An Evaluation of World Bank Investment Climate Activities

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Evaluation Objectives and Methodology

• **Objective:** to assess the relevance, effectiveness (outcomes), and sustainability of WB IC activities over 1993-2003

• **Components:**
  - Literature review
  - Review of WB documents: strategies, economic and sector work, lending operations
  - Interviews with domestic and foreign investors
  - Country case studies for Peru, Mozambique, Romania, India, and Indonesia
World Bank Group Investment Climate Activities

IBRD/IDA
- Lending and AAA for policy reform
- Lending for institutional reform
- ESW on IC topics, survey-based diagnostics

IFC
- Investment financing, demonstration effects
- TA to public sector on legal and regulatory issues, capacity building
- TA to private sector for capacity building

MIGA
- Guarantee operations and information dissemination tools
- TA to investment promotion agencies for capacity building
Trends in the Investment Climate:
Overall, policies and institutions have improved, but some institutional areas lag behind broader policy reforms.
Country Assistance Strategies show increasing attention to institutional issues, with some regional differences

<table>
<thead>
<tr>
<th>Region</th>
<th>Key Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFR</td>
<td>Macro stability, investor confidence, slow firm adaptation</td>
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<tr>
<td>EAP</td>
<td>Corporate governance, corporate restructuring, financial sector reform</td>
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<tr>
<td>MNA</td>
<td>Instability and uncertainty, public monopolies, competition policy</td>
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<tr>
<td>SAS</td>
<td>Uncertainty, pervasive government involvement, privatization</td>
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<tr>
<td>LAC</td>
<td>Regulatory/judicial reform, corporate governance, competitiveness</td>
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<tr>
<td>ECA</td>
<td>Property rights, judicial reform, bankruptcy law, access to finance</td>
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# Thematic Definition of the Investment Climate

## Core IC Themes
- Judicial and other dispute resolution mechanisms
- Legal institutions for a market economy
- Personal and property rights
- Corporate governance
- Regulation and competition policy

## Non-Core IC Themes
- Tax policy and administration
- Infrastructure services for PSD
- Other financial and private sector development
- Export development and competitiveness
- Trade facilitation and market access
The Investment Climate accounts for a large share of the Bank’s portfolio, but lending volume shows no observable trend.
The thematic composition of IC lending is dominated by regulation and competition, and has remained relatively stable…

…even though other themes need attention
Performance of IC Projects

- **Average outcome rating for Core IC projects (81% moderately satisfactory or better)** exceeded Bank-wide average (77%)

- **When performance was poor, often due to:**
  - IC components formed a small part of overall project
  - Lack of government ownership or commitment
  - Insufficient supervision
  - Complex or ambitious project design
  - Lack of broad political or social support
  - Lack of institutional capacity (overestimated at appraisal)
Economic and Sector Work

Feedback from clients, investors, Bank staff:

- Appreciated by clients – would like more
- Some complain of duplication of existing work, survey fatigue
- Regional, industry studies sometimes needed
- Recommendations in early studies insufficiently prioritized

Broader issues:

- Surveys provide description, not prescription – need to balance business views with broader economic and social objectives (e.g., regulation)
- Not enough is known about good practice in institutional design
Lessons Learned from Country Case Studies

• Institutional issues (the “rules of the game”) are the key challenge
• Often, IC reform is politically enabled by crisis or opportunity; loan conditionality sometimes can help strengthen the hand of reformers
• Local champions initiate reforms, but broad support is needed to sustain them
• Piecemeal efforts are less successful than a “big push” of reforms
• The Bank’s analytical work has facilitated reform
## The IC Evaluation and the WDR (1)

<table>
<thead>
<tr>
<th>Common Messages</th>
<th>Challenge for the WB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Climate is a broad topic</td>
<td>Setting priorities, sequencing reforms</td>
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<tr>
<td>– includes just about everything</td>
<td></td>
</tr>
<tr>
<td>Institutional designs are not completely exportable from</td>
<td>Analytical work on institutions, guidance for IC strategies</td>
</tr>
<tr>
<td>one country to another</td>
<td></td>
</tr>
<tr>
<td>Balance business views with broader economic and social</td>
<td>Better integration of objectives and strategies across</td>
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<tr>
<td>goals</td>
<td>sector units (e.g., regulation)</td>
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The IC Evaluation and the WDR (2)

<table>
<thead>
<tr>
<th>Common Messages</th>
<th>Challenge for the WB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad stakeholder support is needed for sustained IC reform</td>
<td>WB’s role in the political economy of the reform process?</td>
</tr>
<tr>
<td>Need to build government capacity to implement reforms</td>
<td>Integrating Public Sector Management agenda (civil service reform) into IC strategies</td>
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<tr>
<td>IC reform is a marathon, not a sprint</td>
<td>Does the WB have the right instruments? Sustainable financing?</td>
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