Investment Climate Reforms
AN INDEPENDENT EVALUATION OF WORLD BANK GROUP SUPPORT TO REFORMS OF BUSINESS REGULATIONS
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The full evaluation is available on IEG’s website:
https://ieg.worldbankgroup.org/evaluations/investment-climate-reforms
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<th>Abbreviation</th>
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<td>FCS</td>
<td>fragile and conflict-affected situations</td>
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<td>FIAS</td>
<td>Facility for Investment Climate Advisory Services</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>PSD</td>
<td>private sector development</td>
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Acknowledgments

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The portfolio analysis was conducted by Jacqueline Andrieu, Samia Ausaf, Francesco Bolognesi, Adrienne Carey, Jose Martin Frech Frech, Houqi Hong, Edna Kallon, Maria Kopyta, Helena Kwang, Laura Moens, Rebecca Riso, Alexandra Solano Rocha, Abishek Saurav, Zhan Shi, Srinath Sinha, Monica Vidili, Khaliun Yadamsuren, and Izlem Yenice.

The country field studies were conducted by Amitava Banerjee, Sidney Edelmann, Giuseppe Iarossi, and Izlem Yenice.

The background papers were written by Elena Bardasi, Joseph Battat, Rebecca Chamberlain-Creanga, George Clarke, Mark Hart, John Kitching, Anders Olofgard, Andrew Stone, Izlem Yenice, and Nickolas Wilson.

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Private firms are at the forefront of the development process, providing more than 90 percent of jobs, supplying goods and services, and representing a significant source of tax revenues. Their ability to grow, create jobs, and reduce poverty depends critically on a well-functioning investment climate, defined as the policy, legal, and institutional arrangements underpinning the functioning of markets and the level of transaction costs and risks associated with starting, operating, and closing a business. The World Bank Group has been providing extensive support to investment climate reforms—having supported over the period FY07–13 819 projects with investment climate interventions in 119 countries for a total estimated value of $3.7 billion. This evaluation is designed to assess the relevance, effectiveness, and social value as it relates to concerns for inclusion and shared prosperity of World Bank Group support to investment climate reforms.

In this evaluation, the Independent Evaluation Group (IEG) finds that the World Bank Group has supported a comprehensive menu of investment climate reforms. These reforms were generally supported in the right countries and generally addressed the right areas of the regulatory environment. In providing its support, the Bank Group relies on a variety of investment climate diagnostic tools, but their coverage is incomplete.

Intervention and country case analysis shows that, within the limits of the available measures of investment climate indicators, the Bank Group has been successful in improving investment climate in client countries, as measured by number of laws enacted, streamlining of processes and time, or simple cost savings for private firms. However, the impact on investment, jobs, business formation, and growth is not straightforward, and the social value of regulatory reforms—that is, their implications for inclusion and shared prosperity as reflected in effects on a range of stakeholders—has not been properly included in the design of reforms and assessment of their impact. Regulatory reforms need to be designed and implemented with both economic and social costs and benefits in mind, but in practice, World Bank Group support focuses predominantly on reducing costs to businesses.

Simplicity of design and good risk assessment play a special role in achieving satisfactory outcomes. Political instability and lack of political commitment remain major problems, limiting the effectiveness of investment climate reforms.

In supporting investment climate reforms, the World Bank and the International Finance Corporation (IFC) use two distinct but complementary business models. Coordination within the World Bank Group on investment climate reforms is
higher than in the rest of the Bank Group; but despite the fact that investment climate is the most integrated business unit in the World Bank Group, coordination is mostly informal, relying mainly on personal contacts.

IEG has the following recommendations to the World Bank Group:

**Recommendation 1:** Expand the coverage of current diagnostic tools and integrate them to produce comparable indicators so that these can capture the areas of the business environment not yet covered by existing tools.

**Recommendation 2:** Develop a differentiated approach to identify the social effects of regulatory reforms on all groups expected to be affected by them beyond the business community.

**Recommendation 3:** Ensure that the World Bank Group takes advantage of the complementarity and strengths of the World Bank and IFC business models when designing the new Trade and Competitiveness Global Practice. Exploit synergies by ensuring that World Bank and IFC staff improve their understanding of each other’s work and business models. Maintain the richness of the two delivery models while addressing factors that discourage collaboration.
Introduction

World Bank Group support to investment climate reforms is an integral part of Bank Group efforts to eliminate extreme poverty and boost shared prosperity. There is a good understanding that broad-based private investment, which is key for inclusive growth and job creation, will only occur when the business environment is favorable. If private firms believe that their investment is not secure, that regulation is too burdensome or unpredictable, or that infrastructure is poor, they will not invest. A good business environment affects firm productivity, which is the foundation for sustained improvements in living standards. Many firm-level studies show that total factor productivity is higher in countries and regions within countries where the business environment is more hospitable.

This evaluation is part of a programmatic series of assessments by IEG of critical aspects of the World Bank Group's support for financial and private sector development. It aims to assess the extent to which the Bank Group has achieved the goal of helping its client countries improve the investment climate in which firms operate. The evaluation coincides with the establishment of the global practice on trade and competitiveness, which will be the focal point of World Bank Group work on investment climate reforms. The findings and conclusions of this evaluation are thus intended to offer insights into this aspect of the Bank Group change process.

