IEG WORLD BANK | IFC | MIGA
INDEPENDENT EVALUATION GROUP

Approach Paper

Evaluation of the World Bank Group's Support for Investment Climate Reforms

June 28, 2013

Background and Context

1. The past decade has witnessed a renewed interest in the micro determinants of economic growth. Cross-country evidence led researchers to recognize that investment rates by themselves were not the drivers of long term growth. As emphasized in the *2005 World Development Report: A Better Investment Climate for Everyone* (World Bank, 2004) a good investment climate has an impact on the productivity of investments and hence is key to sustained growth and poverty reduction.

Defining Investment Climate - a review of the literature

2. Different definitions of investment climate have been proposed in the literature. Nicholas Stern, who as the World Bank Group Senior Vice President and Chief Economist in the early 2000 elevated investment climate to an important area of focus for the World Bank Group, defined it as "*the policy, institutional, and behavioral environment, both present and expected, that affects the returns and risks associated with investment.*" The World Bank's *Productivity and Investment Climate Survey Implementation Manual*, which was designed to give World Bank task managers guidance on preparing investment climate surveys and completing investment climate assessments (ICAs), adopted a similarly broad definition by suggesting that studies of the investment climate should discuss "factors constraining the effective functioning of product markets, financial and non-financial factor markets, and infrastructure services, including, in particular, weaknesses in an economy's legal, regulatory and institutional framework." (World Bank, 2003) In 2005 the World Bank's flagship report, the *World Development Report*, focused on the investment climate,[1] and defined it in a similar way as *"the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand"* (World Bank, 2004).

3. When discussing what makes a good investment climate, Stern argued that the investment climate included three main aspects: (i) macroeconomic stability and openness; (ii) good governance and strong institutions including bureaucratic efficiency, the strength of financial institutions, the rule of law, control of corruption and crime, regulatory quality, the effectiveness of public services, and the quality of

[1] This is the only World Development Report to specifically focus on the Investment Climate. The 2002 *World Development Report* (World Bank, 2002) focused on institutions and overlapped with the 2005 World Development Report. In particular, the report had chapters on courts, finance and infrastructure. The 2002 report, however, did not focus on investment and did not rely primarily on firm-level evidence.

the labor force; and (iii) the quality of infrastructure. (Stern 2001, 2002) The *Private Sector Development Strategy* included in the concept of investment climate "macro-economic stability, good governance (e.g. rule of law, absence of corruption, functioning financial sector, a regulatory framework that safeguards social and environmental concerns), sound infrastructure and educated, healthy individuals."

4. The literature on investment climate identifies areas of policy intervention through two possible approaches. Part of the literature focuses on managers' perceptions about the investment climate, that is, what managers see as the biggest investment climate problems. These studies identify as themes belonging to the investment climate topics such as macro stability, infrastructure, access to finance, tax rates and administration, informality, corruption, business regulation, labor regulations, trade regulations, crime, skills, and training. (Table 1)

Table 1. Literature Review: Policy Areas Covered

Investment Climate Theme	*Perception*	*Productivity*
Access to finance	Beck and others (2006), Clarke and others (2006), Clark and others (2011a), Clarke and others (2012), Gelb and others (2006), Hallward-Driemeier and Aterido (2009)	Aterido and others (2011), Beck and others (2005), Beck and others (2008), Clarke and others (2012), Dinh and others (2012), Dollar and Others (2005), Fernandes (2008), Harrison and others (2011), Kuntchev and others (2012)
Infrastructure	Carlin and others (2010), Clarke (forthcoming), Clarke and Dinh (2012), Gelb and others (2006)	Aterido and others (2011), Aterido and Hallward- Driemeier (2010), Dinh and others (2012), Dollar and others (2005), Fernandes (2008), Fisman and Svensson (2007), Harrison and others (2011), Li and others (2011)
Labor skills	Gelb and others (2006), Hallward-Driemeier and Aterido (2009)	Dinh and others (2012), Li and others (2011)
Macroeconomic stability	Gelb and others (2006)	
Property rights/law and enforcement	Clarke (2011), Gelb and others (2006), Safavian and others (2001)	Beck and others (2006), Dinh and others (2012), Fisman and Svensson (2007), Iarossi (2006), Harrison and others (2011), Safavian and others (2001), Svensson 2003,
Regulation and licensing	Gelb and others (2006), Pierre and Scarpetta (2006)	Aterido and others (2011), Acemoglu and Angrist (2001), Almeida and Carneiro (2009), Amin (2009), Dinh and others (2012), Dong and Xu (2008; 2009), Fernandes (2008), Fisman and Svensson (2007), Li and others (2011)
Taxes	Gelb and others (2006)	Dinh and others (2012), Fisman and Svensson (2007)
Trade	Clarke (2011a), Gelb and others (2006)	Harrison and others (2011)

Source: IEG

5. Another part of the literature on investment climate tries to relate measures of investment climate constraints to firm performance. This approach rather than relying on manager's perception allows the data to determine the most important issues of investment climate for policy intervention. Early papers using this approach focused on a small number of countries and one, or perhaps a few, measures of the investment climate. (Beck and others (2005) and Fisman and Svensson (2007)) With more data becoming available, later studies focused on a large number of constraints using pooled cross country data. These studies identify as investment climate topics infrastructure, corruption, access to finance, labor regulations, regulations and licensing, trade regulations, trade, labor skills, property rights, corruption, crime, and taxes. (Table 1)

6. The literature is rather broad and varying in its definition of the term "investment climate" but the investment climate practices of the World Bank Group have in fact been more focused. At a diagnostic level assessments of the investment climate have been fairly inclusive. On the other hand, for practical and organizational reasons, both key investment climate metrics (such as Doing Business indicators) and operations have been far narrower in scope. In practice, there was a need to specialize and focus on a manageable set of activities. Organizationally, many relevant aspects of developing country economies fall within the mandate of networks and vice-Presidencies that do not characterize their work as "investment climate". For example, support for infrastructure mostly falls in the Sustainable Development network and vice-Presidency, work on health and education in Human Development, and work on trade policy under PREM. In part due to the realization that the broad definition of investment climate encompasses almost all activities of the World Bank Group, practice operations labeled as 'investment climate' have included three primary areas of intervention: (i) reforming general business regulations-- to facilitate business entry, flexible operation (and competition), and ease exit; (ii) facilitating international trade and investment; and (iii) strengthening sector or industry-specific business environments. This categorization of activities shows an inconsistency between investment climate as represented in broad diagnostics such as investment climate assessments (ICAs) and investment climate as addressed in practice areas and specific interventions. This evaluation will adopt the latter more focused scope of investment climate activity. Henceforth, in this approach paper we refer to "investment climate" as the 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.

World Bank Group Strategic Engagement in Investment Climate

7. Investment climate activities have been part of the World Bank's Private Sector Development (PSD) strategy since the late 1980s, under various names, including "business environment" or "enabling environment." In fact, improving the business environment was one of four strategic pillars of the 1989 PSD Action Plan.[2] The 1980s also witnessed increased attention to the promotion of foreign investments with the establishment of FIAS by IFC in 1985 and, soon after that, the creation of Multilateral Investment Guarantee Agency (MIGA), which had the mandate to facilitate foreign

[2] This strategy also called for an expansion of the Foreign Investment Advisory Services (FIAS) program.

investments through its investment promotion activities and through provision of guarantees.

8. In the 1990s, the World Bank Group realized that macroeconomic reforms alone would not guarantee long-term growth. Hence a second generation of reforms, focused on micro determinants of growth,[3] took center stage in the Bank's strategies. Priorities shifted toward making reforms that improved the "business environment" in which the private sector operated. Three-quarters of the World Bank's adjustment operations at the time aimed to help countries create a supportive business environment. The key goal was to foster competition.[4] The focus of FIAS program's expanded from its original mandate of FDI advisory to providing support on reforms needed to improve the client country's investment climate for domestic and foreign investment.

