EVALUATION OF THE WORLD BANK GROUP'S INVESTMENT CLIMATE PROGRAMS

FOCUS ON IMPACT AND SUSTAINABILITY

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Burkina Faso, Liberia, Rwanda, Sierra Leone and South Sudan

An independent evaluation by Economisti Associati

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MAIN ABBREVIATIONS

ADR	Alternative Dispute Resolution
AfDB	African Development Bank
CCS	Compliance Cost Savings
DB	Doing Business
DFID	Department for International Development (United Kingdom)
EAC	East African Community
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
IC	Investment Climate
ICF	Investment Climate Facility for Africa
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IPP	Investment Policy & Promotion
IT	Information Technology
M&E	Monitoring and Evaluation
PPD	Public Private Dialogue
PPP	Public Private Partnership
PSCS	Private Sector Cost Savings
SCM	Synthetic Control Method
SEZ	Special Economic Zone
SMS	Short Message Service
TMEA	Trade Mark East Africa
UEMOA	Union Economique et Monétaire Ouest Africaine
UNDP	United Nations Development Program
USAID	US Agency for International Development
WBES	World Bank Enterprise Surveys
WBG	World Bank Group

SYMBOLS USED IN EXHIBITS

~ means approximate value
.. means not available
– means not applicable
0 means zero or a quantity less than half than the unit shown

In all exhibits, totals may not add due to rounding.

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FOREWORD

AFRICA'S GROWTH TRANSFORMATION

Africa has spent the past 18 years growing at 5% a year, following a similar period of decline where per capita incomes fell by 1.3% annually. The drivers of this growth and its long-run sustainability are often disputed, but what is certain is that African governments of today have proven themselves to be more willing than their predecessors to undertake the reforms needed to spur economic growth and free up the private sector.[1]

A combination of factors has led to better economic prospects on the continent. The end of the cold war helped to cut the incidence of armed conflict to a third of previous levels, structural adjustment reform started to pay dividends, and global debt forgiveness cleared the burden of past debt incurred.

Much of Africa's growth has undoubtedly been fueled by a natural resource boom, with resources being discovered across the continent and global prices at record highs (though there are signs of this changing). However, though minerals account for 50% of Africa's exports, the continent has also been gradually diversifying the sources of its growth, with services in particular accounting for a growing share of gross domestic product. The continent's growing middle class — estimated at 100 million earning over US$ 3,000 a year — is also increasingly urbanized, with now almost 40% of Africans living in cities, compared to 22% in 1980. This is comparable to China and higher than India.[2]

This presents new growth dynamics in terms of markets, but equally importantly, a crop of burgeoning entrepreneurs who can respond to these opportunities, from micro-entrepreneurs to large investors.

It is primarily on the needs and aspirations of these business people that the World Bank Group (WBG) has been focusing our investment climate advisory reform efforts in Africa since 2006, initially undertaking reforms captured by the WBG's Doing Business report that tracks progress in reforms that support a firm through its life-cycle: from start-up, through to raising capital, to potential closure. In time, we expanded our focus beyond areas covered by Doing Business to other investment climate reform topics, in particular industry specific reform interventions, such as in tea, horticulture and tourism.

COUNTING CHANGE

The commitment on the continent to investment climate reform has been impressive, with many African countries making large advances towards the Doing Business frontier (defined by the most business-friendly country for each of Doing Business' ten reform topics), with Rwanda listed at various times as the world's top reformer. As a flagship index of private sector reform, one that has captured the attention and imagination of the private sector and policy makers alike (and, as a result, attracted its fair share of controversy), Doing Business has served a useful measure of our progress.

However, it has also not served as a wholly adequate measure. In Rwanda, our team on the ground was often asked why the country's stellar performance on Doing Business was not translating automatically (and quickly) into a surge in investment and, more importantly, the much needed accompanying jobs. We did not have a clear enough answer for them.

We needed to know more about how investment climate reforms translated into the kind of impact that policy-makers and their constituents in the private sector and beyond hold them to account for. Therefore, in 2011 we undertook a study to quantify the impact of our reforms, counting what we could reasonably claim to have affected.

[1] World Development Indicators database, World Bank Group. GDP growth data since 1995, decline data from 1974-94.
[2] World Development Indicators database, World Bank Group; middle class data estimates by Standard Bank in "The hopeful continent: Africa rising," The Economist, Dec 3rd 2011.

A key measure of our success, and one that is built in to our internal performance metrics, is private sector cost savings (PSCS), which monetizes the fees and time that businesses save as a result of the investment climate reforms that we support. For example, reforms that changed the procedures for registering a business by streaming processes and putting a number on-line, as well as reducing fees related to registration, puts money back into the budding entrepreneur's pocket. This has therefore formed the core of the WBG's investment climate measurement system.

CHOICE OF FOCUS COUNTRIES

This study covers Burkina Faso, Liberia, Rwanda, Sierra Leone, and South Sudan, revisiting and building on an evaluation undertaken in 2011 in this same set of countries. The first four are among the first investment climate programs that the World Bank Group undertook in Sub-Saharan Africa, while South Sudan is the continent's newest nation as well as being a country where we have a large program. Between them, we have a mix of high and average growth economies, different endowments in terms of natural resources, conflict-affected and relatively stable countries, and a good geographic spread.

However, useful as this is, it arguably does not measure what matters most. The biggest advantage of easing business entry is not so much to do with saving entrepreneurs money, but that governments reduce the barriers to entrepreneurs taking the plunge into the market. More people taking this plunge improves the possibility of more firms surviving to maturity, thereby increasing the levels of investment undertaken by the private sector and, assuming that this is not all in capital intensive sectors, the much needed jobs that they create. It is here, in the space of investment and jobs, that private sector support technocrats are primarily interested, and where politicians feel the most pressure.

Therefore, beyond measures of PSCS, we also seek to understand the degree to which investment climate reforms play a direct role in encouraging investment and related job creation. But not all reforms have a direct enough line of sight to investment and jobs. For example, while improvements in trade logistics plays a critical role in improving the ability of businesses to access markets, and therefore affects their ability to grow, the direct effect on investment through improved trade logistics by these same firms is not easily measured. So instead, we settle on measuring the direct costs savings to businesses of cheaper and faster import and export procedures, which is arguably the less interesting impact metric of trade logistics reform.

This leaves a limited number of investment climate reform interventions with an obvious enough direct link to investment and jobs: primarily those relating to business entry – looking at what new firms have invested since start-up, and the jobs they have created; and sector-specific investment support – for which specific deals can be tracked and the money invested and jobs created counted. From the reforms that we look at in this assessment, entry and sector specific reforms only account for about 20% of the full set of investment climate reforms on which our teams engaged.

ATTRIBUTION OR CONTRIBUTION?

Looking at measures of impact invariably lead to numerous discussions around questions of attribution versus contribution – in short, how much of what we are counting is a result of our actions, and our actions alone. To this we have a simple answer: little.

This is in part because most of what we do is done in collaboration with others: we have numerous partners who join us in taking on the investment climate reform agenda, beginning with our counterparts in government ministries to other donor organizations. But more importantly, the real work when it comes to private sector development is done by the entrepreneurs and firms that we are supporting. They must take the time to structure a deal, risk their capital, and then pour in their time and energy to make the venture a success. What we do in comparison is relatively minor. Therefore, we have never laid claim to any form of attribution when it comes to counting measures of impact, but only a more modest contribution.

FINDINGS: THE NUMBERS

The World Bank Group's interventions in Burkina Faso, Liberia, Rwanda, Sierra Leone, and South Sudan covered a broad stretch of reform areas, with our teams counting 46 'reforms' over six years that complied with our formal reform criteria (which include a minimum threshold in terms of what is achieved for a reform to be formally counted).

Business registration and trade logistics generated the most reforms, as well as the greatest number of private sector cost savings. PSCS totaled nearly US$ 40 million, most of which came from high-transaction government procedures, where a small fee reduction can lead to a relatively high aggregate benefit. In Liberia, one single reform in the reduction of the pre-shipment inspection fee from 1.5% to 1.2%, generated PSCS worth US$ 4.6 million, which is 57% of the country total. Meanwhile, Rwanda's good showing in PSCS as a result of business registration reform was in part helped along by the fact that the government made it compulsory to register on-line.

Beyond PSCS, only a limited number of our reforms have a clear enough line of sight to investment and jobs numbers. With business registration serving as the most direct route to this data – whereby we estimate the change in registrations as a result of our reform interventions and then look at what these new firms have generated in terms of jobs and investment through firm level surveys – the only unequivocally positive results come from Rwanda, where business registration followed an unambiguously upward trajectory above its predicted trend. This generated an additional US$ 33-88 million in investment (depending on whether we use the median or average firm-level investment figure) and 19-24,000 jobs. These are encouraging figures.

Liberia also generates positive results in investment and jobs from business start-up support, but part of the difficulty with these numbers lies in the fact that we started work as the county ended over two decades of war, and so while there was a clear rise in business registration following the reforms we supported, it is not clear how much of that would have happened simply because of the outbreak of peace. In Burkina Faso, Sierra Leone, and South Sudan we do not have a clear enough sustained upward swing in registration numbers to look for impact data.

In addition to business entry reforms, investment and jobs data also come from sector specific investment climate interventions. Building from a few successful large investments in particular sectors, such as tea in Rwanda and tourism in Sierra Leone, the study indicates that a combination of general investment climate reforms with sector specific interventions can yield strong results.

However, the process of gathering data for the report also exposed some of the vagaries of the business environment in many countries where we work in Sub-Saharan Africa. As a result of our team's support in the privatization of the Cape Sierra Hotel in Freetown, Sierra Leone, we had logged an investment impact of US$ 50 million on the closure of that project. However, by the time the evaluators were on the ground reconfirming the data, it looked like no deal was to happen – and so the impact of our efforts had evaporated. However, within weeks, the evaluators reported that the deal was back on again, and in fact had grown to a value of US$ 63 million over the course of the delay. We watched our impact fall to zero to then increase by an additional US$ 13 million over what we expected purely as a result of the timing of when we looked for impact. Now, following the outbreak of Ebola in the country, the investment is again uncertain!

FINDINGS: QUALITATIVE MEASURES

As a group that focuses on private sector growth, like businesses, we have a strong numbers orientation. However, numbers do not tell the full story of investment climate impact. As mentioned above, investment and jobs numbers do not apply to many reforms that we undertake. PSCS do apply, but mainly to situations where reforms lighten the weight of an overly heavy-handed bureaucracy. In Sub-Saharan Africa we often find bureaucracies that are not as efficient as they could be, yes, but not to the degree that they totally lock down the private sector – which instead exists in the growth-limiting informal economy. But improvements in the investment climate can amount to changes in perceptions by businesses about the country where they invest, and when it comes to investment, perceptions matter.

Therefore we also undertook surveys of what how small and medium enterprises (SMEs) perceived investment climate reform, getting qualitative data. In Rwanda, we see the greatest enthusiasm, perhaps predictably, with positive perceptions extending to virtually all aspects that we queried. Views are particularly positive regarding tax administration aspects (with no less than 96% of positive views), in large part as a result of the introduction of the WBG-supported e-tax system. However, on the other hand, investment climate reforms also address things that do not affect an average SME much of the time, or potentially ever, but which are nonetheless crucial for the effective working of markets. In Burkina Faso, respondents answered: "I'm sorry, but I really don't have experience in these areas" and "Commercial disputes? No idea of how it works, we try to avoid problems by all means." In such cases, neither quantitative nor qualitative impact measures capture what we believe are nonetheless important investment climate interventions.

Another notoriously difficult reform area to measure change rests in institutional support and development. This rests at the heart of almost all reform interventions: partnering with government and private sector counterparts in designing and implementing key investment climate reforms. A key measure of the impact of institutional support lies in the sustainability of our engagement, and whether reforms that we have supported continue to have effect even once we reduce our involvement. To address this challenge, the WBG has developed an investment climate 'sustainability check-list' that gauges the degree to which we suitably invest in institutions to ensure that reforms continue to have effect.

The application of this check-list in our focus countries generated largely positive results, with most policy and legislative reform initiatives remaining in force after the WBG's engagement ended or shifted focus. The fact that many reform efforts focused on Doing Business reforms certainly helped in this regard, as the reform areas are assessed on an annual basis and backsliding is clearly highlighted. Reforms involving institution strengthening were also generally positive, but not universally. Problems range from relatively minor issues, such as limited functionality of IT systems, a frequent occurrence for business registries, to much more serious situations, such as institutions that previously received support not being able to meet their budgetary requirements.

WHAT YOU MEASURE MATTERS

The investment climate sustainability check-list was applied ex post as part of this study. However, it was also designed to be applied ex ante, to expose to project teams where potential issues with institutional strength and sustainability may exist, and therefore where additional time and resources ought to be applied. This stresses the importance of clarifying end goals from the start, and developing suitable measures of assessing progress towards them.

The WBG employs a comprehensive means of codifying and therefore measuring investment climate reform, whereby interventions are classified as a formal 'reform' only once they meet minimum threshold requirements (oftentimes but not solely measured by Doing Business). For a wide ranging and at times amorphous set of interventions that make up investment climate reform, this codification is admirable. However, it has also led project teams to overly focus on registering reforms in the system, with this becoming the overwhelming measure of success of their work. This has meant that too often they lose track of the end goal towards which they may have initially set their sights, measured in terms of growing investment, increased jobs, or improved perceptions of the private sector about their county's business environment. Victory was declared when reforms were achieved, without enough questioning of whether the wider economic effects of these reforms were really that substantial.

Addressing this requires developing and enforcing the discipline of collecting extensive baseline data on impact, tracking progress towards it, and adjusting course when there are indications that the desired impact is not likely to transpire.

WHAT THIS MEANS FOR INVESTMENT CLIMATE REFORM CHAMPIONS IN SUB-SAHARAN AFRICA

Where does this leave us in terms of the kinds of questions clients ask around our impact in terms of investment, jobs and growth? We have a strong sense of the importance of investment climate reform and, in many cases, strong reformers have also been able to generate growth and investment. However, we do not have clear enough evidence of these linkages, particularly important in the instances of moderately strong reformers.

The results overall, and with the Rwanda case in particular, suggest that investment climate reform is usually necessary to clear out the morass of often dated regulations – many of which even date back to the colonial period in Sub-Saharan Africa – which constrain business growth and consign too many businesses to stay in the informal sector. The Rwanda story also points towards the importance of taking a holistic approach to investment climate reform, undertaking active reform across a broad spectrum of areas that can lead to a cumulative impact on the economy, changing businesses' perception of investment prospects.

However, investment climate reform alone, while necessary is not sufficient to launch a country on the path to economic transformation and higher growth. Clear linkages between economy-wide investment climate reform and industry specific interventions most probably hold the most promise for generating impact; and the kind of impact on which we can gather evidence, both quantitative and qualitative. To prove this we must start gathering baseline data now, grounded in a clear theory of change, and then track our expected progress with discipline.

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EXECUTIVE SUMMARY

This evaluation reviews the World Bank Group's (WBG) investment climate (IC) programs in Burkina Faso, Liberia, Rwanda, Sierra Leone, and South Sudan. The IC programs encompassed a total of 25 projects implemented since the mid-2000s with a total budget of about US$ 39.6 million. Sierra Leone and Liberia received the biggest parcel of WBG assistance, with budgets of about US$ 9 million each, followed by Rwanda at close to US$ 8 million. Burkina Faso and South Sudan saw their budgets come in significantly lower, at about US$ 6.5 million each. With the exception of Sierra Leone, where WBG activities were discontinued at the end of 2011, WBG programs have continued uninterrupted, with work in progress in Burkina Faso and Liberia and new operations currently in preparation for Rwanda and South Sudan.

This evaluation is aimed at expanding and deepening the analysis carried out in an earlier study in 2011 across the same countries, with a special focus on the impact and sustainability of IC reforms. The evaluation involved a combination of desk and field work, including an extensive review of WBG project documents, the analysis of various studies and reports, consultations with stakeholders and beneficiaries, interviews with foreign investors, and surveys of local enterprises, covering a total of about 200 firms (around 100 in Rwanda and 25-30 each in the other countries).

WBG PROGRAMS AND CONTEXT

WBG programs adopted an integrated approach

The WBG programs aimed at improving the IC through a combination of regulatory simplification, legal reform, and institutional development. IC reform work was often accompanied by the provision of assistance on investment promotion, namely with the aim of attracting foreign direct investment (FDI). The nature of WBG programs evolved overtime. Regulatory simplification and legal reform, largely aimed at seeking an improvement in Doing Business (DB) rankings, were prevalent in the early days of the reform process. Overtime, a growing emphasis was placed on building effective institutions and on investment promotion.

… focusing on a wide range of IC reform themes

The reform of business registration procedures, the streamlining of business regulations and industry specific reforms were the most popular areas of intervention, being targeted in all the five countries and cumulatively accounting for 40% of budget allocations. Legal reforms linked to various DB topics (i.e. labor market regulations, contract enforcement, investor protection, access to finance, and business insolvency) were also pursued in all five countries, but being less-resource intensive, they accounted for only 8% of the total budget. Reforms in business taxation, trade logistics, investment policy, Public Private Dialogue (PPD), and real estate transactions (i.e. construction permits and property registration) were targeted in four countries, while Alternative Dispute Resolution (ADR) and Special Economic Zones (SEZ) were niche areas of intervention, targeted in only two of the countries.

WBG programs were paralleled by numerous other IC reform initiatives

The WBG programs were implemented in a fairly crowded environment, characterized by the presence of other IC reform initiatives financed by donors or international financial institutions (IFI). The Investment Climate Facility for Africa (ICF) has played a key role in IC reform and has paralleled WBG programs in all countries except South Sudan with 20 different projects worth about US$ 44 million. The presence and the role of other donors/

IFI vary across countries and by reform area, although it was usually quite significant in trade logistics and business taxation.

… which helped in fostering the reform process but makes it difficult to attribute results

The existence of numerous donor/IFI initiatives pointing in the same direction has helped to accelerate the pace of reforms and/or enabled important synergies but at the same time it prevents an unambiguous attribution of results. Therefore, in the majority of cases WBG programs can be seen as having contributed to, rather than independently achieved, IC reforms.

IC REFORMS

The WBG programs contributed to a considerable number of IC reforms

The WBG programs are estimated to have supported a total of 91 IC reforms implemented between mid-2006 and the end of 2013. These include 67 reforms officially counted by the WBG as well as 24 reforms identified through other sources. Four fifths of reforms concern themes tracked by DB reports ('DB topics'). In line with the evolution in orientation of WBG reform work, DB topics accounted for nearly all reforms in the early years, while non-DB topics (business licensing, investment policy, etc.) gained in prominence overtime.

… although there are differences across countries and reform areas

Rwanda is the lead reformer, accounting for about one third of all WBG-supported reforms. In Burkina Faso, Liberia, and Sierra Leone, the WBG supported between 15 and 20 reforms, while activities in South Sudan contributed to only eight reforms, all of which were achieved in recent years. Around half of the reforms involve improvements in business registration, trade logistics, and legal aspects linked to DB indicators. Nearly one third of reforms concern business taxation and real estate transactions (i.e. construction permits and property registration). Reforms connected to non-DB topics account for just one fifth of the total. This reflects the more recent, and in some cases ongoing, WBG engagement in these areas, as well as the nature of interventions. Indeed, activities focusing on non-DB topics often include an important capacity building element, and institutional change is both notoriously difficult to achieve and more difficult to measure.

