a range of stakeholders. The programme was timely, capturing the growing recognition amongst all stakeholders that business as usual would not do.

Governance:

The strategic direction of the programme is set by a Consultative Group that comprises stakeholders drawn from the public and private sectors and the IFI and donor community. Operational governance, including the approval of large expenditures, is exercised by a Steering Committee of core stakeholders.

Management:

Management is contracted out to the United Nations Office for Project Services (UNOPS). That organisation has recruited a small Core Facilitating Team, led by a Programme Facilitator, that works exclusively and full time on the programme.

Approaches:

The programme is organised around 5 components:

- **Output 1: Strengthened GoN mechanisms for donor co-ordination on production and competitiveness, which involve the IFIs.**

The component has supported the development of a Productivity and Competitiveness Cabinet, under the auspices of MIFIC, which co-ordinates all the public agencies involved in policies and institutions that affect the productive sectors of the economy. The Cabinet leads on policies that affect growth, the business climate and trade. The Cabinet also leads on strengthening dialogue between government and the umbrella organisations representing small enterprise and improving donor co-ordination. PEMCE has placed special importance on developing an integrated sector programme for promoting small enterprise (PROMIPYME) and the development of a PSD SWAp in support of it.

- **Output 2: Strengthened GoN technical capacity to consult with small enterprise and integrate its interests in the design and implementation of equitable national and sub regional programmes to reduce market barriers for small enterprise and which influence IFI programmes.**

This component focuses on supporting GoN to develop a favourable business climate for small enterprise. PEMCE has supported: i) simplifying business registration and operational procedures and taxation; ii) improving incentives for small enterprise; iii) developing a law on competitiveness; iv) improving access to finance; v) influenced the development of infrastructure and; vi) developed business centres to support small enterprise.

- **Output 3: Strengthened Capacity of small enterprise associations to understand and contribute to national and regional policies and processes and influence the design and implementation of IFI interventions.**

This component comprises two strands of work: i) strengthening the associations that represent small enterprise, in terms of their capability to advocate policy change and the value added by the services they provide to their members; ii) specific interventions to reduce barriers to market access in the value chains and markets in which small enterprises participate. This component has supported the development of organisational capacity of associations representing small

agricultural producers and MSMEs. It has helped to improve productivity and competitiveness in agricultural value chains using a making markets work better for the poor framework. To bring about systemic change, advocacy for policy and institutional change to improve the business climate is combined with influencing the development of physical and market infrastructure and improved access to linked markets for finance and technical expertise. PEMCE invests in the ambitions of local organisations with capable and committed leaders.

- **Output 4: Increased knowledge of needs of small enterprise at national and sub regional level fed into the design and implementation of IFI initiatives.**

This programme has been providing support to broaden the outreach of IFI programmes. For example, it has been working with the Presidential Commission for Competitiveness, the principal counterpart for the World Bank's Competitiveness Programme, to develop territorial competitiveness programmes in less developed regions of the country. It has promoted better dialogue between small enterprise and these programmes with a view to decentralising programme implementation. PEMCE has also piloted new models for cluster development to influence IFI programmes. This component includes support for a PSD adviser based at the World Bank in Managua to serve as a channel between PEMCE's on-the-ground experience and World Bank operations.

- **Output 5: Strengthened Capacity of Nicaraguan stakeholders to influence and co-ordinate regional and sub-regional agenda and to contribute to regional and sub-regional policy and learning.**

This component recognises that, with the ratification of the DR-CAFTA agreement and ongoing negotiations on a trade agreement with the EU, central America is in the process of becoming an integrated economic space. Small enterprises need to influence the way that economic integration proceeds as well as take advantage of the new opportunities it will present. Working through the Centre for the Promotion of Micro, Small and Medium Enterprise in Central America (CENPROMYPE) and others, PEMCE has sponsored lesson learning between Nicaraguan and other sub regional small enterprises in a range of product markets and promoted dialogue between representative of small

enterprise and the Central American Integration Mechanism (SICA).