Definition of Investment Climate Interventions

In line with the World Bank Group operations, in this evaluation IEG adopts the definition of investment climate interventions as support for policy, legal, and institutional reforms intended to improve the functioning of markets and reduce transaction costs and risks associated with starting, operating, and closing a business in the World Bank Group’s client countries. Within this context, the evaluation covers World Bank Group efforts aiming to promote regulatory reforms to improve the conditions for firms to enter, operate, and exit in both domestic and international markets as well as in key sectors.
engagement with the client country. With respect to interventions, this report covers the period FY07–13 and includes in the analysis of performance projects that have been evaluated by IEG. With respect to countries, the report is based on 25 country cases with regulatory reforms within the period FY07–13, as well country visits for a subset of 5 case studies.

World Bank Group Business Models in Investment Climate

In supporting investment climate reforms, the World Bank Group has adopted two distinct business models.

IFC’s business model is implemented through stand-alone advisory services. They are structured under a set of defined products and tend to form focused, concrete, short-term, and rapid interventions. They are mostly funded through internal budget and trust funds, with some client contribution.

In contrast, the World Bank business model is implemented not only through analytic and advisory activities, but also through lending and budget support. When not funded through loans, advisory services are generally funded through trust funds or reimbursable advisory services.
The World Bank is involved in upstream policy dialogue on private sector development (PSD) and overall economic reforms and supports interventions that tend to have a wider and deeper scope and to be of longer tenure, whereas IFC supports interventions that tend to be standardized and narrowly focused.

The Latin America and the Caribbean Region is an example where investment climate work is jointly managed by the Bank and IFC. This collaboration fostered better client management, more collaborative project development, though at a high administrative cost.

Each business model has its own strengths and weaknesses. A staff survey conducted for the evaluation shows that a small share of staff (6 percent) perceived the difference between the IFC model and the World Bank model only as a positive factor in fostering collaboration. A significant share—30 percent—saw the existence of the two models only as discouraging collaboration. However, the majority of staff—almost 50 percent—saw the differences in the two models as a factor both fostering and hampering collaboration. Hence, if properly understood and taken into account in the change process,

Textile companies employ a great number of people, so a well-functioning investment climate is needed for their growth.
these differences might represent an opportunity for collaboration and impact in investment climate work.

**Investment Climate Good Practice Standard**

IEG developed a good practice standard of regulatory areas. A list of regulatory areas was created based on the top five regulatory environments, according to the World Economic Forum (2013) and Doing Business (2013). This list is taken as a good practice standard of the set of regulatory areas a typical country with the best regulatory environment would have. The list includes 18 regulatory areas.

Further, IEG reviewed evidence of the extent to which the main World Bank Group diagnostic tools cover the good practice areas. About half of the regulatory areas are covered by these diagnostic tools. Interestingly, the areas covered by Doing Business and Enterprise Surveys are those where the Bank Group supports client countries heavily, such as business registration, taxation, and trade. The evidence implies that these two diagnostic tools are only partially relevant in helping the Bank Group identify appropriate areas of intervention.

**Investment Climate Portfolio**

IEG classified the World Bank Group portfolio by various characteristics, with a special focus on areas identified as priorities in the Bank Group investment climate strategy, such as gender, fragile and conflict-affected situations (FCS), and key industries.

**PROJECTS AND INTERVENTIONS**

Over the period FY07–13, the Bank Group supported 819 projects with multiple investment climate interventions (a project may contain several interventions). Of the 819 projects, 476 were from the World Bank and 343 from IFC, for a total estimated value of investment climate interventions of $3.7 billion. Of this, $350 million was from IFC and $3.35 billion from the World Bank. Between 2007 and 2013, the World Bank Group has supported regulatory reforms in 119 countries through nearly 15 types of interventions.

In terms of share of projects, the Poverty Reduction and Economic Management Network, the Sustainable Development Network, and Finance and Private Sector Development Network represent the main networks with investment climate projects. In absolute terms the Poverty Reduction and Economic Management Network has the highest number of projects with investment climate interventions—often in the context of development policy lending. However, within networks, the Finance and Private Sector Development Network has the highest proportion of network operations with investment climate interventions.

IFC investment climate projects are only advisory, whereas the World Bank projects include investment climate components in both lending and budget support operations in approximately equal proportions. In terms of share, one in three development policy operations includes investment climate components, while only one in ten lending operations does so.

The Bank Group activities in investment climate can be grouped in three main areas of the business environment: entry, operation, and exit. Within each of these areas, the Bank Group implements a number of different interventions. These interventions aim to simplify and streamline regulatory procedures, remove sector-specific administrative constraints, revise the legal framework and institutions, establish effective dialogue systems between private and public sectors, and harmonize procedures and systems. It is important to note, however, that although both institutions operate in the same space, the scope of their investment climate interventions is generally different,
with some overlap. The World Bank focuses more on higher-level reforms, such as revising and harmonizing laws and codes, reforming institutions, developing strategies, and coordinating government agencies and ministries. IFC, in contrast, mostly focuses on streamlining and simplifying procedures and processes, providing technical assistance, and automating systems.

In formulating solutions, the Bank Group has focused mostly on business operations and business entry, and the solutions varied from specific or limited interventions to comprehensive packages and programmatic approaches covering many different aspects of the investment climate. For example, in the Republic of Yemen and Vietnam the Bank Group focused on business entry and operations and provided a comprehensive solution package. In contrast, in Cambodia the investment climate interventions focused on specific areas such as trade promotion.
Between 2007 and 2013, the World Bank Group has supported regulatory reforms in 119 countries through nearly 15 types of interventions.