DB rankings suggest a significant improvement in the business environment

WBG-supported reforms contributed to improve the business environment, as measured by country rankings in DB reports. The performance of Rwanda is particularly noteworthy, as it climbed from around 160th place in the mid-2000s, to take 32nd place in the DB2014 report, putting it ahead of several OECD countries such as Belgium, France, Spain, and Italy. Improvements in Burkina Faso, Liberia, and Sierra Leone were less spectacular, but nonetheless significant, with a gain of 10-15 positions. No assessment is possible for South Sudan, which was included in DB rankings for the first time in 2013.

The business community appreciates improvements in the business environment

Changes in the business environment are positively assessed by the business community. Survey results show a solid majority of firms perceiving 'some' or a 'significant' improvement in the overall IC. Responses differ by country however, from an evidently enthusiastic assessment in Rwanda, where all respondents perceived an improvement, to a more lukewarm reception in Liberia, where positive views were expressed by three fifths of interviewees and the rest noticing no appreciable change or holding negative views.

IMPROVEMENTS IN THE BUSINESS ENVIRONMENT ARE CONFIRMED BY OTHER INDICATORS

Improvements in the business environment are confirmed by other indicators, namely: (i) the World Bank's Regulatory Quality Indicator (RQI), and (ii) the Economic Freedom Index (EFI), developed by the Heritage Foundation. There are however some significant differences, compared with DB rankings. Both the RQI and EFI confirm Rwanda's marked improvement, although its lead on Liberia and Sierra Leone is narrower, both in absolute and relative terms. This is particularly the case for the rate of improvement, with the RQI showing Liberia and Sierra Leone improving their business environment at a pace similar to that of Rwanda. Also, according to both indicators, Burkina Faso's positioning is much better than the one in DB rankings, as it comes in a close second to Rwanda. For South Sudan, the RQI captures in part the improvements in the basic legal and institutional framework that are neglected by DB. While these differences must not be overemphasized, they nonetheless clearly highlight the importance of the choice of yardstick against which performance is assessed.

… although not all improvements were equally relevant to the majority of firms

Improvements in tax administration and tax payment procedures, in business licensing and business inspections, and in labor regulations all received a positive assessment. However, the WBG was not always the key player in these areas. For the other IC themes, many respondents were unable to provide an assessment due to a lack of direct experience, for instance with regards to reforms concerning the settlement of commercial disputes and insolvency proceedings. Survey results must not be taken too literally due to the fairly small number of firms investigated. However, the limited visibility of improvements in some of the WBG's key areas of interventions does raise some doubts regarding the relevance of these reforms.

IMPACT ON COST SAVINGS

IC reforms helped in reducing administrative burdens for enterprises

About half of the WBG-supported reforms generated cost savings for private enterprises, estimated at about US$ 39.9 million. Cost savings originated from: (i) reducing or abolishing administrative fees or other out-of-pocket expenses (e.g. expenses for the notarization of certain documents); (ii) reducing the time required to handle administrative procedures; and (iii) improvements in the cash flow position due to changes in the payment modalities for certain fees or taxes. About three fifths of total cost savings come about through cutting or eliminating fees (e.g. the elimination of business registration fees or the reduction of ad valorem taxes on property registrations).

… but there are significant differences across countries and reform areas

Rwanda is the country with the highest value of cost savings at US$ 19 million, trailed by Burkina Faso and Liberia at some distance with about US$ 8-9 million each. The value of cost savings is considerably lower in Sierra Leone, at about US$ 3 million, and especially in South Sudan, a mere US$ 0.5 million, where IC reforms were comparatively less concerned with administrative simplification. Reforms in business registration and trade logistics achieved the biggest cost savings to the tune of US$ 13-14 million each, followed by business taxation at nearly US$ 7 million and property registration at US$ 4.5 million. Cost savings in the remaining reform areas are much lower, ranging from US$ 1.5 million for construction permits to just US$ 0.2 million in business regulations.

The bulk of cost savings originate from few reforms

The top four reforms, which contribute more than US$ 3 million in savings each, account for no less than 47% of all cost savings. The top ten reforms, each generating more than US$ 1 million in savings, account for 72% of the total. High cost savings values are usually the product of reforms affecting large numbers of firms or transactions. This is particularly the case of trade logistics, as the number of import transactions can be very high (up to 100,000 per year in Rwanda), and business registration, with the number of newly registered firms exceeding 2,000 per annum in all the countries.

… mostly undertaken in the early stages of the IC reform process

The ability of IC reforms to generate savings varies over time. Among the ten reforms with the highest cost savings per annum, seven were implemented in FY07 through FY09 and only three were achieved in FY11-13. In contrast, only three of the ten lowest 'yield' reforms were implemented in FY07-09, the rest being achieved in FY10-13. This suggests that opportunities for significant cost savings were greater in the early days of the IC reform process and have since declined.

IMPACT ON ENTERPRISE FORMATION AND FORMALIZATION

In Rwanda and Liberia IC reforms contributed to accelerate business registrations

In Rwanda, IC reforms significantly contributed to an increase in the number of newly established firms, which recorded major growth compared with the pre reform period (e.g. more than 10,000 new businesses registered in 2013, compared with just 1,500 in 2007). IC reforms also seem to have played a positive role in Liberia, although their role is difficult to gauge with accuracy, due to the concomitant post-civil war recovery. Overall, comparing historic trends with actual registrations in the post reform period, IC reforms can be credited with facilitating about 25,700 additional registrations during the 2008-13 period, of which 23,000 were in Rwanda and 2,700 in Liberia.

… but not all newly registered firms became operational

New registrations do not necessarily equate to new business activities, as newly registered firms may well not start operations or may go out of business shortly after establishment. While no precise data exists, the share of newly registered firms still in business at the end of 2013 can be estimated at about 40% in Rwanda and 63% in Liberia. Therefore, IC reforms have plausibly facilitated the establishment of about 11,100 new operational firms, of which 9,400 in Rwanda and 1,700 in Liberia.

IC reforms did not appreciably influence the enterprise formation process in the other countries

In Sierra Leone and South Sudan, trends in business registrations are quite erratic and no relationship with IC reforms can be established. The same applies to Burkina Faso, where the growth in business registrations preceded the start of the IC reform process and pre reform levels were surpassed only in very recent years.

The impact of IC reforms on formalization is hard to gauge

The influence of IC reforms on the formalization of previously informal firms is difficult to assess, due to an extreme scarcity of information. The results of the surveys are inconclusive, as the number of surveyed firms that previously operated informally is quite low. In Burkina Faso and Rwanda, the only two countries for which some evidence is available, broad economic considerations were the most common motivations for formalizing ("wanting to expand", "better access to customers and suppliers", etc.). Improvements in business registration procedures, and in particular "easier access to registration information" and "lower registration burden" were also mentioned as motives for registering, but mostly in Rwanda. Views regarding the influence of formalization on performance are somewhat divergent. While nearly all previously informal firms in Rwanda believe that formalization had a positive or neutral effect on sales and profitability, opinions are less positive in Burkina Faso, with some firms seemingly regretting the decision to formalize.

IMPACT ON INVESTMENT AND JOB CREATION

IC reforms led to incremental investment and employment only in Rwanda and Liberia

In Rwanda and Liberia, the influence of IC reforms on enterprise formation also led to an increase in investment and employment. In Rwanda, the impact is significant: incremental investments plausibly associated with IC reforms range between US$ 33 and US$ 88 million, depending on the parameters used. The corresponding figures for employment range between 19,000 and 24,000 new jobs. Over the 2008-12 period, the incremental investment accounts on average for between 0.6% and 1.5% of total private investment. In Liberia, the impact is much smaller, with investments possibly associated with IC reforms ranging from US$ 1 million and US$ 12 million (i.e. at most 0.9% of private investment), and incremental employment being in the order of 4,100 – 4,700 jobs. No meaningful impact on investment and job creation following from new enterprise creation can be detected in the other three countries.

Investment promotion initiatives achieved positive results in Sierra Leone and Rwanda

WBG programs also contributed to investment and job creation through promotional initiatives. The impact is greatest in Sierra Leone where FDI promotion work facilitated investment projects worth between US$ 150 and US$ 200 million and is expected to create over 5,000 jobs. Of these values, about one third had materialized by the end of 2013. Additional investments worth some US$ 63 million are expected to result from industry specific work in the tourism sector, involving the creation of an additional 300 to 500 jobs. A positive impact is also seen in Rwanda. Early investment promotion support, aimed at reviving investment projects that had been dormant for some time, mobilized investments worth about US$ 8 million, possibly involving 470 jobs. In Rwanda, encouraging results were also achieved by more recent industry specific initiatives in agri-business (horticulture and tea), that helped to attract investments for about US$ 6 million and are expected to generate about 500 jobs. There were no tangible results in the other countries, although work is ongoing in some cases (e.g. industry specific work on health care services in Burkina Faso).

SUSTAINABILITY OF IC REFORMS

Sustainability refers to the ability of IC reforms to produce positive results after WBG assistance has been discontinued. The analysis of sustainability focused on a sub-set of 39 WBG-supported reforms across all countries.

IC reforms are mostly sustainable and future prospects are positive

The assessment of current sustainability is quite positive, as the vast majority of IC reforms can be regarded as fully or mostly sustainable, with only two negative cases and three reforms that cannot be rated owing to their recent/ongoing status. The two negative cases concern a business taxation reform in Liberia, where the government reintroduced the payment of the advance turnover tax, and the PPD platform in Sierra Leone, that has barely operated since the end of the WBG program. The assessment of future sustainability is also quite encouraging, with positive or fairly positive prospects for more than four fifths of reforms. The outlook remains negative for the two reforms currently not sustained and there are significant elements of uncertainty for another three recently completed or ongoing reforms.

… although there are some differences across countries and, especially, reform areas

Burkina Faso and Rwanda are the countries posting the best results, as nearly all the reforms can be regarded as fully sustainable. The situation is also positive in the other countries, although with some variation (e.g. no fully sustainable reform in Sierra Leone).

Simplification initiatives are the most successful, all being fully sustainable, while the situation is more contrasted in the case of institutional strengthening initiatives. PPD mechanisms are the reform area comparatively more at risk, but risk elements were also found in interventions focusing on investment promotion.

The scarcity of material means and/or human resources are the main threats to sustainability

Factors that negatively affect current or prospective sustainability have been identified in about half the IC reforms, but only for one quarter of reforms the intensity of these factors can be considered as moderate or significant. Insufficient material means and/or limited human resources are the most common adverse factors. Predictably, this was the case in nearly all reforms involving institution building/strengthening interventions. Problems range from relatively minor issues, such as limited functionality of IT systems (a frequent occurrence for business registries) to much more serious situations, with some institutions burdened by debts and/or unable to regularly pay their personnel.

… whereas the risk of policy reversal is fairly limited

Issues of policy/political commitment are deemed to affect the sustainability of just half a dozen reforms, and in most cases problems are not particularly severe (e.g. institutional rivalry between the WBG-supported institution and its overseeing ministry). Interestingly, policy commitment is virtually a non-issue for the vast majority of deregulatory reforms and for legal reforms on DB-related topics. In these areas, there might have initially been some hesitation, but once reforms have been implemented, there are usually no second thoughts or signs of backtracking. Opposition from vested interests is considered to potentially affect a couple of reforms, both in Burkina Faso, but the risks are fairly remote.

CONCLUSIONS

WBG programs contributed to improve the quality of the business environment

The WBG programs have been quite successful in terms of outcomes, contributing to the implementation of a number of IC reforms. While the presence of other donor/IFI reform initiatives makes it difficult to precisely assess the WBG's actual contribution, there is no doubt that the programs were often instrumental in kick-starting the IC reform process. The result is a significant improvement in the overall quality of the business environment in the five countries.

Cost savings from red tape cutting reforms were significant but highly concentrated and declining overtime

IC reforms aimed at simplifying administrative procedures delivered significant cost savings. However, these savings were largely concentrated in a few reform areas and were usually achieved in the early days of the reform process. Opportunities for further streamlining in business registration and trade logistics, where most of the savings were achieved, are limited, while in other reform areas the number of prospective beneficiaries of simplification measures is relatively small to yield significant savings. Overall, red tape cutting seems to have entered a phase of declining marginal returns.

The influence of IC reforms on enterprise formation, investment and employment was limited

Rwanda alone saw a significant impact on the enterprise formation process, and thereby, on investment and job creation. This came about through a particularly intense reform process, possibly coupled with country specific factors. The influence of IC reforms on enterprise development, investment and employment in the other countries is either modest or absent. This suggests that broad, economy-wide IC reforms can be regarded as a necessary but not sufficient condition to promote private sector investment.

The record of interventions directly aimed at mobilizing private investment is mixed

General FDI promotion work attained good results in Sierra Leone, whereas achievements in other countries were much more modest (Rwanda) or virtually absent (Liberia, South Sudan). A definite assessment of industry specific initiatives is not possible as some activities are ongoing. However, there are encouraging signs in Sierra Leone (tourism) and Rwanda (agri-business), suggesting that advisory work to remove sector specific constraints combined with operational support to investors, could deliver interesting results.

SECTION ONE

INTRODUCTION

1.1 OBJECTIVE AND SCOPE

This evaluation reviews the investment climate (IC) reform programs implemented by the World Bank Group (WBG) in Burkina Faso, Liberia, Rwanda, Sierra Leone, and South Sudan. It follows a study carried out in 2011 across the same countries (the 'Earlier Study').[3] The purpose of the evaluation is to update, expand, and deepen the initial analysis within the framework of the Earlier Study, in order to gain a better understanding of the impact and sustainability of the IC reform activities implemented by the WBG.

The evaluation covers a total of 25 IC-related projects implemented by the WBG in the five countries since the mid-2000s. While the number, nature, and size of projects varies considerably across the countries, the various interventions in each country are closely interrelated, and thereby constitute comprehensive IC reform programs. The IC reform activities in the five countries are among the oldest undertaken by the WBG in Sub-Saharan Africa (SSA), and as such, they offer a sound basis from which to assess the performance of IC reform work in developing countries.

1.2 FOCUS AND STRATEGY

Focus of the Evaluation. The evaluation consists of three main elements, namely:

- A review of the outcomes achieved by the IC programs;
- An analysis of how IC reforms translate into impacts, i.e. into tangible benefits for private firms and for the economy as a whole; and
- An assessment of the sustainability of IC reforms.

The review of outcomes involved collating information about the IC reforms supported by the WBG programs and about the influence of these reforms on the overall quality of the business environment. The analysis of impacts entailed quantifying the effects of IC reforms on key economic variables, namely enterprises' operating costs, enterprise formation and formalization, investment, and employment. The assessment of sustainability reviewed the ability of IC reforms to continue to produce positive results over time as well as the factors that may negatively affect sustainability, from wavering policy commitment to the lack of adequate human and material resources.

Operational Aspects. The evaluation involved a combination of desk and field work, including: (i) a review of the literature, with special emphasis on studies seeking to assess the impact of IC reforms, as well as documents on the monitoring and evaluation (M&E) system developed by the WBG to assess the performance of IC operations; (ii) a review of documents produced by the WBG projects ('project documents'); (iii) interviews with beneficiaries and stakeholders, including government authorities (ministries, revenue authorities, investment promotion agencies, etc.), private sector organizations (chambers of commerce, sector associations), financial institutions as well as representatives of other donors and international financial institutions (IFI) active in IC reform; (iv) interviews with foreign investors already active or expected to start operations in the five countries; and (v) surveys of domestic small and medium enterprises (SME) owned and managed by domestic entrepreneurs and established since the launch of the IC programs (see Box 1.1). Overall, the evaluation involved the review of more than 300 documents, interviews with nearly 150 stakeholders and foreign investors, and the survey of more than 200 SME.

[3] Economisti Associati, "Investment Climate in Africa Program - Four-Country Impact Assessment - Comparative Report", March 27, 2011. This report covered the IC programs in Burkina Faso, Liberia, Rwanda and Sierra Leone. The IC program in South Sudan was analyzed separately in Economisti Associati, Southern Sudan Country Report, May 9, 2011.

BOX 1.1 KEY FEATURES OF LOCAL SME SURVEYS

The surveys of local SME were aimed at:

- Investigating SME's perceptions regarding the evolution of the business environment, with special emphasis on aspects covered by the WBG programs;
- Collecting information on investments and employment useful for estimating the impact of IC reforms; and
- Assessing the influence of IC reforms on the formalization of firms that had been previously operating informally.

The surveys covered firms established after the launch of the IC programs (in practice, firms registered in 2008 or 2009) and that were still in existence in early 2014. They covered firms based in the capital city and another location, usually the second largest urban center.[4] The surveys were initially expected to cover between 25-30 SME per country, and because of the small sample size, they were essentially exploratory in character without the ambition of generating statistically significant results. However, during implementation it was decided to expand the coverage of the survey in Rwanda in order to increase the robustness of data. All in all, the surveys covered 209 SME, of which 30 were in Burkina Faso, 28 in Liberia, 101 in Rwanda, 25 in Sierra Leone, and 25 in South Sudan.

1.3 METHODOLOGICAL CONSIDERATIONS

Assessment of Impacts. *The assessment of impacts was carried out in a 'before and after context'* by comparing the situation before the implementation of IC reforms supported by the WBG programs with the situation after implementation. This approach is appropriate to assess 'direct impacts', i.e. the impacts that are the immediate consequences of IC reforms, for instance private sector cost savings from 'red tape cutting' measures. In the case of changes in business demography and investment and employment levels, IC reforms are only one of many factors at play (general economic trends, changes in other policy variables, etc.) and, in principle, it is necessary to control for other intervening factors by building counterfactual scenarios. However, due to data limitations, the adoption of a counterfactual approach proved unfeasible and it was necessary to rely on less rigorous extrapolation techniques. Therefore, this evaluation is not, does not claim to be, and should not be mistaken for an impact evaluation in the sense attributed to this expression within the World Bank Group.[5]

Attribution Problem. The WBG programs were usually implemented in parallel with IC reform initiatives financed by other donors/IFI. The presence of various concomitant initiatives makes it difficult to distinguish the contribution of the WBG from that of other players and therefore, in most cases, *WBG programs must be seen as having contributed to, rather than independently achieved, IC reforms.* Equally, the estimates of impacts presented here generally also include the contribution of other IC reform initiatives.

Time Frame. The evaluation covers developments from the launch of WBG programs until December 31, 2013 (the 'cut off date'). This period is sufficient to allow for a comprehensive and robust assessment of the impact of the bulk of WBG-supported IC reforms. However, some activities had just been completed or were still ongoing by the end of 2013, and as such, had not yet produced their full effects. There has been no attempt to assess prospective results, and therefore *the estimates of impacts presented here underplay the full effects of the WBG programs.*

4 For security reasons, in South Sudan the SME survey was conducted only in Juba, although it also covered a few firms based outside the capital.
5 The limitations of studies relying primarily on 'before and after' comparisons are illustrated in detail in a recent evaluation of the WBG's IC reform work carried out by the Independent Evaluation Group (IEG). See IEG, Investment Climate Reforms - An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations, 2014 (hereinafter, referred to as 'IEG Evaluation').

