INVESTMENT CLIMATE IN AFRICA PROGRAM

FOUR-COUNTRY IMPACT ASSESSMENT

COMPARATIVE REPORT

Submitted by

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ABBREVIATIONS AND ACRONYMS

BEE	Liberia Private Sector Development in Post Conflict Program
CBL	Central Bank of Liberia
CCIA - BF	Chambre de commerce et d'industrie du Burkina Faso
DB	Doing Business
DBBBF	Doing Business Better in Burkina Faso
DFID	Department for International Development
DGI	Direction Générale des Impots
DGPSP	Direction Générale de la Promotion du Secteur Privé
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNI	Gross National Income
GST	Goods and Services Tax
IC	Investment Climate
ICF	Investment Climate Facility for Africa
IFC	International Finance Corporation
IMF	International Monetary Fund
LIC	Low Income Countries
M&E	Monitoring and Evaluation
MIC	Middle Income Countries
NIC	National Investment Commission
NRA	National Revenue Authority
PPD	Private – Public Dialogue
PSCS	Private Sector Cost Savings
PSIG	Private Sector Investment Generated
RABI III	Sierra Leone's Removing Administrative Barriers to Investment Project – Phase III
RDB	Rwanda Development Board
RICRP	Rwanda Investment Climate Reform Project
RRA	Rwanda Revenue Authority
SCM	Standard Cost Model
SEZ	Special Economic Zones
SLIEPA	Sierra Leone Investment and Export Promotion Agency
SME	Small and Medium Enterprises
TOR	Terms of Reference
WB	World Bank
WBES	World Bank Enterprise Survey

EXECUTIVE SUMMARY

Introduction

The purpose of the Report is to provide a comparative analysis of individual investment climate (IC) projects implemented by the International Finance Corporation (IFC) in four African countries, namely: (i) the Doing Business Better in Burkina Faso Project (DBBBF); (ii) the Liberia Private Sector Development in Post Conflict Program (BEE); (iii) the Rwanda Investment Climate Reform Project (RICRP); and (iv) Sierra Leone's Removing Administrative Barriers to Investment Project – Phase III (RABI III). In line with the Terms of Reference (TOR), the Report has a ***predominantly quantitative orientation*** and consists of a "*comparative analysis of the quantitative impacts of each program in order to identify key trends and lessons that can be used to inform the broader Investment Climate program both regionally and globally*" (page 3). The ***objective of the comparative analysis*** is "*to inform the IC program, other countries seeking to reform, development partners, and other stakeholders, of the impacts that can be expected due to investment climate reforms, and to inform future program design based on lessons learned*" (page 6).

Nature of Projects

Objectives and Areas of Intervention. The four projects were given fairly ***broad objectives, encompassing various 'dimensions' of the investment climate***. In practice, in Burkina Faso and Rwanda the focus was mainly (though not exclusively) on legislative and regulatory reform, whereas in Sierra Leone and Liberia comparatively greater attention was paid to institution building. All projects covered aspects of the investment climate captured by ***Doing Business (DB) indicators***, but the emphasis placed on DB varied considerably across the projects and overtime. In all cases, the project configuration adopted at approval was modified during implementation, with the addition of new components and/or the reallocation of resources among components. A presentation of the themes covered by each project is provided in the table below, which shows both the areas covered under the initial project design (identified with X) and those added during implementation (identified with X). Out of the twelve areas of activity identified, the first six refer to dimensions of the investment climate captured by DB indicators, the last five are largely unrelated to DB, whereas the theme of Business Taxation is somewhere in between.

Areas of Activity

Areas of Activity	Burkina Faso	Liberia	Rwanda	Sierra Leone
Business Registration and Formalization	X	X	X	X
Construction Permits	X	X	X	
Real Estate Transactions	X	X	X	
Labor Market Regulations	X		X	
Trade Logistics	X	X	X	
Other DB-related Themes (e.g. bankruptcy law, secured lending)	X		X	X
Business Taxation	X		X	X
Business Licensing	X		X	
Investment Promotion – General		X	X	X
Investment Promotion – Sector Specific		X		X
Special Economic Zones		X	X	
Private Public Dialogue		X	X	X

Timeline and Budget. In Burkina Faso and Liberia project activities started in 2006 while in Rwanda and Sierra Leone projects started in 2008. At approval, the expected duration ranged between about two years to almost four years. In almost all cases (in Burkina Faso, Rwanda and Liberia), project duration was extended during implementation, and in the end ***actual duration ranged between two years and nearly five years***. At approval, budgets ranged between a minimum of US$ 2.2 million for Burkina Faso to a maximum of US$ 8.8 million for Sierra Leone. During implementation, ***the budgets for all projects underwent significant changes, in terms of both overall value and allocation among components***. This was particularly the case with the Liberia project, whose budget was increased by US$ 1.5 million, plus an additional US$ 2.5 million contribution from the Investment Climate Facility for Africa (ICF), with an overall 60% increase in funding. In Sierra Leone, the change in commitment of the funds schedule set by the donor determined the cancellation of some activities and led to a budget reduction of about 12%. As a result, ***at completion budgets ranged from about US$ 3 million to US$ 6-7 million*** (almost US$ 9 million for Liberia, when the ICF contribution is considered). The size of budgets largely reflects the overall orientation of projects, with the two smaller projects (Burkina Faso and Rwanda) mainly focusing on policy advisory, and the two larger ones (Liberia and Sierra Leone) extensively involved in institution building.

Timeline and Budget

Country	Start of Activities	Actual Completion	Duration (Months)		Budget (US$ million)	
			Expected	Actual	Initial	Revised
Burkina Faso	03/2006	11/2010	21	57	2.2	2.8
Liberia	10/2006	12/2010*	45	51	4.7	8.7 (6.2 + 2.5)
Rwanda	01/2008	12/2010	23	35	3.2	3.3
Sierra Leone	12/2008	06/2011	31	31	8.8	7.2

* Some activities are still ongoing

Country Background

Political and Economic Context. The four projects were implemented in challenging environments. This was particularly the case with Liberia and Sierra Leone, countries that had ***just emerged form long armed conflicts*** that had resulted in the nearly complete destruction of government institutions and administrative machinery. Rwanda is also considered a post conflict country, but by the time the IFC project was launched, a significant recovery had already taken place. The political and institutional situation was definitely better in Burkina Faso, a country that has been remarkably free from armed conflicts. All countries are constitutional democracies, although with non negligible ***differences in terms of political rights and civil liberties***. Burkina Faso, Liberia and Sierra Leone are ranked as 'partly free' countries in Freedom House's *Freedom in the World* report. Rwanda, where the political leadership exerts a strong control over civic and political life, is ranked as 'not free.' With a Gross National Income (GNI) per capita ranging between a maximum of US$ 510 in Burkina Faso and a minimum of US$ 160 in Liberia, the four countries are ***among the poorest economies in the world***. Burkina Faso is the largest economy, with a Gross Domestic Product (GDP) of about US$ 8 billion, followed by Rwanda, with a GDP of US$ 4.5 billion. Liberia and Sierra Leone are smaller economies, with a GDP of less than US$ 2 billion. ***Economic activity is still largely dominated by agriculture***, which accounts for between 33% and 61% of GDP. Mining plays an important role in Liberia, Sierra Leone and, increasingly, Burkina Faso. Exports are concentrated on a relatively small number of commodities and all countries post significant ***trade and current account deficits***. Burkina Faso and Rwanda are landlocked countries, and their trade flows are severely handicapped by high transportation costs.

Other Donor Initiatives. In general, the IFC projects operated in a fairly crowded environment, with the presence of ***several other donor initiatives targeting various aspects of the investment climate***. In Rwanda, issues related to enterprise registration, land reform and strengthening of commercial courts were addressed by a large ICF project that became operational in 2007, i.e. before the launch of the IFC project. Reform in customs and taxation was supported by the DFID, which was active in land reform, together with other bilateral donors. In Sierra Leone, tax reform was supported by DFID, investment promotion received assistance from the World Bank, tourism sector development was supported by the UNDP, while certain activities in the field of business registration were taken over by the ICF. In Liberia, reforms in trade logistics were supported by USAID, the African Development Bank, and the ICF. In Burkina Faso, other donors were comparatively less involved in investment climate-related activities and the IFC project played a major role in fostering reform, although during implementation some activities, namely in the fields of commercial justice and land registration, were again supported by the ICF. All the countries have ongoing ***macroeconomic adjustment programs with the International Monetary Fund*** (IMF), and this greatly influenced the nature of reforms in key areas, especially in business taxation and customs. The presence of various donor initiatives all pointing in the same direction definitely contributed to hasten the pace of reforms. However, for the purposes of this exercise, this ***raises a serious 'attribution problem,'*** as it makes it more difficult to disentangle the contribution of IFC projects from that of concomitant initiatives.

Methodology

Types of Impacts. The analysis focuses on ***seven types of impact***, namely: (i) private sector cost savings (PSCS), (ii) private sector investment generated (PSIG), (iii) number of jobs created ('job creation'), (iv) number of registered businesses, (v) number of businesses complying with tax regulations ('tax compliance'), (vi) tax revenue generated, and (vii) increase in trade flows. The first five impacts correspond to indicators included in the IFC Monitoring and Evaluation (M&E) framework for investment climate projects, whereas the last two are new indicators, suggested by the TOR.

Determinants of Impacts. For analytical purposes, a distinction can be made between: (i) impacts that are the direct result of specific reform measures, on the basis of a sort of 'dose – response' type linkage, and (ii) impacts that are the result of the interplay of various reforms, involving multiple causation linkages. The first category includes ***PSCS*** and, with some simplification, the ***increase in trade flows***. In these cases, there is a direct link between reforms and impacts (e.g. a reform reducing the fees required for registering a land plot directly influences the costs borne by private operators), although in several cases the strength of the link may be severely reduced by other factors (see below). In the other cases, the relationship between reform measures and impact is much more complex, involving multiple causal linkages, sometimes at different levels of the causation chain. In particular, both ***PSIG*** and ***job creation*** are directly affected by specific measures (i.e. actions aimed at strengthening investments promotion agencies, labor market reforms), but are also (and, indeed, predominantly, as it will be seen later) influenced by developments in the enterprise creation process, i.e. the registration of new enterprises, as the creation of new businesses drives up employment and investments. Therefore, the ***number of registered enterprises*** plays an essential role in the analysis, being both an impact in its own right and a 'generator' of other impacts. A multiple causation chain is found also in the case of ***tax compliance*** and ***tax revenue generated***. These impacts are directly affected by reforms aimed at improving business taxation, but are also influenced by reforms in business registration, which by favoring the formalization of enterprises, induce higher compliance and, hence, *ceteris paribus*, an increase in the tax revenue generated.

It is important to note that ***the existence of a causation link does not necessarily mean that impacts can be satisfactorily measured***. Two points need to be highlighted. ***First***, in several cases the reforms promoted by IFC projects were also supported by other donor initiatives. Efforts were made to isolate the effects of IFC-supported reforms from concomitant factors, but, in general, this was possible only in the case of PSCS, for which the linkage between cause and effect is easier to determine. In the case of other impacts, the various donor initiatives were usually so intertwined that their effects could not be estimated separately. ***Second***, irrespective of other donor interventions, the effects of IFC-supported reforms are sometimes dominated by exogenous developments. This is particularly the case for trade flows, where the cost and time savings brought about by IFC-supported reforms in trade logistics play a modest role compared with other factors influencing import export trends (e.g. developments in world markets), and tax compliance and tax revenue generated, which are primarily affected by general government efforts to expand the tax base and increase tax collection.

Framework of Analysis. In principle, impact assessment analysis would require the comparison of situations 'with' and 'without' the intervention. However, in the case of 'universally based interventions,' such as IFC investment climate projects, this approach is generally unfeasible. Therefore, the exercise was carried out in a ***'before' and 'after' framework***. It is important to note that, as virtually all the variables analyzed show a raising trend, the adoption of a 'before and after' approach inevitably tends to overstate the impact of IFC interventions.

Time Frame. The impact assessment exercise covers the period until the end of 2010, which coincides with the completion of the four projects. It is well known that in many cases investment climate reforms take time to produce effects, which become visible only in the medium term. This is particularly the case for impacts on private sector investment and job creation, as economic agents tend to respond with a time lag to the opportunities created by changes in the legislative and regulatory framework. Therefore, the quantitative estimates provided in the Report refer only to the ***initial impacts of IFC projects, which represent only part of the total impacts***.

Data Issues. The impact assessment exercise required the use of a variety of data, of a micro and macro economic nature, collected from a variety of published sources (official statistics, documents produced by IFC projects, research reports from various entities, etc.) and through interviews with a wide range of informants (private firms, lawyers, accountants, public officials, etc.). Despite the considerable efforts deployed, in several cases the quality of data retrieved is less than ideal, and in several cases it was necessary to formulate assumptions or to introduce adjustments that inevitably involve an element of subjectivity. Under these conditions, ***the impact estimates provided here inevitably suffer from a certain degree of approximation***.

Impact Assessment – PSCS

Definition of PSCS. PSCS are defined as the savings accruing to private economic agents as a result of reforms in the investment climate. They include: (i) ***cost savings***, associated with the reduction in out-of-pocket expenses incurred by private enterprises thanks to the elimination/reduction of certain fees (stamp duties, service fees, etc.) and/or of the need to rely on service providers for certain formalities (e.g. elimination of notarization for articles of incorporation); (ii) ***time savings***, which refer to the gains in terms of opportunity cost of labor resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services; and (iii) ***financial savings***, related to the reduction in the financial burden shouldered by private operators as a result of changes in the payment modalities for a certain fee or tax, with ensuing cash flow advantages.

Magnitude and Sources of PSCS. The analysis considered the effects of ***more then 70 reforms***, largely concentrated in four areas, namely: business registration, construction permits, real estate transactions, and trade logistics. Overall, the PSCS generated by the four IFC projects over the 2008 – 2010 period are estimated to be on the order of ***US$ 13 million***, expressed in 2010 dollars. The value of PSCS varies considerably across the four countries, ranging from marginally less than US$ 1 million in Sierra Leone to US$ 4-5 million in Rwanda and Liberia, with an intermediate value of

US$ 2.7 million in the case of Burkina Faso. ***Cost savings*** are by far the main source of PSCS, accounting for 76% of the total, and ranking first in all the countries. ***Time savings*** are less important, accounting for 21% of total PSCS, and play a significant role only in Rwanda and Sierra Leone. ***Financial savings***, associated with the postponement in the payment of certain taxes, are a modest item, accounting for only 3% of total PSCS.

Estimate of PSCS - 2008 - 2010(US$ million, 2010 value)

Country	Cost Savings	Time Savings	Financial Savings	Total PSCS
Burkina Faso	2.2	0.3	0.2	2.7
Liberia	4.3	0.3	0.0	4.6
Rwanda	3.0	1.9	0.2	5.1
Sierra Leone	0.5	0.3	0.0	0.9
Total	**10.0**	**2.8**	**0.4**	**13.3**

Totals may not add due to rounding

In general, ***the bulk of PSCS originate from only a few reform measures***. This is particularly the case in Liberia, where one single reform accounts for 66% of total PSCS, and in Rwanda, where two reforms account for 70% of total savings. In Sierra Leone, almost half of PSCS are related to one reform. In Burkina Faso, the distribution of savings is marginally less concentrated, with the main generator of PSCS accounting for 'only' 40% of the total and two other reforms accounting for more than 10% of benefits.

Determinants of PSCS. In practice, high values of PSCS are associated with a high number of transactions and/or high levels of taxation/fees. ***High transaction numbers*** are primarily found in trade logistics, where the number of import export transactions in a given country may easily exceed 100,000 per year. In this case, even modest savings of, say, US$ 5 to 10 per transaction, may well translate into significant PSCS figures. High transaction numbers can also be found in the case of registration or licensing requirements, provided that they are of a recurrent type (e.g. the annual renewal of registration in Sierra Leone). ***High taxation/fee levels*** are typically found in real estate and construction, where the significant unit savings (in certain cases, up to US$ 1,000 – 1,500 per transaction) more than compensate for the small number of transactions (often, less than 1,000 per year).

Impact Assessment – Enterprise Registration and Business Creation and Formalization

Number of Enterprises Registered. All the countries experienced an increase in business registrations during the period of implementation of IFC projects. However, the positive trend sometimes predates the launch of IFC operations and, at any rate, is influenced by a host of other factors, such as the more or less buoyant conditions of the economy. Subject to this caveat, overall, over the 2008 – 2010 period IFC projects are estimated to have contributed to the ***registration of about 23,000 firms***. The number of new registrations varies considerably across countries, ranging from a minimum of about 1,200 in Burkina Faso to about 8,000 in Liberia and Rwanda. The increase concerned all typologies of firms, although in three countries a ***shift towards limited liability companies*** can be noticed. For instance, in Rwanda, companies accounted for 66% of all registrations in 2009 – 2010, compared with 53% in 2006-7. To some extent, the increased preference for corporate forms can be regarded as part of a 'natural' evolution towards more sophisticated forms of doing business, but IFC-supported reforms in the areas of business registration and company law certainly contributed to this development.

Estimate of Enterprise Registrations – 2007 – 2010 (number of firms, rounded)

Country	Companies	Sole Proprietorships and Partnerships	Total
Burkina Faso	900	300	1,200
Liberia	3,200	5,000	8,200
Rwanda	5,700	2,300	8,000
Sierra Leone	500	5,100	5,600
Total	**10,400**	**12,600**	**23,000**

Number of New and Formalized Enterprises. Not all the new enterprise registrations involve the creation of new business operations. In fact, new registrations can be subdivided into three categories, namely: (i) registrations that effectively lead to the start of new economic activities ('truly new businesses'), (ii) registrations that involve the formalization of pre-existing operations that had been operating informally ('formalized businesses'), and (iii) registrations that, for various reasons, do not lead to the start of any economic activity ('non-operational businesses'). The relative importance of these three categories varies significantly across the four countries. In particular, the phenomenon of formalization is much more important in Liberia and Sierra Leone, where the existence of an extremely large informal sector created a significant 'pent-up' demand for registration. Overall, over the 2008 – 2010 period the reforms supported by the IFC projects appear to have contributed to the ***establishment of some 11,700 new businesses*** and to the ***formalization of 10,100 firms***. The number of non-operational firms could be estimated only for two countries, Burkina Faso and Rwanda, and is expected to be on the order of 1,000 – 1,500.

Estimate of New, Formalized and Non-operational Businesses – 2008 – 2010 (number of firms, rounded)

Country	Truly New Businesses	Formalized Businesses	Non-operational Businesses	Total
Burkina Faso	700	300	200	1,200
Liberia	3,700	4,500	..	8,200
Rwanda	4,800	2,200	1,000	8,000
Sierra Leone	2,500	3,100	..	5,600
Total	**11,700**	**10,100**	**1,200**	**23,000**

Impact Assessment – Private Sector Investment and Job Creation

Private Sector Investment Generated. PSIG was assessed in relation to: (i) developments in the enterprise formation process, i.e. the creation of new businesses, (ii) actions aimed at facilitating private investment, namely through the strengthening of investment promotion agencies and/or sector specific initiatives, and (iii) measures seeking to facilitate access to finance. In the case of developments in the enterprise formation process, the impact was estimated on the basis of average investment parameters in newly formed enterprises, which were multiplied by the number of new businesses estimated above. In the other cases, the assessment relied primarily on data presented in project documents regarding the results achieved by specific reforms, complemented as necessary with own estimates. Overall, PSIG are estimated to be in the range of ***US$ 75 to 90 million*** for the 2008 – 2010 period. As shown in the table below, the bulk of PSIG are associated with the formation of new businesses, which account for about 85% of the total. The impact of investment promotion activities was much lower, only 15% of the total, while no tangible impact could be discerned in the case of measures aimed at improving access to finance, which were implemented only in Rwanda. Estimated PSIG are much higher in Rwanda, about US$ 45 – 50 million. Liberia and Sierra Leone post broadly similar results, with estimated PSIG on the order of US$ 10 – 20 million, whereas the estimate for Burkina Faso is significantly lower, at about US$ 5 to 6 million.

Estimate of Private Sector Investment Generated – 2008 – 2010 (US$ million)

Country	Developments in Enterprise Formation	General & Sector Specific Investment Promotion	Improved Access to Finance	Total
Burkina Faso	5 – 6	Not applicable	Not applicable	5 – 6
Liberia	11 – 13	Positive but not quantifiable	Not applicable	11 – 13
Rwanda	39 – 46	5	None	44 – 51
Sierra Leone	10 - 13	5 – 7	Not applicable	15 - 20
Total	**65 - 78**	**10 - 12**	**0**	**75- 90**

Job Creation. The estimate of impact on employment broadly followed the same approach used for PSIG, involving the analysis of developments in enterprise creation and investment promotion, plus the assessment of specific measures aimed at increasing the flexibility of the labor market. Overall, for the years 2008 – 2010 the incremental employment somehow associated with the reforms supported by IFC projects can be estimated on the order of ***51,500 jobs***, measured in terms of full time equivalent staff The near totality of impacts is associated with developments in the enterprise formation process, whereas investment promotion activities have so far produced only marginal results. No tangible impact could be identified in the case of labor market reforms. Impacts of comparable magnitude, i.e. between 15,000 and 18,000 jobs, were estimated for Liberia, Rwanda and Sierra Leone, whereas a much lower value was estimated for Burkina Faso, with only 1,800 additional jobs.

Estimate of Job Creation – 2008 – 2010 (number of jobs)

Country	Developments in Enterprise Formation	General & Sector-Specific Investment Promotion	Labor Market Reforms	Total
Burkina Faso	1,800	Not applicable	0	1,800
Liberia	18,350	0	Not applicable	18,350
Rwanda	15,950	300	0	16,250
Sierra Leone	15,100	0	Not applicable	15,100
Total	**51,200**	**300**	**0**	**51,500**

Impact Assessment – Other Impacts

Tax Compliance and Tax Revenue Generated. Measures susceptible of increasing tax compliance and tax revenue generated were implemented in three countries, Burkina Faso, Rwanda and Sierra Leone, and included various improvements in business tax administration, the reform of tax appeal mechanisms, and awareness campaigns. A generally positive trend in tax compliance and tax revenue can be observed in the three countries, but the evolution is driven primarily by macro economic developments and by the stepping up of tax collection efforts, which typically constitute a key conditionality for the continuation of IMF assistance. Overall, ***the role played by IFC projects is certainly positive, but definitely secondary compared with the other factors at play***. A partial exception is represented by Sierra Leone, where the awareness campaigns run by the IFC project can be credited with some 350 - 550 taxpayer registrations and with incremental revenue from corporate tax and tax on self-employment on the order of US$ 1.4 – 2.1 million.