Across interventions, licensing, permits, and administrative barriers; trade; and investment promotion account for almost half. There is a “division of labor” among the two institutions. The World Bank does interventions in trade and property rights almost exclusively (over 80 percent of all), as well as the majority of interventions on investment promotion. IFC, in contrast, undertakes more (60 percent) licensing and registration efforts. Both institutions operate equally in licensing/permits/administrative barriers and public-private dialogue.

In terms of value, investment climate interventions are small, particularly for IFC. The average value of one intervention is less than $1 million for IFC and less than $6 million for the World Bank.

On average, investment climate interventions are implemented in less than 3 years (32 months). However, as part of World Bank lending operations, the average
length is substantially higher—more than six years. The distribution of investment climate interventions across regions and income levels shows that both the World Bank and IFC intervene mostly in Sub-Saharan Africa (37 percent of all interventions for both institutions) and Europe and Central Asia (24 percent for the World Bank and 17 percent for IFC), followed by the Latin America and the Caribbean Region for the World Bank (17 percent) and the East Asia and Pacific Region for IFC (15 percent).

GENDER AND INCLUSION
Regulations may affect various subgroups differently, and this needs to be taken into account to achieve a level playing field.

The disadvantageous position of women in entrepreneurship has been widely documented. Gender-specific obstacles make it harder for women than for men to start and grow enterprises, and fewer women than men own and manage businesses worldwide.

In the investment climate portfolio, explicit targeting—based either on the entrepreneur or on the firm characteristics—is not common. Only 8 percent of all projects specifically targeted women, and a similar percentage targeted firms based on their industry and formality status. Targeting based on proprietor age, geographic area, or export status is even rarer. A review of the investment climate portfolio shows that in 10 percent of cases, no targeting is done when there are legal constraints in the countries that would make investment climate reforms not “gender neutral.”

INVESTMENT CLIMATE IN FRAGILE AND CONFLICT-AFFECTED SITUATIONS
Support to PSD in FCS only started to gain attention from policy makers, donors, and nongovernmental organizations in the last decade. Despite this, there is general agreement that building competitive, inclusive markets and businesses is crucial for post conflict recovery, just as fragile situations present special challenges and opportunities for PSD. There is no clear consensus over the most effective starting point to PSD in FCS. The debate is essentially about sequencing or not, whether “doing reforms” to improve the investment climate or “doing deals” with targeted enterprises and sectors should come first in a fragile environment.

Experience with and research on PSD in FCS inside and outside the World Bank Group suggest that regulatory and “doing deals” approaches should not be viewed as mutually exclusive, but as complementary in encouraging growth in fragile environments. The 2011 World Development Report also highlights that investment climate reforms and direct interventions are equally important for fragile states.

Overall, 15 percent of investment climate projects are implemented in FCS situations. IFC shows a slightly higher share of such projects than the World Bank. Over time, the number of investment climate projects in FCS has held steady at around 12 per year, with both institutions having seen a fall in the number of projects over the last few years. In terms of intervention, the most common interventions in FCS (accounting for over 50 percent of all) are represented by licensing/permits/administrative barriers, investment promotion, trade, and public-private dialogue.

INVESTMENT CLIMATE FOR SPECIFIC INDUSTRIES
Although some aspects of the investment climate apply to all firms participating in the economy, others are far more specific and can create a “micro” investment climate for firms with particular characteristics, or those in a particular region or sector.
Agribusiness and tourism sectors can be engines for inclusive growth in developing countries and have been identified as key priority sectors in the World Bank Group investment climate strategy (World Bank 2011). In 17 country case studies where sectoral priorities were identified, all included agribusiness or the agriculture sector as a key sector, and 10 included tourism. In 13 of these countries, agriculture and/or tourism growth are identified as priority or strategic objectives, and 9 country strategies connect growth of these sectors with overall economic growth and poverty alleviation.

Investment climate projects with components that focused on agribusiness and/or tourism constitute 18 percent of World Bank and 16 percent of IFC investment climate projects. Whereas the number and value of investment projects in the World Bank do not show a clear trend since the creation of a practice group, the IFC advisory portfolio has expanded in recent years.

Relevance of World Bank Group Operations

IEG assesses the relevance of World Bank Group operations in investment climate at three levels: (i) the strategic level—do corporate and country strategies identify investment climate reforms as a priority? (ii) the intervention level—is the Bank Group offering the right set of investment climate reforms in the right countries? and (iii) the analytical level—do diagnostic tools adequately inform investment climate reforms supported by the World Bank Group?

The World Bank Group strategies related to investment climate reforms intend to enhance competition, foster enterprise creation and growth, facilitate international trade and investment, and unlock sustainable investment opportunities in key sectors, such as agribusiness and tourism. These strategies aim to reduce time, cost, and procedures and to simplify regulations. In general, the strategies focus on creating favorable market conditions for enterprises and do not take into account their impact on stakeholders in society beyond businesses. In other words, they don’t verify or assure that broader social objectives will be protected or enhanced through the reform.