Data Issues. The evaluation relied on a range of data from a number of sources. It largely built upon datasets established for the Earlier Study, but also required additional information. Project documents usually contain little quantitative information and the additional data was in most part collected directly from relevant institutions and/or from private organizations. In some cases, data gathering was quite laborious and/or the quality of the information collected is less than ideal. For instance, in some countries considerable difficulties were experienced in collecting comprehensive data on business registrations, an essential element to estimate the impact of IC reforms. In other cases, especially concerning IC reforms affecting real estate and import export transactions, it was impossible to obtain data for the whole period covered by the evaluation, and the missing data points had to be estimated with rather crude interpolation. Under these conditions, *the impact estimates provided in this report inevitably suffer from a degree of approximation*.

1.4 STRUCTURE OF THE REPORT

The main text of this report is structured as follows:

- **Section 2** provides an overview of the context in which the WBG programs were implemented, with a short presentation of the salient features of the five countries;
- **Section 3** briefly reviews the activities undertaken by each WBG program;
- **Section 4** analyzes the outcomes of the IC reform programs, with a review of the reforms supported, of the influence of these reforms on the business environment, and of the private sector's perceptions of IC reforms;
- **Section 5** reviews in detail the impact of IC reform programs, providing estimates of both direct impacts (cost savings) and indirect impacts (changes in enterprise formation and formalization, investment, and employment);
- **Section 6** analyzes the sustainability of IC reforms, with respect to both current and prospective sustainability and with an analysis of the main factors influencing sustainability; and finally,
- **Section 7** summarizes the key findings of the evaluation.

The report also includes five Annexes, namely:

- **Annex A**, with the list of WBG projects analyzed;
- **Annex B**, with the full list of the IC reforms supported by WBG programs;
- **Annex C**, with a summary presentation of the methodology for the estimation of cost savings;
- **Annex D**, with the methodology for the assessment of sustainability; and
- **Annex E**, with details on a counterfactual analysis of business registrations in Rwanda.

Additional materials provided in a separate Appendix, include:

- A full-fledged illustration of the methodology for the estimation of cost savings, together with detailed information on the parameters used in the analysis and the detailed results of the exercise;
- A detailed presentation of the results of the sustainability assessment exercise.

SECTION TWO

COUNTRIES OVERVIEW

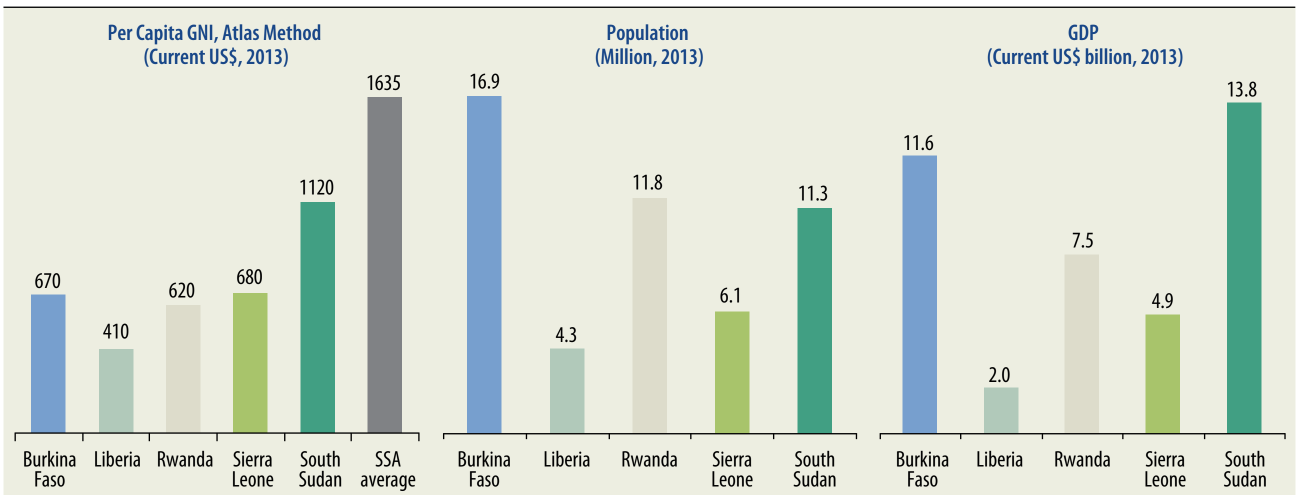
2.1 STRUCTURAL FEATURES

Political and Institutional Context. Some of the countries covered by this evaluation have experienced major conflict and political upheaval in their recent past. South Sudan is Africa's youngest country, having formally declared independence only in July 2011 after a protracted armed struggle. Sierra Leone and Liberia were both plagued by bloody civil wars up until 2002-2003. In Rwanda, memories of the genocide are still vivid, although the country has experienced remarkable stability since the mid-1990s. Burkina Faso followed the opposite path, with a long period of stability followed by mounting political tensions in the 2010s, eventually leading to an abrupt change in power, following the uprising of October 2014. The five countries represent the whole spectrum of legal and institutional traditions, from Common Law, with both the British and American variants in Sierra Leone and Liberia respectively, to French Civil Law in Burkina Faso, to mixed and evolving systems in Rwanda and South Sudan.

Development Status and Size. All five countries are classified as Low Income Countries by the World Bank; however, income levels, as measured by the per capita Gross National Income (GNI), vary considerably, from more than US$ 1,100 in South Sudan, to as low as US$ 410 in Liberia. Burkina Faso and South Sudan are the largest economies, with a Gross Domestic Product (GDP) in excess of US$ 10 billion. Liberia's economy is much smaller (roughly one sixth the size of the economies of South Sudan/Burkina Faso), while Rwanda and Sierra Leone place in an intermediate position. Population sizes range from about 17 million in Burkina Faso to just above 4 million in Liberia.

Structure of the Economy. The economies of all five countries are still largely dominated by resource-based activities. Agriculture accounts for between one third (Burkina Faso, Liberia and Rwanda) and three fifths (Sierra Leone) of GDP, with commercial agriculture gaining ground. Extractives play a particularly important role too (particularly in South Sudan, where the oil industry is estimated to contribute to over 60% of GDP) in Sierra Leone (iron ore and diamonds, but also gold), and increasingly in Burkina Faso (most notably gold). Exports are typically concentrated on a relatively small number of commodities: cotton and gold in Burkina Faso; oil in South Sudan; iron ore, rubber and timber in Liberia; tea and coffee

EXHIBIT 2.1 KEY SOCIO-ECONOMIC INDICATORS BY COUNTRY



Source: World Bank, World Development Indicators.

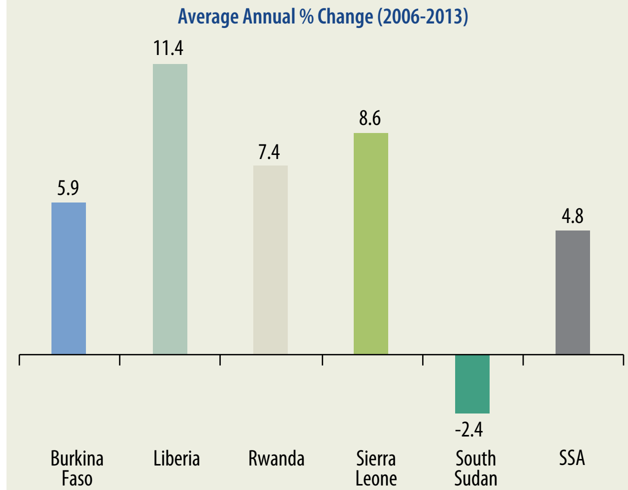
in Rwanda; and palm oil and minerals in Sierra Leone. Burkina Faso, Rwanda, and South Sudan are landlocked countries and their trade flows are severely handicapped by high transportation costs, as the nearest seaports are more than 1,000 kilometers away.

Regional Integration. All countries are members (or have asked to become members) of various regional organizations, but Rwanda and Burkina Faso display the highest degree of regional integration. Rwanda is a member of the East African Community (EAC), and while Burkina Faso is a member of the Union Economique et Monétaire Ouest Africaine (UEMOA) and the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA). These memberships have important implications from an IC perspective. In fact, for Burkina Faso, many aspects related to trade logistics (customs, etc.) are decided at the UEMOA level, while commercial law is defined at the OHADA level. For Rwanda, membership in EAC entails an effort to coordinate customs administration and tax incentives at the regional level.

2.2 ECONOMIC PERFORMANCE

GDP Growth. With the exception of South Sudan, the economic performance of the five countries was quite positive over the 2006-2013 period, with GDP growth rates above the average for Sub-Saharan Africa. Economic growth was particularly strong in Liberia and Sierra Leone (on the back of a post war recovery),

EXHIBIT 2.2 GDP GROWTH

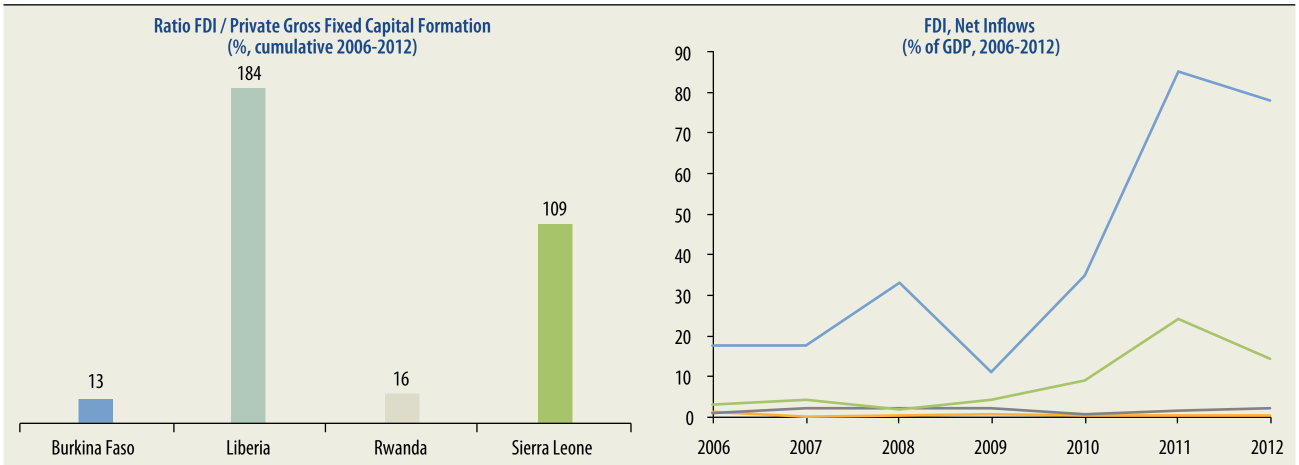


Source: World Development Indicators.

but growth rates above the continental average were also seen in Burkina Faso and Rwanda. South Sudan suffered a major setback in 2012, as the closure of oil pipelines led to a near 50% drop in GDP. Economic activity recovered somewhat in 2013, but persistent security problems and acute political conflict kept the level of activity well below that of previous years.

Foreign Investment. Economic growth in Liberia and Sierra Leone has been driven primarily by foreign investment in agriculture and mining. The value of Foreign Direct Investments (FDI) recorded over the 2006-2012 period in the two countries actually exceeds the total value of private sector investment and accounts for sizeable share of GDP. Burkina

EXHIBIT 2.3 IMPORTANCE OF FDI



Data for South Sudan not available.
Source: World Bank, World Development Indicators.

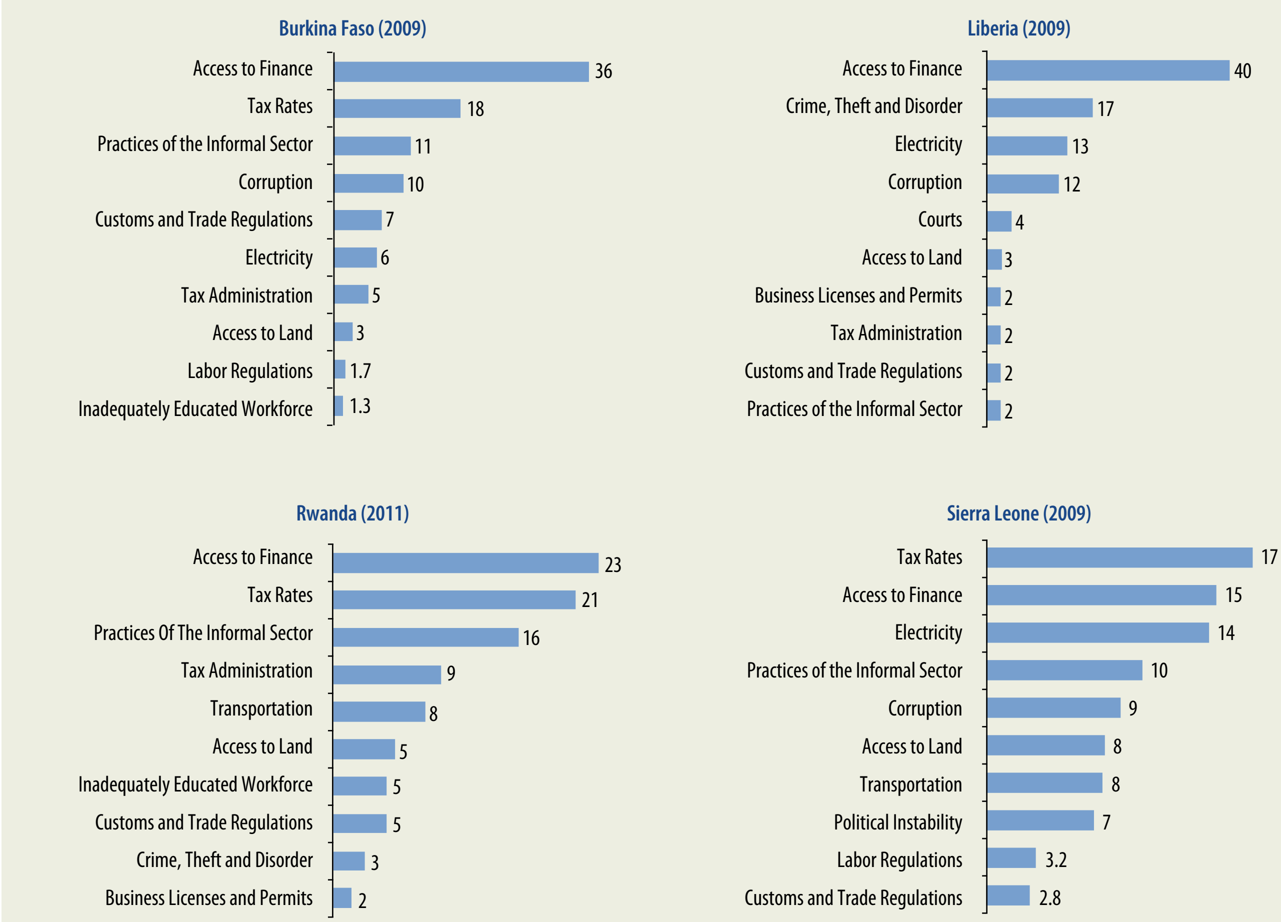
Faso and Rwanda also benefited from FDI, but on a lesser scale; in fact, FDI accounts for only 13% and 16% respectively of total private capital formation and for less than 2% of GDP. Reliable data on FDI is not available for South Sudan, although Chinese investments seem to have been substantial.

2.3 PRIVATE SECTOR DEVELOPMENT

Size and Salient Features. Information on private sector activities in the five countries is scarce and not entirely reliable. The number of formal enterprises is estimated to range from about 10,000 in South Sudan to about 35,000 in Burkina Faso. There is no comprehensive information on informal activities, although informality is deemed to be quite widespread. The vast majority of firms are micro and small businesses; for instance, firms with 1 to 4 employees accounted for 92% of the total in Burkina Faso while in Rwanda, 93% of firms employed up to three persons and 72% operated with a capital below RWF 0.5 million (about US$ 700). The main sectors are trade and services, with trade typically accounting for at least half of all enterprises (50% in Burkina Faso, 52% in Rwanda, but 70% in South Sudan), and miscellaneous services activities (from food services to vehicles repair) accounting for another 15% to 20%.

Constraints to Private Sector Development. Numerous obstacles hinder the development of private activities. Data regarding the top ten constraints identified by the World Bank Enterprise Surveys (WBES) in Burkina Faso, Liberia, Rwanda and Sierra Leone (there are no data for South Sudan) are presented in Exhibit 2.4. Access to finance is the most pressing constraint, ranking first in three countries, with some margin, and second in the fourth country. Tax rates are also perceived as a major hindrance,

EXHIBIT 2.4 TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS (% OF FIRMS QUOTING AS BIGGEST OBSTACLE)



Source: World Bank, Enterprise Surveys.

but this is scarcely surprising. Infrastructure-related constraints feature prominently in Liberia and Sierra Leone, where access to electricity is the third most severe constraint, but also in landlocked Rwanda, where transportation is the fifth most severe constraint.

It is important to note that, with the partial exception of access to finance, the themes typically addressed by IC reform programs are generally considered to be medium to low severity constraints. In particular, customs and trade regulations, labor regulations, tax administration, business licensing, and the functioning of the judicial system are regarded as the most severe constraint only by a minority of firms, between 2% and 9%. Access to finance is in itself an issue only partly addressed by IC reform programs, through work on collateral registration and credit information sharing. The significance of these rankings of constraints should not be overemphasized however, as they may be influenced by time specific factors and in some cases reflect common attitudes found among business people (e.g. in virtually all countries covered by WBES, tax rates are listed as a severe constraint). Nonetheless, they lend perspective to the possible role of IC reform initiatives in fostering private sector development.

SECTION THREE

PROGRAM BACKGROUND

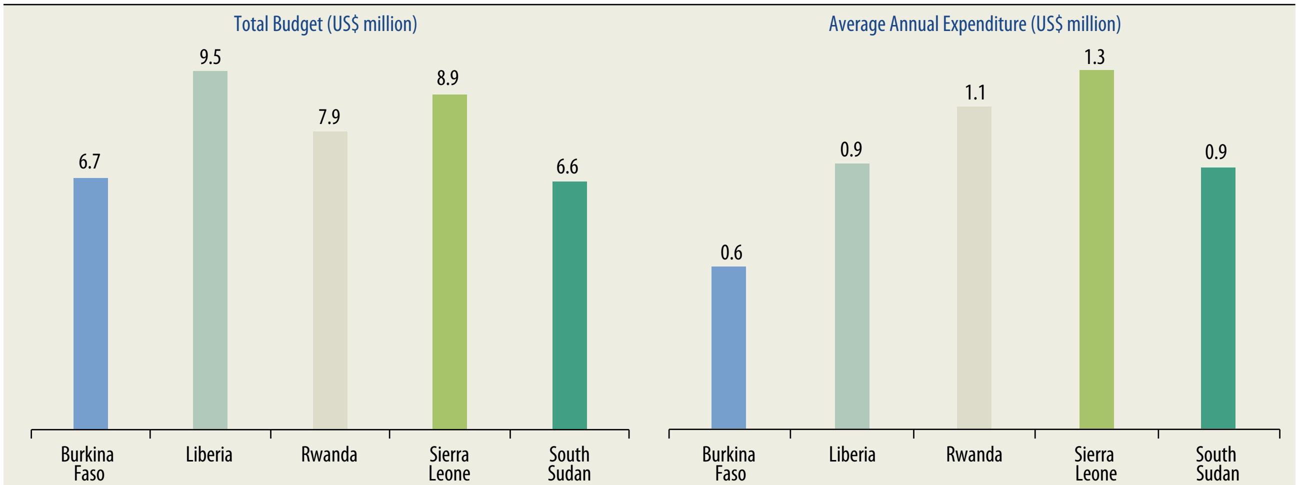
3.1 OVERVIEW

Objectives. The WBG programs in the five countries pursued a broad set of objectives, encompassing the three IC reform dimensions of regulatory simplification, legal reform, and institutional development. Operational support on investment promotion accompanied IC reform work in many cases. These aspects varied in importance overtime, and to a lesser extent, across countries. In the early days the focus was typically on red tape cutting and legal reform, while overtime a growing emphasis was placed on building effective institutions and on investment promotion. Overall, WBG programs in Liberia, Rwanda, and Sierra Leone exhibit a fairly balanced combination of simplification work, legal reform advice, institution building, and investment promotion. The focus in Burkina Faso was on cutting red tape and legal reform, whereas in South Sudan, WBG work was primarily focused on creating ex novo a legal and institutional framework for private sector activities, with little emphasis on simplification.