Increase in Trade Flows. Measures aimed at improving trade logistics were implemented in three countries, Burkina Faso, Liberia and Rwanda. In Burkina Faso, work on trade logistics started only in 2009 and so far has concerned only relatively marginal aspects. In Rwanda and Liberia work started in 2008 and activities covered a wide range of topics, including the elimination of certain fees, the reduction in paperwork for customs clearance, and the simplification of certain procedures. While these improvements resulted in considerable private sector cost savings (as already illustrated above), ***no significant impact could be detected in terms of trade flows***. This is not surprising, given the composition of trade flows in the countries concerned. In fact, exports largely concentrate in a limited number of agricultural and mineral commodities (i.e. cotton and gold in Burkina Faso; coffee, tea and minerals in Rwanda; rubber and timber in Liberia), whose performance is primarily explained by developments in production and in world markets. Similar considerations apply to import flows, which mostly concern basic goods, such as foodstuff and oil products, whose evolution is driven by domestic economic growth, and capital goods, whose trend is largely influenced by foreign direct investments. Under these conditions, it is difficult to envisage that modest changes in time spent by operators in clearing customs or in performing other administrative tasks in the logistics chain may have any appreciable impact on trade flows.

Overall Assessment

Magnitude of Impacts. A summary presentation of estimated impacts is provided in the table below. In order to take into account the different size of the four economies, results are expressed in 'normalized' values, with reference to the relevant macroeconomic variables (e.g. PSCS as share of GDP, etc.). Only the impacts for which quantitative estimates could be achieved for all the projects are taken into consideration. This excludes tax compliance, tax revenue, and trade flows. It is important to reiterate that the estimates presented below refer to the period up to the end of 2010, i.e. they ***refer to the 'initial' impacts only, with exclusion of impacts that may arise in the coming years***.

Summary of Estimated Impacts – 2008 - 2010

Impacts	Burkina Faso	Liberia	Rwanda	Sierra Leone	Total
PSCS as % of GDP	0.01%	0.17%	0.03%	0.02%	**0.03%**
Enterprise Registrations per 1,000 Population	0.08	1.28	0.80	0.98	**0.61**
New Businesses per 1,000 Population	0.04	0.58	0.48	0.44	**0.31**
Formalized Businesses per 1,000 Population	0.02	0.70	0.22	0.54	**0.27**
PSIG as % of Total Private Investment	0.2%	3.2%	2.5%	3.7%	**1.4%**
Jobs Created as % of Total Labor Force	0.03%	1.19%	0.34%	0.72%	**0.34%**

The magnitude of impacts associated with IFC investment climate operations varies considerably across the four countries, although there are significant differences depending upon the indicator used. In the case of ***PSCS***, the impacts achieved in Burkina Faso, Rwanda and Sierra Leone, although certainly different in absolute terms, are of the same order of magnitude expressed in normalized terms, i.e. 0.01% to 0.03% of GDP, whereas Liberia stands out with a significantly higher value, 0.17% of GDP. A different ranking is found in the case of ***other impacts***, with Liberia and Sierra Leone posting the highest normalized values, closely followed by Rwanda, whereas much lower impacts were found in Burkina Faso.

Determinants of Impacts. The differences in the magnitude of impacts can be explained with reference to various factors, related to the characteristics of the environment in which the projects were implemented and, to a smaller extent, project design. In particular:

- in the case of ***PSCS***, differences in performance are mainly attributable to the starting conditions of the four countries (i.e. the level of bureaucratic burden or of out-of-pocket costs imposed upon businesses) and to the ability to secure support for the effective implementation of proposed reforms;
- in the case of ***other impacts***, post conflict conditions, with the ensuing need to rebuild the economy, fuel the enterprise formation process and drive up investment and employment generation. Therefore, the 'post conflict status' of a country, while certainly making projects' operating conditions more difficult, also provides significant opportunities for improvement.

Instead, the influence exerted by the overall quality of the investment climate, as measured by the progress achieved in terms of DB indicators, is not clear cut. This is possibly a factor for Rwanda, which was the DB star performer of the last few years, but not in the case of the other three countries, which all improved their rankings by 15 to 20 places over the last few years, and still exhibit different levels of performance.

Differences in impacts appear to only be ***loosely correlated with project design***. Neither the scope of activities covered by the various projects (i.e. policy advice vs. institutional strengthening) nor the more or less heavy emphasis placed on DB reforms as opposed to more 'structural' reforms (a potential explanatory variable explicitly mentioned by the TOR) appear to explain differences in performance. In general, the ability to generate impacts, especially PSCS, increased with the adjustments in project configuration introduced during implementation. In this sense, the adoption of a flexible approach, while not explaining differences in impacts across countries, is certainly a positive feature. This is particularly the case when the reorientation was aimed at ***responding to very specific needs***, which typically were also associated with strong interest and commitment from beneficiaries (e.g. transaction support for privatization in Sierra Leone and advisory services for SEZ development in Rwanda).

Considerations Regarding Future Operations

The IFC projects analyzed here are expected to be followed up by other initiatives whose preparation is currently ongoing. The results of this exercise provide elements that could be considered in the design of these new initiatives. In particular:

- there are indications that reforms in business registration may have entered the phase of declining marginal returns. In Liberia and Sierra Leone, the backlog of informal enterprises is in the process of being cleared and in Rwanda and Burkina Faso the advantages of further cuts in the number of days to register an enterprise are likely to be small. Under these conditions, future operations may consider ***shifting the emphasis from enterprise creation to enterprise development***. In this respect, two areas of intervention offer good opportunities: (i) measures aimed at ***facilitating access to finance***, aimed at creating the basic infrastructure to support bank lending to SME and/or at favoring the adoption and utilization of other financial instruments (e.g. leasing), and (ii) the provision of ***advisory services for enterprise growth***, namely through the leveraging of IFC experience in the development of specific support tools (e.g. the SME Toolkit) and in assisting SME support structures;
- the impact of IFC interventions in investment promotion cannot be fully appreciated at this stage, and the US$ 10 - 12 million mobilized thus far in two countries is hopefully only a fraction of what could be raised in the coming years. Subject to this caveat, there are indications that sector specific/thematic actions might perform comparatively better than broad-based capacity building initiatives. Therefore, future programs could place comparatively ***greater emphasis on investment promotion actions focusing on key sectors and/or following a value chain approach***. In addition, greater synergies could be sought between investment promotion and work in other areas of intervention (e.g. in trade logistics and business licensing), with a potentially multiplicative effect;
- reforms in the area of business licensing have yielded limited results in terms of PSCS, and no impact could be detected in terms of increased investments. To a large extent, this is not surprising, considering that: (i) all the enterprise surveys carried out in recent years clearly indicate that business licensing does not constitute a major obstacle for private sector operators, and (ii) very few business licenses present the features (repetitiveness, large numbers, etc.) that are necessary to generate substantial PSCS. In general, these considerations militate against placing a strong emphasis on business licensing reform in future operations. However, ***a good case for IFC intervention remains in sectors exposed to the risk of over ambitious regulation***

(due to 'wholesale import' of technical specifications from more advanced countries) ***and/or of 'regulatory capture' from powerful and politically connected groups***, with obvious negative consequences in terms of entry conditions and market competition. In terms of impacts, tangible results may not be easy to demonstrate, because of the small numbers involved and, especially because the benefits of increased competition may not be immediately apparent, but this should not discourage IFC action;

- reforms in trade logistics generated important PSCS, but the time and cost savings achieved in the handling of administrative procedures do not seem to have exerted any appreciable influence on trade flows and, given the time insensitive nature of the bulk of merchandise trade in the four countries, this is likely to remain the case in the future. However, opportunities for significant impact appear to exist if future activities are extended beyond the simplification of procedures and elimination of documents, to ***address broader issues affecting the trade logistics chain***. In this respect, an area offering significant opportunities is that of the organization of the road transport sector, where uncompetitive practices and technical inefficiencies are directly or indirectly responsible for a large share of the extremely high costs faced by landlocked countries such a Rwanda and Burkina Faso.

Considerations on Impact Indicators and Analytical Work

Selection of Indicators. Not all the impacts analyzed in this Report are equally relevant for investment climate operations, as the causal link between IFC interventions and the target variables is too tenuous to allow for a meaningful measurement in certain instances. This is particularly the case of tax compliance, tax revenue generated, and trade flows, whose variations are primarily determined by other factors, with IFC actions playing a residual role. Therefore, ***future investment climate could usefully focus primarily on four 'core' impact indicators***, namely: (i) PSCS, (ii) PSIG, (iii) job creation, and (iv) enterprise creation/formalization. The ***other three impacts could be used on a case by case basis***, whenever the nature of interventions is such that the effects of IFC projects can be meaningfully disentangled from those generated by other factors.

Methodological Aspects. The methodology for estimating ***PSCS*** enshrined in the IFC Guidelines appears to work well and will constitute a very useful tool for future investment climate operations. The collection of data to be fed into the model will remain a daunting task (especially in the case of time savings, which sometimes are so small that operators have hard times in providing estimates), but, hopefully, the availability of better baseline data will improve the situation. In the case of ***other impacts***, providing quantitative estimates will remain a difficult exercise, due to the multiplicity of causal linkages and serious data limitations. Until sufficiently large and detailed datasets will become available to allow for econometric analysis at the country level, estimating impacts is bound to remain more an art than a science.

Further Analytical Work. In the four countries under consideration, the knowledge of how the enterprise sector operates and evolves is still limited. For instance, large scale surveys, such as the World Bank Enterprise Survey, provide useful information on a number of aspects, but they do so only at a certain point in time, and therefore provide little insight on evolutionary aspects. The limited knowledge of these dynamic aspects has important negative implications from an impact assessment perspective, as it makes the analysis of key impacts, such as investment and employment, particularly difficult and tentative. Under these conditions, future IFC operations may consider the possibility of complementing operational activities with some analytical work aimed at gaining a better understanding of the evolution in the enterprise sector. A useful area of research is represented by longitudinal studies, and especially ***cohort studies, which allow assessment of the evolution of groups of firms that were established at the same moment***. The carrying out of cohort surveys at the beginning and end of projects (or, in case of longer durations, every couple of years) would greatly contribute to improving the accuracy of impact estimates, and at the same time could provide useful inputs for orienting operational activities.

MAIN TEXT

1 INTRODUCTION

1.1 Nature and Objective

This Comparative Report (the "Report") is submitted to the International Finance Corporation (IFC) within the framework of the "Investment Climate in Africa Program - Four-Country Impact Assessment" (hereinafter referred to as "the Assignment" or "the Study"). The Report was prepared by *Economisti Associati*, in collaboration with the *Center for Economic and Social Research* and *The Africa Group*, collectively referred to as "the Consultant."

The purpose of the Report is to provide a ***comparative analysis of individual investment climate (IC) projects implemented by the IFC in four African countries*** that were analyzed in detail by the Consultant in earlier stages of the Assignment. In particular, the four projects covered by the analysis include:

- ***Burkina Faso***: Doing Business Better in Burkina Faso Project (DBBBF);
- ***Liberia***: Liberia Private Sector Development in Post Conflict Program (BEE);
- ***Rwanda***: Rwanda Investment Climate Reform Project (RICRP);
- ***Sierra Leone***: Removing Administrative Barriers to Investment Project – Phase III (RABI III).

In line with the Terms of Reference (TOR), the Report has a ***predominantly quantitative orientation*** and consists of a "*comparative analysis of the quantitative impacts of each program in order to identify key trends and lessons that can be used to inform the broader Investment Climate program both regionally and globally*" (page 3). The ***objective of the comparative analysis*** is "*to inform the IC program, other countries seeking to reform, development partners, and other stakeholders, of the impacts that can be expected due to investment climate reforms, and to inform future program design based on lessons learned*" (page 6).

1.2 Scope and Approach

In line with the TOR, the Report focuses on ***seven types of impact***, namely: (i) private sector cost savings, (ii) private sector investment generated, (iii) number of jobs created, (iv) number of registered businesses, (v) number of businesses complying with tax regulations, (vi) tax revenue generated, and (vii) increase in trade flows. The key ***themes to be addressed*** in the comparative analysis are also specifically listed in the TOR and are reproduced in Box 1.1 below.

Box 1.1 - Key Themes to be Analyzed

- What are the key differences in impacts across each program?
- What factors determine the variance in relative impacts?
- What key conclusions can be drawn about best practices, common challenges, and future program design based on the comparative impacts generated by each program?
- Does experience suggest that a focus on DB reforms leads to an increase in understanding of how to reform, or does experience suggest that such focus on DB indicators detracts from the broader or more fundamental IC reforms?
- Does experience suggest that IC reforms to date have lead to an increase in the number of formal businesses?

- Does experience to date suggest that there is an increase in investment, economic output and/or employment in the economies concerned due to IC reforms?

- If it is still too early to detect any impacts, which indicators should the IC team be tracking, which information sources should the IC team be tracking in order to obtain answers to the three questions noted above as soon as possible?

- Did the multi-product approach lead to more/better impacts as compared to focus on only one area?

As indicated above, the analysis is characterized by an eminently quantitative approach, and aims at providing indications of the impact achieved by the IFC projects in the four countries. The ***methodology for impact assessment and quantification*** was developed in the early stages of the Assignment[1], and utilized to perform separate country specific analyses. Therefore, the Report builds primarily upon the findings of the reports analyzing individual IFC projects in the four countries ('Country Reports'), complemented as needed with additional elements.

1.3 Report Structure

The Report is structured as follows:
- Section 2 provides a short presentation of the four projects (timeline, budget, business lines, etc.);
- Section 3 illustrates the methodological approach;
- Section 4 analyzes impacts achieved in terms of private sector costs savings;
- Section 5 reviews the evidence of impacts in terms of enterprise formation and formalization;
- Section 6 focuses on impacts achieved in terms of private sector investment generated and employment creation;
- Section 7 deals with the evidence of impacts in other areas, namely in terms of tax compliance, tax revenue generated, and trade flows;
- finally, Section 8 offers some concluding remarks and develops some recommendations.

The Report also includes two Annexes. In particular:
- Annex A, with a presentation of the methodology used for the quantification of private sector costs savings;
- Annex B, providing background information of the reforms supported by IFC projects that generated private sector costs savings.

1.4 Authorship, Acknowledgements and Disclaimer

The Report was written by Roberto Zavatta (Team Leader) with substantial support from Enrico Giannotti (Senior Evaluator) and research assistance from Tommaso Grassi (Senior Evaluator), Elena Esposito (Research Assistant), and Elisa Farri (Research Assistant). Throughout the implementation of the Assignment, the Consultant greatly benefited from the advice and collaboration of a number of IFC staff. In addition to the staff of various projects, whose cooperation was instrumental in performing the Country Reports, invaluable support was provided by the Task Manager, Ms. Luba Shara, who greatly assisted on a variety of operational and methodological aspects. The contribution of various IFC staff who extensively commented upon the earlier version of the Country Reports is also gratefully acknowledged. As it is customary for consulting reports, especially in the case of independent evaluation assignments, the views

[1] *Report #2 – Methodological Report*, August 12, 2010.

expressed in this Report are those of the authors only and should not be attributed in any way to the IFC, its staff and, in general, the World Bank Group.

2 BASIC FEATURES

2.1 Objectives and Scope

Project Objectives. As indicated in Exhibit 2.1 below, the four projects were given fairly ***broad objectives, encompassing various 'dimensions' of the investment climate***. In practice, in Burkina Faso and Rwanda the focus was mainly (though not exclusively) on legislative and regulatory reforms, whereas in Sierra Leone and Liberia comparatively greater attention was paid to institution building. All projects covered aspects of the investment climate captured by ***Doing Business (DB) indicators***, but the emphasis placed on DB varies considerably across the projects and overtime. Burkina Faso is the only country where an explicit reference to DB is made in the project's overall objective, but other aspects were covered as well. In Rwanda, the emphasis on DB indicators-related reform was significant in the early stages, but declined over time. In Liberia and Sierra Leone, DB-related reforms represented an important, but not predominant element.

Exhibit 2.1 Project Objectives

Country	Stated Objectives
Burkina Faso	*"to improve key areas of the business climate, incorporating those measured in Doing Business, and thereby help Burkina Faso move from the bottom to the first half of Sub-Saharan African countries as measured in Doing Business at the end of the project"*
Liberia	*"to reshape the business climate to allow for investors (foreign and domestic) to operate in Liberia. To achieve these aims, this initial project will have three main work streams: one to reduce barriers to formalization, one to improve the investment policy framework, legislation and institutions, and one to improve public-private dialogue to underpin the PSD reform process"*
Rwanda	*"to assist the Government of Rwanda... to improve the regulatory environment, build institutions, and reduce the cost of doing business in Rwanda. In doing so, the project intends to create an investment climate that is competitive, attractive to the private sector (in areas where Rwanda has a comparative advantage) and distinctively different compared to the competing investment destinations in sub-Saharan Africa"*
Sierra Leone	*"support the effort of the government to work with the private sector to identify and remove barriers to investment and to promote investment by informal and formal businesses in Sierra Leone and to profile investment opportunities for attracting new investment"*

Source: Project Approval Documents

Overall Configuration. At approval, projects typically consisted of ***three to seven components***. In all cases, the initial project configuration was modified during implementation, with the addition/deletion of components and/or the reallocation of resources among components. In some cases, work on certain components was halted, either because the intended results had been achieved or because activities were passed to other IFC initiatives or other projects. In general, ***project configuration became more complex overtime***, and at completion the projects in Burkina Faso and Rwanda included no less than eight components. For administrative reasons, sometimes certain components/work streams were implemented as separate 'projects.'

Exhibit 2.2 Project Configuration

Country	Number of Components		Comments
	At approval	At completion	
Burkina Faso	5	8	Three components added, with work on two components transferred to other projects
Liberia	3	6	Three new components added, of which two implemented as administratively separate projects
Rwanda	4	8	Four components added (one resulting from the merging of a separate project), with significant budget reallocation
Sierra Leone	7	6	One component abandoned, and significant reallocation of resources. Three components implemented as administratively separate projects

Source: Supervision Reports

Some components dealt with fairly narrowly defined topics (e.g. special economic zones), others covered broad themes (e.g. business taxation, with activities ranging from the reform of tax administration procedures to awareness campaigns), others still were defined in terms of the objective to be achieved (i.e. the so called 'DB Reform' components, aimed at improving countries' rankings in terms of DB indicators). A ***reclassification of the themes covered by each project*** in terms of homogeneous areas of activity is provided in Exhibit 2.3 below, which shows both the areas covered under the initial project design (identified with X) and those added during implementation (identified with X). Out of the twelve areas of activity identified, the first six refer to dimensions of the investment climate captured by DB indicators, the last five are largely unrelated to DB, whereas the theme of Business Taxation is somewhere in between.

Exhibit 2.3 Areas of Activity

Areas of Activity	Burkina Faso	Liberia	Rwanda	Sierra Leone
Business Registration and Formalization	X	X	X	X
Construction Permits	X	X	X	
Real Estate Transactions	X	X	X	
Labor Market Regulations	X		X	
Trade Logistics	X	X	X	
Other DB-related Themes (e.g. bankruptcy law, secured lending)	X		X	X
Business Taxation	X		X	X
Business Licensing	X		X	
Investment Promotion – General		X	X	X
Investment Promotion – Sector Specific		X		X
Special Economic Zones		X	X	
Private Public Dialogue		X	X	X

Source: own elaboration on various project documents

The only area of activity covered by all the projects is ***business registration and formalization***, which was always part of the initial design. Seven areas of activity, construction permits, real estate transactions, trade logistics, business taxation, general investment promotion, Public Private Dialogue (PPD) and miscellaneous themes related to DB indicators, were covered by three projects, sometimes as a result of changes in project configuration. In particular, in two countries out of three, business taxation and trade logistics were added during implementation. The less common areas of activity, covered by only two projects, were labor market regulations, business licensing, sector oriented investment promotion and Special Economic Zones (SEZ), the latter added during implementation.

2.2 Timeline and Budget

Timeline.[2] In Burkina Faso and Liberia project activities started in 2006 while in Rwanda and Sierra Leone work started in 2008. However, the Sierra Leone project was the continuation of previous initiatives implemented starting in 2005. At approval, the expected duration ranged between about two years, in the case of Burkina Faso and Rwanda, to almost four years, in the case of Liberia. In three cases duration was extended during implementation. This was particularly the case of the Burkina Faso project, whose duration was more than doubled – from 21 to 57 months. The Rwanda project was prolonged by 12 months, while in Liberia, where the project was already scheduled to have a 'long' duration, the extension was of only 6 months. In the end, as indicated in Exhibit 2.4 below, ***actual duration ranged between two years and nearly five years***. These data refer to the 'core' project components, as in Liberia some activities, implemented as separate projects, are still ongoing at the time of writing, with completion expected to occur in mid 2011.

[2] There are some uncertainties regarding the timeline, as some project documents are not dated and/or the date of key steps is not explicitly indicated. However, this does not impact significantly on the analysis.

Exhibit 2.4 Timeline

Country	Start of Activities	Expected Completion	Actual Completion	Expected Duration	Actual Duration
				Months	
Burkina Faso	03/2006	12/2007	11/2010	21	57
Liberia	10/2006	06/2010	12/2010*	45	51
Rwanda	01/2008	12/2009	12/2010	23	35
Sierra Leone	12/2008	06/2011	06/2011	31	25

* Some activities are still ongoing
Source: own elaboration on various project documents

Budget. At approval, budgets ranged from a minimum of US$ 2.2 million for Burkina Faso to a maximum of US$ 8.2 million for Sierra Leone. During implementation, ***the budgets for all projects underwent significant changes***, in terms of both overall value and allocation among components. This was particularly the case with the Liberia project, whose budget was increased by US$ 1.5 million, plus an additional US$ 2.5 million contribution from the Investment Climate Facility for Africa (ICF), with an overall 60% increase in funding. In Burkina Faso, the budget was increased by about 27%, to cover the considerable extension in duration. In Rwanda, the budget was only marginally increased (+3%), while there was a major reallocation of funding among the various components. In Sierra Leone, the change in commitment of the funds schedule set by the donor determined the cancellation of some activities and led to a budget reduction of about 12%. As a result, at completion, budgets ranged from about US$ 3 million for Burkina Faso and Rwanda to US$ 6-7 million for Sierra Leone and Liberia (almost US$ 9 million for Liberia, when the ICF contribution is considered). The ***size of budgets largely reflect the overall orientation of projects***, with the two smaller projects predominantly focusing on policy advisory, and the two larger ones extensively involved in institution building.

Exhibit 2.5 Budgets

Country	Budget (US$ million)		Comments
	At approval	At completion	
Burkina Faso	2.2	2.8	Increase in funding largely related to the inclusion of the new Trade Logistics component.
Liberia	4.7	8.7 (6.2 + 2.5)	Major increase in funding in 2008, with the adding of two new components, including US$ 2.5 million provided by ICF.
Rwanda	3.2	3.3	Reorientation of funds among components in mid 2009, with only a marginal increase in the overall budget.
Sierra Leone	8.2	7.2	Total budget reduced due to the change in the Donor grant period.