RELEVANCE AT THE STRATEGIC LEVEL

At the corporate level, the most recent Bank Group Strategy (World Bank 2013) acknowledges improving business climate as key to stimulate private sector investment and jobs and to achieve the twin goals of ending extreme poverty and promoting shared prosperity. Similarly, earlier World Bank and IFC corporate strategies made improving the investment climate a strategic pillar of PSD.

At the network level, a number of sectors have identified improving the regulatory environment as a key aspect of their strategy. The 2002 World Bank Group PSD Strategy has the most emphasis on investment climate activities. Other networks’ strategies have devoted attention to the policy and regulatory environment. For example, one of the priorities of the World Bank trade strategy is to support regulatory reform and cooperation. The most recent agriculture strategy envisages the expansion of its role in regulatory reforms. Similarly, the most recent energy (2013), environment sector (2012–22), and infrastructure sector (FY12–15) strategies emphasize the importance of strong institutions, legislation, regulation, and enforcement.

In parallel to corporate and sector strategies, regional strategies identify improving the regulatory environment as an area to support. IEG’s 25 country case studies show that nearly all Bank Group country partnerships see a lack of competition, barriers to establishing and operating businesses, the cost of doing business, and regulatory
The World Bank Group offers a broad menu of interventions. Virtually all regulatory areas for a business-friendly regulatory environment are covered by Bank Group interventions.

But is the Bank Group using the right interventions in the right countries? A comparison between the severity of what firms see as obstacles and the intensity of Bank Group interventions shows a high and significant

burdens as the main business environment constraints.

In sum, improving and supporting investment climate reforms is viewed as a priority in Bank Group strategies at various levels. However, it is worth noting that in very few of the countries’ own development strategies—such as in Cambodia, Georgia, Kenya, Liberia, the Republic of Yemen, and Rwanda—were regulatory reforms specifically identified as an important part of the country development strategy.
correlation, suggesting that priorities perceived by enterprise managers are broadly in line with interventions by the Bank Group. Furthermore, for each area of the business environment, IEG compared how problematic they were in countries with Bank Group interventions and without interventions. The results indicate that the Bank Group targets the right countries (those with worse initial conditions) in its support of regulatory reforms.

**RELEVANCE AT THE ANALYTICAL LEVEL**

The World Bank Group identifies the regulatory reforms it supports on the basis of stakeholder consultations and diagnostic analysis. IEG’s review of 25 country strategies indicates that, at the level of Country Assistance Strategies, the Bank Group generally has a sound consultation process. In India, in fact, notwithstanding the multiplicity and geographical distribution of the stakeholders, the consultation process included client surveys, online
consultations, workshops, and targeted meetings. At the diagnostic level, IEG conducted a mapping exercise of the areas covered in two most commonly used diagnostic tools for regulatory reforms—Doing Business and Enterprise Survey data.

This mapping showed that the use of diagnostic tools was more common in World Bank projects (68 percent). IFC advisory projects relied on diagnostic tools in 47 percent of the projects; IFC relied more on government requests or stakeholder consultations when designing investment climate projects. Historically, IFC’s investment climate projects have relied on the Facility for Investment Climate Advisory Services’ administrative barriers diagnostic reports. Over time, Doing Business started to become a de facto diagnostic tool for IFC. Among the projects that used a diagnostic tool, the Doing Business report has been used 62 percent of the time in IFC and 20 percent of the time in the design of World Bank investment climate projects.

In sum, the World Bank Group has supported a comprehensive menu of investment climate reforms. IEG analysis indicates that improving and supporting investment climate reforms is viewed as a priority in World Bank Group strategies at various levels. For the interventions with available data, reforms were generally supported in the right countries and generally addressed the right areas of the regulatory environment. Finally, the Bank Group relies on a variety of investment climate diagnostic tools, but the coverage of these tools is incomplete.

**Effectiveness of World Bank Group Support to Investment Climate Reforms**

Have regulatory reforms supported by the World Bank Group improved the regulatory environment in which businesses operate?

**PROJECT AND INTERVENTION OUTCOMES**

With respect to project ratings, both World Bank and IFC investment climate projects are as successful as the rest of the portfolio. In the World Bank Group the majority of investment climate projects achieve their development objective (75 percent in World Bank and 55 percent in IFC). There is a significant degree of variability in the success rate of different interventions.

Beyond ratings, to determine the impact of investment climate interventions, IEG identified 39 investment climate outcome indicators and utilized three approaches to measure results: before and after, propensity score matching, and difference in difference. According to the before and after method, seven of the eight World Bank Group interventions analyzed—with the only exception of investment promotion—show a positive and statistically significant outcome.

However, the results of the other two methods are significantly different. While with before and after almost 80 percent of the impact indicators reflected significant and positive changes, this share drops to 30 percent and 60 percent with propensity score and difference in difference methods, respectively. Hence the method of analysis used influences the extent of effectiveness recorded. Simplistic methods such as before and after show a much wider impact than more sophisticated approaches. Using difference in difference, IEG is able to find evidence that—within the limits of available data—all but one intervention—investment promotion—produce positive outcomes.

This conclusion, nevertheless, is qualified by at least four important considerations. First, the great majority of indicators used in the analysis are from Doing Business and present methodological problems that might compromise their reliability. Second, the literature on the impact of regulatory reforms on growth, investment, entry,
and jobs is extensive but presents mixed and qualified results. Third, case studies conducted by IEG confirmed that simply achieving improvements in outcome indicators of regulatory indicators does not guarantee an impact on investments. This is the case, for example, of Rwanda compared to Cambodia. And fourth, a proper assessment of the impact of investment climate interventions must take into account that regulatory reforms should improve outcomes for society as a whole, not only for businesses.

