World Bank Group Management Response

World Bank Group management would like to thank the Independent Evaluation Group (IEG) for undertaking a valuable and informative evaluation and welcomes the opportunity to provide its comments.

Overall Comments

Management acknowledges IEG’s thorough, relevant and comprehensive work to evaluate the World Bank Group’s activities in the investment climate space and appreciates the systematic analysis contained in the report. Management recognizes the complexity of this task, given the institutional set-up, with multiple units involved in the World Bank Group work program on investment climate topics, the comprehensiveness of the issues, and the technical sophistication of different reform areas. The complexity of the issue presents significant challenges with regard to assessing the success of the different interventions undertaken during the period covered by IEG’s report.

Management would like to underscore the timeliness of the report, given the important organizational changes taking place in the World Bank Group. The IEG report comes at an opportune time and has the potential to inform the future structures and strategies of the various players involved in investment climate activities, and the interactions and complementarities between these players, both within the new Trade and Competitiveness Global Practice as well as between this and other Global Practices and the five Cross-Cutting Solutions Areas. The report provides relevant analysis and observations on past investment climate work that can inform the operations of the Trade and Competitiveness Global Practice.

Management notes that the report is generally positive in its evaluation of the Bank Group's intervention on investment climate reforms. Management agrees with the report that World Bank Group interventions generally support reforms most needed by client countries and support regulatory interventions in those countries that need them most. The assessment demonstrates that the activities analyzed are relevant in a strategic and client-oriented context and shows evidence of positive results and the overall effectiveness of investment climate activities across the World Bank Group. Management appreciates the useful set of lessons and agrees with the recommendations, which it looks forward to implementing.

The World Bank Group Approach to Investment Climate Work

The evolving nature of the World Bank Group’s investment climate work. Management appreciates the discussion in the report of the evolution of the Bank Group’s investment climate work over the years, including considerable innovation and repositioning. As mentioned in the report, these innovations relate to (a) definition and scope of investment climate; (b) strategies; (c) monitoring and evaluation (M&E) frameworks (from output to outcomes/impact); (d) institutional setup/delivery models; and (e) consideration of political economy and reform sustainability. As the report mentions, an example is the evolution of the Foreign Investment Advisory Services (FIAS) strategy over the past three strategy cycles (FY05–07, FY08–11, and FY12–16). This shows major shifts in the strategy, focus areas, and approaches underlying investment climate work at least in the
Investment Climate Department and Finance and Private Sector Development space, toward stronger focus on results and impacts. It also shows shift toward more industry-specific investment climate reform activities, and importance of cross-cutting topics such as competition, transparency, inclusion, and green growth/climate change. The investment climate work will continue to evolve in the light of experience on the ground and in response to internal developments, such as the new Global Practice agendas.

**Comprehensiveness and selectivity.** Management notes that the relevance of the World Bank Group’s investment climate work is not defined solely by the comprehensiveness of the solutions offered. The Bank Group has a comparative advantage in offering advice and in aiding reforms and needs to consider carefully which types of reforms matter more for the desired outcomes. In many cases, the World Bank Group may be far more relevant by being able to effectively help countries enact reforms in a very narrow subset of areas, than attempting to be comprehensive and ending up working on several areas in which it does not have specialized expertise or where there is little likelihood of reforms occurring. Management notes the report’s acknowledgement of the need to consider the World Bank Group’s comparative advantage in selecting priority areas of intervention in countries.

**The need for complementary reforms.** Management is pleased to note that, overall, World Bank Group interventions are relatively successful in reducing time, cost, and number of procedures in relation to setting up, operating, or exiting a business and that the rate at which reforms are undertaken does seem to accelerate with Bank Group support. However, practical experience across many areas shows that while regulatory reforms are indeed critical, they are not sufficient. Decisions to invest go beyond whether it is “easy to do business” and, particularly in difficult/unknown markets and markets for the poor, investment decisions are driven by the perceived market opportunity, the perception of firms about whether poor customers are willing to pay, and how technically difficult it is to reach them (including infrastructure constraints). This is the risk-reward trade-off. It is thus necessary to give more attention to reforms that address the broader operating context, as well as broader market conditions beyond the “enabling environment.”