Timing and Budget. In all five countries, WBG work on IC reforms started in mid-2000s and has usually continued to the present day, without any significant interruption. At end 2013, activities had been completed in Rwanda and South Sudan, and were ongoing in Burkina Faso and Liberia. In Sierra Leone, WBG-supported IC activities stopped in 2011 (although a new IC project is reportedly under preparation). The five country programs have a total budget of US$ 39.6 million. Sierra Leone and Liberia received the biggest slice of assistance, with a budget to the tune of US$ 9 million each, followed by Rwanda at close to US$ 8 million. The budgets for Burkina Faso and South Sudan were significantly lower, at about US$ 6.5 million each. Various WBG-managed trust funds and donors provided the funds. As of end 2013, total expenditure amounted to US$ 33.3 million. Average annual expenditures were usually around US$ 1 million, but only US$ 0.6 million in Burkina Faso.

Reform Areas. The WBG programs focused on a wide range of IC themes, covering aspects that affect businesses at different stages of their life cycle (formation, operations, closure) and influence various types of business operations (productive investment, real estate investment, and import export transactions). WBG reform work can be subdivided into two broad categories of interventions, namely: (i) interventions

EXHIBIT 3.1 SCALE OF WBG PROGRAMS



Source: IFC project documents.

linked to themes tracked by Doing Business (DB) reports ('DB-related topics'); and (ii) interventions on themes unrelated to DB indicators, often involving an institution building element and/or the provision of operational support ('non DB-related topics'). Interventions under these two broad categories can be further subdivided into discrete sets of activities focusing on specific reform areas, such as business registration, business taxation, business licensing, etc. Reform areas constitute an important unit of analysis for this evaluation, as they provide the framework for describing the activities and the achievements of WBG programs. The reform areas targeted by the five WBG programs are briefly described in Exhibit 3.2.

While the WBG programs extensively covered both DB-related and non DB-related topics, there are nonetheless differences in the coverage and relative importance accorded to each reform area. An overview of the reform areas targeted in the five countries is provided in Exhibit 3.3 on the following page.

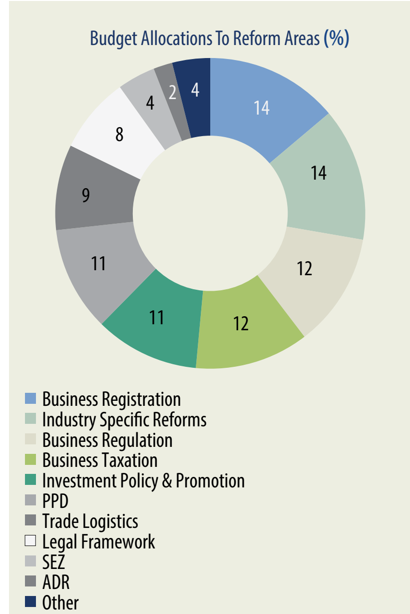
The most popular areas of intervention are business registration, industry specific reform, and business regulation. Together, they account for 40% of budget allocations, and they are found in all five programs. Legal reforms linked to various DB topics (i.e. labor market regulations, contract enforcement, investor protection, access to finance, and business insolvency) were also pursued in all five of the countries, but account for just 8% of the total budget, as these activities are usually less resource intensive. On the other hand, Alternative Dispute Resolution (ADR) and Special Economic Zones (SEZ) were niche areas of intervention, being targeted in just two countries.

EXHIBIT 3.2 REFORM AREAS TARGETED BY WBG PROGRAMS

Doing Business-related Reform Areas	Non Doing Business-related Reform Areas
• Business Regulation (setting up of one-stop-shops, simplification of documentation requirements, elimination of registration fees).	• Business Regulations (streamlining of the regulatory and institutional framework for business licensing and business inspections).
• Construction Permits (streamlining of procedures, cutting of fees, development of IT tools).	• Investment Policy & Promotion (review of investment codes, creation/strengthening of investment promotion and after care services).
• Property Registration (simplification of contract registration, elimination/reduction of transfer taxes, elimination of notarization requirements).	• Special Economic Zones (regulatory, institutional and operational support for the setting up and management of SEZ/industrial parks).
• Business Taxation (simplification of tax payment and administration procedures, harmonization of tax rates and tax incentives).	• Industry Specific Reform (elimination of sector-specific regulatory constraints, support to sector-specific investment attraction initiatives).
• Trade Logistics (streamlining of documentation and procedures for import export transactions, introduction of risk-based assessment, etc.).	• Alternative Dispute Resolution (creation mechanisms for the out-of-court settlement of disputes, training on arbitration and mediation).
• Legal Framework (review of primary and secondary legislation on investor protection, commercial disputes, employment of labor, bankruptcy, and access to credit).	• Public Private Dialogue (establishment of mechanisms to facilitate policy dialogue).

EXHIBIT 3.3 SCOPE AND SCALE OF IC REFORMS EFFORTS BY COUNTRY

	Reform Areas	Burkina Faso	Liberia	Rwanda	Sierra Leone	South Sudan
Doing Business-related Topics	Business Registration	✓	✓	✓	✓	✓
	Construction Permits	✓	✓	✓	✓	
	Property Registration	✓	✓	✓	✓	
	Business Taxation	✓	✓	✓	✓	
	Trade Logistics	✓	✓	✓	✓	
	Legal Framework (bankruptcy law, labor regulations, etc.)	✓		✓	✓	✓
Non Doing Business-related Topics	Business Regulation	✓	✓	✓	✓	✓
	Investment Policy & Promotion		✓	✓	✓	✓
	Special Economic Zones (SEZ)		✓	✓		
	Industry Specific Reform	✓	✓	✓	✓	✓
	Alternative Dispute Resolution (ADR)	✓				✓
	Private Public Dialogue (PPD)		✓	✓	✓	✓



Source: WBG project documents.

3.2 NATURE OF INVESTMENT CLIMATE INTERVENTIONS

Business Registration. Business registration reform was pursued in all five countries, although to differing degrees. The reform process in Burkina Faso and Rwanda had begun before the launch of WBG programs, with the establishment of one-stop-shop structures. Accordingly, WBG work mostly focused on regulatory simplification, which involved deploying modest resources (around US$ 200,000 per country). In contrast, the creation or revamping of business registries in Liberia, Sierra Leone, and South Sudan was a key element of WBG interventions, involving considerable technical assistance and institution building work, and therefore absorbing significant resources (from nearly US$ 1 million in Sierra Leone to about US$ 2.3 million in South Sudan).

Construction Permits and Property Registration. Improving regulations for real estate activities, i.e. issuing construction permits and/or registering real estate property, was pursued in all countries, with the exception of South Sudan. WBG work in these areas was driven largely by considerations concerning DB rankings, with a strong focus on streamlining procedures and reducing fees. However, in Burkina Faso, and to a lesser extent in Rwanda, WBG interventions also aimed to establish dedicated structures to process construction permit applications and/or land transfer transactions, which required the provision of capacity building assistance.

Business Taxation. Business taxation was a major area of intervention in Sierra Leone, where the WBG implemented a sizeable, fully dedicated project. In Rwanda, Liberia, and Burkina Faso, business taxation reform was pursued within the framework of multicomponent IC projects, while no activities were carried out in South Sudan. WBG interventions focused on three main themes: (i) tax policy reform, involving the design or revision of key tax instruments, such as Value Added Tax (VAT) and special tax regimes for small and medium enterprises (SME); (ii) tax administration reform, including the simplification of procedures for tax filings and payment and the improvement of tax appeals mechanisms; and (iii) tax incentives reform, aimed at eliminating discretion in decisions to grant incentives, and more generally, at increasing the effectiveness of incentive schemes.

Trade Logistics. Improving trade logistics arrangements was a target for reform in all countries, except South Sudan. WBG work typically involved: (i) the simplification and harmonization of trade procedures and documents, often accompanied by elimination or reduction of fees; (ii) the integration of risk management systems into border inspection and clearance; and (iii) the implementation of electronic processing and single window systems. In the early days, WBG work in trade logistics was largely aimed at securing rapid gains in terms of red tape cutting, but overtime, a more programmatic reform approach has emerged, often involving a capacity building element (e.g. training on custom valuation methods in Rwanda).

Legal Framework. A recurring theme of WBG programs was the reform of the legal and regulatory framework for private sector activities. Legal reform was a key component of WBG work in South Sudan, where it covered a wide range of topics including companies law, general commercial law, law on weights and measures, etc., with the objective of building the basic legal infrastructure for a market economy. Reform work in the other countries focused primarily on themes linked to the DB indicators, i.e. investor protection, registration of collateral, contract enforcement, bankruptcy proceedings, and labor regulations.

Business Regulation. The reform of business licensing and inspection mechanisms was pursued in all five countries with WBG work typically involving: (i) simplifying procedures for the issuance of specific business licenses or permits (e.g. licensing of forwarding agents); (ii) establishing licensing/regulatory reform committees to promote the systematic review of business regulations; and (iii) developing e-government tools with a view to improving the interaction between businesses and government agencies. In this area reform efforts need to strike a balance between eliminating unnecessary burdens for businesses and achieving legitimate public goals, for instance public health and safety. Therefore, cutting procedures is only one part of the WBG approach, as stricter regulations may be necessary in some cases.

Investment Policy & Promotion and SEZ. Investment policy & promotion was a target for WBG programs in all countries except Burkina Faso. WBG initiatives in Liberia and Rwanda also involved the provision of support to the development of SEZ. Reform work usually involved a combination of policy advice and capacity building, with the objective of: (i) improving the legal framework for investment activities, notably through eliminating restrictions and minimizing risks for investors; (ii) streamlining incentives offered to investors, in order to improve their effectiveness; and (iii) strengthening investment promotion bodies by developing investor servicing and aftercare capabilities, as well as by designing promotional strategies. Policy advice and capacity building work in Liberia, Sierra Leone, and South Sudan was complemented by the provision of operational support to attract FDI, including assistance on selected transactions and via promotional events (e.g. the South Sudan Investment Conference of December 2013).

Industry Specific Reforms. Sector specific reform initiatives were implemented in all five countries, covering both productive and social sectors: agro-industry in Liberia and Rwanda; tourism in Sierra Leone; health in Burkina Faso; and various sectors in South Sudan. Industry specific support involved a combination of advisory work targeted at removing sector specific constraints (e.g. the reform of green leaf pricing mechanism in Rwanda) and operational assistance in mobilizing private investment through targeted promotional activities (e.g. the promotional work in the tourism sector in Sierra Leone). The inclusion of the latter means that industry specific interventions share some similarities with WBG work in the investment policy and promotion area.

PPD and ADR. PPD initiatives were implemented in all countries except Burkina Faso. Interventions in Liberia, Sierra Leone, and South Sudan aimed at setting up dedicated structures ('business forums') to provide a platform for structured policy dialogue between government and private sector. In Rwanda, assistance was provided to the Rwanda Development Board (RDB), that had been designated by the government to liaise with the private sector on IC reform issues. The strengthening of ADR mechanisms was pursued in Burkina Faso and, to a lesser extent, in South Sudan, with focus on arbitration and mediation. Both ADR and PPD initiatives largely involved capacity building work, combined with communication and awareness raising activities and legal advice.

3.3 PROGRAM IMPLEMENTATION

Burkina Faso. The original motivation for the WBG program was the country's disappointing performance in DB rankings (154th out of 155 countries in DB 2006), and as such, the initial focus of activities was to create "an improved investment climate as measured by the Doing Business indicators".[6] However, the emphasis on DB-related reforms declined overtime, with attention shifting to other themes. The program adopted a broad approach in its first phase during the 2006–2011 period, covering a wide range of themes, with some new areas of intervention added during implementation. The second phase, from mid-2011 and expected to last until late 2015, has seen the adoption of a more selective approach, focusing on business regulation and industry specific reform in the health sector. On the whole, program implementation has been fairly smooth. The WBG overcame initial skepticism from the government which disputed the accuracy of DB rankings, in some cases with good reason, and this paved the way to a fruitful cooperation. This cooperation extended even to politically sensitive areas; for instance, a rather liberal reform of labor legislation was approved unanimously by Parliament, including by representatives of trade unions.

Liberia. WBG work in Liberia started in early 2006, less than three years after the end of the second civil war. The program adopted a two pronged approach, aimed at: (i) rebuilding the basic legal and institutional framework for business activities; and (ii) attracting foreign investment, which in the pre-civil war period accounted for a large share of economic activity, especially in agriculture and mining. Over the 2007–2011 period, assistance focused on business registration, trade logistics, investment promotion, industry specific reform, and PPD. During the subsequent 2011–2014 period, the scope of work was expanded to include components targeting business taxation and business regulation. The operating environment during the first phase of implementation was difficult, being characterized by extremely weak capabilities in counterpart institutions and changes in policy priorities. This led to assistance being discontinued in some areas (SEZ legislation, reform of the investment promotion agency). Conditions improved during the second phase, although securing and maintaining support from key decision makers has remained a challenge.

Rwanda. The engagement of the WBG in Rwanda began in 2005 with some diagnostic work on business taxation and informality, while operational activities started in 2008. As in Burkina Faso, WBG assistance in the early days was largely aimed at improving Rwanda's DB rankings through the implementation of a "Doing Business … reform action plan"[7] but overtime, WBG support was increasingly focused on other IC issues. More recently, considerable emphasis has been placed on the development of an SEZ, industry specific reform (in the tea and horticulture sectors), and trade logistics. Program implementation was greatly facilitated by the extremely high commitment to reform displayed by government authorities, which ensured full cooperation on the part of officials at all levels. The early stages of implementation saw some challenges due to unexpected changes in the institutional framework as various entities were merged into a multipurpose development organization, but difficulties were quickly overcome and overall positive relations were established with all counterparts.

6 WBG, Doing Business Better in Burkina Faso, PDS Approval, Version 9.0, March 23, 2011.
7 WBG, Rwanda Investment Climate Reform Project, PDS Approval, Version 10.0, March 12, 2010.

Sierra Leone. As in Liberia, WBG engagement in Sierra Leone materialized shortly after the end of the civil war, with some diagnostic work taking place as early as 2004 and operational work implemented over the 2005–2011 period. The focus of the program was mostly on four reform areas, namely: business taxation, investment policy & promotion, industry specific reform (with a focus on tourism), and PPD. IC reform advisory and capacity building activities were complemented by the deployment of transaction advisory for a major investment in tourism. The WBG also provided development grants to the investment promotion agency and the PPD platform, which in part explains the comparatively larger budget. Although the program enjoyed full backing from key decision makers, implementation in some areas was less than smooth. The WBG had to contend with weak government institutions, particularly in the early stages, and problems were exacerbated by numerous changes in key counterpart institutions.[8] These challenges obviously impacted on operations, with some activities seriously slowed down or dropped altogether, which in turn triggered the withdrawal of some donor funding. WBG activities ceased at the end of 2011; however, a new project is in the process of being designed.

South Sudan. WBG operations started in 2006, just as South Sudan (not yet formally an independent country) had emerged from a 21-year long civil war. The program was implemented in a context characterized by the absence of crucial institutions, a confused legal framework, and extremely weak operational capabilities. Accordingly, assistance involved a major capacity building element to "establish a robust legal and regulatory framework, and to develop key institutions".[9] The initial focus of activities was on three reform areas: business registration, investment policy & promotion, and PPD. The scope of operations broadened from 2011 to include industry specific reforms, business regulation, and smaller components dealing with ADR and legal topics linked to DB indicators (South Sudan was covered for the first time by the DB 2014 report, ranking 186th out of 189 countries). The civil disturbances of December 2013 seriously impacted WBG operations, which led to the suspension of activities for a few months and negatively affected investment promotion work (see Box 3.1). The program was completed in the first half of 2014, with another program, currently under preparation, to follow.

BOX 3.1 SOUTH SUDAN: THE CATASTROPHIC IMPACT OF THE DECEMBER 2013 VIOLENCE

The December 2013 conflict in South Sudan could not have been broken out at a more critical time for the WBG program. The initial clashes occurred two weeks after South Sudan's first investment conference, organized with the active support of the WBG. The conference was very well attended, with over 800 participants from about 50 countries with a number of these participants expressing interest in doing business in South Sudan. However, the conflict and violence dealt a major blow to prospects, seriously damaging the image of South Sudan as an investment destination.

3.4 CONCOMITANT INVESTMENT CLIMATE REFORM INITIATIVES

IC reform has become a popular theme in the donor community, and WBG programs were implemented in a fairly crowded environment, characterized by the presence of several other reform initiatives financed by donors or international financial institutions (IFI).

The Investment Climate Facility for Africa (ICF) has played a key role in IC reform. Active in all countries except South Sudan, the ICF has implemented 19 IC reform projects since 2007, with a total budget of US$ 44 million. While not all of these projects focused on areas covered by WBG programs, the ICF has nonetheless been a major player in supporting reforms in business registration, trade logistics, business taxation, contract enforcement, construction permits, and property registration.

[8] Over a short period, the WBG program had to cope with: (i) the suspension of the head of the tax authority on corruption charges, (ii) the change of some ministers (Lands, Immigration); and (iii) the resignation of the key figures in the investment promotion agency and in the PPD platform.
[9] WBG, Removing Barriers to Investment in Southern Sudan, PDS Approval, Version 11.0, August 25, 2010.

EXHIBIT 3.4 ICF FUNDING FOR IC REFORMS

	Number of Projects	Budget (US$ million)
Burkina Faso	5	9.9
Liberia	2	2.8
Rwanda	8	21.5
Sierra Leone	4	9.8

Source: ICF, 2013 Annual Report.