Overall evidence indicates that many regulatory reforms succeeded in simplifying procedures and reducing time and cost; however, the overall impact of these solutions on investments, jobs, and entry at the country level is not straightforward as the case of Rwanda suggests.

Gender
IEG identified and classified 19 investment climate projects as “gender focused,” that is, as having the potential to address constraints that are especially binding for female entrepreneurs. Explicit targeting is limited in the portfolio, but even projects targeting specific groups do not necessarily report results for the group that was targeted. Only 11 of 19 closed projects targeting gender in their design report results by gender.

Nine of 11 projects that IEG reviewed documented positive results for women. As the number of investment climate interventions with gender-relevant targeting (and even more the number of “gender-informed” projects) increases over time, it may be desirable for these projects to include gender-disaggregated indicators. This will allow a comparison of gender results achieved by interventions with explicit gender targeting (and gender-relevant actions) and those obtained by gender-neutral interventions, but with the potential to disproportionately benefit women. With the data currently available, such a comparison cannot be made.

Fragile and Conflict-Affected Situations
The small number of completed and evaluated investment climate projects in FCS suggests that effectiveness in FCS is significantly lower than in non-FCS. Evidence from country cases shows mixed results and indicates the importance of political feasibility, institutional capacity building, and implementation assistance as determinants of performance. For example, the difference in the design and implementation strategy between Sudan and South Sudan led to vastly different results. In Lao PDR, the Bank was cognizant of local capacity limitations and subsequently increased technical assistance during the progression of its budget support operations leading to positive outcomes.

As highlighted in a recent IEG paper (IEG 2013), investment climate reforms are necessary but not sufficient conditions for private sector development in FCS.

Industry-Specific Focus
The number of evaluated investment climate industry projects is small; therefore, it is hard to draw general findings. On average, IFC investment climate advisory projects in the agribusiness and tourism sectors are more likely to have positive development outcomes than the general investment climate portfolio (71 percent versus 55 percent). By contrast, World Bank investment climate investment projects in agribusiness and tourism on average are less successful than the general investment climate portfolio (71 percent versus 82 percent). The difference is not statistically significant for either IFC or the World Bank.

Assessing the Social Impacts of Regulatory Reforms
Governments typically implement regulatory reform to correct perceived market failures and improve market
efficiency. Improving the social benefits of regulatory reform requires consideration of its impact on a range of important social stakeholders, practices, and institutions—not only businesses. The twin goals of poverty elimination and shared prosperity guiding the new World Bank Strategy demand that regulatory reform be understood in the context of broader social values. In practice, though, diagnostics, reform design and implementation tend to focus primarily on business costs.

REGULATORY REFORM AND ITS EFFECTS: THEORETICAL FOUNDATIONS

Regulation is often treated in academic and policy discourses as a burden, cost, or constraint on business activity. This is principally because assessments of regulatory reform focus on the real or perceived impact on businesses rather than on the full range of stakeholders whom regulation affects. But regulation is not just a burden on businesses. It performs a necessary function in enabling markets to function and in protecting public health and safety. However, although regulatory reform often generates public goods, not all members of a population are guaranteed to benefit equally, and some may lose out.

APPROACHES TO ASSESSING THE SOCIAL VALUE OF REGULATORY REFORM

Social value means different things to different people. How societies define social value is likely to be influenced by a wide range of factors, including national policies, the level and distribution of wealth, availability of infrastructure, the role of civil society organizations, and demographic factors. Consequently, the appropriate analytical framework to measure this value comprises a theory of change connecting regulatory reform, the actions of businesses, the wide variety of stakeholders with whom they interact (consumers, suppliers, employees, investors, and others), and a wide range of social value effects. Measuring the benefits and costs of regulatory reform is a difficult task. Various methodologies are available to measure social value, such as the social return on investment, the standard cost model, and regulatory impact assessment.

ANALYSIS OF CROSS-COUNTRY EVIDENCE

IEG reviewed all projects in the investment climate portfolio and identified 108 projects (87 for IFC and 21 for World Bank) with some assessment of social impacts. Some of the findings are as follows: (i) formal impact assessments are conducted in only a minority of World Bank Group projects with investment climate interventions—about 15 percent of them; (ii) formal assessments do not always refer to all regulatory reforms implemented as part of an intervention; (iii) a large number of projects have no data, especially for the World Bank; (iv) only four in ten IFC evaluations, and three in ten World Bank evaluations, provided any data on the different kinds of social benefit for a variety of stakeholder groups; (v) in only 13 percent of IFC projects and 1 percent of World Bank projects were specific recipients of the social value of regulatory reform identified; and (vi) distributional issues were examined in only seven projects, corresponding to 2 percent of the IFC portfolio and none of the World Bank projects.

In general projects do not define social value explicitly. There are some indications of a broader notion of social value making reference to environmental, health and safety, and other types of impact, and to nonbusiness stakeholders—but these are generally discussed briefly or do not appear to be fully integrated into the design, implementation, or evaluation of projects. Procedural indicators such as compliance cost savings do not tell us very much about social benefits. Business stakeholders are treated as paramount; nonbusiness stakeholders are
barely visible. Moreover, compliance cost savings data are presented as though they are necessarily benefits for all businesses, yet such benefits are likely to be distributed unevenly, because some are better able to exploit regulatory change than others, and this might even generate adverse impacts for some businesses.