9. It was not until the early 2000s that the term "Investment Climate" replaced what was up until then referred to as "business environment" or "enabling environment". This change in terminology was accompanied by significant organizational re-structuring across the Bank Group within the Private Sector Development domain. FIAS was merged into the newly created joint IFC/World Bank Investment Climate Department (CIC)[5]. CIC became an anchor unit connecting investment climate activities of the Bank, IFC, and FIAS. While technical assistance to promote FDI is part of MIGA's mandate, in 2005 it was subcontracted to FIAS.[6] (MIGA, 2006)

10. In July 2011, the FPD Network was realigned into six Global Practices that cut across regions and FPD's key thematic areas. One of these six Practices is the FPD Investment Climate Global Practice. This is the only one of the six global practices that is truly joint, covering IFC and World Bank activities and staff, and, reflecting this, has two directors. The World Bank Group Investment Climate Department (CIC) acts as a central anchor, providing knowledge, expertise and analytical support for investment climate advisory work that is implemented by IFC's Business Line and FPD's Global Practice. FIAS remains a donor funded mechanism supporting investment climate operations across the three institutions. Starting 2011 it was called Facility for Investment Climate Advisory Services (FICAS). (FIAS, 2012b)

Investment Climate in World Bank Group operations

11. IEG conducted a preliminary portfolio analysis of World Bank Group activities defined as investment climate by selecting and reviewing World Bank lending projects

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[3] The first generation of Investment Climate reforms focused on macroeconomic stability and trade integration. The second generation of reforms focused on improving administrative, legal and regulatory functions of the State. (IEG, 2004)

[4] In 1990, components for dismantling barriers to market entry and exit were included in 60 percent of adjustment operations in 19 countries (World Bank, 1991).

[5] In addition to FIAS, the CIC also included the Monitoring and Analysis Group that created the Doing Business report and Investment Climate Unit that oversaw Investment Climate Assessments (ICAs) (FIAS, 2004)

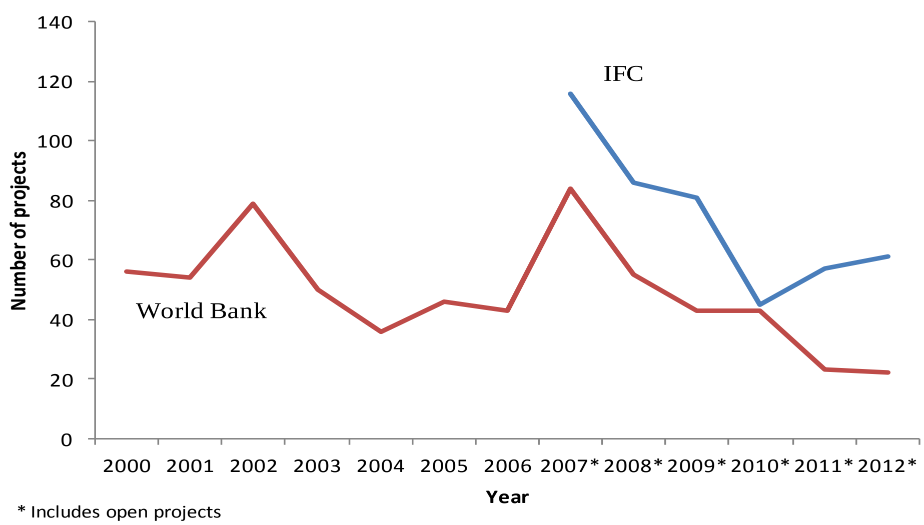
[6] 40 percent of MIGA's TA interventions were overlapping with FIAS TA operations, due to an explicit shift in MIGA strategy in 2003 that called for greater alignment with IC work across the institutions (MIGA, 2006).

closed from FY07 and approved from FY00, and IFC Advisory Services approved from FY07. IEG also reviewed World Bank analytical products covering investment climate since 2000. Because there is no classification of "Investment Climate" projects in the World Bank operation system, the team identified potential projects by matching the project objective description with approximately 100 key words.[7] This led to 377 closed and 326 open potential projects. All matched projects were reviewed individually to determine whether they warranted the inclusion in the preliminary portfolio.[8] For IFC the selection was simplified by the existence of a database on Advisory Service, comprising 446 projects since FY07.

12. This preliminary review identified a total of 1081 interventions, 635 for the World Bank and 446 for IFC, with a total estimated commitment of $4.5 billion, of which $4.2 billion for specific investment climate components in the World Bank operations and $0.3 billion for IFC Advisory Services. Over the last decade, the number of investment climate components in the Bank has been at around 50 per year, with a marked reduction in the last couple of years. For IFC advisory services have been declining from over 100 in FY07 to around 50 in FY10 although they have rebounded to 60 in FY12. The decline in the number of projects is due to a more programmatic approach followed with fewer but larger projects being implemented. These numbers reflects the fact that while the Bank provides both advisory and lending services to governments for investment climate reforms, IFC relies only on advisory services (Figure 1).

Figure 1. World Bank Components and IFC Advisory Services in Investment Climate

(Projects closed between FY07-FY12)



13. In IFC the most important topics are business regulations and licensing accounting for almost half of all interventions. Similarly, in terms of numbers, the

[7] See Annex 2 for a description of how the keywords were identified.

[8] The World Bank closed projects were identified from the ICRR database. The open projects were taken from all PADs approved since FY07. IFC Advisory projects were identified from the Advisory Services Operations portal.

World Bank focuses more on business regulations, product regulations, and regulations for trade. (Table 2)

14. The distribution of investment climate interventions across regions (Figure 2) and income levels (Figure 3) shows that both the World Bank and IFC focused more in SSA (about 30 percent of the interventions for both institutions). However the second most popular region for the Bank is ECA and LAC (28 percent and 20 percent, respectively), while for IFC is equally ECA and EAP (15 percent in both). Similarly, both institutions pay particular attention to Low Income countries in their interventions on investment climate with approximately half of their activities in these countries.

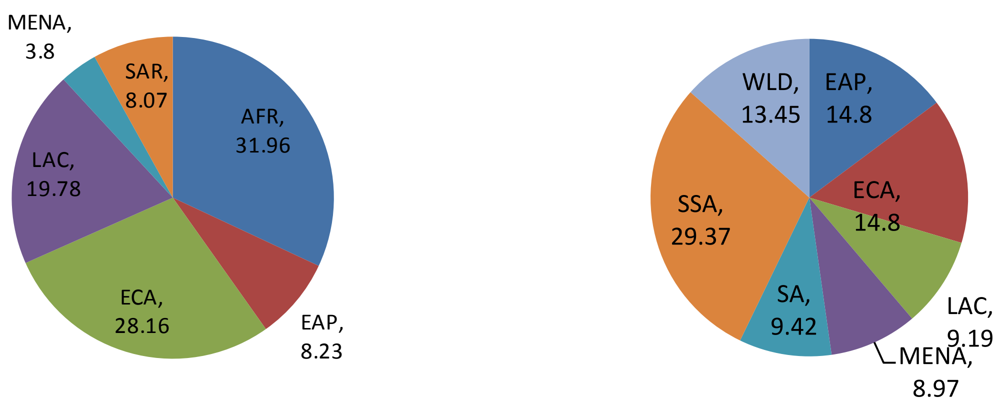
Table 2. Distribution of Components, Projects and Commitments
(Projects closed between FY07-FY12)

	World Bank lending		IFC Advisory Services	
Thematic Categories	**No. of components**	**Average estimated commitment ($m)**	**No. of projects**	**Average Total Funding ($m)**
Business Entry	24	11.3		
Business Exit	27	2.6	32	0.7
FDI	10	2.3		
Judicial System / Contract enf.	26	3.1		
PPD	28	4.5	29	0.6
Product regulation, price control	112	7.6		
Property rights/Law enforcement	50	2.7		
Regulations and licencing	242	8.9	208	0.7
Trade	106	5.2	90	0.7
IC-Other			87	0.7
Total	**635**	**5.4**	**446**	**0.7**