Source: own elaborations on various project documents

2.3 Project Environment

Political and Economic Context. The four projects were implemented in challenging environments. This is particularly the case for Liberia and Sierra Leone, countries that had ***just emerged form long armed conflicts*** which resulted in the nearly complete destruction of government institutions and administrative machinery. Rwanda is also considered a post conflict country, but by the time the IFC project was launched, a significant recovery had already taken place. The political and institutional situation was definitely more favorable in Burkina Faso, a country that has enjoyed a long period of political stability. All countries are constitutional democracies, although with non-negligible ***differences in terms of political rights and civil liberties***. Burkina Faso, Liberia and Sierra Leone are ranked as 'partly free' countries in Freedom

House's *Freedom in the World* report.[3] Instead, Rwanda, where the political leadership exerts a strong control over civic and political life, is ranked as 'not free.' With a Gross National Income (GNI) per capita ranging between a maximum of US$ 510 in Burkina Faso and a minimum of US$ 160 in Liberia, the four countries are ***among the poorest economies in the world***. Burkina Faso is the largest economy, with a Gross Domestic Product (GDP) of about US$ 8 billion, followed by Rwanda, with a GDP of US$ 4.5 billion. Liberia and Sierra Leone are smaller economies, with a GDP of less than US$ 2 billion. ***Economic activity is still largely dominated by agriculture***, which accounts for between 33% and 61% of GDP. Mining plays an important role in Liberia, in Sierra Leone and, increasingly, in Burkina Faso. Exports are concentrated on a relatively small number of commodities and all countries post significant ***trade and current account deficits***. Burkina Faso and Rwanda are landlocked countries, and their trade flows are severely handicapped by high transportation costs.

Exhibit 2.6 Summary of Political and Economic Conditions

Country	Political Situation	Economic Situation			
		Size of Economy (US$ bn)	GNI per capita (US$)	Agriculture as share of GDP	Trade Balance as share of GDP
Burkina Faso	No armed conflict since the 1987 coup. Country ranked as partly free by Freedom House	7.9	510	33%	-10.9%
Liberia	12 year civil war ended in 2002. Country ranked as partly free by Freedom House	0.8	160	61%	-53.5%
Rwanda	Genocide in 1994. Country ranked as not free by Freedom House	4.5	460	37%	-13.7%
Sierra Leone	14 year civil war ended in 2003. Country ranked as partly free by Freedom House	2.0	340	50%	-10.4%

Sources: World Development Indicators, Freedom House, and IMF. Economic indicators refer to 2008, with the exception of GNI per capita, which refers to 2009

Other Donor Initiatives. IFC projects operated in a fairly crowded environment, with the presence of several other donor initiatives targeting various aspects of the investment climate. In ***Rwanda***, issues related to enterprise registration, land reform and strengthening of commercial courts were addressed by a large (US$ 9 million) ICF project that became operational in 2007, i.e. before the launch of the IFC project. Reform in customs and taxation was supported by DFID, which has also been active in land reform, together with other bilateral donors. In ***Sierra Leone***, tax reform was supported by DFID, investment promotion received assistance from the World Bank, tourism sector development was supported by the UNDP, while certain activities in the field of business registration were taken over by the ICF. In ***Liberia***, reforms in areas related to trade logistics were supported by USAID, the African Development Bank, and the ICF. The latter was also active in supporting reform in business registration, but in this case funding was channeled through the IFC project. In ***Burkina Faso***, other donors were comparatively less involved in investment climate-related activities and the IFC project played a major role in fostering reform, although during implementation some activities, namely in the fields of commercial justice and land registration, were again supported by the ICF. All the countries have ongoing ***macroeconomic adjustment programs with the International Monetary Fund*** (IMF), and this greatly influenced the nature of reforms in key areas, especially business taxation and customs.

The presence of various donor initiatives all pointing in the same direction definitely contributed to hasten the pace of reforms. However, for the purposes of this exercise, this raises a serious

[3] http://www.freedomhouse.org/template.cfm?page=1

analytical issue, as it makes it more difficult to disentangle the contribution of IFC projects from that of concomitant initiatives. The importance of this methodological issue within the context of the present study is described in detail in the next Section.

3 METHODOLOGICAL CONSIDERATIONS

3.1 Scope of the Analysis

In line with what was indicated in the TOR, the analysis focuses on ***seven types of impact***, namely:

- private sector cost savings,
- private sector investment generated,
- number of jobs created ('job creation'),
- number of registered businesses,
- number of businesses complying with tax regulations ('tax compliance'),
- tax revenue generated, and
- increase in trade flows.

There is only a partial correspondence between the above impacts and the indicators comprising the Monitoring and Evaluation (M&E) system currently used by IFC for investment climate projects.[4] There is a full match in the case of two indicators, namely private sector cost savings and job creation, and therefore the definitions used here are exactly the same used in the M&E system. A third impact, private sector investment generated, also has a counterpart in the M&E system, but the definition was slightly adjusted to better match the nature of the projects analyzed. Two other impacts, the number of registered businesses and the number of businesses complying with tax regulations, correspond to a 'generic' outcome indicator in the M&E system, i.e. the 'number of businesses completing a new/reformed procedure.' This involved an adaptation of the generic definition to the specific needs of the analysis. The remaining two impacts, tax revenue generated and increase in trade flows have no correspondence in the M&E system, and a working definition was developed in the earlier stages of the Assignment. The definitions retained for the present analysis are presented in Exhibit 3.1 below.

Exhibit 3.1 Definitions of Impacts Analyzed

Impact	Corresponding Indicator in the IFC M&E System	Definition Used in the Analysis
Private sector cost savings	Aggregate private sector cost savings (impact indicator)	Aggregated cost savings for businesses resulting from administrative procedures/policies/practices that were improved/eliminated and/or laws/regulation/amendments/codes passed in the jurisdiction in which the project operates (same definition used in M&E system).
Number of jobs created (job creation)	Number of formal jobs (impact indicator)	Number of formal jobs in the jurisdiction in which the project is working (same definition used in M&E system).
Private sector investment generated	Value of investment-financing facilitated by advisory services (impact indicator)	Value of investment into companies in the jurisdiction/sector/zone in which the project operates (slightly modified compared with definition used in M&E system).
Number of registered businesses	Number of businesses completing a new-reformed procedure in a given jurisdiction (outcome indicator)	Number of enterprises completing business registration procedures, with a further distinction between (i) new businesses and (ii) formalized businesses (adaptation of generic definition used in M&E system)
Number of businesses		Number of enterprises complying with the tax regime,

[4] The full set of indicators is illustrated in the manual prepared by the IFC Advisory Services BEE Business Line in association with GTZ and DFID, *Monitoring and Evaluation for Business Environment Reform: A Handbook for Practitioners*, World Bank, June 2008 (see in particular Annex 2 Glossary). See also IFC, "Standard Core and Supplemental Indicators for Business Enabling Environment Projects," June 2008, accessible through http://www.ifc.org/ifcext/rmas.nsf/AttachmentsByTitle/Standard+BEE+Indicators+June+2008/$FILE/Standard+BEE+Indicators+Jun+19+2008.pdf.

complying with tax regulations (tax compliance)		with reference to profit tax and/or value added tax (<u>adaptation of generic definition used in M&E system</u>)
Tax revenue generated	None	Value of tax revenue raised from the enterprise sector, with reference to direct taxes (e.g. profit tax) and/or indirect taxes (value added tax or sales tax) (<u>own definition</u>)
Increase in trade flows	None	Value of merchandise import and export transactions (<u>own definition</u>)

3.2 Nature and Determinants of Impacts

The TOR make a distinction between ***cross-cutting impacts*** "*which are relevant across all product areas and projects*" and ***product-specific impacts***, referred to activities undertaken in specific areas of interventions (business registration procedures, labor market regulation, etc.). Private sector cost savings and private sector investment generated are regarded as cross cutting impacts, while the other five impacts are considered product-specific. This categorization broadly reflects the manner in which impacts have been interpreted by the various projects. However, the classification of several impacts as 'product-specific' (i.e. related to work carried under one specific component) is at times diminutive, as these impacts may be the result of activities carried out under several components, and this may induce an excessively narrow analysis.

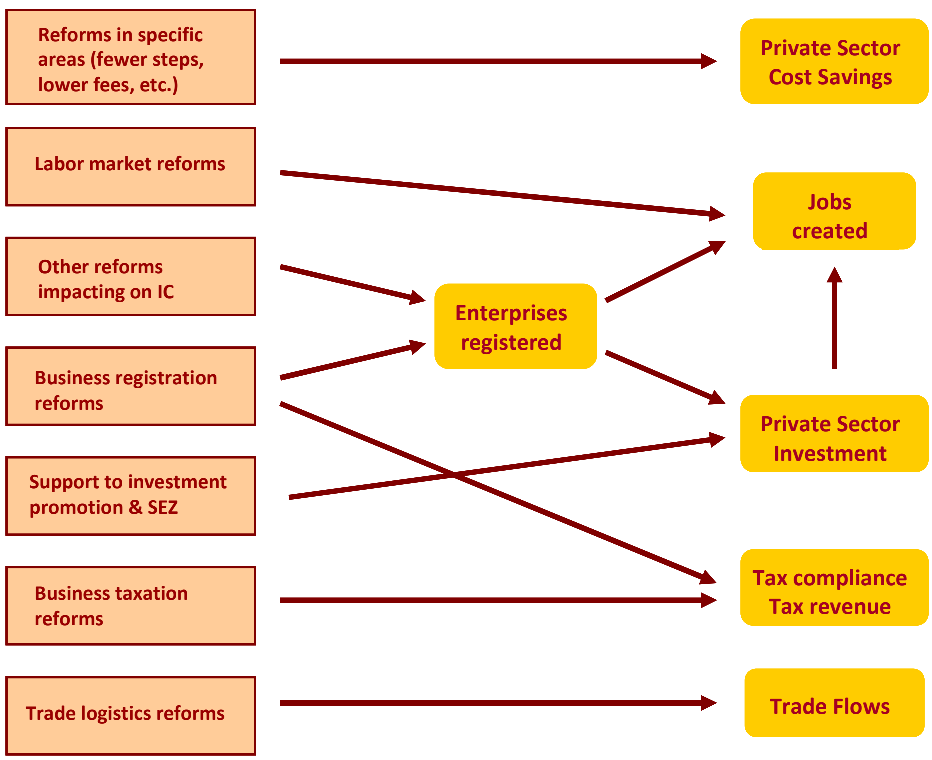
In order to gain a more comprehensive understanding of causal linkages, the seven impacts have been re-classified into two categories, namely: (i) ***impacts that are the <u>direct</u> result of specific reform measures***, on the basis of a sort of 'dose – response' type linkage, and (ii) ***impacts that are the result of the <u>interplay</u> of various measures***, involving multiple causation linkages.

The best example of impacts <u>directly</u> resulting from specific reform is provided by ***private sector cost savings***. This is the case, for instance, of a reform reducing the steps and fees required for registering a land plot, which directly influences the costs borne by private operators. The strength of the linkage may be affected by other intervening factors (exogenous developments, existence of parallel donor initiatives, with ensuing problems in the attribution of results – see below), but the relationship remains a direct one. Another case of direct causal linkage is provided by reforms in trade logistics, which have a direct effect on ***trade flows***. In this case, as it will be seen in detail in Section 7, the effect of IFC-supported reforms is 'dominated' by other factors (e.g. developments in world markets), and the influence is very limited. Nonetheless, in logical terms, the linkage remains a direct one (i.e. a reduction in logistics costs does create in itself greater opportunities for trade).

In the other cases, the relationship between reform measures and impacts is much more complex, involving <u>multiple causal linkages</u>, sometimes at different levels of the causation chain. In particular, both ***private sector investment*** and ***job creation*** are directly affected by certain measures (i.e. actions aimed at strengthening investment promotion agencies and SEZ, labor market reforms), but are also (indeed, predominantly, as it will be seen later in this Report) influenced by developments in the enterprise creation process, i.e. the registration of new enterprises. Therefore, the ***number of registered enterprises*** plays an essential role in the analysis, being both an impact in its own right and a 'generator' of other impacts. As for determinants, the number of registered enterprises is often associated with reforms in business registration, which makes it easier to establish new enterprises. However, the causation chain is more complex, involving the whole set of reforms that influence the investment climate, as well as other exogenous factors, such as the more or less buoyant conditions of the economy, the degree of entrepreneurship, etc.. A multiple causation chain is found also in the case of ***tax compliance*** and ***tax revenue generated***. These variables are directly affected by measures aimed at improving business tax administration but are also influenced by reforms in business registration, which, by favoring the formalization of enterprises, induce higher compliance and, hence, *ceteris paribus*, an increase in the tax revenue generated. However, as it will be illustrated later in this Report, the effects of IFC-supported reforms on fiscal variables are usually dominated by exogenous developments (namely, greater efforts to increase tax collection independently deployed by tax authorities), similar to what was mentioned above regarding trade flows.

Based on the above, the set of causal relationships linking IFC actions in various areas with their impacts (the 'intervention logic') can be reconstructed as indicated in Exhibit 3.2 below.

Exhibit 3.2 Summary of Causal Linkages



3.3 Other Methodological Considerations

Framework of Analysis. In principle, impact assessment analysis would require the comparison of the situations 'without' and 'with' the intervention. However, as recognized by the TOR, in the case of "*universally based interventions such as IFC's [investment climate] programs*," the recourse to control groups is generally unfeasible. Therefore, it was accepted that the exercise would rely on an assessment of "*changes in business environment before and after each project*" (TOR, page 6). Efforts were made to control for exogenous factors through the development of 'counterfactual' scenarios, but this was possible in only a few circumstances, and using rather crude extrapolation techniques. As virtually all the variables analyzed display a rising trend, the adoption of a 'before and after' approach inevitably ***tends to overstate the impact of IFC interventions***.

Problems in Attribution. As already mentioned in Section 2, the reforms promoted by IFC projects were in several cases also supported by other donor initiatives and, as acknowledged by the TOR, "*it is difficult to determine the impact of reforms on private sector that can be attributed solely to IFC*" (TOR, page 7). Again, efforts were made to isolate the effects of IFC-supported reforms from concomitant factors, but, in general, this was possible only in the case of private sector cost savings, for which the linkage between cause and effect is easier to determine. In the case of other impacts, the ***various donor initiatives were so intertwined that their effects could not be estimated separately***. An example of this 'attribution problem' is provided in Box 3.1 below.

Box 3.1 Example of Attribution Problem - Business Registration Reform in Rwanda

In Rwanda, the decision to reform the business registration system was made in 2007 and, therefore, pre-dates the launch of the IFC project. This decision was the result of preparatory work done by an earlier FIAS mission and a World Bank project and was supported by ICF, which assisted in the creation of the Rwanda Commercial Registration Services Agency (RCRSA), a one-stop-shop structure intended to take over responsibility for business registration from the courts. Therefore, when the reform of the business registration system was proposed by the IFC in early 2008, the ground had already been well prepared. More importantly, ICF assistance continued in subsequent years (namely, through the provision of training, software and equipment), when the RCRSA was transformed into the Office of the Registrar General. While there is no doubt that the impetus for legal and regulatory simplification came primarily from the IFC project in the context of the so called DB Reform component, it is also clear that IFC recommendations could be taken into consideration and implemented because the proper infrastructure had been/was in the process of being created by other initiatives. In this sense, the results achieved by IFC and other donor projects are inextricably connected and their impacts cannot be estimated separately in any meaningful manner.

Source: Rwanda Country Report

Time Frame. The impact assessment exercise covers the period until the end of 2010, which coincides with completion of the four projects. It is well known that in many cases investment climate reforms take time to produce effects, which become visible only in the medium term. This is particularly the case for impacts on private sector investment and job creation, as economic agents tend to respond with a time lag to the opportunities created by changes in the legislative and regulatory framework. An effort was made to assess the likely evolution of impacts in the medium term (i.e. the 3-4 years subsequent project completion), but in general this assessment could be done only in qualitative terms. Therefore, it is important to stress that the quantitative estimates provided in the Report refer only to the ***initial impacts of IFC projects, which represent only a portion of the total impacts***.

Comparison with Targets. A potentially interesting theme for any impact assessment exercise is the comparison of results achieved with the targets set at inception. Unfortunately, in the case under consideration, the exercise is made difficult due to a combination of factors. ***First***, there are differences of interpretation of certain impacts that were narrowly interpreted following the 'product-specific' logic mentioned above. For instance, private sector investment generated was typically linked only to actions in investment promotion and development of SEZ, without consideration of the investments generated via the enterprise creation process. ***Second***, even when there were no problems of interpretation, the relevant indicators were not always considered in the M&E system of the various projects and the related targets were not always established. For example, although all the projects were involved in the reform of business registration, a target for the corresponding indicator, the number of enterprises registered, was established only in Burkina Faso. ***Third***, whenever targets were set, it is not always clear whether they were expressed in incremental terms or refer to absolute values that have to be achieved. The matter is further complicated by the fact that, with very few exceptions, no indication is provided on how the target figures were arrived at. Under these conditions, ***no meaningful comparison between the estimates presented here and the targets set by the project teams can be made***.

Analysis of Efficiency. Efficiency measures the extent to which the resources devoted to a certain initiative are reasonable vis-à-vis the results achieved. In practice, the analysis of efficiency involves the calculation of 'cost effectiveness ratios,' linking the impacts achieved with associated expenditures. Given the comparative character of this Report and the multi-product nature of the projects analyzed, the analysis of efficiency constitutes a potentially relevant topic, as it could provide useful suggestions regarding the cost effectiveness of various types of interventions, both within and across projects. Unfortunately, ***the analysis of efficiency is prevented by the lack of sufficiently detailed information regarding the utilization of financial resources***. In fact, in all the projects analyzed, expenditures were not tracked by component or activity stream, but only by type of expense (e.g. staff costs, travel costs, etc.), and even budgets are only sometimes available in a highly aggregated form (e.g. for Burkina Faso no budget breakdown by component is available). The lack of detailed information on how financial resources were allocated and disbursed constitutes another limitation to the analysis performed here and, more generally, for the effective functioning of the M&E system.

3.4 Data Issues

The impact assessment exercise required the use of a variety of data, of a micro and macro economic nature, collected from a variety of sources. As for ***secondary sources***, extensive reference was made to official statistics, documents produced by IFC projects, and research reports from various entities. In some cases, reference was also made to data presented in the DB Reports and other World Bank Group publications (e.g. the Enterprise Surveys carried out in the mid-late 2000s in the four countries). Information retrieved from secondary sources was extensively complemented and augmented with elements collected during ***field interviews*** with a wide range of informants (private firms, lawyers, accountants, public officials, etc.) and through the ***analysis of records*** kept by various public agencies (e.g. business registries). Unfortunately, despite the considerable efforts deployed, in several cases the quality of data retrieved is less than ideal. For instance, in the case of private sector cost savings, the lack and/or limited usefulness of data for the baseline scenario found in project documents made it necessary to reconstruct the 'before project' situation ex-post, a task that proved quite challenging due to the absence of appropriate documentation and/or to fading memories. In other cases, reliance on data from sources that proved only partly representative had to be made (e.g. enterprise surveys covering only or primarily established firms), with the resultant need to introduce adjustments that inevitably involve an element of subjectivity. Under these conditions, ***the impact estimates provided here inevitably suffer from a certain degree of approximation***.

4 IMPACT ASSESSMENT – PRIVATE SECTOR COST SAVINGS

4.1 Introduction

Definitions. Private sector cost savings (PSCS) are defined as savings accruing to private economic agents as a result of reforms in the investment climate. For the purposes of this exercise, three types of PSCS have been identified, namely:

- ***cost savings***, associated with the reduction in out-of-pocket expenses incurred by private enterprises thanks to the elimination/reduction of certain fees (stamp duties, service fees, etc.) and/or of the need to rely on service providers for certain formalities (e.g. elimination of notarization for articles of incorporation);
- ***time savings***, referred to the gains in terms of opportunity cost of labor resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services;
- ***financial savings***, related to the reduction in the financial burden shouldered by private operators as a result of changes in the payment modalities for a certain fee or tax, with ensuing cash flow advantages.

Methodology. PSCS were estimated based on methodology inspired by the guidelines recently developed by the IFC to quantify the savings associated with investment climate operations.[5] The methodology is illustrated in some detail in Annex A, while a summary presentation of key aspects is provided in Box 4.1 below.

Box 4.1 - Estimating PSCS: Key Methodological Aspects

In essence, estimating PSCS involves the multiplication of a 'price element,' i.e. the savings achieved in one particular case, with a 'quantity element,' i.e. the number of relevant observations.

The nature of the ***price element*** depends upon the type of reform under consideration. In the case of cost savings, benefits can generally be measured directly (e.g. the registration fee is reduced from X to Y). In the case of time savings, the value to be considered is itself the result of the multiplication of the amount of time saved (typically, expressed in hours) times the relevant unit labor costs. Finally, in the case of financial savings, reference is made to the value of payments postponed, to the duration of the postponement, and to the relevant interest rate that measures the opportunity cost of capital.

The ***quantity element*** also varies depending upon the nature of the reform considered. In some (most) cases, reference is made to the number of enterprises affected by the reform (e.g. number of enterprises befitting from the simplification of registration procedures or filing an application for a construction permit). In other cases, reference is made to the number of transactions facilitated by the reform (e.g. the number of trucks not undergoing a physical inspection at the border).

PSCS are calculated for the entire life of IFC projects. As benefits may occur at different points in time, it is necessary to ***proceed to compounding*** in order to properly aggregate annual values, taking the terminal year of each project as reference point. This is done using the relevant real interest rate.

Data Sources and Issues. Data were retrieved from a variety of primary and secondary sources and the exercise proved quite challenging. In the case of ***time savings***, data on unit labor costs was derived from employment surveys whenever possible, but in several cases it was necessary to rely on information provided by private operators. This was particularly the case with the 'value of time

[5] IFC, *Guidelines for Aggregate Cost Savings template (basic)*, s.d. (but August 2010), hereinafter referred to as the 'IFC Guidelines..'

for independent traders, who are typically not covered by surveys. Information on the time required to comply with the various procedures was usually obtained from professionals active in the relevant fields, sometimes supplemented with data drawn from documentary sources (e.g. the time to comply with tax payments published in DB Reports). In the case of ***cost savings***, data on fees and taxes imposed on private businesses were retrieved from official sources. Data collection was particularly complex in the case of fees and taxes expressed in *ad valorem* terms, as this required also estimating the value of the assets on which the fees and taxes were levied (i.e. the value of land plots being registered or the value of buildings for which a construction permit is asked). Similarly, in the case of ***financial savings***, it was necessary to estimate the value of the tax payments postponed. In several cases the identification of the ***population affected***, i.e. the number of economic agents or the number of transactions benefiting from reforms, posed significant problems. This was particularly the case for PSCS related to property transactions (because records often do not distinguish between private houses and commercial & industrial buildings) and to international trade transactions (which are sometimes handled by intermediaries who simultaneously perform more than one transaction).