Instruments/Tools

- **TA to Government.** Support is provided to GoN to enable greater dialogue and coordination with BMO's and donors around growth, and to develop policies and programmes that are aimed at MMW/PPG, and to improve the investment climate for PPG.
- **Facilitation and TA to BMO's.** To support advocacy and improved policy making for PPG, and to feed into regional and international trade agendas
- **Sector Work.** Analysis and TA to support market-based changes within value chains and to pilot cluster development and improved competitiveness.
- **Equitable Growth Partnership Fund (Partnership Fund).** The fund backs proposals put forward by stakeholders that seek to promote institutional change, are sustainable, leverage other interventions and develop new, added value business models and services.
- **Influence and dissemination.** Programme largely based around influencing Government and also IFI's. The Core Facilitating Team plays an influencing role through dissemination and communication. The sponsorship of a PSD adviser in the World Bank was also used.
- **Influence regional**

Major Challenges:

- **Broad agenda not focused on specific markets.** Compared with other MMW4P interventions, PEMCE has a much broader agenda seeking to make the country's pattern of growth more pro-poor, not just outcomes in selected markets. With its limited human and financial resources, the only way it could hope to have a significant impact on such a broad agenda was by backing the ambitions of others. Such an approach, however, poses major challenges in terms of prioritising, sequencing and coordinating change.
- **Influencing others difficult.** To bring about change, the programme relies heavily on promoting dialogue between the representatives of small enterprise and GoN and the IFIs. No matter how well the process of dialogue is managed, its outcome ultimately depends on the receptivity and responsiveness of the institutions it is attempting to influence. In practice, the response from policy makers and financial institutions may not be adequate because of issues of political economy of

change or administrative constraints. Such constraints have, for instance, limited the influence the PSD adviser has had on the programmes of the World Bank.

- **Interventions limited and unable to be systemic.** Whilst the interventions in markets and value chains have been informed by the MMW4P framework, each has taken the form of either; i) small pilots to demonstrate how competitiveness can be improved through better technology or business models and/or improved collaboration within co-operatives and clusters and; ii) strengthening the capability of associations representing small enterprise to influence policies and programmes. Hence, they have served as useful building blocks but have not actually seen through the process of achieving systemic change. That requires more sustained effort than PEMCE is in a position to provide.

Strengths:

- Despite limited resources, the PEMCE team, consisting of the Core Facilitating Team and the DFID PSD adviser, have developed a strong position of influence as champions of a pro-poor PSD agenda. PEMCE has been able to serve the disparate constituencies involved in PSD, ranging from GoN to small enterprises and, in the process, has helped to raise awareness of the issues that matter for small enterprise and pro-poor growth. By facilitating the development of a PSD SWAp in support of an integrated programme to support small enterprise, it has contributed to donor harmonisation in support of nationally owned development plans. The donor agenda has moved away from unsustainable projects to policy and institutional reforms and making markets work better for the poor.

Key Issues:

- The pro-poor growth agenda needs to combine investment climate reform with making markets work better for the poor. MMW4P can help to improve the livelihoods of the poor and identify the investment climate reforms that are most likely to contribute to pro-poor growth;
- Addressing the broad agenda involved in promoting pro-poor growth through PSD is likely to be most productive when it is possible to back the ambitions of credible and committed stakeholders in the public and private sectors;
- Where there are such stakeholders, a comparatively light touch instrument such as PEMCE's Partnership Fund can deliver high pay

back;

- Such an approach is likely to pose challenges in terms of priorities, sequencing and co-ordination of reforms requiring programmes to exercise strategic oversight and influence the ambitions of key stakeholders;

- Whilst demonstration of how markets can be made to work better and building capacity amongst stakeholders are useful building blocks, delivering systemic change requires concerted engagement over a period of time. The success of catalytic activities depends upon their being picked up and followed through to the point that they deliver outcomes;

- Such take up may not be a matter of receptivity alone. The response of the state may be undermined by issues of political economy. The IFIs are limited in their ability to take on private sector led MMW4P initiatives because their instruments focus on the public sector;

- PEMCE's experience shows that, where the state and the IFIs are receptive, it is possible to influence the extent to which the PSD agenda is pro-poor with comparatively limited resources.

Case studies/papers available

Various case studies of how associations representing small enterprise have been able to make markets work better for the poor and a Mid Term Review (MTR).