Source: IEG

Figure 2. Distribution of IC components by region

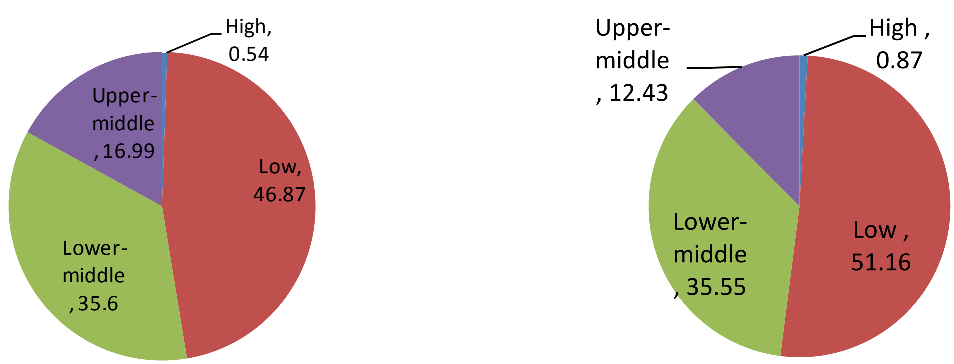
World Bank IFC



Source: IEG

Figure 3. Distribution of IC components by income level

World Bank IFC



Source: IEG

15. A review of World Bank Group analytical documents related to investment climate since 2000 led to a list of 733 documents, including Investment Climate Assessments (ICAs), Policy Research Papers (PRPs), Working Papers (WPs) and Country Economic Memorandums (CEMs).[9] IEG analyzed these reports and mapped its content with the main categories of regulatory reforms. (Table 3 and Attachment 2)

[9] See Attachment 2 for a description of the AAA portfolio selection methodology.

Table 3. Mapping of AAA Portfolio on Investment Climate
(Number of reports referring to specific Investment Climate terms)

key terms	ICA	PRP	WP	CEM
Business entry	55			13
Business exit	24			8
FDI	16	12	22	12
Judicial System/Contract Enforcement	2			2
PPD (public private dialogue)	3			
Product regulation, price controls	64	3	3	18
Property rights/Law enforcement	56			10
Regulations and licensing	60	3	15	17
Trade	47	6	6	22
TOTAL	327	24	46	102
# Items Reviewed	**108**	**138**	**433**	**54**

Previous Evaluations of Investment Climate operations

16. In 2005 IEG conducted an independent evaluation of the World Bank Group activity in investment climate (IEG, 2006). This study aimed at assessing the effectiveness of all three institutions –the Bank, IFC, and MIGA – in helping its members improve their investment climate. This report identified as key challenges to achieve better outcomes: (i) inadequate guidance provided by research and economic and sector work, (ii) the need to design country specific interventions in response to country specific constraints, (iii) the need to understand the political economy of the reform process.

17. A World Bank Group product that focuses on the regulatory environment is the Doing Business report. In 2008, IEG conducted an evaluation of Doing Business. IEG is implementing a follow up review of the implementation of the recommendations of this study. The results of that review will feed into this evaluation. A number of other evaluations have been conducted over the last decade, including evaluations conducted by the FPD Practice (see Box 1). This study will draw from all these evidence while assessing specific aspects of the investment climate program but will not conduct a meta-evaluation of impact evaluations.

Box 1 - Overview of Investment Climate Evaluations

Over the last two years the Investment Climate Practice has conducted regular evaluations of its programs mainly seeking to measure compliance cost savings (FIAS, 2012). This measure calculates the savings to the private sector in complying with the new and improved processes. The tested methodology has been rolled out for business regulation and taxation projects in all regions and has generated results primarily in East Asia and Pacific and Europe and Central Asia. More specifically, in the field of legislative and regulatory reforms, IFC has also commissioned impact evaluations to external consultants. The main purpose of such studies was to assess direct impact in cost savings and trade flows (Economisti Associati, and others, 2011). Causal linkages among private sector investments and job creation have been more difficult to evaluate; however, strong ties among complex phenomena have been successfully demonstrated, such as the number of registered enterprises and tax compliance or tax revenue generated. The main thrust of these evaluations has been to determine and measure the impact of the investment climate products with the ultimate goal of demonstrating the impact and adjust the Practice product mix (FIAS, 2012).

Finally, only over the last decade have rigorous impact evaluations of investment climate reforms been conducted, even though these evaluations have grown significantly in the last few years (McKenzie, 2010). Earlier work evaluated the impact of business registration reforms (Bruhn, 2008; Kapalan, Piedra, and Seira, 2007), bankruptcy and insolvency reforms (Giné and Love (2006) privatization (Barja, McKenzie and Urquiola, 2005), and credit bureaus (de Janvry, McIntosh, and Sadoulet (2008).

More recently, a vast array of evaluations carried out by the World Bank Group have focused on investment climate reforms, such as competition policy (Kitzmuller and Martinez Licetti, 2012); electricity and telecom (Kessides, 2012); transport and logistics (Subramanian, 2012); innovation (de Mel, McKenzie, and Woodruff, 2005), corporate insolvency resolution and bankruptcy (Klapper, 2011) out-of-the-court dispute resolutions (Love, 2011), access to credit (de Mel, McKenzie and Woodruff, 2008, 2011; Karlan and Zinman, 2008), taxes (Bruhn, 2011), and regulatory reforms in business entry and licensing (Motta, Oviedo and Santini, 2010; de Mel, McKenzie and Woodruff, 2012a, 2012b).

Purpose, Objectives and Audience

18. This study is the second of a programmatic series of three evaluations aimed at assessing the World Bank Group's support for Private Sector Development, with the first covering Innovation and Entrepreneurship and the third the Financial Sector. The Investment Climate Practice produces strategies at regular intervals with the most recent covering the period FY12-FY16. This evaluation is intended to provide useful insights at the mid-point of the implementation of the FY12-FY16 investment climate strategy. Furthermore the Investment Climate Practice, as part of IFC, periodically reviews the product mix and retires some and pilots new products. In this context, this evaluation is intended to provide useful evidence on quality and results of specific products and hence be useful to such process. Finally, every year the Investment Climate Practice reviews the achievements of their program; the conclusions of this evaluation are intended to offer insights to such activity.

19. The objective of this evaluation is to understand the extent to which the World Bank Group has achieved its goal of helping client countries improve their business regulatory environment, taking into account that regulations should improve outcomes for society as a whole, not only for firms. (World Bank, 2004). Furthermore, this evaluation will aim at understanding the additionality of WBG interventions mainly through case studies analysis. A sound regulatory environment is characterized by streamlined formal regulations, implemented efficiently without

harassment or corruption, and serving the interest of society as a whole, in other words the public interest. Such a regulatory environment will reduce costs (both monetary and time)[10] and risks to firms and encourage entrepreneurship, productivity and employment in the formal sector. (World Bank 2010, Klapper, et al 2006, Hallward-Dreimeier, M. et al 2011, Stern, N. 2002, World Bank 2011).

20. The evaluation will address both learning and accountability aspects. The learning aspect of the study will focus on drawing lessons from factors associated with successful and unsuccessful interventions. More specifically, the objective of the evaluation will be to identify (a) which tools are the most appropriate to recognize and implement investment climate reforms, (b) which approaches promote sustainability of the reform process, and (c) which factors contribute to an effective and efficient improvement of the business regulatory environment. With respect to accountability, the study will attempt to determine the extent to which and conditions under which the World Bank Group's projects on regulatory reforms have achieved their stated objectives in an efficient manner. Taken together these dimensions are expected to contribute to improving the impact of future World Bank Group investment climate initiatives and are consistent with the WBG Investment Climate Strategy approaches to managing knowledge and learning. (FIAS, 2011)

21. The primary audience for this evaluation is the World Bank Group Board of Directors, as part of their oversight role of the effectiveness of World Bank Group operations. However World Bank Group management, and in particular the Investment Climate Practice within FPD, is also an important audience as well, particularly given their strategic focus on managing impact and learning (FIAS,2011). Furthermore, the donor community and particularly the FICAS funders are part of the audience, given their particular interest in this reform area. Finally the World Bank Group client countries and the general development community interested in improving the regulatory conditions for Private Sector Development are part of the audience in as much as lessons are identified and impact established.