4.2 Reforms Generating PSCS

PSCS are the result of a wide range of reforms covering various themes addressed by IFC projects, from business registration to real estate transactions and from business taxation to trade logistics. All in all, the analysis considered the effects of ***more than 70 reform measures.***[6] As shown in Exhibit 4.1 below, reform measures generating PSCS tend to concentrate in four areas, namely: business registration, construction permits, real estate transactions, and trade logistics. Burkina Faso is the country with the broadest range of measures generating PSCS, with no less than 25 reforms across eight areas of activity, closely followed by Rwanda (23 reforms is six areas). In contrast, in Sierra Leone, PSCS were the result of only 9 reform measures in just two areas. Differences across countries reflect two factors, namely: (i) the overall orientation of projects, i.e. the relative emphasis placed on legislative and regulatory reform vs. investment promotion and PPD activities, and (ii) the projects' ability to get reforms effectively implemented in the relevant time frame.

Exhibit 4.1 Summary of Reform Measures Generating PSCS

Areas of Activity	Burkina Faso	Liberia	Rwanda	Sierra Leone
Business Registration	7	5	7	8
Construction Permits	4	5	2	
Real Estate Transactions	4	2	3	
Labor Market	1			
Trade Logistics	3	3	6	
Other DB-related Themes (e.g. bankruptcy law, secured lending)	1			
Business Taxation	3		1	1
Business Licensing	2		4	
Total	**25**	**15**	**23**	**9**

Source: own elaboration on various project documents

It is important to note that not all the reforms adopted during the period were taken into consideration to estimate PSCS. In particular, no consideration was given to (i) minor procedural measures whose impact (if any) is scarcely noticeable (e.g. in Rwanda, the translation from Kinyarwanda to English of instructions related to the Road Worthiness Certificate), and (ii) reforms that, although enacted, were not implemented in practice (e.g. the Company Act, Bankruptcy Act and Payment System Act in Sierra Leone). Also, in the case of DB-related reforms, no consideration was given to improvements in DB indicators that stemmed from the clarification of

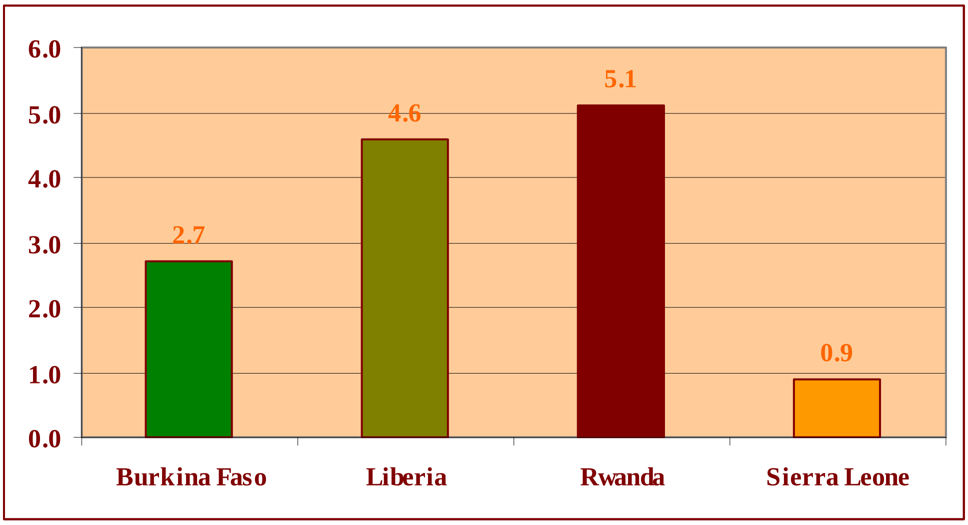
[6] For a detailed presentation of the reform measures considered, please refer to Annex B.

the non-mandatory nature of certain procedures (e.g. in Burkina Faso, the fact that the monthly inspections for the erection of industrial buildings listed in DB Reports were actually never mandatory). Finally, a special case is represented by the new Labor Code in Burkina Faso, adopted in 2008. This reform introduced several changes that effectively reduced the cost of labor for private entrepreneurs, notably through the introduction of provisions limiting claims for damages in the case of irregular dismissal, the reduction of the period during which female workers are entitled to partial leave for breast feeding, and the reduction of entitlements to holidays for family reasons. However, in this case the cost savings accruing to entrepreneurs cannot be regarded as 'true' PSCS, but rather as a 'transfer' between two parties within the private sector (entrepreneurs and workers), and were therefore excluded from PSCS estimates.[7]

4.3 Estimate and Determinants of PSCS

Magnitude of PSCS. Overall, the PSCS generated by the four IFC projects are estimated at about ***US$ 13 million***. This is the cumulated value of PSCS achieved during the 2007 – 2010 period, and is expressed in 2010 dollars. As shown in Exhibit 4.2 below, the value of PSCS varies considerably across the four countries, ranging from marginally less than US$ 1 million in Sierra Leone to US$ 4-5 million in Rwanda and Liberia, with an intermediate value of US$ 2.7 million in the case of Burkina Faso.

Exhibit 4.2 Summary of PSCS (US$ million)



Source: Country Reports

Sources of PSCS. Regarding the ***type of savings***, cost savings are by far the main source of PSCS, accounting for 75% of the total, and ranking first in all countries. Time savings are less important, accounting for 21% of total PSCS, and play a significant role only in Rwanda and Sierra Leone. Financial savings, associated with the postponement in the payment of certain taxes, are a modest item, accounting for only 3% of total PSCS. Details are provided in Exhibit 4.3.

[7] This point was raised in some comments from IFC on the PSCS methodology developed at earlier stages, and, therefore, the cost savings accruing to entrepreneurs were excluded from the analysis. However, following the same line of reasoning, the PSCS determined by the reduction in legal fees associated with the introduction of standard documents should also be excluded, while they are explicitly included among PSCS in the relevant IFC Guidelines. This, in the opinion of the Consultant, results in a slight inconsistency in the definition of PSCS. In any event, given the small orders of magnitude involved, this inconsistency does not appreciably impact results.

Exhibit 4.3 PSCS by Type of Savings (US$ '000)

Country	Cost Savings	Time Savings	Financial Savings	Total PSCS
Burkina Faso	2,236.7	288.3	197.6	2,722.6
Liberia	4,313.9	301.1	0	4,614.9
Rwanda	2,965.2	1,890.6	228.0	5,083.7
Sierra Leone	532.0	343.8	16.1	891.8
Total	**10,047.7**	**2,823.8**	**441.6**	**13,313.1**
Share	**75%**	**21%**	**3%**	**100%**

Totals may not add due to rounding
Source: Country Reports

In terms of ***areas of activity***, almost three quarters of total PSCS were generated by reforms in two areas, namely trade logistics (40% of total PSCS) and business registration (33%). Reforms in trade logistics are by far the main generator of PSCS in Liberia and the second largest in Rwanda. Reforms in business registration are the main source of PSCS in Rwanda and Liberia and rank second in the other two countries. Reforms concerning real estate transactions are the third largest generator of PSCS, accounting for 14% of the total, and play an important role in Burkina Faso, where they are the main source of savings. Details are provided in Exhibit 4.4.

Exhibit 4.4 PSCS by Area of Activity (US$ '000)

Areas of Activity	Burkina Faso	Liberia	Rwanda	Sierra Leone	Total	Share
Business Registration	415.4	782.8	2,393.3	769.9	**4,361.4**	**33%**
Construction Permits	244.5	245.3	9.4	0	**499.2**	**4%**
Real Estate Transactions	1,102.8	26.0	646.4	0	**1,775.2**	**13%**
Labor Market	28.6	0	0	0	**28.6**	**0%**
Trade Logistics	399.5	3,560.8	1,416.8	0	**5,377.1**	**40%**
Other DB-related Themes	240.4	0	0	0	**240.4**	**2%**
Business Taxation	290.9	0	490.6	121.9	**903.4**	**7%**
Business Licensing	0.4	0	127.3	0	**12.7**	**1%**
Total	**2,722.6**	**4,614.9**	**5,083.7**	**891.8**	**13,313.1**	**100%**

Totals may not add due to rounding
Source: Country Reports

Determinants of PSCS. In general, ***the bulk of PSCS originate from only a few reform measures***. This is particularly the case in Liberia, where one single reform accounts for 66% of total PSCS, and in Rwanda, where two reforms account for 70% of total savings. In Sierra Leone, almost half of PSCS are related to one reform. In Burkina Faso, the distribution of savings is marginally less concentrated, with the primary generator of PSCS accounting for 'only' 40% of the total and two other reforms accounting for more than 10% of benefits. Some details on 'high yield' reforms are provided in Exhibit 4.5 below.

Exhibit 4.5 Contribution of Specific Reforms to PSCS

Country	Two Main Contributors to PSCS	Share of PSCS
Burkina Faso	• reduction of the *ad valorem* tax on property transactions • elimination of police escorts for containerized traffic	40% 13%
Liberia	• reduction of pre-shipment inspection fees • elimination of the fee to obtain an Import Permit Declaration	66% 9%
Rwanda	• elimination of the *ad valorem* tax on the declared capital of companies • series of interrelated simplifications in trade-related procedures and docs	47% 23%
Sierra Leone	• elimination of the obligation to renew business registrations annually • introduction of the Goods and Services Tax replacing 7 other taxes	48% 14%

Source: Country Reports

In practice, high values of PSCS are associated with a high number of transactions and/or high levels of taxation/fees. ***High numbers of transactions*** are primarily found in trade logistics, where the number of import export transactions in any given country may easily exceed 100,000 per year. In such a case, even modest savings of, say, US$ 5 to 10 per transaction, may well translate into significant PSCS figures. High transaction numbers can also be found in the case of registration requirements, provided that they are of a recurrent type (e.g. the annual renewal of registration in Sierra Leone). Instead, business licenses are typically of the 'one off' type, and this explains the low level of PSCS achieved by the projects in the area of business licensing reform. ***High taxation/fee levels*** are typically found in real estate and construction, where the significant unit savings (in certain cases, up to US$ 1,000 – 1,500 per transaction) more than compensate for the small number of transactions (often less than 1,000 per year).

4.4 Selected Aspects

Macroeconomic Relevance of PSCS. An indication of the overall economic relevance of PSCS achieved through investment climate reforms can be obtained by comparing the amount of savings to private operators with the size of the economy, as measured by the Gross Domestic Product (GDP) or, preferably, the GDP generated by the private sector. As indicated in Exhibit 4.6 below, earlier studies covering both middle and low income countries (MIC and LIC) suggest that PSCS generated by investment climate reforms may account for up to 0.2% of private sector GDP.[8] The importance of PSCS is greater in the case of MIC, primarily because of the significant savings associated with reforms that impact enterprise operations. PSCS are somewhat lower in LIC, where significant savings are also associated with the reform of entry and exit conditions.

Exhibit 4.6 Macroeconomic Importance of PSCS – Results of Earlier Studies

Type of Countries	PSCS as Share of Private Sector GDP			Total PSCS as Share of Private Sector GDP
	Reforms of Entry & Exit Conditions	Reforms of Operations	Reforms of Business Taxation	
Middle Income Countries	0.02%	0.20%	…	0.22%
Low Income Countries	0.06%	0.10%	0.01%	0.17%

Source: adapted from Liepina et al. 2009

In the case of the four countries analyzed, data on private sector GDP are not systematically available and, therefore, PSCS were compared with total GDP. Results for the years 2008 through 2010 are presented in Exhibit 4.7 below. The relative importance of PSCS is greater in Liberia, where they represent between 0.14% and 0.18% of GDP, a share not dissimilar from the values found in the earlier studies mentioned above. In Rwanda and Sierra Leone, values vary significantly over time, with PSCS accounting for between 0.01% and 0.04% of GDP, with average values of 0.031% and 0.018%. The lowest values are found in Burkina Faso, where PSCS accounted for more than 0.01% only in 2010.

Exhibit 4.7 Macroeconomic Importance of PSCS – Four Countries Analyzed

Country	PSCS as Share of Total GDP			
	2008	2009	2010	Average
Burkina Faso	0.003%	0.009%	0.013%	0.009%
Liberia	0.139%	0.180%	0.184%	0.169%
Rwanda	0.022%	0.030%	0.039%	0.031%
Sierra Leone	0.011%	0.018%	0.025%	0.018%

NB ratios were calculated on the basis of current values of PSCS, net of compounding
Source: own calculations on IMF data and information from country reports

[8] Liepina S. et al., *Show Me the Money II: From Concept to Practice*, IFC SmartLessons, May 2009.

It is important to note that in all the countries the ***relative importance of PSCS has been growing over time***. To some extent, this is the result of negative developments in the denominator of the ratio, as in recent times all countries experienced a slowdown in nominal GDP growth, with some cases of decline in absolute terms (Burkina Faso in 2009 and Sierra Leone in 2009 and 2010). But the growing trend is also a confirmation that, in many cases, investment climate reforms take time to produce their effects and, therefore, the figures presented here must be regarded as only initial estimates of total benefits generated by the projects.

Possible Underestimate of Time Savings. As indicated in Section 4.1 above, estimates of time savings associated with the reform of various procedures were largely based on information provided by professionals active in relevant fields (accountants, lawyers, clearing agents, etc.). In practice, following the approach typically adopted in Standard Cost Model (SCM) studies, the 'staff time' devoted to the various procedures was estimated with reference to a 'normally efficient firm.' Earlier studies have suggested this procedure may lead to an ***unduly depress time savings, because of the tendency to underestimate the time required to obtain information about the procedures to be fulfilled.***[9] In particular, a case study on the issuance of construction permits in Bosnia Herzegovina compared SCM data with data from a firm survey and found that "*while the SCM estimated only four to six hours of staff time, the mean from the survey data was 270 hours and the median 50 hours*" (page 12). Some discrepancies between SCM data and survey results were also found in Madagascar, but in this case the difference was much smaller, with "*survey data … roughly 20 – 25% higher than the SCM estimates for the licenses that could be directly compared*" (page 23).

It should be noted that ***the risk of underestimation with the SCM approach is lower in the case of repeated transactions***, such as import export transactions or payment of taxes, for which the problem of collecting information is much less relevant than in the case of 'one off' transactions, as in the case of building permits. Also, as suggested by the results of the survey in Madagascar, ***the discrepancy between SCM data and survey results is likely to be lower in less sophisticated environments***, as transactions are likely to require fewer documents and checks from authorities. In order to test the sensitivity of our results to a possible underestimation of staff time requirements, PSCS were recalculated under two different scenarios. In Scenario 1, we quadrupled the staff time associate with 'one off' transactions, while holding the staff time required for repeated transactions unchanged. In Scenario 2, we simulated a situation like the one found in Madagascar, and increased all staff time parameters by 25%. The results of the exercise are presented in Exhibit 4.8 below.

Exhibit 4.8 Sensitivity Analysis for Time Savings

Country	Scenario 1: Quadrupling of staff time for one off procedures		Scenario 2: General 25% increase in staff time	
	Effect on Time Savings	Effect on Total PSCS	Effect on Time Savings	Effect on Total PSCS
Burkina Faso	+162%	+17%	+25%	+3%
Liberia	+301%	+20%	+25%	+2%
Rwanda	+13%	+5%	+25%	+9%
Sierra Leone	+95%	+37%	+25%	+10%

Source: Country Reports

In ***Scenario 1***, the increase in time savings is quite significant (between +100% and + 300%) in the three countries where benefits of reforms are predominantly associated with 'one off' transactions, Burkina Faso, Liberia and Sierra Leone. In contrast, in Rwanda, where time savings are mostly associated with repeated transactions in the trade logistics area, the increase is much more modest.

[9] FIAS, How big is a rat's nest? The challenge of M&E for Business Operations – a comparison of survey data and the "standard cost model" to measure the burden of licenses and permits for businesses, June 2009.

However, given the overall predominance of cost savings, this increase in time savings translates into a growth of total PSCS that, while certainly not negligible (especially in the case of Sierra Leone), does not alter significantly the overall picture. In practice, only in Liberia would PSCS increase by about US$ 900,000, whereas in the other three countries the increase would be on the order of US$ 300 - 400,000. In ***Scenario 2***, the increase in total PSCS is much smaller: only in Rwanda would total savings increase by about US$ 400,000, whereas in the other countries the increase would be at most US$ 100,000. On the whole, while the risk of an underestimation of time savings certainly cannot be ruled out, it does not appear to significantly influence our results.

4.5 Possible Medium Term Evolution

The possible evolution of PSCS over the medium term, i.e. over the next three – four years, can only be assessed in broad, qualitative terms, as it is impossible to predict the value of key parameters. In general, ***an increase in the value of PSCS is to be expected***, as the savings associated with reforms already implemented should be gradually supplemented by those generated by reforms that were only recently approved. Examples in this respect include the cost and time savings resulting from the launch of the new business registry in Liberia, and the financial savings associated with the change of VAT payment modalities in Rwanda. However, it should be noted that, following the approach adopted by the IFC Guidelines for the estimation of PSCS, the ***benefits associated with the earlier reforms should be gradually eliminated from calculations***. The rationale for this 'phasing out' is that after a certain number of years the reforms would have been implemented even without IFC support.[10] This 'phasing out' is particularly important in the case of Burkina Faso, where some reforms generating significant PSCS were implemented in the early stages of the project (e.g. the reform of the property transfer tax, that was first reduced back in 2006), but estimates of PSCS for other countries would also be progressively affected.

Medium term prospects in the four countries are summarized in Exhibit 4.9 below. In general, over the next 3-4 years, the total value of PSCS is expected to decline in Burkina Faso and, to a lesser extent, in Rwanda, whereas savings are expected to remain broadly similar to the current levels in Liberia and Sierra Leone.

Exhibit 4.9 Possible Medium Term Evolution of PSCS

Country	Additional Sources of PSCS	Sources of PSCS Being 'Phased Out'	Overall Likely Result
Burkina Faso	• Simplification of business licensing procedures (mostly time savings, probably of modest entity) • Tax administration reform (mostly time savings, with merit to be shared with IMF)	• Business registration reforms (implemented starting in late 2006) • Reduction of property transfer tax (first reduction in 2006)	Significant reduction compared with 2008 – 2010 level
Liberia	• Introduction of new business registry and related reforms, such as the elimination of the annual re-registration (time and cost savings) • Introduction of selective customs controls (mostly time savings, probably quite significant, given the high number of transactions) • Introduction of a standardized deed for property registration (presumably small cost savings given the limited number of transactions)	• Early business registration reforms (implemented in early 2008) • Early construction permits reform (i.e. the reduction of fee charged by the Ministry of Public Works achieved in early 2008) • Reduction of the pre-shipment inspection (PSI) fees (agreed in mid 2008)	No significant change compared with 2008 – 2010 level

[10] See IFC Guidelines, Section 5, last para, page 9.

Rwanda	• Tax administration reform (mostly time savings, with merit to be shared with IMF) • Change in payment modalities for VAT (only marginally considered in current scenario due to recent introduction, possibly US$ 600 – 800,000/year)	• Early business registration reforms (implemented in 2008) • Some simplification measures in customs administration (implemented in 2008)	Marginal reduction compared with 2008 – 2010 level
Sierra Leone	• Establishment of the credit reference registry (time savings) • Digitization of land records (time and cost savings) • Establishment of commercial courts (time and possibly cost savings)	• Business registration reforms (implemented in 2007)	No significant change compared with 2008 – 2010 level

Source: Country Reports

5 IMPACT ASSESSMENT – ENTERPRISE REGISTRATION AND BUSINESS FORMATION & FORMALIZATION

5.1 Introduction

Scope of the Analysis. Enterprise creation is essential for the continued dynamism of a market economy and a robust entry rate of new businesses is instrumental in fostering competition, innovation and, ultimately, economic growth and job creation. Accordingly, the improvement of conditions for the establishment of new businesses was a common feature of all the IFC projects analyzed. The attention paid to the enterprise formation process was paralleled by a significant emphasis on the formalization of enterprises that had been operating informally. The focus on formalization was particularly strong in the two post conflict countries, Liberia and Sierra Leone, where the large majority of enterprises had been operating informally for a long period.[11] Based on the above, the analysis presented in this Section deals with ***developments in business demography*** and is carried out at two levels. First, we investigate ***developments in enterprise registrations***. Then, we proceed to estimate the relative importance of the two main 'components' of enterprise registrations, namely ***the creation of truly new businesses and the formalization of informal ones***. It is important to note that, as anticipated in Section 3 above, the analysis of the enterprise formation process plays an essential role in the context of this exercise. In fact, as will be seen in Section 6, the establishment of new businesses appears to be the single most important determinant of incremental private sector investment and employment that can be associated to the IFC projects under consideration.

Box 5.1 Definition of Formalization

Informality is a multidimensional phenomenon which may concern different aspects of the life of an enterprise. For the purpose of this Study, informality is defined with reference to the registration status and, therefore, ***formalization means the inscription of a business that had previously been operating informally in the relevant business register***. To the extent that business registers operate as one-stop-shops, enterprise registration may also entail registration with tax authorities and/or social security. However, in this Study tax compliance is treated separately.

Causal Linkages. Developments in enterprise registration are often associated with reforms in the business registration regime. However, as already anticipated in Section 3 above, ***the causation chain is much more complex, involving the whole set of reforms that influence the investment climate, as well as other exogenous factors***, such as the more or less buoyant conditions of the economy. Therefore, business registration reforms, while certainly an important factor in facilitating enterprise creation, cannot be regarded as the main, let alone sole determinant. The causal link with business registration reform is stronger in the case of formalization, as the streamlining of procedures, the creation/strengthening of one-stop-shop registration structures, etc. significantly reduce the costs of formalization.