Factors Affecting Delivery and Performance

IEG reviewed World Bank Group investment climate projects to shed light on factors that help explain their success or failure. Implementation delays and the onset of a crisis are the most commonly encountered implementation problems in Bank Group investment climate projects. This is in part because political stability plays such an important part in the success of investment climate projects. Because most investment climate work relies on the enactment of laws, regulations, and coordination among different ministries and agencies, a committed and strong government is key to success.

In parallel, IEG’s 25 country case studies show that political stability, political commitment, and reform champions are essential for the success of the regulatory reform process. This was the case in Kenya, Nepal, and Rwanda, for example. In Rwanda a high level of commitment enabled it to become one of the top reformers in regulations captured by the Doing Business indicators. In Kenya post-election violence in 2007–08 derailed the investment climate reform program. In addition, Bangladesh shows the importance of both political stability and commitment to sustain the reform process. Similarly, IFC did not have a constant client within the government of Nepal who could consistently champion the investment climate reforms.

Regression analysis shows that three factors under the Bank’s control—complexity of design, inadequate risk assessment, and inadequate monitoring and evaluation—and two on the borrower side—borrower performance and crisis—are significant determinants of project effectiveness.

IEG’s analysis attempted to identify the complex interactions among the various factors of performance. The results show that first, there are aspects under the control of the World Bank Group that can reduce or eliminate the negative effect of external factors. More specifically, inadequate borrower performance can be alleviated by having a simpler project design, whereas a crisis can be dealt with better if the project does not have a complex design, there is good supervision, and there is a good risk assessment. Second, two aspects of the project implementation—simplicity of design and good risk assessment—can reduce or eliminate most of the implementation problems. Finally, there is one factor for which no aspect of implementation can compensate: inadequate technical design.

Factors of Performance in Fragile and Conflict-Affected Situations

Evidence from country case studies points to the fact that the World Bank Group effectiveness in FCS was contingent on a number of factors. In many FCS, overambitious projects—in terms of scope or timing—led to less than satisfactory results. Institutional capacity building and implementation assistance have been instrumental in determining the success of interventions. Government ownership is also a vital success factor in FCS. And the fragile political economy has, more than elsewhere, a fundamental bearing on the success of investment climate interventions.
FACTORS OF PERFORMANCE IN INDUSTRY-SPECIFIC PROJECTS

A review of project evaluations suggests that three factors are associated with success or failure: counterpart commitment, local capacity and human resource quality, and project complexity. For IFC, agribusiness and tourism investment climate projects are more likely to suffer from technical design issues and less likely to have implementation delays, although this is the leading problem identified for IFC investment climate industry projects. For the World Bank, projects are more likely to have too many components and are less likely to suffer from implementation delays. For Bank projects, monitoring and evaluation is the most common problem.

COLLABORATION ACROSS INSTITUTIONS

With the recent evolution of strategies for investment climate work, the World Bank Group has seen a substantial reorganization in the investment climate space since the mid-2000s. Major organizational change of the investment climate space occurred in FY14. Beginning in July 2014, all investment climate units will operate under the Trade and Competitiveness Global Practice. This global practice will be the most integrated practice in the new World Bank Group structure. In the investment climate portfolio, 33 projects with IEG ratings were characterized as having some form of coordination. Evidence indicates that the higher the degree of collaboration, the higher the probability of achieving the development objectives is. It must be recognized, however, that these findings rely on a small number of observations. Given this limitation, IEG reviewed projects with examples of collaboration to draw additional evidence. This led to the conclusion that successful collaboration rests on complementarity—of roles, of perspective, and of instruments.

IEG’s staff survey results show that lighter collaboration is more frequent than deeper collaboration. Overall, half the time collaboration occurs, it refers to simple activities such as information sharing and peer reviewing. Only one-third of the collaboration is deep and involves design and implementation of projects.

The factors that play a role in fostering collaboration can be grouped in three categories: the role of the unit and its strategy, systems or formal organization, and informal organization. IEG’s staff survey results point out the primary role of informal factors in fostering collaboration. In contrast, systems and formal organization are seen as mostly discouraging collaboration, although they present a significant opportunity for changing this perception. Finally, factors related to roles and strategy can foster collaboration if properly handled.

IEG interviews and its survey of World Bank Group investment climate management and staff provide some insights on how to optimize value to clients with the new Global Practice. Most of the staff provided positive feedback, highlighting the complementarity and strengths of the World Bank and IFC business models. However, some concerns exist. The interviews indicate the concern that the merger cannot be a simple juxtaposition of current systems and programs under one roof. From an operational perspective, many staff hope that serious attempts will be made to remove impediments to collaboration found in the formal organization, for example, governance and accountability systems, funding, pricing, human resources policies, and operational systems.

Recommendations

Improving the investment climate has been and remains a key objective of countries in their pursuit of economic growth through PSD. In this evaluation IEG assesses the extent to which the World Bank Group has achieved its
goal of helping client countries improve the investment climate in which firms operate. IEG looked at three main aspects of the World Bank Group activities: relevance, effectiveness, and social value of regulatory reforms.