**Setting priorities: The role of indicators.** Management believes that the combination of the Enterprise Surveys and the Doing Business indicators provide a powerful, complementary set of tools to help set priorities for World Bank Group work on the investment climate. The Enterprise Surveys and Doing Business are very different data sets. Although they do assess related areas, they measure different aspects of the same reality. These data sets should thus be used as complements, not as substitutes. The Enterprise Survey produces survey data where many different types of businesses are interviewed (a variety of business sectors, firm sizes, ownership types, subnational regions, and so forth), yielding a rich analysis that can be tailored to address particular sector/locational issues. This detailed, nuanced approach to business environment data is necessary for the World Bank Group to support investment climate interventions. The Doing Business indicators are based on expert inputs and provide granular information on specific regulatory processes that help identify reform actions. The Bank Group recognizes the limitations of both tools and does not rely solely on the two surveys’ results. Management notes that, for some work areas, there are other indicators that are relevant and used in the World Bank Group’s work and appreciates the report’s recognition of this. Management also notes the move of the Global Indicators and Analysis Group, responsible for the Enterprise Surveys and Doing Business indicators, to the Development Economics Vice Presidency in October 2013 as part of the efforts to
further revamp and expand the menu of investment climate indicators available to World Bank Group staff.

**Strengthened M&E and impact measurement.** Management agrees with the report’s finding that the results framework underpinning the World Bank Group’s work on investment climate has evolved over time, with a much strengthened emphasis on outcome and impact measurement, particularly in the International Finance Corporation (IFC). The focus is on literature reviews, target-setting methodologies, and impact evaluations of investment climate projects, as well analysis of value for money and sustainability of investment climate reform activities. Management will explore whether and how IFC’s systematic approach to result and impact measurement can be replicated for the investment climate portfolio managed by the Bank and to the entire Trade and Competitiveness Practice.

**Political economy and public-private dialogue.** Management agrees with the report on the need to better understand and strengthen clients’ commitment to reforms. Experience with investment climate work has highlighted the importance of proper engagement and it has shown that commitment at a strategy level (higher political level) is often not adequate and needs to be complemented by commitment at mid- and lower levels of government. The World Bank Group needs to work better to strengthen the links between the upstream strategy and downstream commitment at project level. Despite the repeated reference to the lack of emphasis or expertise in the area of political economy, there is no discussion of public-private dialogue in the report. Public-private dialogue plays a critical role as the primary tool by which the investment climate projects and programs seek to engage with a broad set of constituencies. The approach to public-private dialogue has evolved from being a separate “product” to a cross-cutting tool for addressing issues related to social value, including voice, transparency and accountability.

**Fragile and conflict-affected situations (FCS).** Substantial efforts have been made over the years to increase the advisory services portfolio in FCS countries. The early regulatory reforms in the FCS context focus on the simplification of typically overly burdensome or obsolete regulations. Many FCS countries have effectively used Doing Business indicators to frame their reform programs. According to the World Development Report 2011, an early emphasis on simplification of business regulations—rather than expansion or refinement—has proved effective in FCS. Management agrees that investment climate reforms alone are not sufficient for private sector development in FCS and emphasizes the importance of a complementary, and appropriately sequenced, package of interventions. The report identifies complexity of design and wavering political economy environment as factors explaining low performance, notably in FCS environments. Management also notes that the complexity of project design in FCS environments is often necessitated by the need to simultaneously intervene on several fronts and thus emphasizes the need to build in explicit and agile mechanisms to factor in redesign of the projects or exit in a timely manner if original project assumptions do not hold.