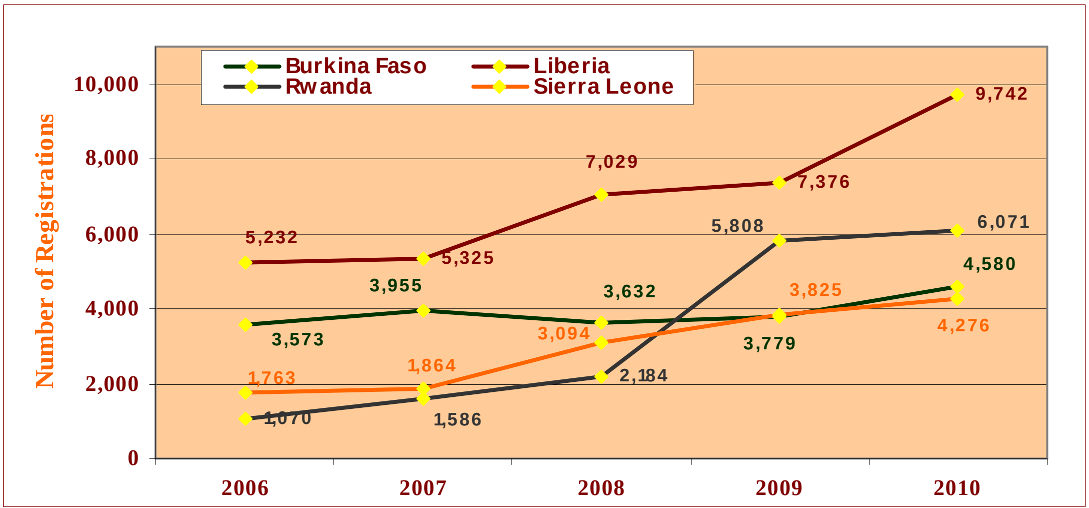
5.2 Impact on Enterprise Registrations

Trends in Enterprise Registrations. All the countries analyzed experienced an increase in enterprise registrations during the period of implementation of IFC projects. The increase was

[11] For instance, in the case of Liberia, a key project objective was "*to lure [informal] firms back into the culture of compliance after the conflict so that they can take advantage of formal economic behavior.*." Liberia Private Sector Development in Post Conflict Program, TAAS – PDS Approval, October 10, 2006.

particularly strong in ***Rwanda***, where the number of newly registered firms had a fivefold increase between 2006 and 2009, passing from fewer than 1,100 to some 5,800 registrations/year. The increase continued in 2010, albeit at a slower pace, reaching almost 6,100 new registrations for the whole year. In ***Sierra Leone***, the number of registrations more than doubled, passing from an average of 1,800 in 2006 – 2007 to more than 3,800 in 2009, with a further increase to an estimated 4,300 in 2010. In ***Liberia***, the number of registrations passed from about 5,200 in 2006 to nearly 7,400 in 2009 and to an estimated 9,700 in 2010. The increase was less marked in ***Burkina Faso***, where registrations oscillated between 3,600 and 4,000 during the 2006 – 2009 period, followed by a significant increase to an estimated 4,600 in 2010. An overall presentation of trends in enterprise registrations in the four countries is provided in Exhibit 5.1 below.

Exhibit 5.1 Trends in Enterprise Registrations



Source: own elaborations on enterprise registration data. For details, refer to Country Reports

Estimate of Incremental Enterprise Registrations. The impact of investment climate reforms on enterprise registrations was measured by comparing registration data for the reform period with those in the pre-reform situation. Only in the case of Rwanda, did the availability of a sufficiently long time series allow the construction of a 'counter factual' scenario, i.e. the situation that would have prevailed in the absence of reforms. This was done by extrapolating the trend prevailing in the pre-reform period and comparing those predicted values with actual values. In the other countries a simple 'before' and 'after' comparison was made.[12] The exercise focused on the 2008 – 2010 period and was carried out separately for two categories of firms, namely enterprises adopting a corporate form (basically limited liability companies) and enterprises adopting simpler legal forms (sole proprietorships and partnerships).

Results are shown in Exhibit 5.2 below. Overall, IFC projects are estimated to have contributed to the ***registration of about 23,000 firms***, of which more than 12,600 are sole proprietorships and partnerships and nearly 10,400 companies. The number of new registrations varies considerably across countries, ranging from a minimum of about 1,200 in Burkina Faso to over 8,000 in Liberia and Rwanda.

[12] Admittedly, this is a very crude approach, as it does not consider the influence of other factors. An attempt was made to use regression analysis, in order to control for factors, such as GDP growth, expected to impact on the enterprise formation process. However, such an approach turned out to be unfeasible due to data limitations, as time series for registrations were typically available only for a limited number of years. An attempt to do regression analysis on the basis of quarterly or monthly registration data (to increase the number of observations) was frustrated by the lack of data with a corresponding level of detail for explanatory variables (i.e. there are no quarterly or monthly GDP figures for the four countries under consideration).

Exhibit 5.2 Estimate of Incremental Enterprise Registrations

Country	Companies	Sole Proprietorships and Partnerships	Total
Burkina Faso	933	282	1,215
Liberia	3,214	4,959	8,173
Rwanda	5,728	2,302	8,030
Sierra Leone	507	5,096	5,603
Total	**10,382**	**12,639**	**23,021**

Source: own estimates based on enterprise registers data. For details, refer to Country Reports

Determinants of Incremental Enterprise Registrations. Differences in new registrations across the four countries can be explained by a combination of project and country-specific factors. In particular:

- in post conflict countries, ***Liberia*** and ***Sierra Leone***, the surge in registrations is linked primarily to the existence of an extremely large informal sector, which created a significant 'pent-up' demand for registration. In this context, the strong emphasis placed by IFC projects on formalization, including the implementation of awareness campaigns, clearly responded to a latent need;
- in ***Rwanda***, the high number of new registrations appears to be largely associated with a comparatively more buoyant economy (real GDP grew by about 22% between 2007 and 2010, i.e. four to nine percentage points faster than in other countries), and the reform of the business registration system acted as a facilitator;
- in ***Burkina Faso***, an increase in business registrations had already been recorded in 2004 and 2005 and this probably contributed to attenuate the impact of IFC-supported reforms adopted in the second half of the decade. In more general terms, Burkina Faso appears to be a country with a relatively low 'registration rate' (fewer than 250 businesses registered per million population/year, compared with more than 500 in the other countries), and the comparatively less dynamic economy (real GDP grew by only 13% between 2007 and 2010) did not help in fostering the enterprise formation process.

Changes in the Nature of Registered Enterprises. The increase in registrations was accompanied by a ***change in the composition of legal status of businesses, usually with a shift towards corporate forms***. In Rwanda, limited liability companies had been the preferred type of business organization since the early 2000s, but preference for corporate forms increased significantly in recent years: in fact, in 2009-2010 companies accounted for 66% of all registrations (with a peak of 75% in 2010), compared with an average of 53% in 2006-7. Corporate forms gained ground also in two countries, Liberia and Burkina Faso, where the vast majority of operators still prefer sole proprietorships and partnerships: in Liberia companies accounted for 33% of total registrations in 2009-2010, compared with 29% in 2006-7, while in Burkina Faso the share of companies increased from 15% in the mid 2000s to about 22% by the end of the decade. An opposite trend was observed in Sierra Leone, where the share of companies declined from 33% of total registrations in 2006 – 2007 to less than 20% in 2009 – 2010, and particularly to a mere 16% in 2010. To some extent, the increased preference for corporate forms in three countries can be regarded as part of a 'natural' evolution towards more sophisticated forms of doing business, but ***reforms in the areas of business registration and company law certainly contributed to this development***. In fact, as the indicator for the 'ease of entry' included in DB surveys makes reference to the formation of limited liability companies, IFC-supported reforms largely focused on the conditions for the establishment of companies. In this respect, the relative decline of corporate forms in Sierra Leone is hard to explain in a satisfactory manner, especially considering that in this country the registration regime for limited liability companies was modified even more profoundly than in other countries.

5.3 Impact on the Enterprise Creation and Formalization Process

Estimate of New and Formalized Businesses. Not all the enterprise registrations involved the creation of new business operations. In fact, new registrations can be subdivided into three categories, namely: (i) registrations that effectively lead to the start of new economic activities ('truly new businesses'), (ii) registrations that involve the formalization of pre-existing operations that had been operating informally ('formalized businesses'), and (iii) registrations that, for various reasons, do not lead to the start of any economic activity ('non-operational businesses'). Information regarding the relative importance of these three categories was derived from various sources. In Burkina Faso, useful information was provided by a follow up survey of the cohort of firms registered in 2007. In the case of Sierra Leone and Liberia, indications about the share of formal and semi-formal enterprises that had been in operation before registering were derived from the Informality Surveys carried out by FIAS (see below). In Rwanda, the information was retrieved through interviews with registration officials and private operators.

Given the uncertain nature of the data (formalized and non-operational firms cannot be measured with precision), no attempt was made to provide point estimates and results are deliberately presented in the form of two scenarios, namely: (i) a high case scenario, incorporating upper bound estimates for truly new businesses and lower bound estimates for formalized and non-operational businesses, and (ii) a low case scenario, with an opposite composition. Overall, the reforms supported by the IFC projects appear to have contributed to the ***establishment of some 10,500 – 13,000 new businesses*** and to the ***formalization of 9,000 – 11,000 firms***. The number of non-operational firms could be estimated only for two countries, Burkina Faso and Rwanda, and is expected to be on the order of 1,000 – 1,500. Estimates are presented in Exhibit 5.3.

Exhibit 5.3 Estimate of New, Formalized and Non-operational Businesses (rounded numbers)

Country	High Case Scenario			Low Case Scenario			Total
	Truly New	Formalized	Non Operational	Truly New	Formalized	Non Operational	
Burkina Faso	750	250	200	650	300	250	1,200
Liberia	4,100	4,100	…	3,300	4,900	…	8,200
Rwanda	5,200	2,000	800	4,400	2,400	1,200	8,000
Sierra Leone	2,800	2,800	…	2,250	3,350	…	5,600
Total	**12,850**	**9,150**	**1,000**	**10,600**	**10,950**	**1,450**	**23,000**

Source: Country Reports

As in the case of data on registrations, there are significant variations across the four countries. ***Rwanda*** is the country with the highest estimated number of 'truly new' businesses, on the order of 4,400 – 5,200, accounting for 55% to 65% of new registrations. Formalized firms are estimated to account for 25-30% of registrations, while non-operational firms account for the remaining 10-15%. Formalized firms are more common in ***Liberia*** and ***Sierra Leone***, where they are estimated to account for 50% to 60% of all registrations. In these countries, no estimate could be made regarding the share of non-operational firms, and this may somewhat inflate the number of new businesses. In ***Burkina Faso***, 'truly new' businesses are estimated to account for the majority of registrations, ranging between 55% and 65% of the total. Formalized firms are estimated to account for 20-23% of registrations, while non-operational firms account for the remaining 15-22%. While the distribution is similar to that of Rwanda, absolute numbers are much lower, due to the much smaller increase in registrations.

Determinants of Formalization. Useful indications regarding the factors leading to formalization can be derived from the Informality Surveys carried out by FIAS in the preparatory phases of IFC projects in Liberia, Rwanda and Sierra Leone.[13] These surveys investigated in detail the pros and cons of informality and, of particular relevance for our purposes here, identified the factors that lead informal firms to become formal. The factors leading to formalization can be classified in four groups, namely:

- ***cost avoidance & defensive considerations***, associated with the desire to avoid the costs associated with informality, in the form of penalties if caught and of bribes to be paid to remain informal, and more generally, with the pressure exerted by government services and the associated fear of retribution;
- ***considerations related to the conditions to be fulfilled for becoming formal*** ('procedural considerations'), which refer to the availability of better information on the steps to be undertaken, the reduction of the administrative burden associated with formalization, and the realization that taxes (the single most important factor for being informal) are not as high as envisaged;
- ***considerations related to the fact that formalization was a necessary condition for expanding the existing business***, presumably for visibility reasons ('necessity considerations'), summarized in the statement "*I wanted to expand my business and needed to become formal*";
- ***considerations related to the greater opportunities offered by formalization*** ('opportunity-related considerations'), associated with the possibility of having an easier access to credit, an easier interaction with customers and/or suppliers, and a better access to government services (e.g. justice, police, etc.).

Results from Informality Surveys provide an indication of the relative importance of the various determinants for formalization. As shown in Exhibit 5.4 below, overall ***cost avoidance & defensive considerations*** and ***procedural considerations*** largely dominate, cumulatively accounting for 70% of the total of responses. There are, however, some variations across countries, with cost avoidance and defensive considerations being more important in Liberia, where they were mentioned as the key factor for formalization by 42% of interviewees (of whom, no less than 23% made reference to the need of reducing bribes). Instead, procedural considerations play a comparatively greater role in Rwanda, where they were mentioned as the key factor for deciding to become formal by 46% of interviewees. Sierra Leone is in between, with procedural aspects playing a marginally more important role than cost avoidance considerations (34% vs. 30%). Overall, ***opportunity-related considerations*** are the most important factor for formalizing in 18% of cases. Their importance is greater in Sierra Leone, where they are indicated by 24% of respondents, whereas in Liberia and Rwanda they account for 14-15% of responses. Finally, ***necessity considerations*** are the least important determinant of formalization, accounting on average for only 13% of responses. Again, there are significant differences across countries, with the two post conflict countries posting higher values (Liberia 19%, Sierra Leone 12%) than Rwanda (7%).

[13] See FIAS, *Liberia - Removing Barriers to Enterprise Formalization, Survey Report,* June 2007; FIAS, *Sources of Informal Economic Activity in Rwanda,* November 2006; and FIAS, *Sources of Informal Economic Activity in Sierra Leone – Part I: Survey Report*, June 2006. The three surveys broadly followed the same approach, but with some differences in terms of survey tools, implementation modalities, and coverage. These methodological differences, somewhat affect comparability of results, but this does not seem to have an appreciable influence on the analysis presented here.

Exhibit 5.4 Determinants of Formalization

Motivations	Liberia	Rwanda	Sierra Leone[14]	Average
Cost avoidance and other defensive considerations	42%	32%	30%	**35%**
Procedural considerations	25%	46%	34%	**35%**
Opportunity-related considerations	14%	15%	24%	**18%**
Necessity considerations	19%	7%	12%	**13%**
Total	**100%**	**100%**	**100%**	

Totals may not add due to rounding
Source: own elaborations on FIAS Informality Surveys

The above results have significant implications for this impact assessment exercise. On the one hand, the great importance of 'cost avoidance' and 'procedural considerations' provides a ***solid justification for business entry reforms in terms of private sector cost savings***. And, indeed, this is in line with the results presented in Section 4 above, showing that business registration reform is one of the main generators of PSCS. Similar considerations can be made in the case of formalizations based on 'necessity considerations,' as the streamlining of business registration procedures provides an additional benefit to businesses that had decided to formalize anyhow. On the other hand, the limited importance of 'opportunity-related considerations' in motivating the decision to become formal clearly suggests that ***formalization may lead to discrete changes in economic behavior only in a relatively limited number of cases***. This, in turn, casts some doubts regarding the benefits in terms of greater economic dynamism (i.e. higher investment, higher employment, and the like) that are often associated to the enterprise formalization process.[15]

5.4 Possible Medium Term Evolution

Medium term developments in the enterprise formation process cannot be quantified with any acceptable degree of approximation, and only qualitative considerations are possible. In general, ***the effect of reforms in the field of business registration is likely to be progressively reduced***. Indeed, in 2010, a slowing down in the growth rate of registrations was observed in two countries, Rwanda and Sierra Leone, where business registration reforms were implemented at an early stage. Instead, an increase in the registration rate can be envisaged in the near future in Liberia, where the automated business registry is expected to be fully implemented in 2011. In Burkina Faso, an increase in registrations was observed in 2010 and the one-stop-shop is still in the process of extending services to some provincial towns. However, the erratic trend of registrations recorded over the last few years makes it impossible to formulate any prediction. Regarding the effects of measures in other areas, ***a positive effect on formalization may result from reforms in business taxation***. Some countries are currently implementing far reaching reforms, aimed at streamlining administrative procedures and lowering the tax burden for smaller enterprises, and this may well induce some operators to come out of informality. However, as the reform process is accompanied by renewed efforts by tax authorities to increase the tax collection, and considering the relative importance of motivations for formalization presented above, it would be difficult (if not outright impossible) to distinguish between 'voluntary' and 'forced' formalization.

[14] Data for Sierra Leone are not fully comparable, as the survey allowed for multiple answers. The data shown in the table are own elaborations, with the share of respondent to each question 'normalized' by the total of responses.

[15] The positive influence of formalization on growth is a recurrent theme in the literature, but in reality it has been more often stated than proved. For a recent review of the evidence on the matter, see the Perry, Guillermo E., William F. Maloney, Omar S. Arias, Pablo Fajnzylber, Andrew D. Mason and Jaime Saavedra-Chanduvi, *Informality: Exit and Exclusion*, The World Bank, 2007(especially chapter 6). For an earlier analysis, see USAID, *Removing Barriers to Formalization: The Case for Reform and Emerging Best Practice*, March 2005 (especially Annex V – Statistical Analysis).

6 IMPACT ASSESSMENT – PRIVATE INVESTMENT AND JOB CREATION

6.1 Introduction

Scope of Analysis and Causal Linkages. This section deals with two of the most important impacts that are expected to result from investment climate reforms, namely ***private sector investment generated*** (PSIG) and ***job creation*** (measured in terms of full time equivalent staff) The impacts were analyzed in relation to developments in four areas of intervention of IFC projects. In particular:

- in the case of ***PSIG***, impacts were assessed with reference to: (i) developments in the enterprise formation process, (ii) actions aimed at directly facilitating private investment, namely through the strengthening of investment promotion agencies and/or sector specific initiatives, and (iii) measures seeking to facilitate access to finance;
- in the case of ***job creation***, the analysis covered the effects of developments in the enterprise formation process and of investment promotion actions, plus (iv) measures specifically aimed at increasing the flexibility of the labor market.

Methodology - General. Different approaches were used depending upon the nature of the causal linkage considered. In the case of ***impacts linked to the enterprise formation process***, the starting point is represented by the number of 'truly new' businesses estimated in Section 5. The number of new businesses was then multiplied by average 'firm-level parameters' representative of investment and employment at start-up (see below). Regarding ***impacts linked to interventions in other areas*** (investment facilitation, access to finance, and labor market reform), the analysis relied primarily on data presented in project documents regarding the results achieved by specific reforms. This information was supplemented as necessary with own estimates.

Methodology – Firm-Level Parameters. Firm level parameters representative of investment and employment at start-up were derived from a variety of national and international sources, including company registry records, enterprise surveys, employment surveys, and special studies. As in many cases the data presented in the original sources were only partly representative of the conditions of newly established businesses, adjustments were frequently made, based on qualitative information on the characteristics of the enterprise sector in the various countries. The parameters retained for the analysis are displayed in Exhibit 6.1.

Exhibit 6.1 Firm-level Parameters

Country	Average Investment per Firm (in US$)	Average Employment per Firm (# of people)	Comments
Burkina Faso	7,500 (all firms)	1.5 (trade and services) 5 (other activities)	Investment and employment parameters based on survey of recently registered firms
Liberia	3,260 (all firms)	5 (all firms)	Investment and employment parameters based on census and survey data
Rwanda	2,300 (sole proprietorship) 11,500 (companies)	1.8 (trade) 16.5 (manufacturing) 5.6 (other activities)	Investment parameters based on company registry records. Employment parameters based on enterprise survey and company registry data
Sierra Leone	4,600 (all firms)	6 (all firms)	Investment parameter based on enterprise survey data. Employment parameter based on census and various survey data

Source: Country Reports

It is important to note that, despite the efforts deployed, the ***firm-level parameters used in the analysis suffer from several limitations***. An obvious limitation lies in the frequent use of parameters applicable to all enterprises, irrespective of their line of business, a consequence of the lack of sufficiently detailed data at the sector level. Also, the lack of detailed data did not allow calculating median values but only averages. As the distributions of employment and, especially, investment tend to be heavily skewed towards higher values (a single greenfield investment in a gold mine or cell phone operation is often worth thousands of investments made by micro enterprise start-ups), the use of average values may well result in an overestimate. This is particularly the case in Rwanda, where the investment parameter for limited liability companies is much higher than in other countries, both in absolute value (US$ 11,500 compared with 3,260 – 7,500) and in relative terms (25 times per capita GNI, compared with 15 times in Burkina Faso which has a higher per capita GNI, and 14-20 times in Sierra Leone and Liberia, which have a significantly lower per capita GNI).

Methodology – Enterprise Formation. In estimating the impacts associated with the enterprise formation process, ***only 'truly new' businesses were taken into account, with exclusion of formalized enterprises***. The rationale for excluding formalized enterprises is provided by the analysis of motivations for formalization presented in Section 5, which suggests that in the vast majority of cases formalization is pursued based on 'cost avoidance considerations' (i.e. in order not pay bribes or to be exposed to fines), out of necessity (i.e. in the case of those who have decided anyhow to expand and can no longer hide their activity), or because formalization has become easier (i.e. simplified procedures, better information available and the like). While these motivations definitely imply that formalization may lead to cost savings (duly accounted for in Section 4 above), they are certainly not predictive of increases in investment and/or in employment. Even in the case of the minority of businesses for whom the decision to formalize is based on 'opportunity-related considerations' (i.e. in order to have a better access to credit or greater access to government services), formalization does not automatically translate into increased investments and/or employment. For this to happen other, external conditions have to be met (i.e. bankers must really adopt SME-friendly lending practices, government must really implement procurement policies more open to SME participation, and so on). However, this does not seem to be the case in the countries under consideration. In particular, in none of the four countries there was a significant improvement in terms of an easier access to credit, the benefit most commonly associated with formalization and a potential trigger of higher investments.[16] The above is <u>not</u> to say that businesses that became formal during the period under consideration did not make any investments and/or did not hire any personnel, but simply that their investment and recruitment behavior was not significantly affected by their becoming formal. As the present analysis seeks to assess impacts in <u>incremental terms</u>, this justifies the exclusion of formalized firms from the estimation exercise.

Time Frame. The quantification of impacts on investment and employment focuses on the results achieved in period 2008 – 2010. As already mentioned in Section 3 above, investment and employment are the variables for which the effects of investment climate reforms take more time to materialize, due to the inevitable time lag in the ability of economic agents to adjust to changing conditions. The analysis includes an assessment of the likely evolution of impacts in the medium term, but due to obvious data limitations, this could be done only in qualitative terms. Therefore, it is important to stress that the quantitative estimates provided in this Section refer only to the ***initial impacts, which are only part of the total impact generated by the projects***.

[16] According to IMF data, interest rates remained quite high in the four countries, both in nominal terms (around 14-16% in Burkina Faso, Rwanda and Liberia, nearly 30% in Sierra Leone) and in real terms (with a couple of exceptions, due to sudden inflation bursts). As for other lending conditions to small businesses, information collected through interviews suggests that there were no significant changes (e.g. bankers still require personal guarantees even in the case of loans granted to limited liability companies and collateral is still a multiple of loan value). As a result, IMF data show that the share of credit to private sector to GDP (which also includes lending to families, e.g. for housing) has remained broadly stable (sometimes with signs of decline) at very low levels (10-12% in Burkina Faso, Rwanda and Sierra Leone, 16% in Liberia).

6.2 Impact on Private Sector Investment

Impact Estimate - Developments in Enterprise Formation. PSIG associated with developments in enterprise formation is estimated to be in the range of ***US$ 65 to 78 million*** for the 2008 – 2010 period. The lower and upper bounds of the range correspond to the two scenarios regarding the number of truly new businesses that are presented in Section 5 above. As shown in Exhibit 6.2 below, about 60% of the total estimated value of incremental private sector investment is generated in Rwanda, i.e. between US$ 39 and 46 million. Liberia and Sierra Leone post broadly similar results, with estimated private sector investments ranging between US$ 10 and 13 million (16%-17% of the total), whereas the estimate for Burkina Faso is significantly lower, at US$ 5 to 6 million (8% of the total).