RELEVANCE
At the corporate level and in a number of sectors, improving business climate is seen as key to stimulating private sector investment. At the country level, nearly all World Bank Group country partnership and assistance strategies identify enhancing the business environment as a main objective to foster PSD. However, although country strategies put a significant emphasis on improving the business environment, the client countries’ own strategies put much less emphasis on it—only a few counties emphasized the role of investment climate in their vision.

IEG’s mapping exercise provides evidence that, generally, World Bank Group interventions support relevant areas, that is, cover the full set of potential regulations of a country with a business-friendly regulatory environment. Using data from the Enterprise Survey, IEG was able to establish that the World Bank Group supports the reforms most needed by client countries and supports regulatory interventions in those countries that need them most.

When looking at the analytical relevance of the most common diagnostic tools used to determine regulatory reforms—Doing Business and Enterprise Surveys—IEG found that these tools do not cover all areas of the regulatory spectrum as identified in the comprehensive list of regulations mentioned earlier. Doing Business and Enterprise Surveys cover only areas—such as business registration, taxation, and trade—where most of the World Bank Group activities take place. Hence, although these diagnostic tools are often relied on to inform country strategies, they are less frequently used to design investment climate projects, especially in IFC.

Recommendation—Expand the coverage of current diagnostic tools and integrate them to produce comparable indicators so that these can capture the areas of the business environment not yet covered by existing tools.

SOCIAL VALUE
Improving the social benefits of regulatory reform requires consideration of its impact on a range of important social stakeholders, practices, and institutions—not only businesses. In practice, though, the discussion focuses only on business costs. Social value is not explicitly defined in World Bank Group projects. Procedural indicators such as compliance cost savings do not tell very much about social benefits. Reforms can have broader social and distributional impacts that go beyond the economic and beyond the effects on business. These effects need to be taken into account in the design and implementation of regulatory reforms.

Recommendation—Develop a differentiated approach to identify the social effects of regulatory reforms on all groups expected to be affected by them beyond the business community. The approach should identify which groups are expected to be affected by the regulatory reform(s) within and beyond the business community, in order to ensure that reforms “do no harm” to people or the environment. The assessment should be differentiated depending on the expected impact of the regulatory reform(s) and may include qualitative or quantitative methods. The approach should be employed both ex ante (during the design of the project) as well as ex post (to assess the achieved impact of the reform).

Such an approach should help better estimate the political economy risk associated with the reform, to identify potential groups that would sustain or oppose reforms and the extent of such support or opposition. The World Bank Group may also consider developing client capacity
to conduct social value assessment in order to enable sustainability of investment climate reforms.

COORDINATION ACROSS THE WORLD BANK GROUP

The World Bank and IFC work in the same space and with the same clients through two distinct business models. The IFC business model is implemented through stand-alone advisory services. Projects are based on standardized, focused, short-term, and rapid interventions. They are mostly funded through internal budget and trust funds. The World Bank business model is implemented through lending and budget support and to a lesser extent through technical assistance. These projects are broader in scope and tend to be more long-term than IFC projects.

Each model has unique features, and stakeholders appreciate their differences. Stakeholders interviewed across countries often appreciated IFC’s international technical expertise, quick response and delivery, and close support. However, according to stakeholders, IFC’s ability to handle the political economy was not as strong, nor was its ability to move beyond standardized products. The World Bank’s main strengths are its institutional access to government institutions, its comprehensive services, and its ability to provide substantive funding. Yet there was a common sense that the World Bank is slow to respond and to implement projects.

Interviews with World Bank Group management and staff surveys indicated that there is collaboration among the institutions, to varying degrees. Survey results show that simple activities such as information sharing are more frequent than formal engagements. Different systems and organizational structure are perceived as the main bottlenecks to collaboration.

Recommendation—Ensure that the World Bank Group takes advantage of the complementarity and strengths of World Bank and IFC business models when designing the new Trade and Competitiveness Global Practice. Exploit synergies by ensuring that World Bank and IFC staff improve their understanding of each other’s work and business models. Maintain the richness of the two delivery models while addressing factors that discourage collaboration.

References


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 restrategizing. 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 set-up/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 provides 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 results 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 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 the 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 (MIGA) 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 are most relevant for MIGA, both in terms of facilitating investments and reducing political risks.
**Management Action Record**

### Relevance

| IEG Findings and Conclusions | Over the years a number of diagnostic tools have been used to design investment climate interventions. Recently new tools have been developed for specific areas of the regulatory environment. Although these tools cover in detail individual areas of the regulatory environment, there is no comprehensive tool that allows an assessment of all regulatory aspects in client countries. Such a tool would help determine which area is the most problematic in client countries.  
IEG presented evidence that the Doing Business indicators and Enterprise Survey data—the most commonly used diagnostic tools—are incomplete; that is, they do not cover all areas of regulation as identified in the best practice list (Table 1.3). Doing Business and Enterprise Surveys cover only some aspects—such as business registration, taxation, and trade—where most of the World Bank Group activities take place. |
| IEG Recommendations | Expand the coverage of current diagnostic tools and integrate them to produce comparable indicators so that these can capture the areas of the business environment not yet covered by existing tools. |
| Acceptance by Management | Agree |
| Management Response | Management agrees that diagnostic tools and indicators should evolve over time in the light of operational experience, evolving priorities, and advances in the academic literature. Management is undertaking multiple initiatives to develop new, and refine existing, diagnostic tools.  
Management plans to review how indicators and other benchmarking tools are being utilized by the World Bank Group to inform investment climate activities, with a view to expand the utilization of indicators as an engagement tool. 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. |
Business regulations govern markets to enhance or protect certain social values, such as public health, safety, and the environment. IEG’s review shows that social value is not explicitly defined or accounted for in regulatory reforms supported by the World Bank Group in client countries. Without that, it is difficult to establish whether particular reforms have generated any particular benefits (or losses), or to identify distributional effects.