Evaluative Questions and Scope of the Evaluation

22. The overarching question that this evaluation seeks to answer is: "Has the World Bank Group been successful in helping client countries to improve their business regulatory environment while taking into account their different country contexts?" This question addresses the extent to which regulatory reforms supported by the World Bank Group have achieved the policy objective of improving the regulatory environment in which business operates, taking into account that regulatory reforms should improve outcomes for society as a whole, not only for businesses. The overarching question will be answered by looking at three different dimensions: Relevance, Effectiveness and Efficiency and Institutional Performance.

[10] These costs include: compliance costs, facilitation costs, operation costs, conflict and conflict resolution costs, search costs, contract costs, delivery costs, compliance costs, evasion, and cost of using formal institutions.

Relevance
Has the World Bank Group Support for regulatory reforms been relevant to client countries?

- Is the World Bank Group offering a comprehensive "menu" of regulatory reforms?

- Does the World Bank Group have the appropriate diagnostic tools to identify the regulatory reforms needed in a client country?

- Does the World Bank Group identify the relevant regulatory reforms needed in a client country?

- Is the set of regulatory reforms offered relevant for the client countries?

- Are the interventions used by the World Bank Group the appropriate instruments to achieve the regulatory reform identified?

Effectiveness
Has the World Bank Group Support for regulatory reforms achieved the intended objective?

- Have the World Bank Group interventions in helping client countries improve their regulatory environment achieved their objective?

- Which factors have contributed to the degree of success of World Bank Group interventions in helping client countries improve their regulatory environment?

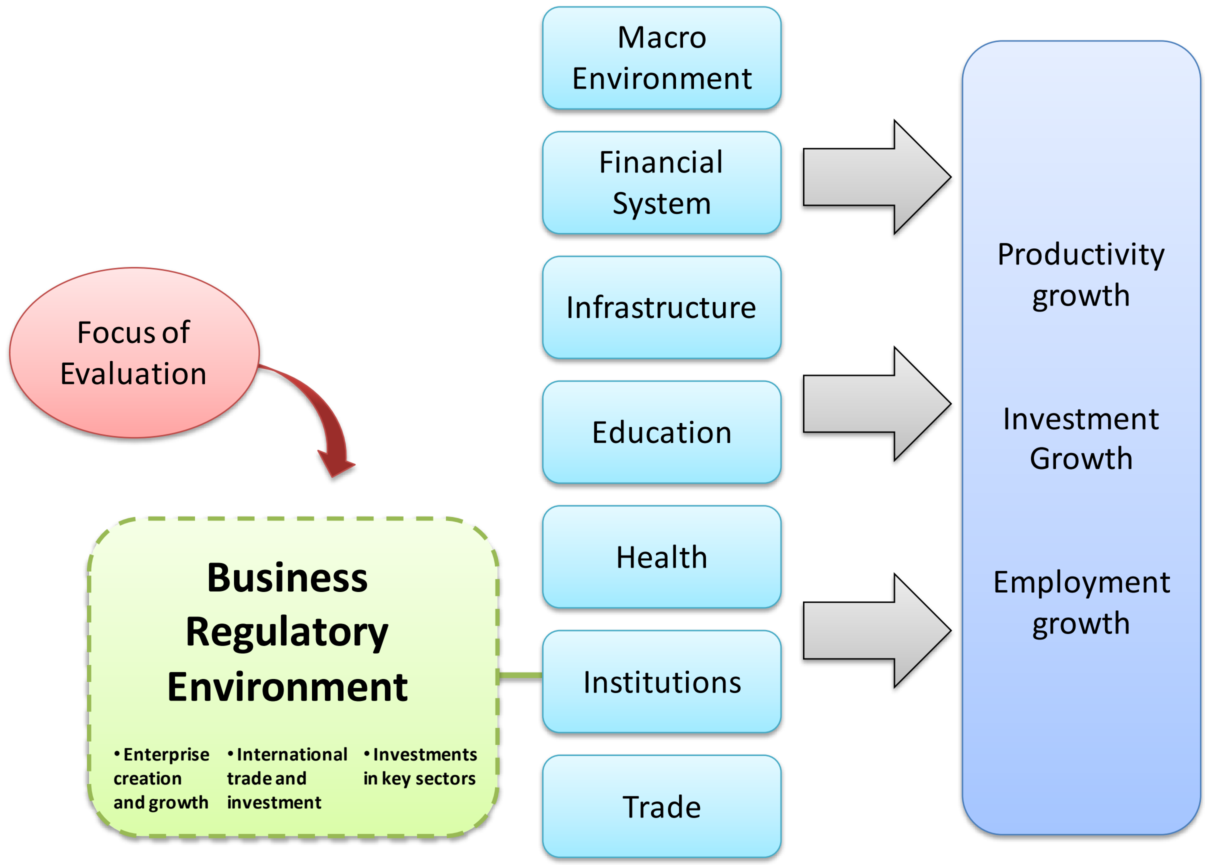
Efficiency and Institutional Performance
Has the World Bank Group support for regulatory reforms achieved the intended objective in a cost-effective manner?

- Have the World Bank Group interventions aimed at improving the regulatory environment in client countries achieved their objective in an efficient manner, where efficiency is measured by cost/benefits as reported in project documents?

To what extent have factors under World Bank Group control contributed to the successful achievement of regulatory reforms in client countries?

- To what extent did the World Bank Group's internal processes, policies, and organizational structure facilitate synergies, complementarities and the potential for conflict among World Bank Group's institutions involved in regulatory reforms?

Figure 4. The Theoretical Concept of Investment Climate and the Practical Application to Business Regulatory Environment



Source: IEG

Scope

23. In the practice of the World Bank Group operations investment climate is associated with a distinct and narrow set of regulatory requirements for businesses to operate, to trade and invest across borders, and to function in key sectors. In line with this practice, this evaluation will focus on the regulatory environment for business creation and growth, trade and investment generation and sustainable investments in key sectors. (Figure 4)

24. Within this context World Bank Group efforts aim at promoting reforms to improve the conditions for firms to enter, operate and exit both in domestic and international markets as well as in key sectors. Reforms are therefore the main outcome of World Bank Group efforts in the area of investment climate. In each of the three areas of focus, the World Bank Group is providing services along the value chain of reforms: (i) diagnostics, (ii) advice for design and implementation, and (iii) lending to support reforms.

25. Specifically, all projects that aim to reform the regulatory environments for businesses irrespective of the sector and source of financing will be part of the scope of this evaluation. A preliminary review of the portfolio has shown that, apart from IFC's Advisory Services, regulatory reform projects fall within three networks, PREM, FPD and SDN, with PREM accounting for the majority of them.[11] Consequently the evaluation will include regulatory reform projects within these networks. This includes topics such as tax administration, business licenses and permits, and business start-up processes, bankruptcy, etc. and a wide range of products as shown in Figure 5. (FIAS, 2007a; FIAS, 2011). In terms of instruments, the evaluation will cover the Bank lending and analytical work and IFC Advisory Services,[12] which also include MIGA's technical assistance activities as mentioned earlier.