Exhibit 6.2 PSIG Associated with Developments in Enterprise Formation

Country	Low Case Scenario		High Case Scenario	
	US$ million	%	US$ million	%
Burkina Faso	5.0	8%	5.9	8%
Liberia	10.7	16%	13.3	17%
Rwanda	39.1	60%	46.3	59%
Sierra Leone	10.1	16%	12.6	16%
Total	**64.9**	**100%**	**78.1**	**100%**

Source: Country Reports

Rwanda's superior performance is mainly due to a higher rate of enterprise formation, but the high value of the average investment parameter used for estimating investments by limited liability companies significantly contributes to an increase in the figure. If an investment parameter similar to the one used for other countries (US$ 6,900, equivalent to 15 times the value of per capita GNI) were used, the value of Rwanda's incremental private sector investments would decline by about 40%, to an estimated value of US$ 23 to 28 million.

Box 6.1 – Effects of Inclusion of Formalized Enterprises - Sensitivity Analysis for PSIG

As indicated in Section 6.1, the estimate of PSIG associated with developments in enterprise formation takes into consideration only the 'truly' new businesses, with exclusion of formalized enterprises. As this approach may be regarded by some as exceedingly conservative, a sort of 'sensitivity' analysis was carried out, also including in calculations the ***enterprises that (presumably) underwent formalization because of 'opportunity-related considerations'*** (see Section 5.3 above). In the case of Liberia, Rwanda and Sierra Leone, the number of these enterprises was estimated based on the results of informality surveys, which suggest that 'opportunity-related considerations' may be the prime motive for formalization of 15% of all formalized firms in Rwanda, 24% in Sierra Leone, and 14% in Liberia. In the case of Burkina Faso, no informality survey is available, and the share of firms undergoing formalization primarily for 'opportunity-related considerations' was assumed to be equal to the one estimated for Rwanda. The results of the exercise are summarized in the table below.

Country	Low Case Scenario			High Case Scenario		
	Truly New Businesses Only	Including Formalized Businesses	% Change	Truly New Businesses Only	Including Formalized Businesses	% Change
Burkina Faso	5.0	5.2	7%	5.9	6.2	5%
Liberia	10.7	12.9	21%	13.3	15.2	14%
Rwanda	39.1	42.3	8%	46.3	48.9	6%
Sierra Leone	10.1	14.0	36%	12.6	16.0	24%
Total	**64.9**	**74.4**	**15%**	**78.1**	**86.3**	**10%**

Extending the analysis to (part of) formalized enterprises obviously increases PSIG, which reaches the total value of ***US$ 74 to 86 million***, depending upon the scenario, i.e. 10% to 15% more than in the case with only 'truly' new businesses. Unsurprisingly, ***the increase is significantly higher in the post conflict countries***, due to the greater importance of the informal sector, and especially in Sierra Leone, where 'opportunity-based considerations' play a greater role in formalization decisions. Instead, the effect is much lower in Rwanda and Burkina Faso, with changes of 5% to 8% depending upon the scenario.

Impact Estimate – General Investment Promotion Activities. Initiatives aimed at promoting and facilitating both domestic and foreign private investment were implemented in Liberia, Sierra Leone and Rwanda. The impact on PSIG achieved by these initiatives can be summarized as follows:

- in ***Liberia***, there was a major increase in foreign direct investments, which between 2007 and 2009 passed from US$ 130 million to nearly US$ 400 million. However, the increase is attributable to half a dozen large scale operations in the mining sector that are totally unrelated to the activities of the IFC project. In fact, IFC assistance to the National Investment Commission (NIC) was discontinued in the early stages of project implementation, because of lack of commitment from the intended beneficiary. Therefore, ***no impact in terms of increased foreign investments can be attributed to the IFC project***;
- in ***Sierra Leone***, comprehensive technical and financial assistance was provided by the IFC to strengthen the capabilities of the Sierra Leone Investment and Export Promotion Agency (SLIEPA). As a result of this work, a substantial increase in foreign investors' interest was recorded during 2010, with about 130 active leads in the first semester alone. However, at the time of fieldwork (mid 2010), no investment deal had been finalized yet. Therefore, at least at this stage, ***no increase in private investment can be credited to the IFC project***;
- in ***Rwanda***, significant support was extended to the Rwanda Development Board (RDB) to increase the quality of services provided to investors. Project documents indicate that, as a result of this support, RDB was successful in reviving 9 projects that had remained dormant for sometime, with an estimated investment of about US$ 127 million. However, about 95% of this amount refers to a single operation, the launch of the third mobile phone network, whose implementation can hardly be attributed to RDB's assistance. Assuming that the other investments can indeed be credited to the work done by RDB, ***investment promotion activities can be estimated to have generated an investment of US$ 5 million***.

Impact Estimate – Sector-Specific Investment Promotion Activities. In addition to (or in replacement of) the above general investment promotion activities, in Liberia and Sierra Leone the IFC projects undertook actions aimed at attracting foreign investors in selected sectors. The impact on PSIG achieved by this stream of work can be summarized as follows:

- in ***Liberia***, the support originally foreseen for the NIC was redirected towards the Ministry of Agriculture, who required IFC assistance to attract foreign investors in the tree crop sector. The support provided by the project led to the development of a model concession agreement, which has been used by the Ministry in negotiations for the renewal of existing concessions and for the granting of new ones. The model agreement certainly constitutes an important tool for attracting or retaining foreign investment, and in this respect the impact is definitely a positive one. However, as the value of concession deals also depends on a variety of other factors, ***any attempt to quantify the impact of IFC activities would be excessively arbitrary***;

- in ***Sierra Leone***, the IFC project provided transaction advisory services for the privatization of the Cape Sierra Hotel. In particular, support was provided to the National Social Security and Insurance Trust of Sierra Leone in identifying potential investors/operators and in preparing a transparent, competitive tender process. The tender was successful and in mid 2010 a group of investors was awarded a twenty-one year concession agreement for the rehabilitation, redevelopment, operation, and maintenance of the hotel. No official information is available regarding the amount to be invested. However, based on typical investment cost parameters in the hotel industry, the value of ***resources mobilized thanks to the IFC assistance can be tentatively estimated on the order of US$ 15 – 20 million.***[17]

Impact Estimate – Measures Aimed at Facilitating Access to Finance. Measures aimed at facilitating access to finance were implemented in ***Rwanda*** in the framework of the DB reform component. In particular, the IFC project supported the creation of a register of security interest in movable goods and the establishment of a register for mortgages. Available information suggests a varying degree of utilization of these instruments, with a decline in the number of pledges registered and an increase in mortgage registrations. Irrespective of the use of these instruments, in recent years private sector lending has displayed an oscillating trend (peaking at 13.1% of GDP in 2008, with a decline to 11.9% in 2009 and a partial recovery to 12.7% expected to take place in 2010), that appears to be related to other, more fundamental, factors, such as the liquidity crunch experienced in late 2009 and the accumulation of non performing loans. Therefore, ***no impact on PSIG via improvements in the lending market can be ascribed to the IFC project***.

Impact Estimate – Overall Assessment. A summary of the PSIG associated with IFC supported reforms is provided in Exhibit 6.3 below. Overall, PSIG are estimated to be in the range of ***US$ 75 to 90 million***. The dominance of impacts connected with the measures aimed at supporting the enterprise formation process is not surprising, taking into account the limited results achieved (at least in the short term) in other areas of intervention.

Exhibit 6.3 Summary of Impacts on Private Sector Investment – 2008 - 2010 (US$ million)

Country	Developments in Enterprise Formation	General & Sector Specific Investment Promotion	Improved Access to Finance	Total
Burkina Faso	5 – 6	Not applicable	Not applicable	5 – 6
Liberia	11 – 13	Positive but not quantifiable	Not applicable	11 – 13
Rwanda	39 – 46	5	None	44 – 51
Sierra Leone	10 - 13	5 – 7	Not applicable	15 - 20
Total	**65 - 78**	**10 - 12**	**0**	**75- 90**

Source: Country Reports

An indication of the macro economic relevance of IFC projects can be obtained by comparing the amount of incremental investments generated with total private sector investments. Data for the period 2008 – 2010 are shown in Exhibit 6.4 below, the upper and lower bounds corresponding to the high case and low case scenarios.

[17] The Cape Sierra Hilton will be redeveloped into a 4-star hotel, part of the Hilton network, with approximately 200 rooms. Hotel development costs for upscale/luxury hotels are typically in the US$ 150 – 200,000 per room range, inclusive of the cost of land. Considering the relatively good structural conditions of the building, refurbishment costs can be estimated at about US$ 75 – 100,000 per room. Investments are expected to be spread over the second half of 2010 (one third of the total value, i.e. US$ 5-7 million) and the first three quarters of 2011 (two thirds).

Exhibit 6.4 Macroeconomic Importance of PSIG

Country	PSIG as Share of Total Private Investment			
	2008	2009	2010	Average
Burkina Faso	0.1 – 0.1%	0.1 – 0.1%	0.4 -0.4%	0.2 -0.2%
Liberia	…	1.9 – 2.4%	3.7 – 4.7%	2.8 – 3.6%
Rwanda	0.3 -0.3%	2.9 – 3.6%	3.8 – 4.4%	2.3 – 2.8%
Sierra Leone	1.6 – 2.0%	2.6 – 3.2%	5.3 – 5.8%	3.2 – 3.7%

Source: own calculations on IMF data and information from Country Reports

In ***Rwanda***, PSIG are estimated to account for about 2-3% of total private sector investment over the three year period, with significantly higher values in 2009 and 2010. These are quite respectable figures, especially considering that PSIG are estimated with reference to 'productive' investments, while in recent years total private investment (i.e. the denominator of the ratio) has been largely driven by investment in real estate. However, the result is significantly influenced by the assumptions made regarding the firm level investment parameters, and the use of lower parameters would reduce the relative importance of PSIG by 1.5 – 2 percentage points in both 2009 and 2010. The contribution of IFC to investment is also significant in ***Sierra Leone***, where PSIG are assessed to account for about 3-4% of total private investment, with a peak of 5 – 6% in 2010, in connection with the privatization of the Cape Sierra Hotel. In the case of ***Liberia***, data on total private investment are not available and PSIG were compared with total credit to the private sector, which in some cases can be regarded as a proxy for private investment.[18] Subject to the margin of error associated with this approximation, PSIG appear to play an important role in Liberia, accounting, on average, for about 3 – 3.5% of the total. Much lower is the relative importance of estimated PSIG in ***Burkina Faso***, where they account for less than 1% of total private investment. This is connected with the more modest dynamism of the enterprise formation process and the absence of any contribution from investment promotion activities, which were not part of the IFC project. But the low result is also due to the sheer size of the denominator that in two of the three years under consideration was heavily affected by lumpy investments in the mining sector. An important aspect to be highlighted is that, in general, ***the importance of PSIG increased over time***, which may considered as a further indication of the initial character of the estimates presented here.

6.3 Impact on Job Creation

Impact Estimate - Developments in Enterprise Formation. The acceleration of the enterprise formation process is estimated to have led to the creation of ***about 46,000 to 57,000 jobs*** over the 2008-2010 period. As in the case of PSIG, the upper and lower bound of the range correspond to the different estimates of the number of new businesses that were established during the period. As shown in Exhibit 6.5 below, impacts of comparable magnitude, i.e. between 13,000 and 20,000 jobs, were estimated for Liberia, Rwanda and Sierra Leone. For the reasons already indicated, a much lower value was estimated in the case of Burkina Faso, with an additional 1,700 – 2,000 jobs.

[18] In Sierra Leone, which has an economic structure somewhat similar to Liberia, private sector credit is somewhat lower than private sector investment. A similar situation was found in Rwanda, whereas in Burkina Faso, private sector credit is significantly higher than private sector investment.

Exhibit 6.5 Employment Associated with Developments in Enterprise Formation

Country	Low Case Scenario		High Case Scenario	
	Number of Jobs	%	Number of Jobs	%
Burkina Faso	1,700	4%	2,000	4%
Liberia	16,300	35%	20,400	36%
Rwanda	14,900	32%	17,700	31%
Sierra Leone	13,400	29%	16,800	30%
Total	**46,300**	**100%**	**56,900**	**100%**

Source: Country Reports

Box 6.2 – Effects of Inclusion of Formalized Enterprises – Sensitivity Analysis for Job Creation

As in the case of PSIG, the estimates of additional jobs associated with the enterprise formation process were ***recalculated with the inclusion of (part of) formalized enterprises***, namely those that (presumably) underwent formalization because of 'opportunity-related considerations.' Results are shown in the table below.

Country	Low Case Scenario			High Case Scenario		
	Truly New Businesses Only	Including Formalized Businesses	% Change	Truly New Businesses Only	Including Formalized Businesses	% Change
Burkina Faso	1,700	1,800	7%	2,000	2,100	5%
Liberia	16,300	19,800	21%	20,400	23,300	14%
Rwanda	14,900	16,200	8%	17,700	18,700	6%
Sierra Leone	13,400	18,300	36%	16,800	20,800	24%
Total	**46,300**	**56,000**	**21%**	**56,900**	**64,900**	**14%**

Obviously, the inclusion of formalized enterprises increases the estimated incremental employment, with an ***additional 9 – 10,000 jobs created***, compared with the situation where only 'truly' new businesses are considered. The increase is particularly strong in post conflict countries, Liberia and, particularly, Sierra Leone, characterized by a larger informal sector. Changes are much less significant in Rwanda and Burkina Faso. It is worth noting that, as the firm-level employment parameters in Liberia and Sierra Leone are quite sizeable (respectively, 5 and 6 employees per firm), the overall increase is greater than in the case of PSIG, with percentage increases in employment of 14-21%, compared with the 10-15% in the case of PSIG (see Box 6.1 above).

Impact Estimate – Investment Promotion Activities. In ***Rwanda***, a modest contribution to employment generation is provided by RDB's activities to revive a small group of projects (see above). Based on the data on prospective employment declared by investors at the moment of registering their applications, ***the number of additional jobs can be estimated at about 300***. No impact can be quantified in the case of ***other countries***, either because the effects still have to materialize (Liberia and Sierra Leone – see above) or, simply, because investment promotion was not contemplated (Burkina Faso).

Impact Estimate - Labor Market Reforms. Initiatives specifically aimed at reforming the labor market were implemented in Burkina Faso and Rwanda. In ***Burkina Faso***, work on labor market reform started in 2006, when the IFC project was asked to assist the Ministry of Labor in drafting two implementing regulations of the Labor Code. This was followed by the adoption in 2008 of a new Labor Code, which introduced a number of measures aimed at increasing flexibility in the utilization of the labor force, including the elimination of restrictions on the renewal of fixed terms contracts, the limitation of claims for damages in case of irregular dismissal, the shortening of holidays for family reasons, etc. Anecdotal information collected during field work suggests that some of the new measures are indeed used by private operators, who in particular tend to make greater use of fixed term contracts. However, this has so far failed to translate into any appreciable effect in overall employment levels. In ***Rwanda***, an extensive review of the labor code took place in 2009. Implemented with support from the so called 'DB reform' component, the new legislation introduced several measures aimed at increasing labor market flexibility, including the removal of restrictions on fixed term contracts, the adoption of streamlined procedures for dealing with redundancies, etc. So far, no information is available on the utilization of the new legislative provisions (a survey to this effect is expected to be carried out in 2011), but the qualitative evidence collected during field work does not suggest any noticeable impact in terms of employment. Based on the above considerations, ***the impact of labor market reforms on employment generation was regarded as negligible in both countries***.

Impact Estimate – Overall Assessment. A summary of the additional employment associated with IFC-supported reforms is provided in Exhibit 6.6 below. Overall, the incremental employment somehow associated with the reforms supported by IFC projects is estimated to be in the range of ***47,000 – 57,000 jobs***. As in the case of PSIG, the bulk of impacts are associated with the acceleration of the enterprise formation process, whereas investment promotion activities and labor market reforms have so far failed to generate an appreciable impact.

Exhibit 6.6 Summary of Impacts on Employment Generation – 2008 – 2010 (number of jobs)

Country	Developments in Enterprise Formation	General & Sector-Specific Investment Promotion	Labor Market Reforms	Total
Burkina Faso	1,700 – 2,000	Not applicable	None	1,700 – 2,000
Liberia	16,300 – 20,400	None, in the short term	Not applicable	16,300 – 20,400
Rwanda	14,900 – 17,700	300 jobs	None	15,200 – 18,000
Sierra Leone	13,400 – 16,800	None, in the short term	Not applicable	13,400 – 16,800
Total	**46,300 – 56,900**	**300**	**0**	**46,600 – 57,200**

Source: Country Reports

As in the case of PSIG, an indication of the macro economic relevance of IFC projects can be obtained by comparing the estimated gains in employment with data on overall employment. Unfortunately, the information base is less solid than in the case of PSIG, as data on total employment are outdated and/or cover only part of the labor force, and this inevitably affects the validity of the exercise. The situation can be summarized as follows:

- in ***Burkina Faso***, according to data published by the Ministry of Youth and Employment, total formal employment was estimated to be on the order of 500,000 in 2007. Therefore, the 1,700 – 2,000 incremental jobs attributable to the IFC project account for about 0.3% - 0.4% of the total;
- in ***Rwanda***, according to the results of household surveys published by the Social Security Fund, total non agricultural employment (both formal and informal) was assessed at 927,934 in 2006. The 15,200 – 18,000 incremental jobs associated with IFC-supported reforms account for 1.6% - 1.9% of the total;
- in ***Liberia***, the Central Bank of Liberia (CBL) estimated total formal employment in the private sector at some 90,755 in 2009. Therefore, the 16,300 – 20,400 new jobs linked to project activities would account for 18% to 22% of the total. However, CBL data on total employment display huge differences from one year to another (with a 46% decline in 2008, followed by a 53% increase in 2009), suggesting the existence of methodology problems which may well affect the significance of the above ratios;

- in ***Sierra Leone***, the statistical institute estimates total employment in ten non-agricultural sectors at 123,697 in 2007. The 13,400 – 16,800 additional jobs attributable to the project would therefore represent between 11% and 14% of the total.

An alternative measure of the macroeconomic relevance of the impact on employment generation can be obtained by comparing the number of additional jobs with the total labor force, as estimated by the IMF. In this case, the impact is greater in Liberia, where the jobs created account for about 1.2% of the labor force, followed by Sierra Leone (0.7%) and Rwanda (0.3%). The impact is much lower in Burkina Faso, where the additional jobs somehow associated with IFC activities account for only 0.03% of the labor force.

6.4 Possible Medium Term Evolution

PSIG. Medium term developments in PSIG cannot be estimated with any acceptable degree of confidence, and, therefore, only qualitative considerations are possible. The evolution of ***PSIG associated with the enterprise formation process*** will depend upon three main variables, namely: (i) the rate of formation of new businesses, (ii) the rate of investment, and (iii) the rate of mortality among the existing enterprises. Regarding the formation of new businesses, as indicated in Section 5 above, the effect of business registration reforms is likely to progressively decline overtime, with the possible exception of Liberia. This may well be compensated for by other factors but, considering the very high growth in registrations recorded in the last few years in three countries, it is not unreasonable to anticipate stabilization in the pattern of enterprise formation. The investment rate is impossible to predict. As new and more sophisticated business opportunities emerge, it is reasonable to envisage an increase in the value of the average investment, while the most successful among the recently established enterprises may well engage in ‘second round’ investments. However, a number of firms will also fail, and at least a portion of their assets are likely to be taken over by survivors, thereby reducing the volume of incremental investment. Whatever the developments in enterprise formation, future investment levels are likely to be heavily influenced by ***conditions for accessing finance***. Considering the current low levels of private sector lending, an improvement appears certainly possible, but this would only marginally be the result of reforms undertaken by the IFC projects, which placed comparatively little emphasis on this aspect.

Regarding ***PSIG associated with investment promotion activities*** there appear to be significant differences across countries. In Liberia, the positive trend in foreign investments in the ‘enclave’ sectors is expected to persist, with the IMF anticipating up to half a dozen new concessions in iron ore and palm oil production. But only the case of palm oil future investments can be partially credited to IFC activity (in connection with the development of the new model concession agreement). In Rwanda, a high number of enquiries from investors (to so called ‘registered investments’) has so far failed to translate into a substantial flow of investments. The government is renewing its efforts to attract foreign investors, also building upon the positive image created by the investment climate reforms supported by the IFC and reflected in the outstanding performance in terms of DB rankings, but it is impossible to predict the outcome of these efforts. In contrast, a positive evolution is expected in Sierra Leone. According to information collected during field work, at least five large scale agricultural projects have reached a fairly advanced stage of negotiations. SLIEPA puts the value of these investments at some US$ 500 million, a figure that appears exceedingly optimistic. However, even considering that only one similar project could actually see the light, the total inflow would nonetheless be around US$ 150 million, a rather respectable figure and multiple of the PSIG estimated so far.

Job Creation. Medium term developments in employment generation are likely to be affected by the same factors influencing PSIG and, therefore, the same considerations largely apply. The main difference concerns the possible medium term impact of ***labor market reforms***, whose immediate impact has so far only been scarcely visible, but which in principle could start producing effects in the future. However, it should be noted that evidence from enterprise surveys in both Burkina Faso and Rwanda (as well as in a number of other African countries) has consistently indicated that labor regulations are not regarded to be a significant obstacle by the vast majority of businesses. In particular, in the case of Rwanda, the enterprise survey carried out by the World Bank in 2005 demonstrates that labor regulations were considered a significant constraint by a mere 2.8% of interviewees, while none of the 340 businesses surveyed considered labor regulations as their main obstacle. Similar results were obtained in Burkina Faso, both in 2006 and 2009.[19] Overall, these results suggest that, while private operators will obviously benefit from the greater labor flexibility introduced by the IFC-supported reforms, the chances that these reforms may translate into a positive impact on employment are slim.

[19] See World Bank, *Enterprise Surveys Country Profile – Rwanda 2006*, 2007, and World Bank, *Enterprise Surveys Country Profile – Burkina Faso 2009*, 2009. The full report on the 2006 survey in Burkina Faso is no longer accessible on the web, but key results can be accessed through http://www.enterprisesurveys.org/.

7 IMPACT ASSESSMENT – TAXATION AND TRADE FLOWS

7.1 Introduction

This section reviews the available evidence regarding three impacts, namely: (i) ***compliance with tax regulations*** (in short, 'tax compliance'), measured by the number of enterprises fulfilling the obligations imposed by the tax regime; (ii) ***tax revenue generated***, measured in terms of resources actually collected by tax authorities, and (iii) ***increase in trade flows***, measured in terms of value of import export transactions. As indicated in Section 3 above, these impacts are classified by the TOR as 'product specific,' logically linked to project activities in, respectively, tax reform and trade logistics. This classification is appropriate in the case of the increase in trade flow, whereas tax compliance and tax revenue can also be affected by actions undertaken under other project components. Even more importantly, developments in the target variables are strongly influenced by developments in the broader economic environment that are completely unrelated to project activities, and which in the case of trade flows extends to the conditions of international markets. The tenuous character of causal linkages between project activities and the evolution of relevant variables also combines with the occasional difficulties of data collection. As a result, it was possible to achieve a quantification of the impacts achieved in only a few cases and the analysis had to be generally confined to qualitative considerations.

