Investment Climate Reforms:

An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations

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Background

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 (see Figures 1 and 2).

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.

For this evaluation, IEG defines 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. Bank Group strategies related to investment climate reform intend to enhance competition, foster enterprise creation and growth, facilitate international trade and investment, and unlock sustainable investment opportunities. In general, the strategies focus on creating favorable market conditions for enterprises.

Within this context, the evaluation covers World Bank Group efforts aiming to promote regulatory reforms to improve the conditions for firms' operations in both domestic and international markets, as well as key sectors.

Figure 1: Number of Investment Climate Interventions Over Time

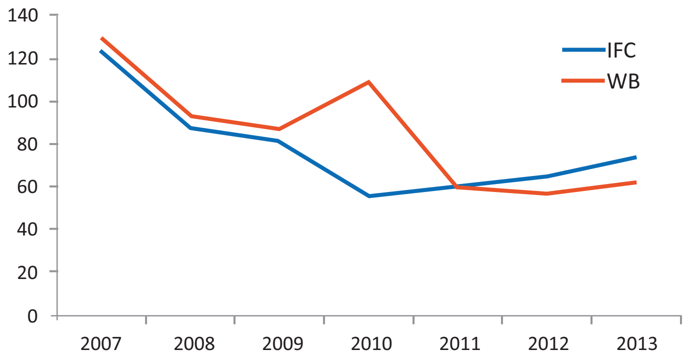
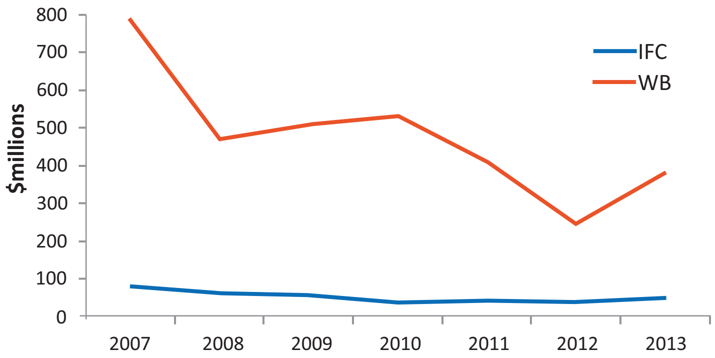


Figure 2: Value of Investment Climate Interventions Over Time



Key Findings

IEG found 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 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. While regulatory reforms need to be designed and implemented with both economic and social costs and benefits in mind, 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.

Recommendations

IEG looked at three main aspects of World Bank Group activities: relevance, effectiveness, and social value of regulatory reforms.

- 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.

- 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.

- 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.

WHAT WORKS

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The Independent Evaluation Group (IEG) is charged with evaluating the activities of the International Bank for Reconstruction and Development (IBRD) and International Development Association (the World Bank), the work of International Finance Corporation (IFC) in private sector development, and the Multilateral Investment Guarantee Agency's (MIGA) guarantee projects and services.

This is a short summary of an IEG evaluation containing evidence that can inform the realization of the **Financing for Development** agenda and the World Bank Group's engagement therein. Other IEG resources specifically dedicated to the agenda can be found at **ieg.worldbankgroup.org/f4d**.