26. The main thrust of the evaluation is that regulations serve the public interest including balancing the interests of various stakeholders. Business regulatory reforms typically aim at reducing business costs and risks (i.e. by streamlining and making regulations more transparent and predictable) and improving implementation of existing regulations (i.e. by consistent and efficient enforcement without harassment and corruption), while maintaining protection of broader social interests. Reflecting the multidimensionality of investment climate reforms and the absence of absolute parameters of a good investment climate, benchmarks on assessing success will be based on (i) measures of the investment climate and its improvements as reflected in the Doing Business, the Enterprise Surveys and other cross-country indicators of the business environment, and (ii) effective implementation of such reforms (de facto) as opposed to simple changes in laws, rules, and regulations (de jure). Furthermore, business regulatory reforms can result in negative unintended consequences on third parties, i.e. workers or consumers. Particularly in case studies the report will look at the extent to which different tools have been used to design reforms and monitor results, as well as their consistency with consumer, social, and environmental protection (i.e., Was a regulatory impact assessment conducted? Were various stakeholders included and represented in the design of business regulatory reforms?).[13]

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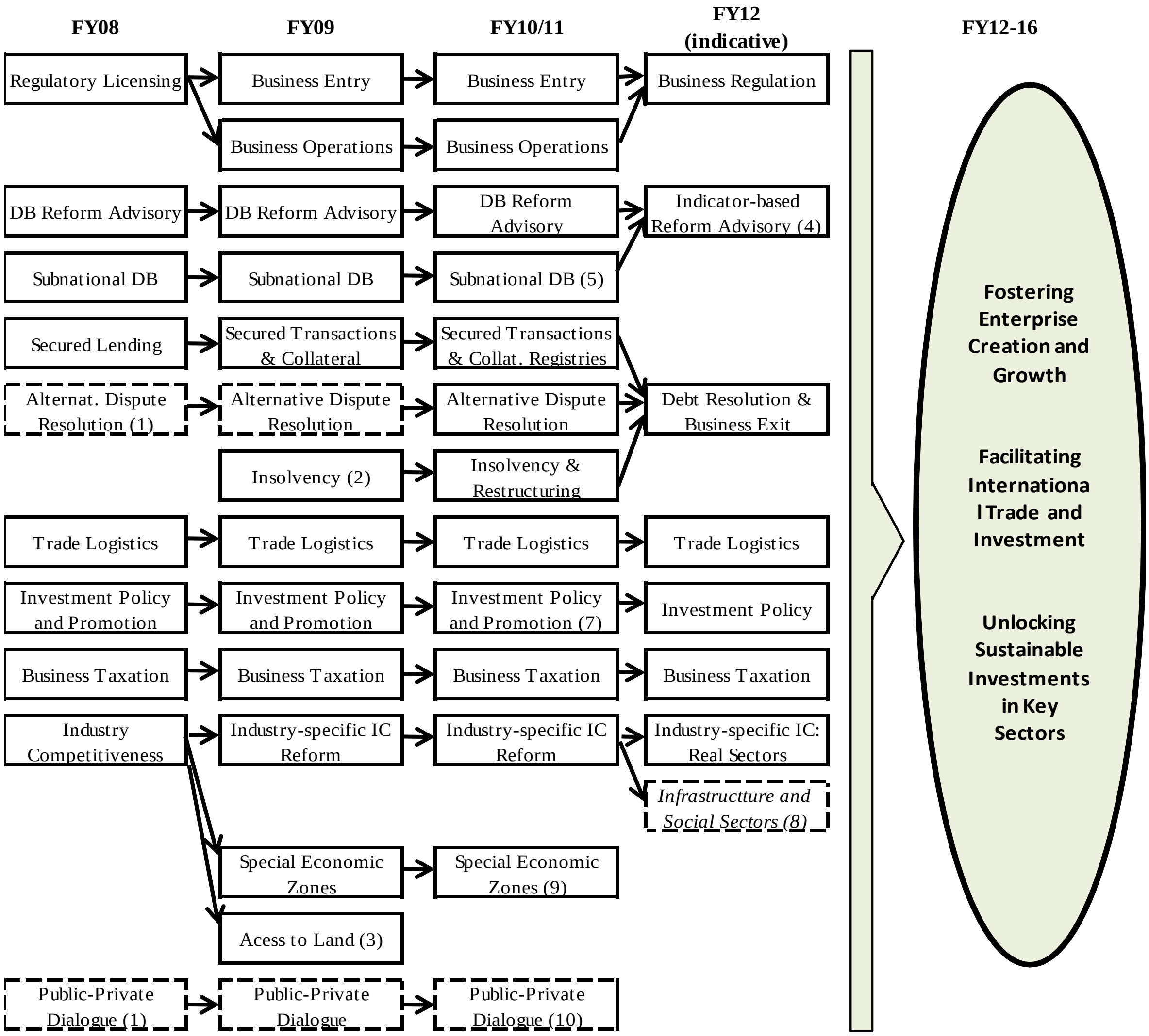
[11] PREM seems to account for about half of the number of projects. It must be kept in mind however that for a number of years FDP was part of PREM in all but two regions (Africa and ECA) and that the value of the regulatory reform components are often a very small proportion of the overall project value.

[12] By definition the Investment Climate refers to the environment in which all firms operate. Consequently any intervention that is firm specific will not be part of the business environment. For this reason IFC investments are not included in the scope.

[13] See for example García Villarreal (2010).

Figure 5. Evolution of Investment Climate Product Mix in Support of Strategic Priorities



Source: FIAS, 2011

27. This evaluation will include two units of analysis: (a) products (such as regulations for entry, bankruptcy law, etc.), and (b) client countries since reforms produce results with lags and are not implemented in isolation, rather are the consequence of a sustained and prolonged engagement with the client country to identify, promote, design and implement proper reforms, at times through institutional strengthening, capacity building and training. When units of analysis are products, this report will cover all relevant lending and non-lending projects that are closed (for the Bank) or have reached operational maturity (for IFC) during FY07-FY13, and will include projects that were approved as early as FY03 (for the World Bank), irrespective of the source of financing. In addition also open (the Bank) or active (IFC) operations will be included in the sample, as long as they have been approved on or after FY03 (for the World Bank). For the Bank, however, irrespective of the lending amount only

components with regulatory reforms will be included in the analysis in order to better distinguish the success of the regulatory interventions. For the IFC, cross Business Line projects and industry specific projects will also be included. Non-lending projects will include TA but also instruments used to transfer knowledge such as DBRA reform memos and just-in-time TA. Projects with Implementation Completion and Results Reports and Project Completion Reports will be included in the analysis of performance. When units of analysis are countries, this report will cover approximately 25 to 30 countries with regulatory reforms within the period FY07-FY13 and will include a desk review for all of them as well a country visit for a subset of 5-6 case studies. The selection of the countries will be conducted according to the following criteria: (a) volume of interventions, including countries with high, medium and low concentration of WBG regulatory reform interventions during the period of analysis; (b) sustained nature of the reform process, including countries with multiple interventions over time, countries with few interventions, and countries with a single intervention over the period of analysis; and (c) geographic and economic coverage, including countries in at least three regions, countries in at least two stages of development as defined by income per capita, and at least one FCS. Table 4 provides an overview of the estimated lending and advisory services portfolio that will be included in the evaluation by the three main strategic priorities. This information comes from a preliminary review of the portfolio and is not fully complete.

Table 4 – Number of Components (for World Bank) and projects (for IFC) estimated to be included in the evaluation

Regulatory Reform Categories	WB	IFC
General Regulatory Environment	345	356
Trade	73	90
Key Sectors	104	83

Source: IEG

28. Given that the strategic and operational focus of the WBG investment climate operations include cross cutting themes such as inclusion with special emphasis on gender, fragile and conflict-affected states, and competition, the evaluation will also aim at identifying how World Bank Group interventions in support of investment climate reforms have been successful in achieving these outcomes.

29. IEG is currently evaluating the role of the World Bank Group in fragile and conflict-affected states and its findings will feed into this evaluation. Case studies in post-conflict countries will address the issue of whether regulatory reforms, which are seen as “low-hanging fruits”, build reform momentum leading to a longer-term and sustained reform agenda. Furthermore, investment climate reforms may have different impacts on different types of entrepreneurs. Size of the business, industrial sector, legal and formality/informality status, type of the product market, and personal characteristics of the entrepreneur such as sex or ethnicity are relevant dimensions that can explain why investment climate reforms-'neutral' on paper-may disproportionately affect certain categories of entrepreneurs rather than others. This evaluation will analyze not only the average impact of investment climate reforms, but also the distribution of the impact, to assess the extent to which reforms are or not

inclusive in terms of size of firms, formality, and gender. Particularly in case studies the study will look at how the design takes these aspects into account and what has been the experience of different stakeholders. Finally, investment climate reforms also aim to enhance competition in an economy by creating a level playing field for private participants in the market, ensuring open markets to competition, protecting investors and reducing the transaction cost of firms. This evaluation will assess how effective investment climate reform activities have been in enhancing competition in markets.