The presence and the role of other donors/IFI vary across countries. In Burkina Faso, reforms in trade logistics were supported by the European Union (EU), both directly and through funding for infrastructure channeled via UEMOA. Furthermore, tax reform was a major theme of the program underpinning the Poverty Reduction and Growth Facility (PRGF) granted by the International Monetary Fund (IMF), while legal reforms were supported by World Bank's enterprise development and poverty reduction operations. In Liberia, reforms in trade logistics were supported by the EU, the US Agency for International Development (USAID), and the African Development Bank (AfDB). In addition, policy reform in real estate transactions was supported by additional groups from within the World Bank, while tax reform was again a key theme of the IMF's PRGF. In Rwanda, trade logistics and business tax reforms were actively supported by the Department for International Development (DFID) and, more recently, by Trade Mark East Africa (TMEA). Legal and regulatory reform was supported by the World Bank under a competitiveness and enterprise development project, which also provided funding for customs infrastructure. In Sierra Leone, a comprehensive tax reform was spearheaded by the IMF, with support from DFID. Investment promotion received assistance from the World Bank and the EU, while the United Nations Development Program (UNDP) supported industry specific reforms in tourism. In South Sudan, donor support for IC reform was mostly channeled through the World Bank-managed Multi-Donor Trust Fund for South Sudan (MDTF-SS), whose activities in private sector development contributed to the design and implementation of legal reforms as well as to PPD.

The existence of various donor/IFI initiatives all pointing in the same direction has helped to accelerate the pace of reforms and/or enabled important synergies, with other donor/IFI interventions often leveraging the WBG's policy and legal reform advice with the provision of technical assistance and investment in related infrastructure. For the purposes of this evaluation however, this raises both practical and conceptual issues. In practical terms, the WBG's activities were at times so closely intertwined with those of other donors/IFI, that it was difficult to distinguish between the activities of different actors (see Box 3.2). Critically, the concomitant presence of various initiatives usually prevents the clear attribution of results. Therefore, in most cases, WBG programs can be seen as having contributed to, rather than independently achieved, IC reforms.

BOX 3.2 'ODETTE'S REFORMS': ASCERTAINING ATTRIBUTION IN PRACTICE

In Rwanda, both WBG and ICF were active in supporting business registration reform and it was difficult to find out 'who did what'. The task was complicated by the terminology, as the WBG project's acronym (RICRP) was often confused with that of the ICF project (RICP). During interviews, the confusion was eventually settled by referencing the first names of the project managers (e.g. "it was Odette who did this"; Odette being the name of the ICF project manager).

SECTION FOUR

INVESTMENT CLIMATE REFORMS

4.1 OVERVIEW

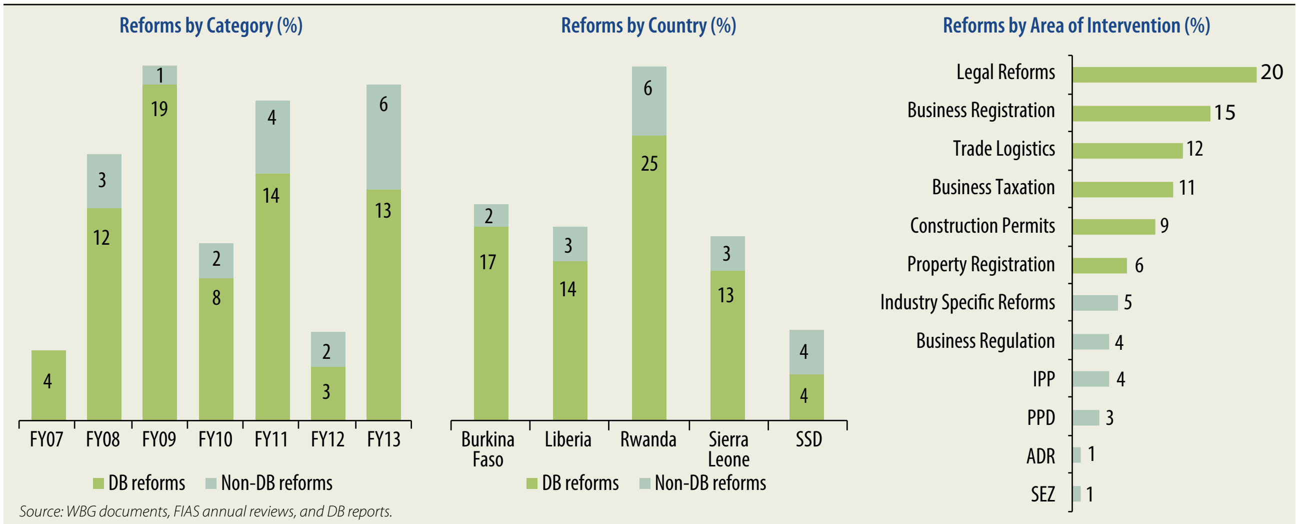
The WBG programs in the five countries are estimated to have supported a total of 91 IC reforms, during the during the mid-2006 to end-2013 period (in practice corresponding to FY07 through FY13). These include 73 reforms linked to themes tracked by DB reports ('DB reforms') as well as 18 reforms in other areas ('non-DB reforms').[10] The full list of IC reforms supported by the WBG programs in the five countries is provided in Annex B.

The number of reforms varies considerably from one year to the next, with the greatest number achieved in FY09, FY11, and FY13. In line with changes in the overall orientation of WBG reform work, DB topics accounted for the totality or near totality of reforms in earlier years, while non-DB topics gradually gained in significance overtime.

Rwanda emerges as the lead reformer, accounting for about one third of all WBG-supported reforms. The WBG programs in Burkina Faso, Liberia, and Sierra Leone contributed to between 16 and 19 reforms, mostly concerning DB topics.[11] Activities in South Sudan contributed to only eight reforms, equally divided between DB and non-DB topics, and mostly achieved in FY13.

The simplification of business registration procedures is the single area with the greatest number of reforms, at about one sixth of the total, while business taxation and trade logistics account for about one tenth each. About a quarter of all reforms involve improvements in the legal framework concerning miscellaneous DB-related topics (i.e. labor market regulations, contract enforcement, investor protection, access to finance, and business insolvency). Reforms on non-DB topics cumulatively account for just one fifth of

EXHIBIT 4.1 OVERVIEW OF WBG–SUPPORTED IC REFORMS



Source: WBG documents, FIAS annual reviews, and DB reports.

[10] The starting point for the reform counting exercise was a list of IC reforms tracked by WBG over the FY08-13 period, accompanied by a description of reforms supported in FY10-13. This information was verified and augmented (namely, to account for and describe earlier reforms) with elements retrieved from WBG project documents, the FIAS Annual Reviews and the DB reports. It is important to note that counting reforms is a complex exercise, fraught with both conceptual and practical difficulties. In fact, the definition of reform used by the WBG varied overtime and the various sources analyzed are not always consistent. More importantly, some reforms claimed by WBG documents in reality have little to do with WBG activities, as they were driven by other factors (typically, other donor/IFI initiatives). These reforms were eliminated from the reform count but there remain several doubtful cases, in which the role played by the WBG was seemingly modest. Therefore, the figures presented here are likely to overestimate the WBG contribution to IC reforms.

[11] In the case of Sierra Leone, the reform count includes a couple of reforms implemented after the end of WBG operations at end 2011 but that can be traced back to the advice provided by the WBG programs.

the total. This reflects both the WBG's more recent engagement in these areas (in some cases activities are still ongoing), as well as the nature of interventions. In fact, activities focusing on non-DB topics often include an important capacity building element, and institutional change is notoriously difficult to achieve (as well as more difficult to measure).

4.2 RESULTS ACHIEVED: DOING BUSINESS–RELATED REFORM AREAS

Business Registration. WBG interventions in business registration were quite successful, supporting a total of 15 reforms across all countries. All the five countries can now count on reasonably efficient business registries, and in most cases registration times have been reduced to just 2-3 days. Registration services have been decentralized in all countries, with branch offices opened (see Box 4.1), and the functions of business registries broadened in some cases (e.g. in Rwanda, the Office of the Registrar General is also responsible for keeping the registry of pledges and the intellectual property registry). Online registration was introduced in Rwanda in 2011, and by end 2013 about 4,000 businesses had signed up. Rwanda made online registration mandatory in February 2014, seemingly the first country to do so in Sub-Saharan Africa, while Sierra Leone made online registration available in March 2014. The process is still paper-based in the other countries. With the exception of Liberia, the annual renewal of registration has been abolished. However, in South Sudan the submission of annual returns was recently introduced to help keeping track of developments in the business sector. Business registration activities in Liberia and Sierra Leone remain a significant source of income for the government (with annual receipts in the order of US$ 1-2 million), and there is still scope for reducing fees (in Sierra Leone the matter was under discussion in early 2014). While the picture is positive on the whole, some business registries operate with tight budgets, have limited staff, and employ outdated IT systems, which makes it difficult to get up-to-date and reliable data.

BOX 4.1 DECENTRALIZATION OF BUSINESS REGISTRATION SERVICES

The Centre de Formalité des Entreprises (CEFORE) in Burkina Faso currently provides registration services in 12 urban centers. The business registry in Liberia opened two branch offices outside Monrovia. The same applies to business registries in Rwanda and Sierra Leone, which run three peripheral offices each. In South Sudan, two branch offices were opened with WBG assistance, but only one is currently operating, as the other was destroyed during the events of December 2013.

Construction Permits and Property Registration. WBG programs supported a total of 15 reforms in real estate transactions across all countries except South Sudan. Results varied significantly across countries.

Burkina Faso and Rwanda saw very positive results. The procedures for issuing construction permits have been considerably simplified in both countries resulting in a significant reduction in time and costs. The two dedicated structures established with WBG assistance — Burkina Faso's Centre de Facilitation des Actes de Construire (CEFAC) and Kigali's One Stop Center (OSC) — are currently able to issue construction permits in less than one month, below the statutory limits, and their services have been extended beyond the capital cities. Positive results were also achieved in property registration, with the simplification or consolidation of some procedures and, especially, the elimination or reduction of particularly onerous taxes on property transfers, which were completely eliminated in Rwanda and declined from 15% to 8% Burkina Faso.

BOX 4.2 LIMITATIONS OF CONSTRUCTION PERMIT REFORMS

Reforms of construction permits have certainly helped to reduce the administrative burden for private operators; however, they have not fundamentally altered the conditions in the real estate market. The number of permits issued annually remains quite limited (e.g. 200 permits in Burkina Faso; 100 in Liberia) with a significant amount of construction still done informally.

Results were less positive in Sierra Leone and Liberia. The reform of construction permits in Sierra Leone attracted comparatively less attention, and improvements have been limited to eliminating certain procedural steps. Regarding property registration, the 'WBG reform count' includes the lifting of a moratorium on property sales in 2010. However, as the moratorium had been introduced during the implementation of the WBG program, this can hardly be considered as a success, as it simply re-established the status quo ante. In Liberia, procedures for construction permits remain cumbersome, although costs have declined significantly due to a reduction in fees charged by the Ministry of Public Works and the Monrovia City Corporation.

Business Taxation. WBG programs supported a total of 11 reforms across all countries, except South Sudan. Taxation reform is highly politically sensitive, and the results vary considerably across countries, and especially across the specific issues targeted.

Results are largely positive in the area of tax administration reform. These include: (i) simplifying filing and payment obligations for certain categories of tax payers (with the shift from monthly to quarterly VAT filings and payments in Rwanda); (ii) strengthening tax appeals mechanisms to ensure that taxpayers' justified grievances are effectively addressed (in Liberia and Burkina Faso, with work ongoing in Rwanda); and (iii) implementing innovative IT solutions, such as online issuing of tax clearance certificates and the launch of dedicated platforms for the filing and payment of taxes, as in the case of Rwanda's M-Declaration platform (see Box 4.3).

The picture is more mixed in the area of tax policy reform, with a combination of positive and negative results. In Sierra Leone, the WBG played an important role in the introduction of the Goods and Services Tax (GST), a VAT scheme that replaced seven pre-existing taxes and was intended to apply primarily to medium and large taxpayers. However, in its early days, overzealous tax officials registered large numbers of small businesses, which added to the burden for both businesses and the tax administration. The situation is in the process of being resolved through a deregistration campaign. In Liberia, the WBG-supported PPD platform advocated for a decrease in the profit tax and for the elimination of the advance tax on turnover, both of which were approved in 2011. However, the reform seemingly opened the door to opportunistic behavior,[12] and the advance turnover tax was reinstated in 2013. In Burkina Faso, business taxation underwent a major transformation between 2008 and 2010, with a general reduction in tax rates and the consolidation of tax procedures. However, these results were mostly achieved within the framework of a major restructuring program agreed with the IMF, and therefore can only partly be credited to the WBG.

BOX 4.3 RWANDA'S M-DECLARATION PLATFORM

In Rwanda, the WBG supported the development and piloting of a mobile phone based application for filing and paying taxes. The platform allows registered taxpayers to access an M-account at the cost equivalent of only one SMS per session. Once connected, enterprises can: (i) declare the previous year's turnover; (ii) calculate the tax for the current year; (iii) make payments through banks or mobile phone operators; and (iv) review the status of previous transactions. Dedicated to taxpayers registered under the simplified regime, the M-Declaration platform became operational in October 2013, achieving an instant success: in early 2014, there were 12,810 registered users (accounting for 14% of taxpayers registered under the simplified regime) and 10,256 active users (accounting for 23% of active enterprises under the simplified regime).

Tax incentives reform also presents a mixed picture, as efforts to rationalize the system sometimes ran into opposition from vested interests. For instance in Liberia, the reform of tax incentives was initially fiercely opposed by an investment promotion agency fearful of losing power. The reform was eventually approved, but its implementation has encountered difficulties and the system was de facto suspended in February

12 According to government sources, in 2012 no less than 98% of all medium and large enterprises previously subject to the advance turnover tax declared that they were operating at a loss and, as a result, they did not pay any tax at all.

2014. Positive results were achieved in Sierra Leone, where a number of incentives were eliminated and the remainder were moved from the investment code and incorporated into the tax code. In Rwanda, the government generally agreed with WBG proposals. However, as investment incentives have to be discussed and agreed at the EAC level, formal adoption was still pending in early 2014.

Trade Logistics. WBG interventions in trade logistics were successful, contributing to 12 reforms in all countries except Sierra Leone. However, there are differences between countries and between types of interventions, and critically, it is not always possible to distinguish the contribution of the WBG from that of the other donors/IFI (see Box 4.4).

Results are particularly positive regarding the simplification of trade procedures and documentation, with a significant reduction in the administrative costs (see Section 5 below). Main achievements include: (i) the elimination or prolongation of the validity of import-export documents (e.g. elimination of declarations from commercial banks in Rwanda); (ii) the abolishment or reduction of administrative fees (e.g. the reduction of the pre-shipment inspection fee in Liberia); and (iii) the consolidation of procedures, sometimes involving the setting up of one-stop-shop structures (e.g. the Guichet Unique du Commerce in Burkina Faso). In South Sudan, trade logistics reform was not an explicit target of the WBG program. Nonetheless, some improvements in the legal framework for import export transactions (i.e. the passing of the Import Export Act of 2012) were achieved as a by-product of more general legal reform work.

The situation is more mixed when it comes to border clearance operations. For instance, in Rwanda, the electronic single window is operating effectively and thanks to improvements in risk assessment procedures, about two thirds of imported goods now go through the 'green' or 'blue' channels, i.e. are not subject to any control upon entry. As a result, the average customs clearance time has decreased from 5-6 days in the mid-2000s to about one day. In contrast, in Liberia, a risk management system has been in place for some time, but in early 2014 the vast majority of imported goods were still subject to physical inspections. Similarly, the electronic processing of documentation was barely functioning, although this was due to infrastructural constraints (limited connectivity and frequent power cuts), unrelated to IC reforms.

Legal Framework. WBG work on legal reforms contributed to 20 reforms across the five countries.[13] The majority of these concern improvements in the legal and institutional infrastructure for credit market transactions, establishing or strengthening public and/or private credit reference bureaus, setting up collateral registries, and broadening the range of assets that can be used as collateral. The remaining reforms relate to

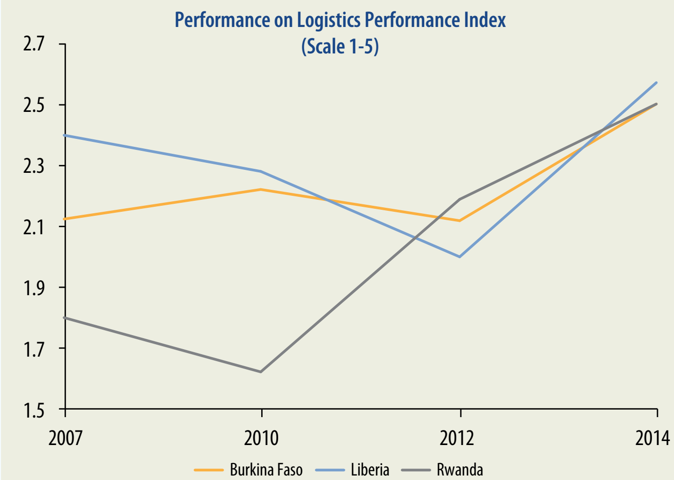
BOX 4.4 ATTRIBUTION OF RESULTS IN TRADE LOGISTICS

WBG work in trade logistics has parallels in a number of other donor/IFI initiatives. In Liberia for instance, the introduction of ASYCUDA World was financed by AfDB; the EU assisted in the revision of the Customs Code; USAID financed the construction of the Customs House at the port of Monrovia; and ICF financed the computerization of the Customs Department. In Rwanda, customs reform received extensive support from DFID; the scanners used to speed up inspections were financed by the World Bank; while the introduction of the electronic single window was supported by TMEA. In Burkina Faso, customs modernization was extensively supported by the EU, with funds channeled through UEMOA, and additional support from ICF. Such a multitude of complementary interventions makes it extremely difficult to assess with any degree of accuracy the contribution of WBG programs.

[13] This figure is probably too generous, due to the presence of some duplications. For instance, in Sierra Leone, the WBG counts as separate reforms both the enactment of the Credit Reference Act (in FY11) and the actual setting up of the central bank's credit reference system (in FY12). Similarly, in Rwanda, the enactment of the Insolvency Law of 2013, was counted twice by WBG, under both the insolvency and investor protection headings. The latter situation, is quite common in DB reports, with several cases of a single legal act being yielding more than one reform. For more details, see the comments to the various IC reforms listed in Annex B.

BOX 4.5 EFFICIENCY OF CUSTOMS AND BORDER CLEARANCE

The efficiency of customs and border clearance arrangements is periodically assessed by the World Bank on the basis of a survey of logistics professionals. Performance is assessed on a 1 to 5 scale, with one meaning 'very low' and 5 meaning 'very high'. Four surveys were carried out over the 2007–2014 period and data are available for three countries receiving assistance from WBG in trade logistics. Over the 2007–2014 period, Rwanda dramatically improved its performance, passing from 1.80 to 2.50. Burkina Faso also shows an improvement, passing from 2.13 in 2007 to 2.50 in 2014. Liberia's performance varies overtime, with a fairly marked decline from 2007 until 2012 and a good recovery in 2014.



Source: Logistics performance indicator dataset.

four other DB-related topics: contract enforcement, insolvency resolution, investor protection, and labor market regulations. The legislative reforms sometimes called for the establishment of new institutions, such as dedicated courts to handle commercial disputes or electronic registries of pledges and mortgages. However, the setting up of these institutions was usually beyond the scope (and means) of the WBG programs and often required the intervention of other donor/IFI initiatives (e.g. the ICF providing funding for the establishment of commercial courts in Sierra Leone and Burkina Faso).