**Addressing gender in investment climate work.** The report’s finding is that projects targeting gender-related reforms do not consistently report disaggregated indicators. The report questions gender differentiation in several places and suggests that more attention be given to gender in projects. Many of the regulations under review do not formally treat women and men differently (with labor regulations being one of the exceptions), although sometimes there is discrimination in implementation and/or women find it more burdensome to comply with them. Management will consider whether the scope of investment climate interventions should also capture cases of gender
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discrimination, or if other parts of the World Bank Group are better positioned to address them. This will involve greater use of the Enterprise Survey data, which contain a wealth of information that can be disaggregated by ownership or top manager's gender and thus help World Bank task team leaders more effectively design and target their regulatory reform work.

Diagnostic tools and indicators. Management is already undertaking multiple initiatives to develop new, and refine existing, diagnostic tools. For instance, in the area of trade, the World Bank Group is developing a series of tools (trade competitiveness diagnostic, the nontariff measures toolkit, the trade in services toolkit) to allow a solid assessment of the trade angle of the investment climate reform agenda. The Development Economics Vice Presidency Global Indicators and Analysis Group team is piloting new indicators in the areas of procurement and regulatory transparency, as well as developing suites of indicators for priority sectors such as agribusiness and sustainable energy. To increase the power of diagnostics, management will develop actionable indicators, along with undertaking empirical work, to identify binding constraints to growth. The operational priorities will be further fine-tuned through a dialogue with (and requests by) clients and stakeholders, in addition to being informed by indicators. In addition to the improvements in the business environment and quality of regulation, what matters is the actual implementation of regulation.

Social value. In the currently formulated and implemented investment climate reform interventions, social effects are taken into consideration in a variety of ways. Investment climate projects mostly aim at increased levels of investments and higher levels of economic exchange. The empirical evidence suggests that these goals—if achieved—should generate social benefits, through increased employment, entrepreneurial opportunities, and higher levels of economic inclusion. Impact evaluations, including a lens on the social dimension of investment climate reform, are being carried out under the investment climate business line’s Impact Program, including an evaluation looking rigorously at effects on informality in Benin/Malawi.

Management agrees that there is, nonetheless, scope to do more in-depth social value assessments on a selective basis and understands IEG’s recommendation about a differentiated approach in that spirit. Social value exercises require specific expertise and significant resources and will need to be done selectively. Measuring “social” impact is typically associated with household-level data and generally with the economic analysis of welfare, while investment climate work is traditionally associated with firm-level data. There is a need for a nuanced approach that distinguishes between reforms that attempt to do away with laws and regulations that convey very little in way of social benefits and reforms inducing trade-offs between business interests and social interests. Therefore, management plans to develop a set of criteria to help prioritize interventions for which social value assessments would be done and in what form, and to implement a selective approach to assessing the social effects of regulatory reforms.

Complementarity and strengths of World Bank and IFC business models. The Trade and Competitiveness Global Practice will help stimulate collaboration across different business models and approaches pursued within the Group. The Trade and Competitiveness Global Practice (together with the Finance and Markets Practice which is also being set up as a fully integrated joint Bank/IFC Global Practice), will lead work in this area, especially through outreach, communication, and partnership with other networks/Global Practices on approaches, diagnostic tools, and lessons. As the report notes, different parts of the World Bank Group have demonstrated their comparative advantages, suggesting that a synergistic approach may help to leverage strengths and overcome past
weaknesses. The complementarity of interventions that are specific to parts of the Group is often grounded in the complementarity of their skills mix, and in the differences between short- and long-term reforms.

**Multilateral Investment Guarantee Agency support.** Since MIGA subcontracted its technical assistance function with respect to foreign direct investment promotion to FIAS in 2005, the scope of the IEG evaluation excludes explicit references regarding MIGA support for investment climate reforms. However, FIAS remains a donor-funded mechanism supporting investment climate operations across the three institutions. Within the ambit of investment climate interventions discussed in the report for improving the business environment for entry, operations, and exit, Investment Policy and Promotion interventions (part of Operations) supported through FIAS is most relevant for MIGA, both in terms of facilitating investments and reducing political risks.