7.2 Impact on Tax Compliance and Tax Revenue

Scope of the Analysis. ***Tax compliance*** refers to the fulfillment by private sector operators of the various steps envisaged by relevant tax regulations, such as the registration with tax authorities, the timely submission of tax returns, and, most importantly, the actual payment of the amounts due. Given the existence of different taxes (from 'standard' profit tax to turnover tax and from the simple *patente* to value-added tax), in principle a separate analysis would be required to assess the compliance with various steps for each type of tax. However, in the countries under consideration, information on tax compliance is typically very hard to obtain (more often than not simply because proper records do not exist, especially for small businesses) and, therefore, the scope of the analysis is *de facto* restricted by data availability. In practical terms, the analysis is confined to one single dimension of tax compliance, namely registration with tax authorities for company taxation purposes. Similar considerations apply in the case of ***tax revenue generated***, which is to a large extent (though not exclusively) a consequence of tax compliance. In this case, the analysis focuses on the evolution of two categories of tax revenue, namely direct taxes (which include income and profit tax), and indirect taxes (which encompass various taxes on goods and services). In geographical terms, the analysis is limited to the countries where IFC projects included a tax reform component, i.e. Burkina Faso, Rwanda and Sierra Leone.

Causal Linkages. In the case of ***tax compliance***, two causal linkages are considered. The first refers to the impact of measures specifically aimed at raising the opportunity cost of tax evasion (i.e. lower taxes making tax evasion less profitable) and/or lowering the administrative burden placed on enterprises and/or increasing awareness about tax obligations in the business community. The second linkage is less direct, and relates to reforms of business registration procedures, which are expected to influence tax compliance by facilitating enterprise formalization. However, it is important to note that in the countries under consideration the strength of these causal linkages is weakened by two factors. First, the policy reform agenda in the field of taxation is largely dictated by the conditionalities specified in the agreements with the IMF, and this inevitably reduces the importance of IFC interventions. Second, considering that weaknesses in implementation are a key determinant of tax compliance (i.e. firms do not pay taxes simply because they know they will not be caught by the tax office), the positive consequences of better taxation and tax administration systems resulting from reform efforts cannot easily be separated from those achieved by tax authorities through the greater pressure exerted on business taxpayers. The value of ***tax revenue generated*** is largely associated with developments in tax compliance, and, therefore, the same considerations apply. If anything, the causal link in this case with the reforms supported by IFC is even more tenuous, due to the comparatively greater role played by other factors, namely the macro economic situation and the tax collection efforts deployed by tax administrations, which may significantly affect tax revenues even in the absence of any changes in the regulatory framework.

Estimate of Impact – Tax Compliance. Available evidence on tax compliance, measured by the number of businesses registered with tax authorities, is presented in Exhibit 7.1 below. For comparison purposes, the exhibit also includes data on enterprise registrations. It should be noted that data on taxpayer registrations are not fully homogenous. In the case of Rwanda, data refer to businesses registered with the Rwanda Revenue Authority (RRA) for the payment of the profit tax, for both the standard and the simplified regime. In Sierra Leone, data provided by National Revenue Authority (NRA) refer to active taxpayers and not to registrations. In the case of Burkina Faso, data provided by the *Direction Générale des Impots* (DGI) refer to all business taxpayers included in the central data base, without any further qualification.

Exhibit 7.1 Recent Trend in Registrations with Tax Authorities and Business Registrations

Years	Burkina Faso			Rwanda			Sierra Leone		
	Registered Business Taxpayers	Change in Registered Taxpayers	New Businesses Registered	Registered Business Taxpayers	Change in Registered Taxpayers	New Businesses Registered	Active Business Taxpayers	Change in Active Taxpayers	New Businesses Registered
2006	9,318	..	3,573	9,757	+5,689	1,070	..	..	1,763
2007	4,999	-4,319	3,955	17,008	+7,251	1,586	3,377	..	1,864
2008	4,761	-238	3,632	21,177	+4,169	2,184	3,626	+249	3,094
2009	5,396	635	3,779	27,043	+5,866	5,808	4,064	+438	3,825
2010 Q1	..	..	..	..	..	..	5,020	+956	1,241

Source: Country Reports

Overall, the trend in tax compliance has been generally positive with some differences across countries. The situation can be summarized as follows:

- in ***Burkina Faso***, the number of taxpayers registered with DGI shows an oscillating trend (a decline between 2006 and 2008, seemingly the result of the cleaning up of records with the elimination of inactive taxpayers, followed by an increase in 2009), which is completely uncorrelated with developments in enterprise registrations. An extensive tax reform was passed at the beginning of 2010, with the simplification of several taxes and the restructuring of tax administration services, but the effects of these changes on tax compliance are not yet visible. It should be noted that the reform is primarily the result of a protracted policy dialogue between the government and the IMF, within the framework of the Poverty Reduction and Growth Facility. While the reform incorporated some recommendations formulated by the IFC project, it is clear that whatever improvement in tax compliance may result, should be credited primarily to the IMF;
- in ***Rwanda***, the number of business taxpayers registered increased dramatically, passing from fewer than 10,000 in 2006 to 27,000 in 2009. This major expansion of the tax base is primarily attributable to the efforts deployed by tax authorities, namely through a series of 'tax payer recruitment' campaigns. By facilitating the formalization of informal firms, the reform of business registration procedures contributed to an expansion of the tax base, but, overall, new registrations accounted for less than 50% of incremental taxpayers registrations. Also, there are elements suggesting the existence of a sort of 'reverse causality,' i.e. informal businesses caught

by the tax office are induced to undergo formal firm registration.[20] A series of recommendations to improve the administrative aspects of business taxation were formulated by the IFC project during 2009 and their implementation is fairly well advanced. Aimed at easing the interaction between tax authorities and business taxpayers, these measures are expected to facilitate voluntary tax compliance. However, as the focus is on the improvement of internal procedures at RRA, their impact can only be of an indirect nature, and therefore it is difficult to distinguish from the general efforts to expand the tax base. Finally, in 2010, changes were introduced in the modalities of payment of the VAT, by enabling small businesses to make quarterly rather than monthly payments. This alleviated the financial burden placed on private sector operators (as indicated in Section 4 regarding private sector cost savings), but its influence on tax compliance is impossible to assess;

- In ***Sierra Leone***, the tax base also expanded, with the number of active taxpayers increasing from about 3,400 in 2007 to over 5,000 in the first quarter of 2010. Again, the trend is completely uncorrelated with that of business registration, although in this case the situation is the opposite of that found in Rwanda, i.e. the number of incremental taxpayers is lower than new registrations, which certainly suggests a marginal impact of business registration reforms. Instead, the tax awareness campaigns implemented by the IFC project in late 2009 and early 2010 had a more direct and visible effect, and can be credited with an ***estimated 350 – 550 incremental taxpayer registrations***. Another visible impact was achieved in the field of indirect taxation, where, following the tax reform passed in January 2010, no less than 1,700 business taxpayers registered for the payment of the new Goods and Services Tax (GST). However, the merit of this development can only be partly credited to the IFC project, as the introduction of the GST, was a key conditionality of the agreement negotiated by the government with the IMF, while the practical implementation of the reform was extensively supported by the DFID.

Overall, the reforms supported by IFC projects played a positive role in raising the level of tax compliance. However, in Burkina Faso and Rwanda, this contribution appears to be rather limited and/or cannot be quantified, due to the presence of additional concomitant factors. Instead, a more significant role was played by IFC in Sierra Leone.

Estimate of Impact – Tax Revenue Generated. A summary presentation of the developments for the main components of tax revenue in recent years is provided in Exhibit 7.2 below. As in the case of tax compliance, a generally positive trend can be noticed, although with some differences across the three countries.

Exhibit 7.2 Recent Trend in Tax Revenue Mobilization (as share of GDP)

Years	Burkina Faso			Rwanda			Sierra Leone		
	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect
2007	12.5%	3.0%	6.7%	11.6%	3.9%	5.8%			
2008	12.1%	2.8%	6.6%	11.8%	4.5%	5.8%	10.1%	3.0%	3.9%
2009	12.4%	2.7%	7.1%	13.1%	4.7%	6.5%	10.4%	2.9%	4.4%
2010	13.0%	3.3%	7.2%	11.7%	4.6%	6.1%	11.5%	2.9%	5.1%

Keys: Total: total tax revenue; Direct: total direct taxes; Indirect: total indirect taxes
Data for Rwanda refer to fiscal years (i.e. 2007 refers to 2006/2007).
Source: own elaboration on data from various IMF country reports

[20] For instance, in 2009 there was a nearly full correspondence between incremental taxpayers (+5,866) and new registrations (5,808), suggesting the expansion in the tax base was almost entirely attributable to developments in the enterprise formation and formalization process. However, there is also evidence that in the same year a considerable share of new registrations with tax authorities were actually the result of 'taxpayer recruitment' campaigns carried out by the RRA. In particular, as indicated in RRA documents, part of the newly registered taxpayers "*were captured after a recruitment exercise that was conducted in different zones of Kigali City through the bloc management system. At the end of June 2009, the taxpayers registered during the bloc management operations alone were 980*" (RRA, *RRA Performance Report First Semester2009*, August 2009, pages 5 and 6).

In general, the evolution is driven primarily by macro economic developments and by efforts to increase tax collection deployed by tax administrations, which typically constitute a key conditionality for the continuation of IMF assistance. Given the limited influence exerted on tax compliance, in ***Rwanda*** and ***Burkina Faso***, the impact of IFC projects on tax revenue, for both direct and indirect taxation, appears to be negligible so far. In both countries reforms were only recently introduced, and a positive influence may emerge in the future, but for the reasons indicated, its quantification appears scarcely feasible. Instead, a positive impact can be noticed in ***Sierra Leone***, regarding both direct and indirect taxes. As for direct taxes, the positive influence of tax awareness campaigns on tax compliance is estimated to have resulted in an ***increased revenue of US$ 1.4 to 2.1 million*** (corporate tax and tax on self-employment). In the case of indirect taxes, the GST significantly contributed to increase revenue from 4.4% of GDP in 2009 to a projected 5.1% in 2010. In particular, in 2010, GST is projected to yield a revenue of about US$ 62 million, compared with the US$ 56 million raised in 2009, with an ***incremental revenue of about US$ 6 million***. However, as already mentioned, the merit of this incremental revenue must be shared with the IMF and the DFID.

Box 7.1 A Special Case – Savings in Public Expenditure in Rwanda

The analysis presented above is concerned with the impact of IFC projects on public finance through increased revenue mobilization. It is interesting to note that in one case IFC projects led to conceptually equivalent results by favoring a ***reduction in public expenditure***. This is the case in Rwanda, where the IFC project played an instrumental role in rationalizing government plans for the development of 'special economic zones.' IFC work on SEZ was largely motivated by the existence of the two competing projects in the Kigali area, namely the Kigali Industrial Park initiative and the Kigali Free Trade Zone project, both expected to receive significant financial support from the government. The analysis carried out by the project highlighted the high risks of cannibalization between the two initiatives and led to a better prioritization of government efforts. As a result of IFC advice, in 2010, the government decided to turn down a request for cash infusion from the Kigali Industrial Park, with an ***estimated savings of US$ 9 million***.

7.3 Impact on Trade Flows

Scope of the Analysis. As indicated in Section 3, this is not a standard impact indicator included in the IFC M&E system and for analytical purposes it was defined to encompass both import and export transactions, with reference to merchandise trade. In geographical terms, the analysis is limited to the countries where IFC projects included a trade logistics component, i.e. Burkina Faso, Rwanda and Liberia.

Causal Linkages. IFC work in trade logistics is expected to positively impact trade flows by reducing the costs and time associated with the various steps of the trade logistics chains. The existence of a causal link between trade flows and transportation and handling costs can be regarded as a fairly established fact and does not require much elaboration. Instead, the link between trade flows and the 'time factor' requires some qualifications. In fact, while there is a growing body of literature acknowledging the importance of the 'time factor' in general (i.e. inclusive of transport time, customs clearance, port handling, etc.) in determining trade flows,[21] some recent work suggests that the time required to handle administrative procedures may have a relatively modest

[21] In this respect, classical references are Hummels, "Time as a Trade Barrier", Purdue University, mimeo, July 2001; Simeon Djankov, Caroline Freund, Cong S. Pham, "Trading on Time", mimeo, January 26, 2006; and Portugal, Alberto and John Wilson, "Why Trade Facilitation Matters to Africa", World Bank, Policy Research Working Paper, 4719, 2009.

influence compared to delays experienced in other phases of the trade logistics chain, namely in inland transport time.[22] This has important implications for this analysis, because most of the activities of IFC projects were aimed at reducing the time spent in handling administrative procedures (customs clearance, issuance of import export licenses, issuance of letters of credit, etc.), while inland transportation time, being primarily affected by infrastructural constraints, were largely beyond the scope of IFC intervention. Two other aspects are worth noting. First, as in the case of the tax related variables indicated above, the results achieved by IFC projects are often not easy to separate from those resulting from other donor interventions. This is especially the case with Liberia and Rwanda, where customs reform (an essential element in improving the performance of the trade logistics chain) was actively supported by several donors, with the provision of technical assistance and the financing of essential infrastructure (e.g. the purchase of scanners for more effective controls). Second, and most important, the time and costs associated with the various steps in the trade logistics chain are only two of the many factors that influence the direction and magnitude of trade flows, such as demand and price conditions in international markets, the existence of special trade agreements, etc. Therefore, in order to assess the relative importance of improvements in trade logistics it is necessary to build econometric models capable of handling the full set of factors that influence trade flows. Unfortunately, these models are extremely data intensive, and their use is infeasible for the countries under consideration.[23]

Estimate of Impact. The scale of activities in trade logistics carried out by the IFC projects varies considerably across the three countries. In ***Burkina Faso***, work on trade logistics started only in 2009 and so far has only concerned relatively marginal aspects, such as the elimination of a few import-export documents and the discontinuation of police escorts for containerized goods. In ***Rwanda*** and ***Liberia*** work began in 2008 and activities covered a wide range of topics, including the elimination of certain fees (e.g. the reduction of the pre-shipment inspection fees in Liberia), the reduction in paper work for customs clearance, the elimination of certain documents, and the simplification of certain procedures (e.g. the consolidation of two payments into a single step in Rwanda). While these improvements resulted in considerable private sector cost savings (as already illustrated in Section 4 above), ***no significant impact could be detected in terms of trade flows***. Given the impossibility of using sophisticated analytical techniques, this assessment is obviously a tentative one. However, it seems justified by qualitative considerations regarding the composition of trade flows in the countries concerned. In fact, exports largely concentrate on a limited number of agricultural and mineral commodities (i.e. cotton and gold in Burkina Faso; coffee, tea and minerals in Rwanda; rubber and timber in Liberia), whose performance is primarily explained by developments in production and world markets. Similar considerations apply to import flows, which mostly concern basic goods, such as foodstuff and oil products, whose evolution is driven by domestic economic growth, and capital goods, whose trend is largely influenced by foreign direct investments. Under these conditions, it is difficult to envisage that modest changes in time spent by operators in clearing customs or in performing other administrative tasks in the logistics chain may have any appreciable impact on trade flows.

[22] See Freund, Caroline and Nadia Rocha, "What Constrains Africa's exports?" World Trade Organization - Economic Research and Statistics Division, mimeo, January 2010.

[23] Usually, studies on the subject make use of gravitation models, which require extensive datasets on trade relationships, plus information on a variety of other aspects, such as the physical distance, levels of tariffs. As these data are available only on an annual basis, this approach is feasible for only a large pool of countries and cannot be meaningfully replicated at the country level or for a small number of countries, as is the case here.

8 CONCLUDING REMARKS AND RECOMMENDATIONS

8.1 Introduction

This final section is devoted to a summary presentation of key findings and to the formulation of some recommendations which may prove useful for future investment climate operations. In particular, Section 8.2 recaps the estimates of various impacts, reviews the differences across countries and identifies their possible determinants. Section 8.3 formulates some comments regarding the impacts potentially associated with future IFC actions in various areas of intervention (e.g. investment promotion, business licensing, etc.). Section 8.4 develops some recommendations of a methodological nature, regarding the selection and practical utilization of impact indicators and areas for further analytical work.

8.2 Magnitude and Determinants of Impacts

Magnitude of Impacts. A summary presentation of estimated impacts is provided in Exhibit 8.1 below. The upper part refers to absolute values while the lower part presents 'normalized' values, with reference to the relevant variables (e.g. PSCS as share of GDP, etc.), in order to account for the different size of the four economies. Only the impacts for which quantitative estimates could be achieved for all the projects are considered. This excludes tax compliance, tax revenue, and trade flows, for which only partial estimates and/or qualitative considerations could be formulated. It is important to reiterate that ***estimates presented below refer to the period up to the end of 2010, i.e. they refer to the 'initial' impacts, with exclusion of medium term impacts that could only be assessed in qualitative terms***.

Exhibit 8.1 Summary of Estimated Impacts

Impacts	Burkina Faso	Liberia	Rwanda	Sierra Leone	Total
Absolute Values					
PSCS (US$ million)	2.7	4.6	5.0	0.9	**13.2**
Enterprise Registrations	1,200	8,200	8,000	5,600	**23,000**
New Businesses	700	3,700	4,800	2,500	**11,700**
Formalized Businesses	300	4,500	2,200	3,100	**10,100**
PSIG (US$ million)	5.4	12.0	47.7	16.6	**82.7**
Jobs Created	1,800	18,350	16,250	15,100	**51,500**
Normalized Values					
PSCS as % of GDP	0.01%	0.17%	0.03%	0.02%	**0.03%**
Enterprise Registrations per 1,000 Population	0.08	1.28	0.80	0.98	**0.61**
New Businesses per 1,000 Population	0.04	0.58	0.48	0.44	**0.31**
Formalized Businesses per 1,000 Population	0.02	0.70	0.22	0.54	**0.27**
PSIG as % of Total Private Investment	0.2%	3.2%	2.5%	3.7%	**1.4%**
Jobs Created as % of Total Labor Force	0.03%	1.19%	0.34%	0.72%	**0.34%**

NB In the case of impacts for which estimates are in the form of ranges, mid point values are presented. PSIG data for Liberia refer to two years and are normalized with total credit to private sector
Sources: own elaborations on data from Country Reports, IMF and World Development Indicators

The magnitude of impacts associated with IFC investment climate operations varies considerably across the four countries, and significant differences exist depending upon the indicator used. In the case of ***PSCS***, the impacts achieved in Burkina Faso, Rwanda and Sierra Leone, although clearly different in absolute terms, are of the same order of magnitude if expressed in normalized terms, i.e. 0.01% to 0.03% of GDP, whereas Liberia stands out with a significantly higher value, 0.17% of GDP. A different ranking is found in the case of ***other impacts***, with Liberia and Sierra Leone posting the highest normalized values, closely followed by Rwanda, whereas much lower impacts are found in Burkina Faso. These differences can be explained with reference to various factors, related to the characteristics of the environment in which the projects were implemented and, to a smaller extent, project design.

Determinants of Impacts – Operating Environment. In the case of ***PSCS***, differences in performance are primarily attributable to starting conditions in the four countries (i.e. the level of bureaucratic burden or of out-of-pocket costs imposed upon businesses) and to the ability to secure support for the effective implementation of proposed reforms. For instance, the higher than average PSCS in Liberia (accounting for 0.17% of GDP) are largely attributable to a single reform, the reduction of the pre-shipment inspection fee, which, being applicable to a large number of transactions (a key condition for reforms to generate high PSCS), accounts for two thirds of all PSCS alone. If this reform had not been 'available,' PSCS would have dropped to 0.05% of GDP, which is higher than what was achieved in other countries, but on the same order of magnitude. However, the existence of reform opportunities offering potential for cost savings is obviously not enough. In fact, opportunities have to be seized in a timely manner and reforms have to be effectively implemented, which was not always the case. For instance, in Sierra Leone, PSCS could have been higher if some of the reforms promoted by the project had been effectively implemented, and not simply enacted. In the case of ***other impacts***, post conflict conditions, with the ensuing need to rebuild the economy, clearly fueled the enterprise formation process, which in turn drove up investment, as witnessed by the high results (in relative terms) achieved in Liberia and Sierra Leone. Therefore, the post conflict status of a country, while certainly making operating conditions more difficult, also provides significant opportunities for improvement. Instead, the influence exerted by the overall quality of the investment climate, as measured by the progress achieved in terms of DB indicators, is not clear cut. This is possibly a factor for Rwanda, which was the DB star performer over the last few years, but not in the case of the other three countries, which all improved their rankings by 15 to 20 places over the last few years, and still show different performance.[24]

Determinants of Impacts – Project Design. Differences in impacts appear to be only loosely correlated with project design. For instance, no clear linkage can be established with one of the aspects explicitly mentioned by the TOR as a potential explanatory variable, i.e. the ***adoption of a multi product approach***. In fact, all the projects analyzed were multi product operations, covering a fairly broad range of themes, and three out of four (the only exception being Burkina Faso) combined the provision of policy advice with an institution building/strengthening element. Similar considerations apply for the more or less heavy ***emphasis placed on DB reforms***. One might be tempted to associate the lower performance achieved in Burkina Faso with the fact that this project was more focused on improvement of the DB indicators, but upon examination of impacts generated by non DB-related actions undertaken in the other countries, it appears that results were not significantly better. In general, the ability to generate impacts, especially PSCS, increased with the adjustments in project configuration introduced during implementation. This is certainly the case for the addition of the trade logistics component in Liberia and, to a smaller extent, of the business taxation components in Rwanda and Burkina Faso. In this sense, the adoption of a ***flexible approach***, while not explaining differences in impacts across countries, is certainly a positive feature. This is especially the case when the reorientation was aimed at ***responding to very specific needs***, which were also typically associated with strong interest and commitment from beneficiaries. Good examples in this sense are the transaction support provided for the privatization of the Cape Sierra Hotel in Sierra Leone and the advisory services for SEZ development in Rwanda, which achieved considerable results.

[24] Reference is made to the DB 2010 rankings, because the 2011 rankings are affected by the elimination of the 'employing workers' indicator, which significantly depressed Burkina Faso's position.