30. Other multilateral and bilateral agencies promote reforms of the regulatory environment (for example, the Organization for Economic Co-operation and Development's (OECD) Regulatory Reforms program, the European Union's BizClim initiative,[14] and DFID). To the extent that the experience of these other agencies is deemed helpful in assessing the effectiveness of the World Bank Group's operations, they will be included in this study. This can be done at the level of specific instruments, or specific reform targets, or specific case studies.

Evaluation Design and Limitations

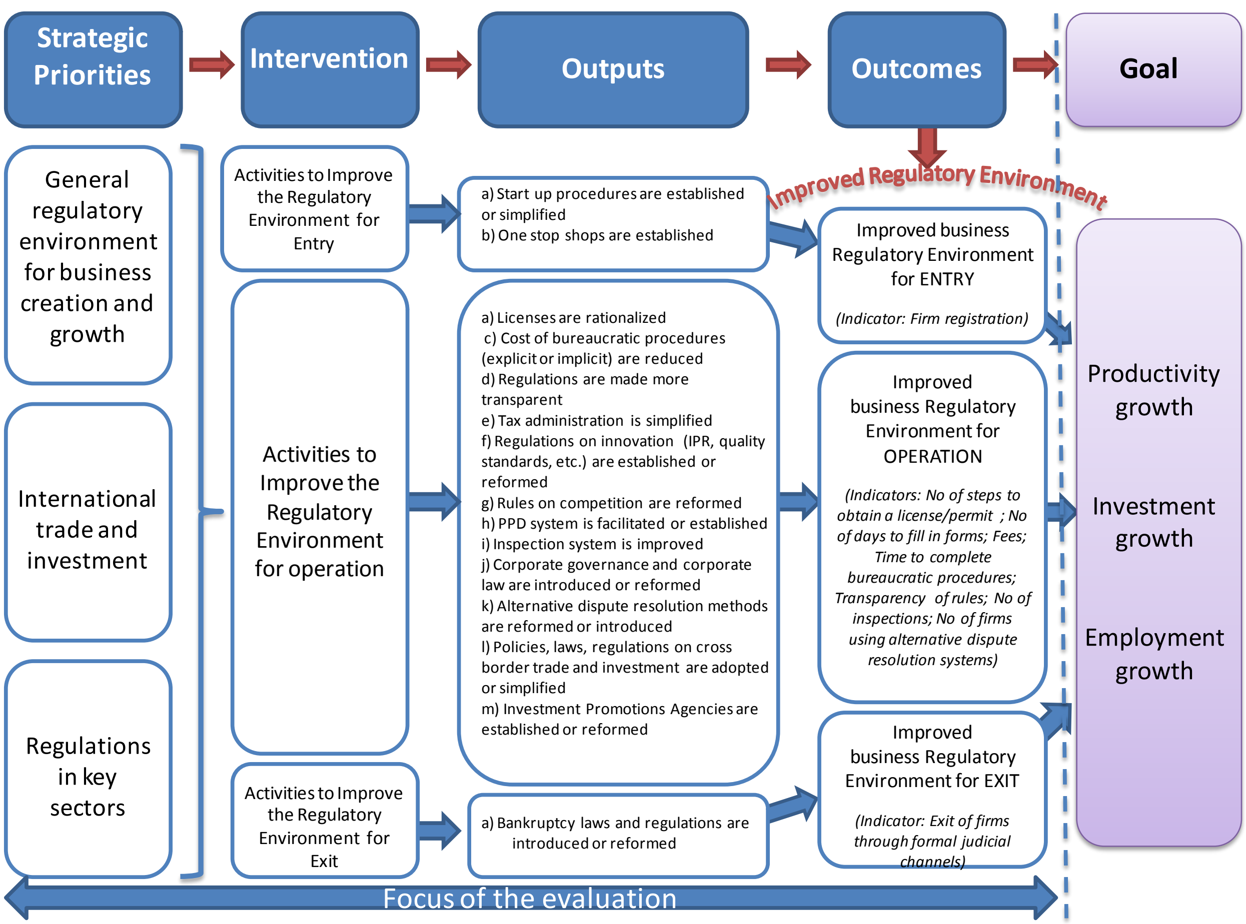
31. The rationale for World Bank Group engagement in investment climate activities rests in the understanding that the investment climate is central to growth and poverty reduction. Private firms are at the forefront of the development process as they contribute to improving standards of living by providing more than 90 per cent of the jobs, supplying goods and services, and representing the main source of tax revenues. In turn the contribution that firms make to society is determined by the quality of the investment climate (World Bank, 2004). Furthermore, social equity and inclusion is critically influenced by the investment climate. The notion of a "level playing field" where economic players have equal opportunities to succeed is a fundamental focus of investment climate interventions. Barriers to dynamic and well-functioning markets may benefit privileged economic participants at the expense of competitors, potential entrants and consumers.

32. The conceptual framework for this evaluation is represented in Figure 6, which presents the logical connections of investment climate priorities and interventions with outputs, outcomes and ultimate goals. . It builds on the practical definition of the investment climate practice above and is aligned with the strategic priorities of World Bank Group investment climate work (FIAS 2011). It connects areas of interventions to specific practices that have evolved which are embodied in diagnostic, advisory and investment work. These interventions will then be examined in light of specific indicators of outcomes that are directly attributable to them. Although these outcomes should be related to a number of economic development goals -- including productivity, investment and employment growth, and greater economic inclusion -- it would be difficult within the scope of this evaluation to quantify this level of impact, given its complex and multiple determinants, including some well outside the scope of this study. Nonetheless, the evaluation will make full use of existing and ongoing impact evaluation work and tap the full range of secondary sources to shed light on these linkages.

[14] See http://www.oecd.org/regreform/ and http://www.acpbusinessclimate.org/bizclim/.

33. The methodology used to answer each evaluative question is described in detail in the Evaluation Design Matrix in Attachment 3. The evaluation builds on IEG reviews and evaluations of WBG interventions including CASCRRs, PPARS, ICRs, XPSRs, PCRs and CPEs. The different sources and methods include: (a) a portfolio review of World Bank Group projects and activities in the area of business regulatory environment; (b) a review of policy and strategy documents at country and corporate levels; (c) World Bank Group databases and external database; (d) country case studies; (e) World Bank Group staff interviews; (f) donors and other Stakeholders interviews; and (g) a survey of beneficiaries of regulatory reforms, if deemed appropriate to shed lights on specific evaluation questions; (h) a literature review of academic papers and operational manuals on regulatory environment affecting the operation of businesses. The approach will be non-experimental, combine qualitative and quantitative information and make use of evaluation reports from other agencies involved in similar operations.

Figure 6. Conceptual Framework



Source: IEG

34. A portfolio analysis of World Bank Group operations in the area of regulatory environment will be conducted. The objective is to identify the characteristics, objectives and components of the activities covered by this evaluation, as well as to analyze their results. The review will cover project documents as well as Implementation Completion Reports and Project Completion Reports along with their IEG reviews. This analysis will help answer part of the questions on relevance as well as part of those on effectiveness. For those projects with data on cost benefit analysis reported and validated by IEG, these data will also be used to answer the question on efficiency.

35. A desk review of policy and strategic documents will provide the basis to assess the whole spectrum of regulatory reform activities. In addition to the preliminary review conducted for this Approach Paper, the evaluation team will analyze strategy and policy documents to assess the degree of complementarily of various World Bank Group interventions at the strategic and country levels.