Concerning the theme of access to finance, results are somewhat mixed regarding the establishment of private credit bureaus. Following the reform of the legal framework, a private credit bureau was indeed established in Rwanda and began operating, albeit significantly behind schedule. In Sierra Leone and Liberia, the initial legal reforms were to be complemented by additional work from the WBG's Access to Finance program.[14] However, work is still ongoing in Sierra Leone, while there was seemingly no follow up in Liberia, and independent attempts by the central bank did not yield any results. Therefore, in these countries, IC reforms have so far resulted only in de jure improvements, with limited tangible influence on operating conditions in the credit market.

[13] This figure is probably too generous, due to the presence of some duplications. For instance, in Sierra Leone, the WBG counts as separate reforms both the enactment of the Credit Reference Act (in FY11) and the actual setting up of the central bank's credit reference system (in FY12). Similarly, in Rwanda, the enactment of the Insolvency Law of 2013, was counted twice by WBG, under both the insolvency and investor protection headings. The latter situation, is quite common in DB reports, with several cases of a single legal act being yielding more than one reform. For more details, see the comments to the various IC reforms listed in Annex B.

[14] For an overview of WBG work on credit bureaus, see WBG, Global Credit Reporting Program, presentation, December 2012.

4.3 RESULTS ACHIEVED: NON DOING BUSINESS–RELATED REFORM AREAS

Business Regulation. Work on business regulation contributed to four reforms in all countries, except Sierra Leone. The nature of achievements varied considerably across countries. In Rwanda, early reform efforts led to the simplification of procedures and documentation for selected licenses (e.g. license for clearing agents, environmental impact assessment, etc.), while more recent work was mainly aimed at improving the transparency of the licensing process, with the setting up of a dedicated online Business Licensing Portal. In Liberia, the first achievement was the elimination of the trade license in mid-2012 generating significant cost savings. In mid-2013, this was followed by the reform of business inspections, that drastically cut the frequency of inspections (from weekly to quarterly), with the ultimate objective of reducing the opportunity for inspectors to extract bribes from businesses. In Burkina Faso, the WBG helped to set in motion a far reaching regulatory reform process, by establishing a central secretariat for regulatory reform (Secrétariat Permanent chargé du suivi des reformes des licences d'affaires) and through the review of over 100 pieces of regulation. Work is still largely ongoing, but some positive results have already been achieved concerning licensing private operations in the health and education sectors (Box 4.6). In South Sudan, work on business licensing reform has just begun, and is expected to be carried out under a future WBG operation. Nonetheless, the WBG-sponsored South Sudan Business Forum was successful in lobbying for the elimination of a series of security control posts along the main road connecting Juba with the Ugandan border, which had become opportunity for security personnel to obtain informal payments from truck drivers. No results were achieved in Sierra Leone, where attempts to merge work and residence permits were unsuccessful.

BOX 4.6 BEYOND RED TAPE CUTTING: LICENSING OF PRIVATE EDUCATION IN BURKINA FASO

The reform involved a general overhaul of the regulatory framework for the creation and operations of private schools as well as the delegation of certain powers from the ministry to regional directorates. Initiated in 2010, the reform concerns: (i) post primary schools; (ii) pedagogical schools; and (iii) higher learning institutions. While simplifying certain procedures, the reform was primarily aimed at increasing the predictability of the licensing process, so as to provide prospective entrants with a clear reference framework.

Investment Policy & Promotion and SEZ. WBG work on investment policy & promotion and SEZ supported five reforms in all countries. *Policy and legislative reform initiatives were usually successful.* In Liberia, the Investment Act of 2010 considerably improved the legal framework for FDI through a reduction in the number of activities reserved for nationals. The same applies to South Sudan, where the Investment Act of 2009 and subsequent regulations provided the first coherent framework for investment activities, and to Rwanda, where a comprehensive framework for the creation and operation of SEZ was set up. The exception to the positive trend concerns SEZ legislation in Liberia, as waning government interest forced the abandonment of early attempts to development a comprehensive framework. However, work in this area has recently re-started.

The results of initiatives aimed to strengthen investment promotion agencies are mixed. Good results were achieved in Sierra Leone, where WBG support played a pivotal role in bringing to life the newly established Sierra Leone Investment and Export Promotion Agency (SLIEPA), and in Rwanda, where the WBG program helped the Rwanda Development Board (RDB) to improve its investment attractiveness and retention capabilities. Progress has been much slower in Liberia, where the transformation of the National Investment Commission (NIC) from a primarily regulatory body charged with managing investment incentives into a promotional agency, initially met with considerable resistance. Assistance to NIC was resumed only recently and is still ongoing.

BOX 4.7 EFFECTIVENESS OF INVESTMENT PROMOTION AGENCIES

The results of WBG support to investment promotion agencies are broadly confirmed by the Global Investment Promotion Benchmarking (GIPB) reports, which periodically assess the effectiveness of investment promotion agencies bodies across the world. Both RDB and SLIEPA significantly improved their ratings overtime, reaching in 2012 a level well above the average for Sub-Saharan Africa. In contrast, the performance of NIC declined (albeit only marginally) between 2009 and 2012.

	2006	2009	2012
Liberia (NIC)	..	27%	25%
Rwanda (RDB)	22%	38%	48%
Sierra Leone (SLIEPA)	..	3%	36%
Average SSA	31%	25%	25%

Source: GIPB dataset.

In South Sudan, the effectiveness of WBG assistance was limited by frequent changes in the institutional setting (the legal status of the investment promotion body changed four times in less than a decade) as well as by the challenging operating environment.

Industry Specific Reforms. WBG programs contributed to five reforms in three countries. *Fairly positive results were achieved in Rwanda and Sierra Leone.* In Rwanda, the WBG program contributed to the reform of the greenleaf tea pricing mechanism, with prices now set on a quarterly basis, and pegged to the prevailing international price. This has increased the price paid to smallholders and cooperatives, with a positive influence on production levels and farmers' incomes. The WBG also supported the successful privatization of several tea factories, which attracted some foreign investment. In horticulture, the reform of the land-leasing framework is ongoing, but WBG promotional work managed to attract the attention of several investors, with some investments already underway. Outside agriculture, the WBG also contributed to the development of a comprehensive trade logistics strategy, aimed at attracting private investment through a series of public-private partnership (PPP) initiatives. In Sierra Leone, work focused on the tourism sector, where WBG's transaction advisory was instrumental in closing the deal for the rehabilitation of a major hotel site. Actual implementation was delayed by a number of factors, but the situation was eventually clarified in early 2014 (see Box 4.8).

BOX 4.8 THE CAPE SIERRA HOTEL CONCESSION

The Cape Sierra Hotel concession in Sierra Leone was a laborious affair. After a first unsuccessful tender, in mid-2010 the concession was awarded to a group of UK-based diaspora investors who had reached an agreement with a major hotel chain. Construction works were to start shortly after the award, but the hotel chain introduced more stringent requirements, which increased investment costs by some 50%. The mobilization of additional funding required considerable time and in the meantime problems emerged regarding the underlying land lease agreement. Problems were eventually settled in early 2014.

In South Sudan and Burkina Faso reform efforts are still largely ongoing. In South Sudan, work is still in the early stages, and it is expected that a series of sector development strategies will be completed and operationalized under a subsequent operation. However, some progress was recorded on the institutional front, with the establishment of the Drug and Food Control Authority.[15] In Burkina Faso, industry specific work is also ongoing, with focus on the health care sector. Building on earlier results in the area of business regulation (see above), the program aims to stimulate private investments in the provision of healthcare, in particular through the development and promotion of opportunities for PPP initiatives.

[15] The attribution of this reform is unclear, as it appears that te most of the relevant work was done within the framework of the Health in Africa Initiative.

PPD and ADR. WBG programs achieved mixed results in both of these areas. Regarding PPD, in Sierra Leone the WBG played an important role in supporting the institutionalization of the Sierra Leone Business Forum (SLBF), which at a certain point became an important vehicle to support the reform process. However, the SLBF is currently facing serious challenges, which could undermine its existence (see Section 6). In Liberia and South Sudan, the two business forums established with WBG assistance have shown signs of vitality, engaging in policy discussions with the authorities on a number of subjects and actively contributing to the adoption of several reforms. However, the process of institutionalization is still ongoing. In the case of ADR, positive results were achieved in Burkina Faso, where the arbitration center improved its operational capabilities, especially regarding mediation services. Instead, little tangible results were achieved in South Sudan, where WBG's ambitious objectives clashed with operational challenges during implementation.

4.4 OVERALL IMPROVEMENTS IN THE INVESTMENT CLIMATE

WBG-supported reforms contributed to improve the overall IC as measured by the rankings provided in DB reports. The improvement is particularly remarkable in the case of Rwanda, which from a fairly low position in the mid-2000s at around 160th place, climbed to the 32nd position in the DB2014 report. This put it above several OECD countries (such as Belgium, France, Spain, and Italy). In the case of Burkina Faso, Liberia, and Sierra Leone the improvement was less spectacular but nonetheless significant, with a gain of 10-15 places in the ranking. No meaningful assessment is possible for South Sudan, which was included in the DB rankings for the first time in 2013.

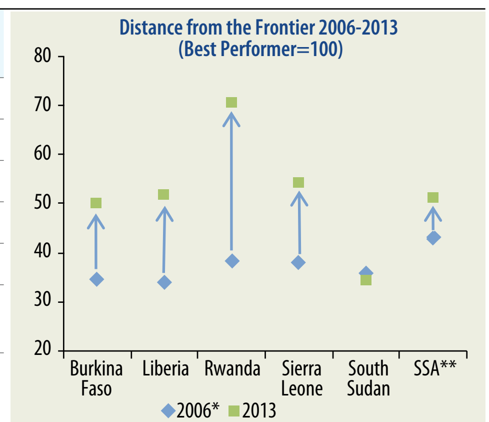
Improvements are confirmed by the 'distance from the frontier' indicator, which measures the relative quality of the IC compared to the best performers.[16] Again, the strongest performance comes from Rwanda, with a gain of more than 30 percentage points between 2007 and 2013. Improvements for Burkina Faso, Liberia, and Sierra Leone are in the order of 15 to 20 percentage points, while there is no appreciable change for South Sudan. With the exception of the latter, all the countries achieved better results than SSA on average, both in absolute and in relative terms.

Overall IC developments in the five countries were also assessed on the basis of two other indicators, namely: (i) the Regulatory Quality Indicator, developed by the World Bank in the context of the Worldwide Governance Indicators (WGI) research program; and (ii) the Economic Freedom Index, developed by the Heritage Foundation. The Regulatory Quality Indicator (RQI) measures the ability of governments to formulate and implement sound policies and regulations that permit and promote private sector development. It is based on a set of sub-indicators

EXHIBIT 4.2 IC IMPROVEMENTS MEASURED BY DB-RELATED INDICATORS

	DB07 2006	DB08 2007	DB09 2008	DB10 2009	DB11 2010	DB12 2011	DB13 2012	DB14 2013
Burkina Faso	163	161	148	147	151	150	153	154
Liberia		170	157	149	155	151	149	144
Rwanda	158	150	139	67	58	45	52	32
Sierra Leone	168	160	156	148	143	141	140	142
South Sudan							183	186
Number of Countries	175	178	181	183	183	183	185	189

NB: Due to changes in the number of countries covered by the DB reports and in the methodology for calculating the overall ranking, data for the various years are not fully comparable. DB reports for a certain year refer to the situation prevailing in the first half of the previous calendar years (i.e. the DB2014 refers to the situation in the first half of 2013).



**2013 for South Sudan ** Average of National Values.*

[16] For a definition of this indicator, please refer to the World Bank Group, Doing Business Report 2014, November 2013, pages 155 – 158.

BOX 4.9 CONTRIBUTION OF WBG PROGRAMS TO DOING BUSINESS REFORMS

Over the 2007–2013 period, WBG-supported reforms account for about 70% of all IC reforms recorded by DB reports. WBG contribution to DB reforms is greatest in Liberia, where all DB reforms but one were supported by the WBG. In Burkina Faso and Rwanda, the WBG programs supported about three quarters of all DB reforms. The WBG role is less important in Sierra Leone, where it contributed to half of all DB reforms. The importance of WBG's contribution varies across reform areas. WBG programs supported all the DB reforms in business registration and about three quarters of reforms in construction permits, trade logistics and general legal framework (where WBG assistance contributed to all the reforms in labor legislation and investor protection). WBG role was less important in business taxation and property registration, where it contributed to about half of reforms considered by DB reports.

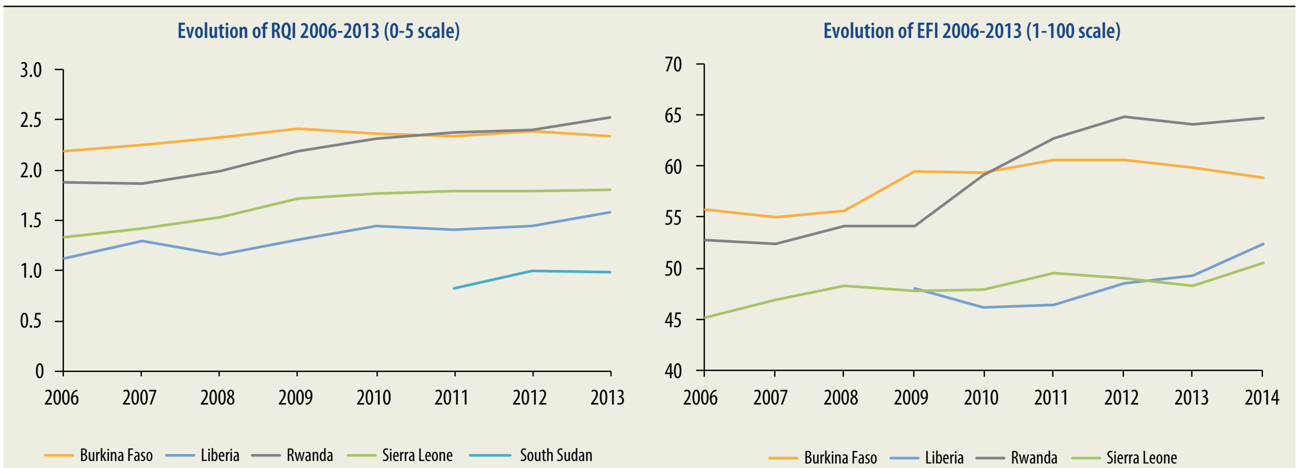
	Total DB Reforms	WBG-supported DB Reforms
Burkina Faso	19	15
Liberia	14	13
Rwanda	28	20
Sierra Leone	19	10
South Sudan	0	0
Total	**80**	**58**

NB: Total DB reforms exclude 'negative' reforms and electricity-related reforms. WBG-supported reforms exclude a few reforms concerning DB-related topics not 'recognized' by DB reports. The difference between the two columns is due to DB reforms independently undertaken by governments or supported by other IFI/donors (e.g. the reduction in corporate tax in Burkina Faso in FY08, undertaken in the framework of an IMF-supported program).

originating from various sources.[17] The Economic Freedom Index (EFI), reflects a more libertarian view of what constitutes a good IC, and in particular attaches comparatively more importance to the absence of regulation. It is also based on a set of sub-indicators, some of which are taken from the DB reports.[18]

Both indicators confirm IC improvements in the countries receiving WBG assistance, although there are some non-negligible differences compared with the situation described by DB indicators. In particular, both the RQI and EFI confirm Rwanda's marked improvement, although the lead it has on Liberia and Sierra Leone is usually narrower, both in absolute and relative terms. In particular, in terms of the rate of improvement, the RQI shows Liberia and Sierra Leone improving their IC at a pace similar to that of Rwanda (+40 % in Liberia compared with 35% in both Rwanda and Sierra Leone). According to both indicators, Burkina Faso's absolute placing is stronger than the one resulting from DB, as it ranks second and comes in close behind Rwanda. As for South Sudan, information is largely missing, but the RQI captures

EXHIBIT 4.3 IC IMPROVEMENTS MEASURED BY OTHER INDICATORS



NB: Percentage changes over the period are in brackets. The EFI, originally expressed on a -2.5 + 2.5 scale, was rescaled for presentation purposes.
Source: World Bank and Heritage Foundation.

[17] For a description of the RQI see http://info.worldbank.org/governance/wgi/index.aspx#faq.
[18] For a description of the EFI, see http://www.heritage.org/index/about.

at least some of the improvements in the basic legal and institutional framework introduced over the last few years.

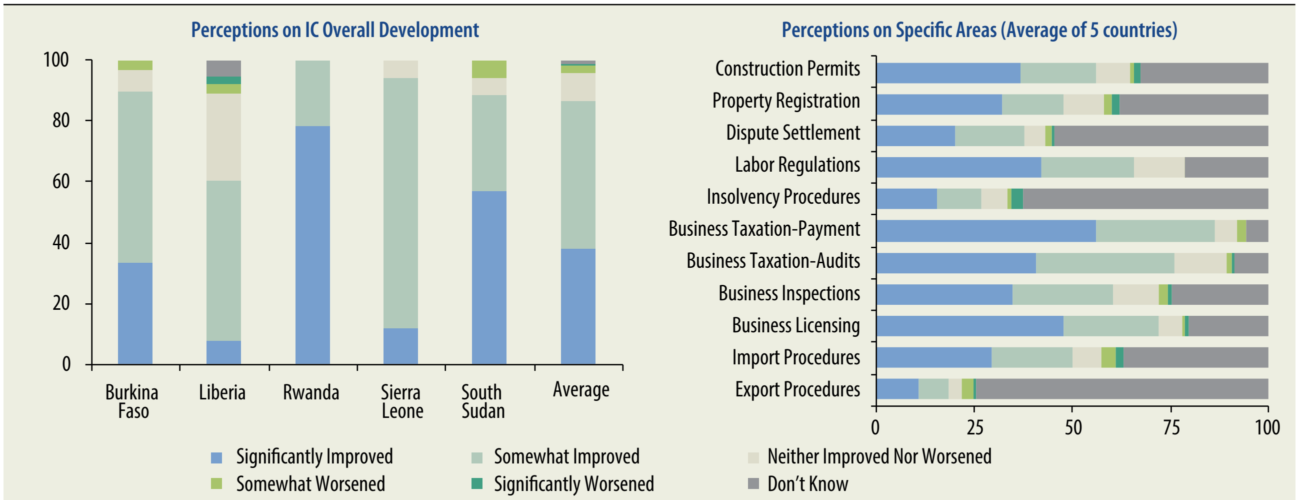
4.5 PERCEPTIONS OF INVESTMENT CLIMATE REFORMS

The attitudes of the business community concerning evolutions in the IC were explored through surveys of local enterprises and interviews with foreign investors. The surveys and interviews provided an assessment of IC developments over the preceding five years (a period largely corresponding to the implementation of WBG programs), with regards to both overall IC developments and selected themes linked to the main reform areas. The number of the businesses surveyed/interviewed varied across the countries: in Rwanda the number of respondents was fairly large (more than 100 firms), whereas the small sample size in the other countries (30 to 40 firms) necessitates some caution in the interpretation of results.