The Bank Group impact indicators include measures of aggregate compliance cost savings for businesses or increases in private sector investment. Separate measures are needed to capture a wider range of benefits and costs (social, economic, and environmental) if existing regulations are changed. Some groups may benefit from regulatory reform, but other (potentially vulnerable) groups may lose out, with regard to incomes; employment; access to goods, services, and infrastructure; or other indicators. A social value framework suggests that projects should identify relevant stakeholders; an exclusive focus on businesses is too narrow. Nonbusiness stakeholders need to be incorporated within any evaluation of regulatory reform.

Furthermore, a better assessment of political commitment is key in determining the success of investment climate projects. In many cases, IEG found that unsuccessful efforts in regulatory reforms focused on improving the technical quality of legislation but ignored the importance of the political process. Although the World Bank and IFC cannot and should not be engaged in these processes, successful regulatory reform requires understanding this part of the policy-making process and informing relevant stakeholders. This is especially important in FCS, where the political process is even more unstable.

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<td>In investment climate reform interventions, management takes into consideration social effects in a variety of ways. Scaling up a social welfare/value assessment requires specific expertise and significant resources. A nuanced approach is needed and management plans to develop a selective 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. Management plans to develop a set of criteria to help prioritize interventions for which social value assessments would be done and in what form.</td>
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# Coordination across the World Bank Group

## IEG Findings and Conclusions

The World Bank and IFC work in the same space and with the same clients through two distinct business models. The IFC business model is implemented through stand-alone advisory services. Projects are standardized, focused, and short term and include rapid interventions. They are mostly funded through internal budget and trust funds. The World Bank business model is implemented through lending and budget support and to a lesser extent through technical assistance. Projects are comprehensive and tend to be more long term. The client or the Bank executes the project. Each model has unique features, and stakeholders appreciate their differences. Stakeholders interviewed across countries often appreciated IFC’s international technical expertise, quick response and delivery, and close support. However, IFC’s ability to handle the political economy was not as strong, nor was its ability to move beyond standardized products. The World Bank’s main strength is its institutional access to government institutions, its comprehensive services, and its ability to provide substantive funding. Yet there was a common sense that the World Bank is slow to respond and to implement projects.

IEG’s interviews with World Bank Group management and staff surveys indicated that there is collaboration among the institutions to varying degrees. Survey results show that simple activities such as information sharing are more frequent than formal engagements. Evidence shows that different operating environments of IFC and the World Bank make collaboration difficult. Systems and organizational structures—such as different pricing policy, accountability matrix, results framework, and human resources policies and staff incentives—are perceived as the main bottlenecks to collaboration. Also, the interviews with investment climate management and staff indicate that staff have a positive perception of complementarity and strengths of the institutions with the new Trade and Competitiveness Global Practice; however, some concerns exist regarding the dominance of one institution model over the other.

## IEG Recommendations

Ensure that the World Bank Group takes advantage of the complementarity and strengths of World Bank and IFC business models when designing the new Trade and Competitiveness Global Practice. Exploit synergies by ensuring that World Bank and IFC staff improve their understanding of each other’s work and business models. Maintain the richness of the two delivery models while addressing factors that discourage collaboration.

## Acceptance by Management

Agree

## Management Response

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 the World Bank Group engagement in this area and accordingly strengthen its outreach, communication, and partnership with other networks/Global Programs on approaches, diagnostic tools, and lessons.
The Committee on Development Effectiveness met to consider the evaluation entitled Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations and the draft Management Response.

Summary

The Committee welcomed the evaluation’s findings and recommendations and agreed they highlight the main challenges facing the World Bank Group in investment climate activities. They were pleased to see that overall the World Bank Group has targeted the right countries, supported the right reforms, and been effective in improving the regulatory environment of client countries, particularly in terms of reducing procedures, time, and costs for business. Members found the evaluation timely, given the internal changes in the World Bank Group and the new Global Practices and Cross-Cutting Solutions Areas. As investment climate moves into the joint Trade and Competitiveness Global Practice, they saw this as an opportunity to take advantage of the complementarities and strengths of the Bank and International Finance Corporation delivery models to provide collaborative solutions to clients. Members concurred that the current diagnostic tools should be enhanced and integrated to produce comparable indicators to capture areas of the business environment not yet covered; they encouraged management to enhance coordination and collaboration with other multilateral development banks, donors, and institutions in this respect.

Members agreed with the need to develop a differentiated approach to identify the environmental and social effects of regulatory reforms. Members welcomed management’s intent to try to standardize environmental and social considerations in order to measure the impact of investment climate reforms on the bottom 40 percent, women, and fragile and conflict-affected countries. They underscored the importance of conducting ex ante social impact assessments and building client capacity on this front. Members highlighted that gender-focused investment climate projects still correspond to a small proportion of all investment climate reform-targeted projects. They urged management to strengthen the gender focus in the World Bank Group’s investment climate activities.

Juan José Bravo
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