36. The evaluation will use World Bank Group databases including Enterprise Surveys, Doing Business Indicators, Investment Climate Indicator databases, and World Bank Group Entrepreneurship databases as well as external databases such as the European Bank for Reconstruction and Development firm-level surveys, the OECD regulatory reform database, and the World Economic Forum Competitiveness database. These sources might provide valuable indicators of reform efficacy in specific contexts and might be used to create benchmarks for World Bank Group programs. Similarly, these data might be tapped to better understand firm characteristics and constraints. In particular, given the prominent role that the DB indicators play in the identification of regulatory reforms, the study will explore how this diagnostic tool has been used in practice to identify reforms, to measure success of reforms and to sustain the reform process. Finally the analysis will also focus on the extent to which these DB inspired reforms are in line with country priorities.[15]

37. Country case studies will be conducted (a) to better understand 'how' and 'why' some programs have or have not achieved their objectives and hence provide the necessary context information and insights to better understand the drivers of success; (b) to collect qualitative and quantitative information on the implementation of programs; (c) to assess their sustainability and synergy of interventions and products in the longer term; and (d) to understand the additionality of Bank interventions, either as repository of knowledge and capacity or as champion of political impetus to sustain reforms. This information will supplement other data sources and provide primary data from relevant stakeholders, staff, counterparts, and beneficiaries. In each case the broader context of country circumstances and other World Bank Group activities in the country will be taken into account as highly relevant to the understanding of the project outcome. The selection of country case studies will be based on the in-depth portfolio analysis and based on the following criteria: (i) stratified purposeful sampling by region, income and fragility; (ii) volume of operations; and (iii) types of instruments. The sample will include 5-6 field based country cases among the 25-30 countries identified for the in depth assessment.

[15] The ongoing evaluation of the DB report is a follow-up exercise of the Management Action Record after the end of the four-year cycle.

38. Additional data will be gathered through interviews with World Bank Group staff and management. A number of interviews with relevant Bank officers have already taken place and have been used to inform this approach paper. Discussion will serve as a source of opinions, insights, and hypotheses about the role and effectiveness of regulatory reform support operations and their importance and contribution to private sector-led growth strategies.

39. Given the prominent role that donor contributions have, especially for IFC Advisory Services on investment climate, IEG will seek opinions and insights from World Bank Group donors, both directly contributing to these operations or not, as well as other major stakeholders of World Bank Group support for regulatory reforms.

40. If deemed appropriate, IEG will conduct and utilize surveys of beneficiaries and non-beneficiaries to generate insights into the effectiveness and outcomes of World Bank Group reforms of regulatory environment. In these surveys, IEG will design matched samples of project beneficiaries and non-beneficiaries and interviewed them. The matched non-beneficiaries will provide a counterfactual to firms that received the benefit of the reform intervention, and hence help speak to the question of impact. IEG may also commission a review of the activities of other multilateral agencies that promote reforms of the regulatory environment.

41. A literature review will be the starting point of IEG's analysis to determine the extent to which the menu of interventions offered by the World Bank Group is consistent with the full set of regulatory requirements for firms in the World Bank Group client countries. This review will focus on the theoretical underpinnings of and rational for establishing business regulations – including what specific needs, constraints and market failures they intend to address, as well as on the practical identification of regulations in client countries. Furthermore self-evaluations and commissioned external evaluations will be reviewed for additional information to answer the questions on relevance and effectiveness.

42. A number of factors might constrain the evaluation. First, the focus of the evaluation is the extent to which World Bank Group activities have contributed to the improvement of the regulatory environment, as part of the broader investment climate and taking into account the particular country contexts. Consequently, the evaluation does not aim to assess all elements of the broad investment climate. Second, the evaluation will have to take into account different social norms corresponding to different county contexts when determining the effectiveness of World Bank Group interventions. This information might not be available especially where regulations are not in place.

43. Third, limited data availability (especially for non-lending work), lack of baseline and control groups, incomplete monitoring data, and incomplete data on cost and benefits might limit the ability to conduct detailed and precise analysis. Furthermore, World Bank's non-lending (economic and social work, non-lending technical assistance, reimbursable technical assistance) are not integrated in an overall results framework; hence an evaluation benchmark ('objectives') against which these activities could be assessed does not exist. The evaluation will then adopt a pragmatic approach

by making reasonable assumptions about what non-lending work was trying to influence.

44. Fourth, limited willingness of stakeholders and staff to undergo interviews and complete surveys might also limit the ability to draw conclusions on a full set of information. The IEG team will find practical solutions to constraints as they arise, using the team's judgment and triangulation of information. IEG will rely on the full support of World Bank Group management and staff to ensure the availability of quality information for the evaluation. Finally, although all lending operations in the World Bank are subject to self evaluation and validation by IEG, only approximately half of the IFS Advisory program is evaluated and validated. Hence the size of IFC advisory portfolio will be smaller and more likely to run into the limitations mentioned above, although the sample is expected to remain representative.

Quality Assurance Process

45. The draft evaluation approach paper and report will be peer reviewed to ensure accurateness, credibility, and impartiality of the findings and recommendations. Peer reviewers for this evaluation will be: Dileep Wagle, World Bank/IFC retiree and Lead Private Sector Development Specialist; James Habyarimana, Associate Professor at Georgetown University and Professor at the Summer Institute in International Program Evaluation at Georgetown University; and M'Hammed Cherif, Director of the EU program of regulatory reforms "BizClim".

Expected Outputs and Dissemination

46. The primary output of this evaluation will be a report to the World Bank Group Board's Committee on Development Effectiveness (CODE), as part of its oversight role of effectiveness of World Bank Group operations. Ultimately the report will be published and disseminated both internally and externally.

47. In addition to outreach during the evaluation process, IEG will implement an outreach plan once the report is complete. IEG will launch the report in Washington DC and present it at major international gatherings on regulatory reforms in a number of client countries. Further dissemination will be pursued through face-to-face meetings, seminars, and conferences, and through online means. This effort will target key stakeholders, both internal and external, including staff at headquarters and country offices, multilateral development banks, donors, academia and nongovernmental organizations. Through these means the team will maximize awareness and the value of findings and recommendations to strengthen development outcome.

Resources

48. *Timeline.* The draft report is expected to be completed by FY14Q3. The final report is expected to be presented to CODE in FY14Q4.

49. *Budget.* The budget for this evaluation is estimated at $810,000, consistent with other major IEG evaluations. If required, a small request for Trust Funds will be pursued to sponsor additional data collection, such as a survey of beneficiaries.

50. *Team and Skills Mix.* The skills mix required to complete this evaluation include (a) evaluation experience and knowledge of IEG methods and practices; (b) familiarity with the policies procedures and operations of World Bank Group institutions; (c) knowledge of World Bank Group and external information sources, particularly for Private Sector Development, investment climate, and regulatory reforms; and (d) practical, policy and analytical expertise in investment climate and regulatory reforms. The evaluation will be prepared by a team led by Giuseppe Iarossi (Task Team Leader, IEGPE), and will consist of Elena Bardasi (Senior Economist), Carlos Calcopietro (Consultant), George Clarke (Associate Professor, Univ. of Texas A&M), Asita De Silva (Senior Evaluation Officer), Ann Flanagan (Research Analyst), Hiroyuki Hatashima (Evaluation Officer), Houqi Hong (Evaluation Analyst), Maria Kopyta (Consultant), Edna Massay Kallon (Consultant), Sara Ravold Mareno (Consultant), Srinath Sinha (Junior Professional Associate), Andrew Stone (Lead Private Sector Dev. Specialist), Monica Vidili (Consultant), Izlem Yenice (Evaluation Officer), and other specialists identified in the course of the work. The report will be prepared under the direction of Ade Freeman, Head, Macro-Evaluations, IEGPE; Stoyan Tenev, Manager, IEGPE; and Marvin Taylor-Dormond, Director, IEGPE.

Attachment 1

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Attachment 2

Portfolio Selection Methodology

Numerous World Bank Group documents have been researched, filtered, and analyzed to map the policy areas that the World Bank analytical work associates with the broad concept of investment climate. A comprehensive search of World Bank documents has been undertaken through Image Bank, the World Bank Group's internal archive holding more than 40,000 documents.

The search started using "investment climate" as keyword. This led to a set of 2031 documents which were sorted by date and filtered to capture only the last 12 years of World Bank activity, which are historically the most relevant for the purpose of the research.[17] This reduced the documents to 1924. Then projects documents were excluded since outside the scope of this search. This led to 733 reports comprising 108 Investment Climate Assessments, 433 working papers, 138 policy research working papers, and 54 Country Economic Memoranda.