A solid majority of businesses perceived the overall IC to have either 'significantly' or 'somewhat' improved. In Rwanda the assessment was quite enthusiastic, with nearly 80% of respondents perceiving a significant improvement, and the rest providing an only marginally less positive assessment. In Burkina Faso, Sierra Leone, and South Sudan, positive views were expressed by more than four fifths of interviewees. However, the share of those who perceived a 'significant' improvement was smaller than in Rwanda, especially among Sierra Leoneans. A more lukewarm attitude prevailed in Liberia, where positive views were expressed by three fifths of interviewees, with the others observing no appreciable change or holding negative views.

Perceptions regarding specific IC themes were also generally positive, although the picture is not uniform. The assessment is particularly positive when it comes to tax administration, with 86% of respondents expressing positive views regarding tax payment procedures and another 76% observing an improvement in tax audits. The businesses surveyed also appreciated developments in business licensing and inspections, and in labor regulations, with 60% to 70% of respondents noticing an improvement. In the case of the other themes investigated, a significant number of respondents were unable to comment due to lack of direct experience. Overall, the category of 'don't know' responses accounts for 32% of all answers, with this percentage exceeding 50% in Burkina Faso, and 40% in Sierra Leone. The share of those unable to comment is particularly high for IC themes linked to extraordinary situations, in particular the settlement of commercial disputes and insolvency proceedings, and in the case of import export procedures, which reflects the prevailing domestic market orientation among interviewees.

EXHIBIT 4.4 PERCEPTIONS OR IC REFORMS



Source: Surveys of local enterprises and interviews with foreign investors.

Country Specific Considerations. In **Rwanda**, the enthusiasm regarding overall IC developments extends to virtually all the specific aspects investigated. Views are particularly positive when it comes to tax administration aspects (with no less than 96% of positive views), largely owing to the recent introduction of the electronic tax system and, particularly, of the WBG-supported M-Declaration system ("With the introduction of e-taxes, the payment has been made easy and this helps in saving time", "The tax system has helped me a lot; initially I would hire an accountant to do the job"). At the same time, several interviewees volunteered fairly negative views regarding tax rates, which are widely regarded as being too high ("The system is simple, but taxes are high and this reduces the margins"). An unusually high proportion of respondents (87%) also showed appreciation for changes in the construction permits system, another area in which the WBG played a significant role through its support for Kigali's One Stop Center.

In **Liberia,** the overall lukewarm attitude appeared to be influenced by the depressive economic situation at the time of the survey, characterized by widespread power interruptions. Labor legislation (an area in which WBG was not involved) and business licensing & inspections (in which instead WBG played a role, with the recent elimination of the trade license and sharp reduction in inspections) garnered the highest percentage of positive views, at more than two thirds ("Inspections have become much less intrusive", "The processing of documents has improved greatly"). Views are also positive regarding tax administration (in which the WBG was not involved), especially because of the recent decentralization of services ("The establishment of the tax office in Margibi has reduced transportation cost: we no longer need to go to Monrovia to pay our taxes"). Opinions are much more divided regarding import transactions: while two fifths of interviewees were unable to comment, the others were almost equally divided between those observing improvements and those noticing no change, or sometimes, a worsening of the situation ("The process still needs improvements in the processing of documentation", "Green channel? There is no green channel in practice!").

As indicated above, interviewees in **Burkina Faso** were much more reserved than in other countries and for seven out of the eleven specific IC items investigated, the majority of firms did not volunteer a view ("I'm sorry, but I really don't have experience in these areas", "Commercial disputes? No idea of how it works, we try to avoid problems by all means"). Among those providing an assessment, opinions are largely positive, although with some caveats. In particular, in the area of business taxation (in which WBG was scarcely involved), a very positive assessment of tax payment modalities ("Now we can pay in tranches", "The withholding tax works well") is partly offset by a still positive but definitely less enthusiastic opinion regarding tax audits ("They have become tougher") as well as by the usual lamentations regarding tax levels ("Taxes eat away all the margin"). Labour legislation, where the WBG played a major role, is the other area with a solid majority of positive respondents ("The fixed term contract was a real reform").

In **Sierra Leone** too, a high proportion of interviewees were unable to provide an assessment, with a majority of answers falling into the 'don't know' category for five of the themes investigated. In this context, it is noteworthy that virtually all the firms surveyed expressed positive views regarding tax payment procedures. This is linked to a series of improvements in tax administration advocated by WBG as well as by the recent introduction of the possibility of paying taxes through banks instead of going the tax office, a simple reform not counted by DB reports, but obviously very much appreciated by the business community ("It has helped us the indigenous business people to register and pay our taxes easily"; "Tax payment system has also helped businesses to better determine their actual turnover per annum"). Positive views were also expressed relating to developments in business licensing and inspections, seemingly in connection with improvements in health and safety regulations ("In the end, the frequent visits by the health ministry helped us in improving on our service delivery"), in which however, the WBG was not involved.

In **South Sudan**, the views expressed by interviewees were apparently unaffected by the persistent political instability and insecurity (although all the surveyed businesses were located in Juba, where the situation was not as difficult as in other parts of the country). Overall, responses show little diversity across the various themes analyzed, with three quarters or more of respondents providing a positive assessment. This suggests that memories of the "lawless conditions" prevailing in the early/mid-2000s are still very much in the minds of business people and that current conditions, while certainly not ideal, constitute a major improvement. In this sense, the introduction, rather than the abolishment, of business regulations is seen as a positive development ("Duties and rights among parties involved in business have been made clearer", "Doing business has improved a lot because of the organization and system put in place by the government"). In addition, simply knowing who is in charge of what — something that is taken for granted in other countries — is regarded as an improvement ("Now we know which office to address"). Interestingly, even the negative comments tend to focus on structural issues, and in particular, the overall organization of the state machinery ("It is good that legal and regulatory framework was created, but the bad side is that it has imposed a burden of multiple taxation because of the various levels of governance e.g. federal, state, county, payam and buma").

SECTION FIVE

IMPACT OF INVESTMENT CLIMATE REFORMS

5.1 OVERVIEW

IC reforms are expected to achieve a wide range of benefits for private enterprises as well as for society as a whole. The analysis presented here focuses on three categories of impacts. The first refers to the benefits accruing to firms, in the form of savings resulting from cutting red tape, and more generally, from streamlining the administrative burden imposed on businesses. The second category relates to the changes produced by IC reforms on business demography, in terms of new enterprise formation and/or formalization of firms that had previously operated informally. The third category refers to the influence of IC reforms on private investment and job creation, associated with developments in business demography and/or resulting from initiatives aimed at attracting FDI.

BOX 5.1 DIRECT VS. INDIRECT IMPACTS

Savings as a result of regulatory simplification are the immediate result of IC reforms, and are therefore referred to as 'direct' impacts. In contrast, changes in business demography, investment levels, and employment must be regarded as 'indirect' impacts, as IC reforms interplay with a variety of other factors (general economic trends, changes in other policy variables, etc.). The distinction between direct and indirect impacts has important implications. In fact, only direct impacts can be satisfactorily measured in a 'before and after' framework, due to the presence of a sort of 'dose response' causation linkage. In the case of indirect impacts, it is necessary in principle to 'control' for other intervening factors, with the building of counterfactual scenarios. However, due to data limitations, the counterfactual approach proved unfeasible and it was necessary to resort to less rigorous extrapolation techniques. Therefore, the values of indirect impacts presented here must be regarded as estimates or largely indicative.

5.2 PRIVATE SECTOR COST SAVINGS

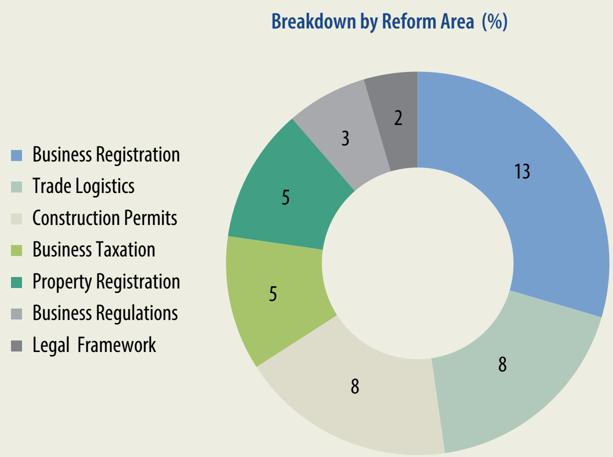
Private Sector Cost Savings (PSCS) are defined as savings generated by IC reforms from simplifying the regulatory and institutional framework for business operations. PSCS encompass three types of savings, namely: (i) cost savings, resulting from the reduction or abolishment of administrative fees or other out-of-pocket expenses (e.g. expenses for notarization of certain documents); (ii) time savings, generated by the reduction in the time required to handle administrative procedures; and (iii) financial savings, linked to the cash flow benefits of changes in the payment modalities for certain fees or taxes.

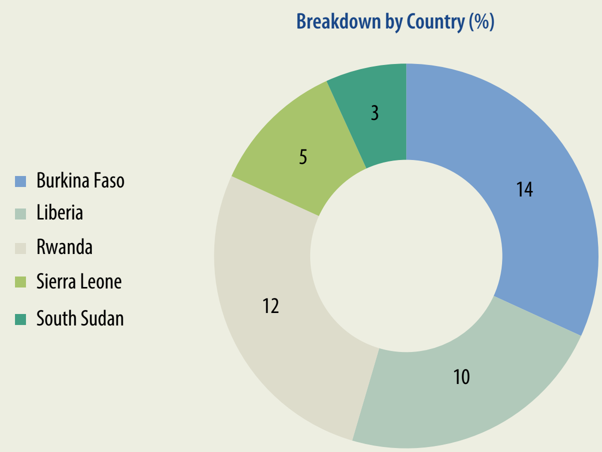
Estimating PSCS involves multiplying the unit savings from a certain IC reform by the number of businesses or transactions affected by the reform. PSCS refer to lifetime savings, which means they include all the savings associated with a certain IC reform since its implementation. As reforms were implemented at different times, the savings achieved in various years were compounded using the relevant interest rate in order to allow for a proper comparison. Accordingly, PSCS are expressed in 2013 dollars.[19]

PSCS were estimated for a total of 44 IC reforms, across all countries. Four fifths of these reforms were implemented in Burkina Faso, Rwanda, and Liberia, while business registration, trade logistics, and construction permits are the reform areas with greatest representation. These reforms account for about half of the IC reforms supported by WBG over the 2006-2013 period. The vast majority of the remaining reforms focused on improvements in the institutional and legal framework, with little emphasis on red tape cutting, and therefore did not generate any appreciable

[19] The PSCS concept is similar to that of Compliance Cost Savings (CCS), which are commonly used by the WBG to assess the impact of IC projects. However, there are significant differences between PSCS and CCS, concerning the nature of savings considered and, especially, the method of calculation. In particular, in the case of PSCS, savings are calculated with reference to the actual parameters for each year, whereas CCS are calculated with reference to the 'baseline year'. In general (though not always), PSCS are greater than CCS. For a detailed description of the methodology, please refer to Annex C.

EXHIBIT 5.1 BREAKDOWN OF IC REFORMS ANALYZED



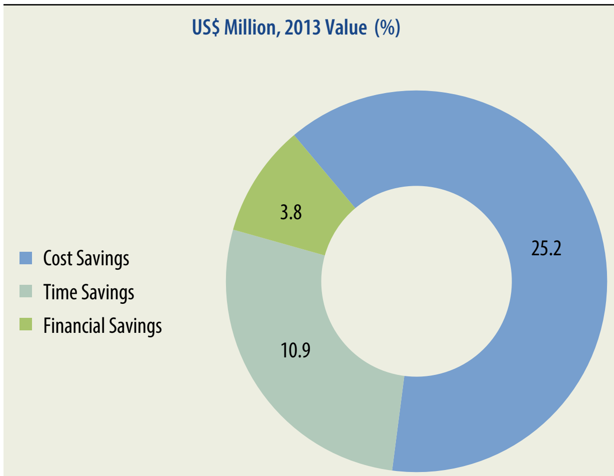


Source: Own estimates.

savings. There are, however, a few IC reforms (mainly in trade logistics) for which PSCS could not be estimated due to lack of information. Therefore, the results presented here are an underestimation of the PSCS generated by WBG-supported reforms.

The total PSCS generated by WBG-supported IC reforms over the 2006-2013 period are estimated at about US$ 39.9 million. About three fifths of total PSCS are cost savings from the cutting or elimination of fees (e.g. the elimination of business registration fees or the reduction of ad valorem taxes on property registrations). One quarter represent time savings associated with the simplification of procedures (e.g. the elimination or the consolidation of enterprise registration procedures thanks to the creation of one-stop-shop centers). The remaining one tenth are financial savings resulting from the reduction in frequency of certain tax payments (e.g. quarterly instead of monthly VAT payments).

EXHIBIT 5.2 TOTAL PSCS 2006–2013

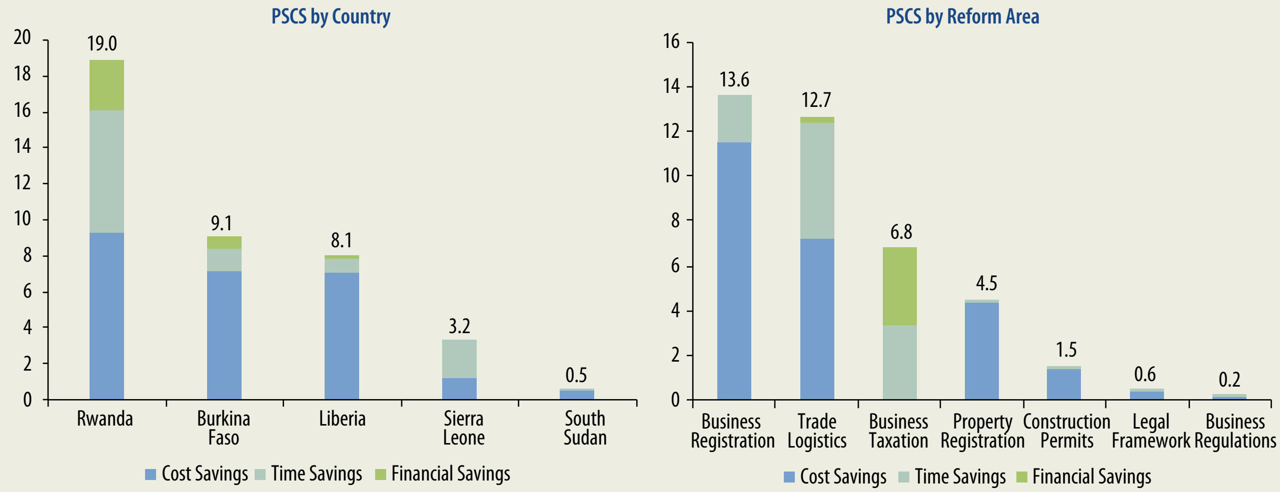


Source: Own estimates.

Rwanda has the highest value of PSCS at US$ 19.0 million, with Burkina Faso trailing behind at US$ 9.1 million, and Liberia at US$ 8.1 million. The value of PSCS is considerably lower in Sierra Leone at US$ 3.2 million, and South Sudan at US$ 0.5 million, where IC reforms were comparatively less concerned with simplification.

Business registration and trade logistics are the reform areas with the highest PSCS at respectively, US$ 13.6 million and US$ 12.7 million. IC reforms in business taxation and property registration also generated substantial savings with PSCS worth respectively US$ 6.8 million and US$ 4.5 million. PSCS resulting from reforms in the remaining areas are much lower, ranging from US$ 1.5 million for construction permits to just US$ 0.2 million in business regulation.

EXHIBIT 5.3 PSCS BY COUNTRY AND BY REFORM AREA (US$ MILLION, 2013 VALUE)

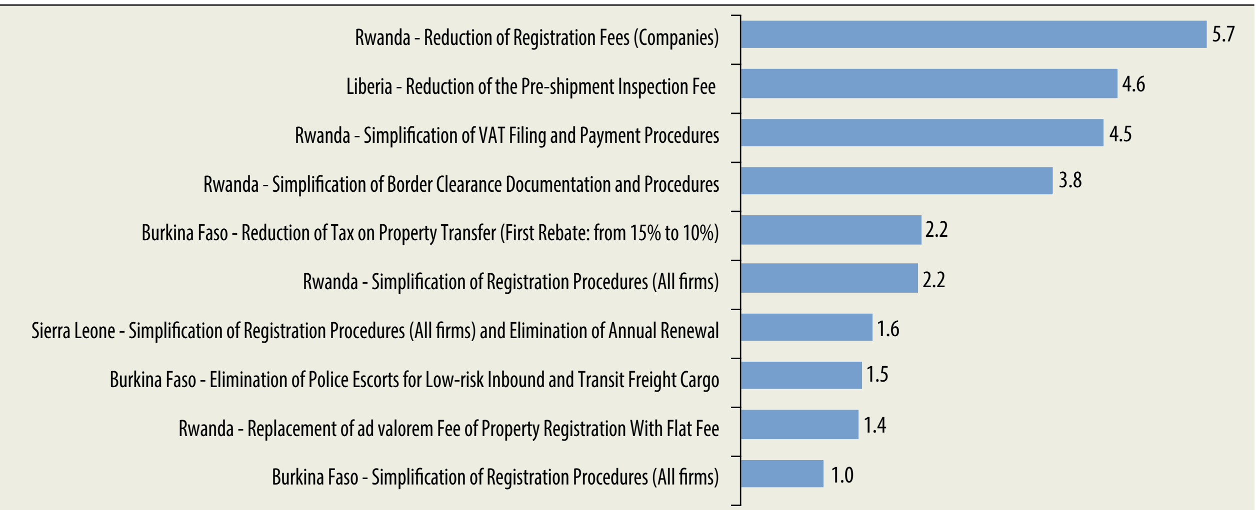


Source: Own estimates

High PSCS values are usually generated by reforms that affect large numbers of firms or transactions. This is particularly the case for trade logistics, as the number of import transactions can be very high (in Rwanda, in 2011-2013 the annual number of import transactions ranged between 93,000 and 102,000), and business registration, with the number of newly registered firms exceeding 2,000 in all the countries. Changes in unit costs are usually a less important driver. For instance, although fees for construction permits were significantly reduced and sometimes eliminated altogether, the number of transactions is usually too small, typically between 100 and 300 per year, to generate substantial PSCS. Some reforms in property registration mark the exception, as the elimination or reduction of hefty ad valorem taxes (e.g. in Burkina Faso, the tax was reduced from 15% to 8% in two steps) may compensate for the limited number of transactions.