8.3 Considerations Regarding Future Operations

Enterprise Creation and Enterprise Development. All projects involved the reform of business registration which resulted in non-negligible PSCS and contributed to (not solely determined) an increase in PSIG. However, there are indications that this type of reform may have entered the phase of declining marginal returns. In Liberia and Sierra Leone, the backlog of informal enterprises is in the process of being cleared while in Rwanda and Burkina Faso the advantages of further cuts in the number of days to register an enterprise are likely to be small. Under these conditions, future IC operations may consider shifting the emphasis from enterprise creation to enterprise development. In this respect, two areas of intervention offering good opportunities include: (i) measures aimed at facilitating access to finance, and (ii) provision of advisory services for enterprise growth. In particular:

- ***Access to Finance***. So far, the theme of facilitating access to finance has only been marginally addressed by the projects. In fact, only in Rwanda was support provided for the establishment of registers for mortgages and pledges. Conditions for accessing finance remain very difficult in the four countries and future IFC investment climate operations might consider additional actions aimed at creating the basic conditions to support bank lending to SME and/or at promoting the adoption and utilization of other financial instruments (e.g. leasing, which is not yet available in Liberia and Sierra Leone and scarcely used in Rwanda and Burkina Faso);
- ***Support to Enterprise Growth***. Facilitating the creation of new enterprises is certainly important, but it is even more important to ensure that, once established, enterprises continue to operate and grow. The range and quality of support services available to micro and small enterprises is still relatively limited in the four countries, and this negatively impacts survival rates and, particularly, growth rates. Over the years, the IFC has developed an invaluable experience in the field of business development services for SME, including the development of specific tools like the SME Toolkit. Therefore, future operations might well consider leveraging this experience, with the inclusion of actions aimed at strengthening the capabilities of existing enterprise support structures.

Investment Promotion. The impact of IFC interventions in investment promotion (including SEZ development) cannot be fully appreciated at this stage, and the US$ 10 - 12 million mobilized thus far in two countries is hopefully only a fraction of what could be raised in coming years. Subject to this caveat, there are indications that sector specific/thematic actions (e.g. support to privatization in tourism in Sierra Leone) might perform comparatively better than broad-based capacity building initiatives. Therefore, in designing future IC programs, it could be advisable to place comparatively greater emphasis on more focused investment promotion actions, concentrating on key sectors and/or following a value chain approach. In addition, greater synergies could be sought between investment promotion and work in other areas of intervention (e.g. in trade logistics and business licensing), with a potentially multiplicative effect. The adoption of an integrated sector/value chain approach could also increase the quality of the dialogue with private operators and enhance the visibility of IFC actions.

Business Licensing. Reforms in the area of business licensing have yielded limited results in terms of PSCS, and no impact could be detected in terms of increased investments. To a large extent, this is not surprising considering that: (i) all the enterprise surveys carried out in recent years clearly indicate that business licensing does not constitute a major obstacle for private sector operators, and (ii) very few business licenses present the features (repetitiveness, large numbers, etc.) that are necessary to generate substantial PSCS. In general, these considerations militate against placing a strong emphasis on business licensing reform in future operations. However, this is subject to a qualification regarding sectors where product quality, environmental and public safety considerations play an important role and/or where private operations coexist alongside public ones (e.g. education and health care). In fact, in these sectors it is not uncommon that licensing requirements are set at excessively high standards, 'wholesale imported' from more advanced countries, and/or are unduly influenced by powerful and politically connected groups, with obvious negative consequences to entry conditions and market competition. In similar situations, well focused IFC interventions could play a very useful role in reducing the risk of over ambitious regulation and/or of 'regulatory capture.' In terms of impacts, tangible results may not be easy to demonstrate due to the small numbers involved and/or because the benefits of increased competition may not be immediately apparent, but this should not discourage action.

Trade Logistics. Reforms in trade logistics present a peculiar situation. On the one hand, they are the most important source of PSCS, accounting for 40% of total estimated savings. Some of these savings are partly attributable to concurrent initiatives financed by other donors and, in some cases, they mostly accrue to intermediaries (clearing agents) rather than to operators, but results are nonetheless quite respectable. On the other hand, the time and cost savings achieved in the handling of administrative procedures do not seem to have exerted any influence on trade flows and, given the time insensitive nature of the bulk of merchandise trade in the four countries, this is likely to remain the case in the future. However, opportunities for achieving significant impact beyond PSCS appear to exist if future IFC projects were to extend activities to address broader issues affecting the trade logistics chain. In this respect, an area may offer significant opportunities is the organization of the road transport sector, where uncompetitive practices and technical inefficiencies are directly or indirectly responsible for a large portion of the extremely high costs faced by landlocked countries like Rwanda and Burkina Faso. Interventions in this area may cover a broad range of themes (harmonization of axle-road regulations, elimination of anticompetitive regulations and practices, design of financial products specifically aimed at facilitating fleet renewal, etc.), and may offer a good opportunity for synergies with other components.

Business Taxation. Tax reform is an inherently complex area, given the need to balance opposite but equally legitimate interests. The emphasis placed by IFC projects on the improvement of administrative aspects of business taxation (rather than on taxation levels) is fully appropriate, as it allows delivery of results potentially useful for both taxpayers and tax authorities. Equally positive was the role of tax awareness campaigns, which greatly helped to disseminate information and, particularly, to reduce the antagonism between the business community and tax authorities. Regarding future operations, there is little doubt that in the coming years the scene will be dominated by a renewed effort by tax authorities to further expand the tax base and to increase revenue mobilization. In this context, a continuation of IFC work would help balance the public finance considerations with the needs of the business community. Impacts are unlikely to be very high and, in some cases, may take time to materialize, but as in the case of business licensing this should not be sufficient reason to discourage action.

8.4 Recommendations on Methodological Aspects

Selection of Impact Indicators. Not all the impacts analyzed in this Report are equally relevant for investment climate operations, as in some cases the causal link between IFC interventions and the target variables is too tenuous to allow for a meaningful measurement. This is particularly the case of tax compliance, tax revenue generated, and trade flows, whose variations are primarily determined by other factors, with IFC actions playing a residual role. Therefore, ***future investment climate projects could usefully focus on four 'core' impact indicators***, namely: (i) PSCS, (ii) PSIG, (iii) job creation, and (iv) enterprise creation/formalization. The ***other three impacts could be used on a case by case basis***, whenever the nature of interventions is such that the effects of IFC projects can be meaningfully disentangled from other factors. This could be the case, say, of actions that aim to improve the trade logistics chain in specific lines of business (e.g. export of fresh vegetables or cut flowers), tax awareness campaigns in specific geographical areas and/or for a specific tax (e.g. awareness campaign for VAT registration in provincial towns).

Regarding the core indicators, the following considerations apply:

- ***PSCS***. The methodology for estimating PSCS enshrined in the Guidelines appears to work well and will constitute a very useful tool for future investment climate operations. One remaining conceptual issue refers to the treatment of certain cost savings that involve a transfer from different private actors. As indicated in Section 4 above, the Consultant was advised not to consider cost savings that represent a transfer from workers to employers. At the same time, the Guidelines include the reduction in legal fees associated with the introduction of standard documents (e.g. templates for articles of incorporation) in PSCS, which also represent a transfer within the private sector. For the sake of consistency, it would be preferable to exclude any savings that involve a transfer among private operators from calculations of PSCS. Regarding practical aspects, the collection of data will remain a daunting task (especially in the case of time savings which are sometimes so small that operators have difficulties in providing meaningful estimates) but the availability of better baseline data will hopefully improve the situation (see below);
- ***PSIG***. In estimating PSIG, attention should be paid to all the drivers of private investment, including the enterprise creation process, the results of investment promotion actions (be they of a general or sector-specific nature), and improvements in access to finance. In case future projects aim to support enterprise development (as suggested above), the investment behavior of existing, and not just newly established enterprises, should also be considered. It is quite clear that in certain cases determinants of PSIG may overlap (e.g. an investment may be undertaken due to both promotional actions and easier access to credit), while at the same time the focus on specific 'drivers' may underestimate the effects of a general improvement of the investment climate. However, this problem appears to be inescapable, at least until sufficiently large and detailed datasets become available to allow for econometric analysis at the country level. As this is unlikely to happen in the near future, estimating PSIG is bound to remain more art than science for quite sometime;
- ***Job Creation***. The 'drivers' of job creation are essentially the same as those of PSIG and the same considerations apply. One possible difference is the effect of reforms aimed at increasing labor market flexibility which however are unlikely to produce significant impacts, as indicated above;
- ***Enterprise Creation/Formalization***. As already explained in Section 3 above this constitutes a special case, because on the one hand it can be regarded as an impact in its own right, and on the other hand it constitutes an essential input for estimating PSIG and job creation. The number of enterprises registered is already included in the standard M&E system for IFC operations as an outcome indicator. However, in order to highlight the various aspects of the enterprise creation/formalization process, the number of registrations could usefully be complemented with the addition of three related indicators: (i) the number of truly new businesses created, (ii) the number of formalized businesses, and (iii) the number of new/formalized businesses surviving after a certain number of years. This would allow a much better understanding of the enterprise demography but is contingent upon the availability of additional data (see below).

Practical Aspects in the Handling of Impact Indicators. As indicated in Section 3 above, the analysis of M&E tables reveals some weaknesses in the handling of impact indicators, which *inter alia* prevent a meaningful comparison with ex-post results. In the case of future operations, it is important that indicators be used in a more consistent manner, with systematic indication of baseline and target values, and a clear indication of whether targets are expressed in incremental terms or refer to the absolute values to be achieved. Also, it is essential that baseline values, targets and results inserted in M&E tables be accompanied by an explanation of how the figures were arrived at, with indication of the sources used, the population affected, and the methods of calculation used. As the format of the M&E tables in Supervision Reports does not seem to allow for the inclusion of notes or comments, it is recommended that a separate note is appended or at least that explanations are inserted in the section 'Comments on the development results achieved this reporting period.'

Further Analytical Work. In the four countries under consideration, the knowledge of how the enterprise sector operates and evolves is still limited. Large scale surveys, such as such as the World Bank Enterprise Survey, provide useful information on a number of aspects, but they do so only at a certain point in time and therefore provide little insight on evolutionary aspects. The same applies to data from business registers, which tell us about the birth of firms but do not record their subsequent evolution, how much they invest, how many people they hire, and more importantly, whether they survive and for how long. The limited knowledge of these dynamic aspects has important negative implications from an impact assessment perspective, as it makes the analysis of key impacts such as investment and employment particularly difficult and tentative. Under these conditions, future IFC operations might consider the possibility of complementing operational activities with some analytical work aimed at gaining a better understanding of the evolution in the enterprise sector. A useful area of research is represented by ***cohort studies***, which focus on the evolution of groups of firms that were established at the same moment. An example in this respect is provided by the survey carried out in 2010 in Burkina Faso, which collected useful information on demographic aspects (i.e. the operational status of firms) and operational parameters (i.e. amounts invested since establishment) for the cohort of enterprises registered in 2007.[25] The performance of similar surveys at the beginning and end of projects (or in case of longer durations, every couple of years) would greatly contribute to improving the accuracy of impact estimates and could provide useful inputs for orienting operational activities.

[25] Maison de l'Entreprise du Burkina Faso, *Etude sur le profil des créateurs d'entreprises et d'évaluation de la mortalité des nouvelles entreprises*, Rapport provisoire, June 2010. The survey was based on a sample of 295 enterprises based in two main economic centers, Ouagadougou and Bobo Dioulasso representing about 9% of the target population of 3,284.

ANNEXES

ANNEX A – METHODOLOGY FOR ESTIMATING PRIVATE SECTOR COST SAVINGS

A.1 Introduction

The methodology adopted for estimating PSCS builds upon the preparatory work done in the earlier stages of the Assignment and presented in a separate report.[26] The approach presented here also takes into account the work done by the IFC on refinement of M&E indicators for investment climate projects and more specifically the methodology developed for estimating aggregate cost savings accruing to private operators.[27] It is worth noting that the IFC methodology was developed in an ex-ante framework, whereas this exercise adopts an ex-post perspective. As will be demonstrated below, this involves some modifications in the definition of variables and in calculation procedures.

A.2 Taxonomy of PSCS

Three types of PSCS have been identified, namely:

- reduction in ***out of pocket expenses*** associated with the abolishment/simplification of certain procedures ("cost savings");
- reduction in the ***time spent by private operators*** in dealing with certain procedures that have been abolished/simplified ("time savings" or "savings in the opportunity cost of time");
- reduction in the ***financial burden*** related to changes in the payment profile for certain procedures ("financial savings" or "savings in the opportunity cost of money").

Cost savings refer to two items, namely: (i) the elimination/reduction of certain fees (stamp duties, service fees, etc.) and (ii) the elimination/reduction of the need to rely on service providers for certain formalities (e.g. elimination of notarization for certain documents, development of standard articles of incorporation or memorandum of association, with ensuing elimination/reduction of the need for legal advice). These two effects are found for a wide range of areas of intervention, from the registration of buildings (i.e. reduction of the property transfer tax) to contract enforcement (i.e. reduction of fees for filing a commercial case in court).

Time savings refer to the gains in terms of opportunity cost of labor resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services. This is, again, relevant for a wide range of areas of intervention, from business registration (e.g. as a result of the establishment of one-stop-shop facilities) to taxation (e.g. whenever payment of taxes via bank rather than at the tax office is accepted).

Financial savings result from the reduction in the financial burden shouldered by private operators as a result of changes in the payment modalities for certain fees or taxes. For instance, in Burkina Faso the government recently reduced the amount that taxpayers have to pay in order to file a tax appeal, and this provides some cash flow advantages to enterprises.

A.3 Estimation Procedure

In analytical terms, estimating PSCS is quite a straightforward exercise as it essentially involves the multiplication of a 'price element,' i.e. the savings achieved in one particular case, times a 'quantity element,' i.e. the number of relevant observations, referred to as 'transactions.'

[26] *Report #2 – Methodological Report*, August 12, 2010.
[27] IFC, *Guidelines for Aggregate Cost Savings Template (basic)*, s.d. (but August 2010), hereinafter referred to as the 'IFC Guidelines.'

The nature of the ***price element*** depends upon the nature of the reform under consideration. In the case of cost savings, e.g. the elimination of a certain fee or tax, the impact can generally be ascertained quickly. However, when the fee or tax is expressed in *ad valorem* terms (e.g. property transfer tax equal to a certain percentage of the value of the property) it is necessary to make reference to the value of the good on which the fee or tax is levied. The value of time savings is the result of the multiplication of time saved thanks to a certain reform (expressed in terms of hours) by the unit value of labor (expressed in hourly total labor costs, i.e. inclusive of benefits, social security, and taxes). Finally, the value of financial savings is determined by multiplying the amount of payment deferred, thanks to a certain reform, by the relevant interest rate.

The nature of the ***quantity element***, i.e. the number of transactions, also varies depending upon the type of reform considered. In certain cases, e.g. the registration of newly established firms, the number of transactions coincides with the number of economic agents affected by a certain reform. In other cases, e.g. the payment of VAT, the number of transactions is the result of the multiplication of the number of economic agents by the number of times these agents have to undergo a certain procedure. In yet other cases, e.g. the checking of trucks at the border, there is no *a priori* rigid relationship between the number of economic agents and the number of procedures, and the number of transactions must be measured independently.

Two further aspects are worth highlighting:

- PSCS are calculated for the whole life of the Project. As benefits may occur at different points in time, in order to properly aggregate annual values it is necessary to ***proceed to compounding***, taking the terminal year of the Project as reference point. This is done using the relevant real interest rate;[28]
- some costs incurred by private operators (e.g. fees and taxes on specific transactions) are deductible for profit tax purposes, and this reduces the burden of complying with regulations. Therefore, in order to calculate the net impact of reforms, it is necessary to ***adjust the savings considering the relevant profit tax rate***. However, this does not apply to economic agents registered under 'simplified' tax regimes, typically involving the payment of turnover taxes and/or of lump sum taxes.

A.4 Practical Issues

While the method of calculating PSCS is relatively simple, significant practical problems arise for various reasons. This is particularly the case of cost savings and time savings. In particular:

- ***Cost Savings***. There are two main issues related to this typology of PSCS. First, sometimes data for the baseline situation refer only to partially relevant situations. For instance, in the case of the registration of enterprises, the benchmark fees provided by the DB Reports refer to the case of a limited liability company. However, in several countries the majority of newly formed enterprises are sole proprietorships. This means that baseline data for enterprises not adopting a corporate form had to be reconstructed;
- ***Time Savings***. In this case, baseline data are usually missing (DB Reports typically record the delays, not the time spent in performing the various tasks) and reconstructing the baseline situation after 3 to 5 years is made difficult by fading memories. Data obtained from companies and professionals are often at odds with each other, with wide variability. This means that calculations are inevitably based on fairly rough estimates. Coherent data on labor costs are also difficult to gauge, given the huge differences in wage levels across various types of enterprises. In principle, there is also a conceptual problem of determining the hourly wage of an

[28] This represents a departure from the IFC Guidelines, which recommend the discounting of savings to the baseline year. The difference is obviously due to different perspective adopted, which is ex ante in the IFC Guidelines and ex post in this exercise.

entrepreneur who ‘by definition’ does not receive a wage. However, this is largely a theoretical problem as most entrepreneurs in the countries covered are merely ‘survivalist entrepreneurs,’ whose income is often lower than that of employees in the formal sector.

ANNEX B – SOURCES OF PRIVATE SECTOR COST SAVINGS

In this Annex we summarize the reform measures taken into account for the calculation of PSCS. Reform measures have been grouped in the homogeneous areas of activity illustrated in the Main Text in Section 2.

Exhibit B.1 Burkina Faso - Summary of Reforms Generating PSCS

Reform Area	Specific Measures Generating PSCS
Business Registration and Formalization	
Business Registration - Companies	• elimination of the need to register the articles of association with tax authorities and abolishment of related fees • reduction in costs for the publication of formation notice • reduction in registration fees • consolidation of procedures for publication of formation notice with registration process • elimination of separate registrations with tax authorities and employment agency
Business Registration – Sole Proprietorships	• reduction in registration fees • elimination of separate registrations with tax authorities and employment agency
Business Licensing	
Private Schools Licensing Procedures	• simplification of documents to be submitted for issuance of license • delegation of licensing inspection to regional directorates
Construction Permits	
Establishment of CEFAC and Related Measures	• consolidation of various procedures (permission from municipality, etc.) into a streamlined process • reduction in the fee payable to fire department for checking of the fire safety plan • reduction in the fee for carrying out soil studies; • elimination of technical check carried out by the *Direction Générale de l'Amenagement du Territoire* and abolishment of related fee
Real Estate Transactions	
Property Transfer Taxation and Procedures	• reduction of *ad valorem* tax on property transfer • elimination of the need to get permission for the transfer of property from municipality and abolishment of related fee • consolidation of procedures related to valuation inspections and fee payment • reduction in fees for valuation inspections and related registration
Labor Market Regulation	
Work Contracts Registration Procedures	• elimination of need for employers to get a visa from the *Inspection du Travail* for new work contracts
Other DB-related Themes	
Court Awards Registration Procedures	• elimination of *ad valorem* fees for the registration of court decisions
Business Taxation	
Tax Appeals Procedures	• reduction from 100% to 25% of the deposit required to file an appeal against assessments made by tax authorities
Tax Payment Procedures	• introduction of possibility to pay taxes via bank transfer • improved organization of tax offices for the direct payment of taxes
Trade Logistics	
Control Procedures	• elimination of police escorts for containerized goods
Import Export Documents	• prolongation of validity of two import-export documents from 6 months to 12 months

Exhibit B.2 Liberia - Summary of Reforms Generating PSCS

Reform Area	Specific Measures Generating PSCS
Business Registration and Formalization	
Business Registration – Corporations	• introduction of standardized forms for articles of incorporation, potentially eliminating legal service fees • elimination of the obligation of having all new business sites physically inspected by the Ministry of Commerce • improvement of services through the establishment of a one-stop-shop structure
Business Registration – Sole Proprietorships & Partnerships	• improvement of services through the establishment of a one-stop-shop structure
Unofficial costs – All businesses	• reduction of bribes annually paid for maintaining an informal status
Construction Permits	
Building Permit System	• reduction of fee charged by the Ministry of Public Works for building permits • replacement of *ad valorem* fee levied by Monrovia City Corporation for construction authorizations with a lower fee (per square foot) • introduction of a standard check-list for obtaining construction permits • elimination of the need to obtain a tax waiver prior to obtaining a permit • reduction of both value and incidence of bribes paid for getting a construction permit
Real Estate Transactions	
Property Registration System	• elimination of the obligation for entrepreneurs to notify Bureau of Internal Revenue of title transfer upon registration • elimination of the US$ 10 ‘unofficial’ fee to get a copy of seller deed
Trade Logistics	
Import procedures	• removal of the fee to be paid to the Ministry of Commerce to obtain an Import Permit Declaration (IPD) • removal of the requirement for shipper to pay overtime for custom officers attending arrival/off-loading of ships • reduction of the pre-shipment inspection (PSI) fees from 1.5% to 1.2% of FOB value

Exhibit B.3 Rwanda - Summary of Reforms Generating PSCS

Reform Area	Specific Measures Generating PSCS
Business Registration and Formalization	
Business Registration - Companies	• elimination of *ad valorem* fee of 1.2% on declared capital, replaced with flat fee • elimination of mandatory notarization of company deeds and articles of incorporation • elimination of mandatory publication of charter • elimination of separate registrations with tax authorities and social security • improvement of services through the establishment of a one-stop-shop structure
Business Registration – Sole Proprietorships	• elimination of separate registrations with tax authorities and social security • improvement of services through the establishment of a one-stop-shop structure
Business Licensing	
Environmental Impact Assessment	• publication of a list of pre approved experts for the performance of environmental impact assessment
Licensing of Clearing Agents	• simplification of procedures for the renewal of licenses
Road Worthiness Tests	• improvement of operating conditions for the running of tests
Tax Clearance Certificates	• Introduction of the possibility to obtain Tax Clearance Certificates online
Construction Permits	
Building Permit System	• reduction of fee for deed plan and modification of unit fees for construction permits • improvement of services through the establishment of a one-stop-shop structure for sizeable buildings
Real Estate Transactions	
Property Registration	• elimination of *ad valorem* tax of 6% on property value, replaced with flat fee • elimination of mandatory registration of sale contract with tax authorities
Land Titles Transfer System	• elimination of three steps in the procedure and of related out-of-pocket costs
Business Taxation	
VAT Filing and Payment System	• enablement of quarterly (instead of monthly) filings and payments for tax payers with a turnover up to RWF 200 million
Trade Logistics	
Customs Documentation	• introduction of self assessment system and elimination of various customs documents (arrival notice, *déshabillage*, exit note and cargo release order)
Import Export Licensing	• elimination of import export licenses issued by the National Bank of Rwanda
RBS Fee Payment System	• consolidation of payment of RBS fee into the customs fee and duty collection process

Exhibit B.4 Sierra Leone - Summary of Reforms Generating PSCS

Reform Area	Specific Measures Generating PSCS
Business Registration and Formalization	
Business Registration – Corporations	• elimination of the obligation that the Memorandum and Articles of Association be prepared and signed by a solicitor • elimination of the renewal of the business registration license • elimination of the need to obtain an Exchange Control Permission • elimination of the tax advance payment • improvement of services through the establishment of a one-stop-shop structure
Business Registration – Sole Proprietorships / Partnerships	• elimination of the renewal of the business registration license • elimination of the tax advance payment • improvement of services through the establishment of a one-stop-shop structure
Component #3 – Tax Administration	
Introduction of the Goods and Services Tax	• replacement of seven different taxes by the new tax

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