For the purpose of this evaluation Investment Climate Assessments were the most relevant analytical products on investment climate and have hence been the starting point for the analytical portfolio mapping.

CATEGORIZATION

The mapping of themes associated with the concept of investment climate has required an in-depth analysis of the documents indentified. Within each document, concepts associated with investment climate have been listed and categorized. This conceptualization effort ultimately led to the engineering of a group of categories linked to the broad concept of investment climate. Initially, 91 categories were identified; this number was later aggregated into 29 broad categories (see table below).

[17] The concept of Investment Climate was introduced in 2001.

Category	Similar terms		
A2F	access to finance	credit bureau	collateral reg./secured transactions
competition	competition	competition policy	
consumer	consumer protection	financial literacy	
contract enforcement	alternative dispute resolution	arbitration	contract law
	mediation	legal reform	company law
corruption	corruption	corporate governance	
entry	business entry	barriers to entry	
exit	business exit	restructuring	bankruptcy
	insolvency		
FDI	foreign direct investment	FDI	FDI promotion
ICT	information communication technology	ICT	
infrastructure	electricity	water	transportation
	telecom		
innovation	innovation	product standard	
inspection	inspection	labor inspection	
labor	skill quality	labor quality	
land	access to land	land	
market distortion	market distortion	taxes	subsidies
	price control		
PPD	public private dialogue	consultative mechanism	business government consultation
PPP	public private partnership	PPP	
regulation	business regulation	regulatory reform	business regulatory environment
	business registration	guillotine	regulatory environment
	regulatory simplification	regulatory transparency	regulatory streamlining
	regulatory impact	red tape	one stop shop
	RIA (regulatory impact assessment)	e-government	e-registration
	start-up procedure	online application	electronic registration
	construction permit	labor regulation	permit
	license	formalization	employment protection legislation
remittances	remittance		
security	security	crime	
tax administration	labor taxation		
trade	trade	tariff	trade facilitation
	customs processing	logistics	regional integration
	export processing zones	EPZ	

Attachment 3
Evaluation Design Matrix

Evaluation question	Evaluation sub-question	Information required	Information source(s)	Data collection methods	Data analysis methods	Strengths and Limitations
Has the World Bank Group been successful in helping client countries improve their business regulatory environment while taking into account their different country contexts?						
1. Relevance Has the World Bank Group Support for regulatory reforms been relevant to client countries?	1a. Is the WBG offering the right "menu" of regulatory reforms?	Review of IC regulatory reforms across the world, mapping of WBG activities against these. How the WBG determines which reform to implement where. Client response to WBG's "menu"	Relevant literature, WBG documents	Document and data retrieval, structured interviews	Review of documents, qualitative analysis	Interviewee bias
	1b. Does the WBG have the appropriate diagnostic tools to identify the regulatory reforms needed in a client country?	Description of WBG diagnostic tools corresponding to regulatory reforms. Ability of these instruments to determine which reforms to implement where. Diagnostic tools for IC reforms used outside of WBG and their effectiveness.	Relevant literature, WBG documents, WBG staff, country governments	Document and data retrieval, structured interviews	Review of documents, qualitative and quantitative (statistical) analysis	Interviewee bias, variations in country conditions will make conclusions limited and contingent

Evaluation question	Evaluation sub-question	Information required	Information source(s)	Data collection methods	Data analysis methods	Strengths and Limitations
	1c. Does the WBG identify the relevant regulatory reforms needed in a client country?	Description of regulatory reforms across sample of countries in which WBG IC reforms have been implemented. The appropriateness of these reforms given country context. The impact of these reforms.	WBG documents and data, WBG staff, country governments, beneficiaries	Document and data retrieval, portfolio review, case studies, structured interviews	Review of documents, qualitative and quantitative (statistical) analysis	Interviewee bias, variations in country conditions will make conclusions limited and contingent
	1 d. Is the set of regulatory reforms offered relevant for the client countries?	Description of all WBG regulatory reforms offered compared with other possible reforms. Role of WBG reforms in light of country needs and country context.	WBG documents and data, WBG staff, country governments, beneficiaries	Document and data retrieval, portfolio review, case studies, structured interviews	Review of documents, qualitative and quantitative (statistical) analysis	Interviewee bias, variations in country conditions will make conclusions limited and contingent
	1e. Are the interventions used by the WBG the correct ones to achieve the regulatory reforms identified?	Description of WBG interventions and corresponding reforms they hope to achieve. Impact of these interventions on achieving the desired reforms.	WBG documents and data, WBG staff, country governments, beneficiaries	Portfolio review, interviews, cases studies	Review of documents, qualitative and quantitative (statistical) analysis	Lack of counterfactual

Evaluation question	Evaluation sub-question	Information required	Information source(s)	Data collection methods	Data analysis methods	Strengths and Limitations
2. Effectiveness Has the World Bank Group Support for regulatory reforms achieved the intended objective?	2a. Have the WBG interventions in helping client countries improve their regulatory environment achieved their objective?	What are the objectives of WBG interventions in improving the regulatory environment? Indicators and measurement of the sustainability of interventions.	Project evaluation documents rating and qualitative information (IEG micro-evaluation documents including ICRs, PPARs, XPSRs, PES', PERs), Government counterparts, CASs, CASCR-R, DB, enterprise surveys	Data extraction of development effectiveness ratings and other qualitative information indicating success or failure within the micro-evaluation documents, Desk reviews, Interviews with government counterparts	Portfolio analysis of data extracted to access development outcomes. results achievements including patterns, Country case studies, Interviews with government counterparts to assess whether the regulation reform activities were sustained	Data not available on whether outcomes of the interventions were sustained, Insufficient response from interviews
	2b. Which factors have contributed to the degree of success of WBG interventions in helping client countries improve their regulatory environment?	Drivers of success and failure regulatory reforms interventions. Explanations of how and why regulatory reform improvement activities were sustained or not sustained.	Project evaluation and completion documents such as ICRs, PPARs, XPSRs, PESs', Case studies, Interviews	Data extraction, Literature reviews, Interviews with government counterparts	Country case studies for an in-depth analysis of the drivers of the success or failure of regulatory reform interventions, Synthesis of response from interviews with government counterparts, Historical evolution of reform process in	Insufficient information provided on why and how projects succeeded or failed, Insufficient response from interviews

Evaluation question	Evaluation sub-question	Information required	Information source(s)	Data collection methods	Data analysis methods	Strengths and Limitations
					client countries, de facto / de jure comparisons	
3. Efficiency and Institutional Performance 3.1.Has the World Bank Group Support for regulatory reforms achieved the intended objective in a cost effective manner? 3.2. To what extent factors under World	3a. Have the WBG interventions aimed at improving the regulatory environment in client countries achieved their objective in an efficient manner, where efficiency is measured by costs/benefits as reported in project documents?	Monetary value of the costs of projects. Monetary value of the benefits of projects.	PCRs/ ICRs	Retrieval of cost benefit information from project completion and evaluation documents	Review of PCRs / ICRs to undertake a quantitative analysis of project costs and benefit, Quantitative analysis of differences between the monetary value of the costs and benefits of projects.	Sufficient monetary values of the costs and benefits of projects not provided

Evaluation question	Evaluation sub-question	Information required	Information source(s)	Data collection methods	Data analysis methods	Strengths and Limitations
Bank Group control have contributed to the successful achievement of regulatory reforms in client countries?	3b. Which factors within the control of the WBG affected its effectiveness in contributing to the improvement of the regulatory environment in client countries?	Reasons as to why the institutions were given the performance ratings they given for the projects	PCRs, ICRs and other project completion or evaluation documents	Retrieval of performance ratings	Review of PCRs / ICRs to undertake a quantitative analysis of project institutional performance	Information not available
	3c. To what extent did the WBG's internal processes, policies, and organizational structure affect the WBG's contribution to the improvement of the regulatory environment in client countries?	Institutions performance ratings relating of the projects and rationale for the ratings	PCRs, ICRs and other project completion or evaluation documents	Retrieval of performance ratings	Qualitative comparison of the difference between the institution performance rating and development outcome ratings	Insufficient information provided