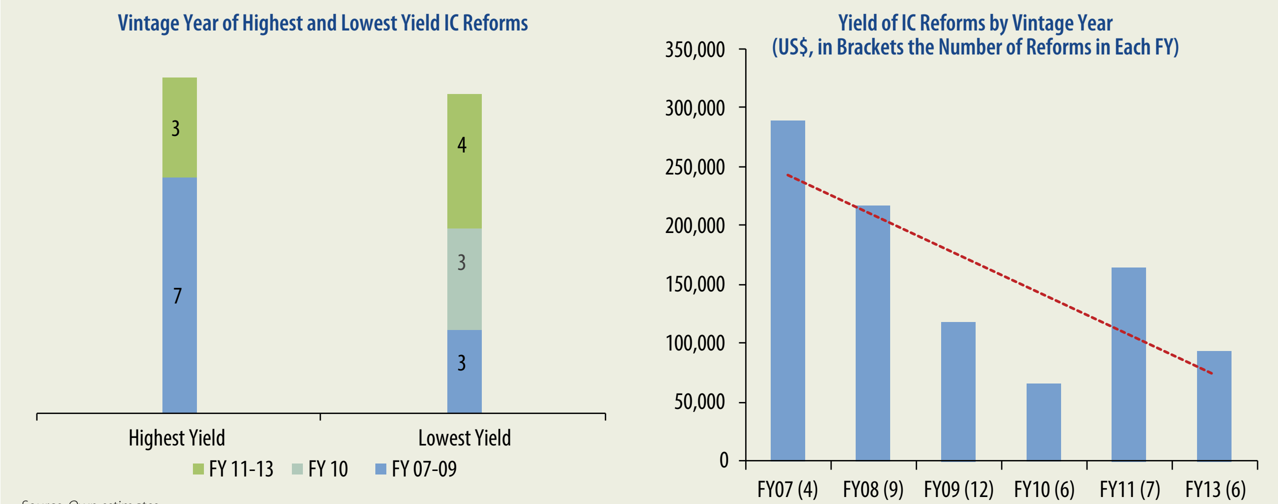
The bulk of PSCS originate from few reforms. The top four reforms, generating more than US$ 3 million savings each, account for 47% of all PSCS. The top ten reforms, each generating more than US$ 1 million, account for 72% of total PSCS. The concentration of savings is also very high at the country level. In Liberia, one reform, the reduction of the pre-shipment inspection fee from 1.5% to 1.2%,

EXHIBIT 5.4 PSCS GENERATED BY THE TOP TEN REFORMS (US$ MILLION, 2013 VALUE)



Source: Own estimates.

EXHIBIT 5.5 PSCS VALUE AND VINTAGE YEAR OF IC REFORMS



Source: Own estimates.

generated PSCS worth US$ 4.6 million alone, i.e. 57% of the country total. Similar values are found in Sierra Leone and South Sudan, where the single most important reform accounts for respectively 50% and 60% of total PSCS. In Rwanda and Burkina Faso, the concentration of savings is lower, albeit still high, with the most important reform accounting for 27%-30% of the total.

The ability of IC reforms to generate savings varies overtime, and the value of PSCS is generally higher for older reforms. Among the ten reforms with the highest 'yield', measured in terms of average annual PSCS, seven were implemented in FY07 through FY09 and only three were achieved in FY11-13. In contrast, only three of the ten lowest yield reforms were implemented in FY07-09, with the rest achieved in FY10 or in FY11-13. In a similar vein, there is a tendency for the yield of IC reforms to decline overtime, although the trend is not strictly monotonic. Overall, this suggests that opportunities for significant savings were greater in the early days of the IC reform process and have declined overtime.

PSCS contribute to reducing enterprises' operating expenses. As data on firms' operating expenses are not available, the annual values of current (i.e. uncompounded) PSCS have been compared with the value of gross private capital formation in the private sector.

The relative importance of savings generated by IC reform is greater in Liberia and Rwanda, where in recent years they account for up to 0.4-0.5% of private investment. In the other countries, the incidence of PSCS is considerably lower, never exceeding 0.2% of private investment.

EXHIBIT 5.6 RELATIVE IMPORTANCE OF PSCS

Ratio PSCS / Private Sector Investment

Years	2007	2008	2009	2010	2011	2012
Burkina Faso	0.03%	0.06%	0.09%	0.13%	0.15%	0.14%
Liberia	-	0.12%	0.42%	0.36%	0.49%	0.51%
Rwanda	-	0.18%	0.27%	0.37%	0.38%	0.41%
Sierra Leone	-	0.12%	0.18%	0.11%	0.06%	0.08%
South Sudan	-	-	-	-	0.01%	0.02%

NB: PSCS annual values are in current terms (i.e. uncompounded).
Source: Own estimates and World Development Indicators.

5.3 ENTERPRISE FORMATION AND FORMALIZATION

Introduction. The creation of new firms and the formalization of firms that had previously operated informally figure prominently among the objectives of WBG programs. Changes in enterprise formation and formalization patterns are sometimes associated solely with the reform of business registration procedures. However, while the simplification of business registration clearly plays a major role, other IC reforms may also exert a significant influence. This particularly applies to reforms in business taxation (e.g. the introduction of special SME tax regimes), business licensing (that may encourage entry in certain activities), and mortgage & pledges (that may render access to finance easier). Indeed, experience shows that reforms in various areas are likely to have synergetic effects, resulting in a greater impact on the enterprise formation and formalization process.[20]

The influence of IC reforms on enterprise formation and formalization was assessed using statistics on business registrations, complemented with data collected through SME surveys and information from secondary sources. It is important to note that in some cases the quality of statistics on business registrations is less than ideal (see Box 5.3). Also, the analysis largely relies on basic 'before and after' comparisons, which inevitably limits claims of causation. An effort was made to adopt a counterfactual approach, but this was only possible (and with limitations) for Rwanda.

Enterprise Formation. Trends in business registrations show significant differences among the five countries, suggesting a differentiated impact of IC reforms.

In Rwanda and Liberia, IC reforms seem to have contributed to an increase in the number of newly established firms. In Rwanda, business registrations have shown an increasing trend since the early 2000s, with a spurt in growth since 2008 in coincidence with the launch of IC reforms. The number of annual registrations climbed from less than 500 in 2003 to about 1,500 in 2007, and topped the 10,000 benchmark in 2013. Comparing the historic trend — which is calculated on data for the 2003-2007 pre reform period — with registration figures for the 2008-2013 period, suggests that IC reforms contributed to about 23,000 additional registrations. Liberia also witnessed major growth in business registrations, which rose from little more than 2,000 firms in 2006-2007 to over 7,200 in 2013. This remarkable trend coincides with the deployment of IC reform efforts as well as with the end of the civil war and subsequent economic recovery. It is difficult to distinguish between the influence of these two factors. The lack of data for the pre reform period (figures are available just for 2007) does not allow for a comparison between the historic trend with registrations in the post reform period. Therefore, taking into account the results of earlier work on the impact of IC reforms on business registration,[21] it was assumed that incremental registrations attributable to reforms account for about 10% of the firms registered after the start of the reform process, i.e. about 2,700 firms.

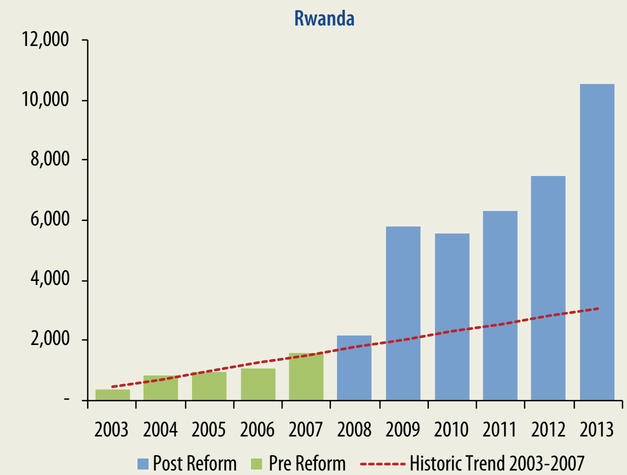
BOX 5.3 CONSTRAINTS REGARDING DATA ON BUSINESS REGISTRATIONS

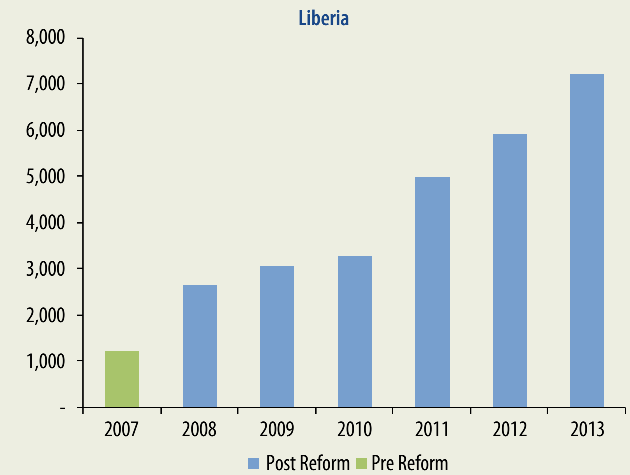
Data on business registrations in Liberia for the early 2000s are not available (they were seemingly lost when responsibilities were transferred from the Ministry of Commerce and Industry to the Liberian Business Registry) and this precludes a comparison of trends overtime. In Burkina Faso, data come from two different sources (the Chamber of Commerce and CEFORE) and the two time series had to be reconciled. In Sierra Leone, the business registry was unable to provide consolidated statistics of registrations by type of firm and year, and therefore data had to be computed manually from the listings of registered businesses, consisting of thousands of names (including numerous duplicates). In South Sudan, the information available de facto refers only to firms registered with the central business registry and developments outside Juba are not captured.

[20] On this point, see in particular Motta M, A M Oviedo, and M Santini, An Open Door for Firms, Viewpoint Note N° 323, June 2010.

[21] See in particular, Bruhn M, "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." Policy Research Working Paper 4538, World Bank, 2008; Philippe A, R Burgess, S J Redding, and F Zilibotti, The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India, American Economic Review, 2008; and Motta M, A M Oviedo, and M Santini, An Open Door for Firms, Viewpoint, Note N° 323, June 2010. According to these studies the share of incremental registrations is in the order of 5%, but they only focus on the effects of simplification of business registration procedures. As in Liberia business registration reforms were accompanied by several other IC reforms potentially impacting on the enterprise formation process, a 10% share appears more realistic.

EXHIBIT 5.7 TRENDS IN BUSINESS REGISTRATIONS IN RWANDA AND LIBERIA





Sources: Business registries.

BOX 5.4 COUNTERFACTUAL ASSESSMENT OF BUSINESS REGISTRATIONS IN RWANDA

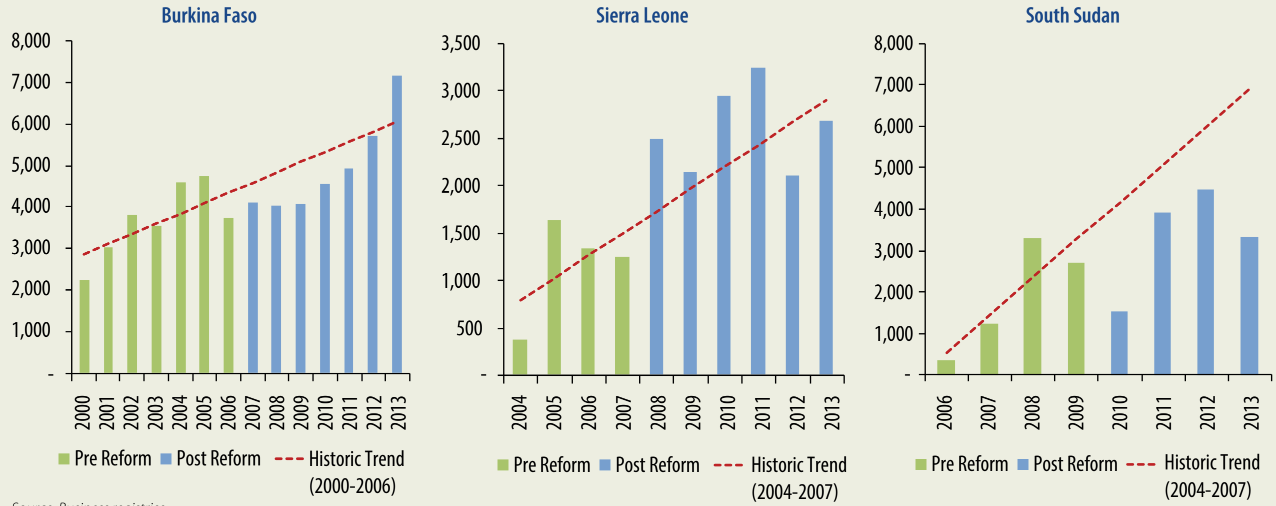
In the case of Rwanda, the impact of IC reforms on business registrations was also assessed using the so-called Synthetic Control Method (SCM), which involves the building of a counterfactual scenario based on experiences from comparable economies. Due to data limitations, it was only possible to compare Rwanda with a limited number of comparator countries, which reduces the significance of the analysis. Subject to this major caveat, the results are quite similar to those obtained through simpler extrapolation techniques. In fact, based on the SCM exercise, the number of incremental registrations attributable to IC reforms for the 2009-2013 period can be estimated at about 19,400, which is not too different from the 21,000 resulting from the comparison of historic and actual trends. A more detailed analysis is provided in Annex E.

No meaningful impact of IC reforms on enterprise formation can be detected in the other three countries. In Burkina Faso, business registrations increased before the start of IC reforms, peaking at about 4,800 in 2005. In subsequent years, annual registrations hovered at around 4,000, surpassing the previous peak only in 2012. Considering the trend line for the 2000-2007 pre reform period, the difference between actual and predicted registrations for the years 2008-2013 is negative (about -2,000). In Sierra Leone, data on business registrations show no discernible trend, with significant ups and downs. Extrapolating the trend line for the 2004-2007 pre–IC reform period, the difference between actual and predicted registrations for the years 2008-2013 is marginally negative. In South Sudan too, there is no clear trend, with wide oscillations in both the pre and post reform periods, which per se suggests no significant influence of IC reforms on enterprise formation.

The above considerations concern the influence of reform programs on business registrations. However, *new registrations do not necessarily involve the launch of new business activities and newly established firms may go out of business shortly after they are established.* Evidence suggests that the share of non-operational firms is quite substantial. In Rwanda, a World Bank study that compared business registrations with taxpayers records, estimated that a mere 40% of all the firms registered in 2008-2012 period were still active in 2013.[22] In the case of Liberia, there are no studies on the subject, but evidence from the SME survey

[22] World Bank—Finance and Private Sector Development—Africa Region, Rwanda's New Companies: An Overview of Registrations, Taxes, Employment and Exports, February 2014.

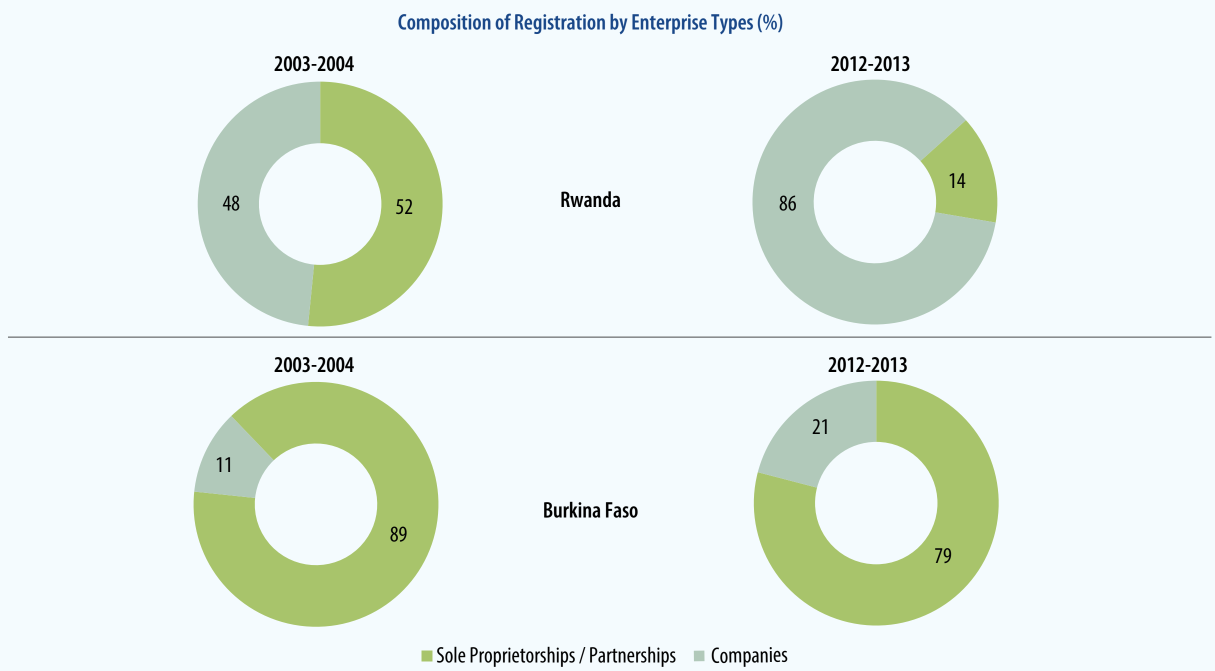
EXHIBIT 5.8 TRENDS IN BUSINESS REGISTRATIONS IN BURKINA FASO, SIERRA LEONE AND SOUTH SUDAN



Source: Business registries.

BOX 5.5 INFLUENCE OF IC REFORMS ON ENTERPRISE TYPES

IC reforms, and in particular reforms of business registration procedures, cover all enterprise types but usually go deeper for firms adopting a corporate form, i.e. limited liability companies and corporations. As a result, the share of companies in total registrations has been increasing overtime. The change was quite marked in Rwanda and Burkina Faso, where the share of more 'sophisticated' enterprise types nearly doubled. Signs of a growing preference for companies are also noticeable in Liberia and Sierra Leone, but data limitations do not allow for a full appreciation of long-term trends. The exception is South Sudan, where companies have always been the predominant enterprise type.



Source: Business registries.

suggests that in early 2014 only 63% of the firms registered in 2008-2009 were still operational.[23] In conclusion, based on these parameters, *IC reforms have plausibly facilitated the establishment of about 11,100 new operational firms, of which 9,400 are in Rwanda and 1,700 are in Liberia.*

Enterprise Formalization. *The influence of IC reforms on the formalization of previously informal firms is difficult to gauge,* due to the dearth of information. The SME surveys carried out as part of this evaluation also investigated the theme of formalization, but the results of this exercise are inconclusive. In fact, the surveys only found a significant share of formalized businesses in Burkina Faso and Rwanda, where previously informal firms accounted for respectively one third and one fifth of interviewees. In Liberia, Sierra Leone, and South Sudan only a handful of surveyed firms declared that they had been operating informally prior to registration.[24] In the case of Burkina Faso and Rwanda, survey results are broadly in line with other sources, which suggest an incidence of formalized firms to the order of 20% to 30%.[25] In contrast, the near absence of formalized firms in the other countries is at odds with the results of earlier studies. In particular, in Liberia and Sierra Leone, the informality surveys carried out by the WBG found an incidence of formalized firms at around 60%. In both countries, the surveys were carried out at a time (right after the end of the civil war) when registration services had just been re-established and, therefore it is not inconceivable that the incidence sharply declined in subsequent years. However, the very few formalized firms found by our surveys could also be due to some bias in sample selection, magnified by the very small sample size. Based on these considerations, survey results do not allow any meaningful assessment regarding the evolution of formalization, and all the more so concerning the possible influence of IC reforms.

Subject to the above major caveat, it is nonetheless interesting to review the features and attitudes of the formalized firms surveyed in Burkina Faso and Rwanda. *In both countries, formalized enterprises are reasonably well-established businesses.* Prior to registering, the firms had been operating informally for an average of 7 years in Burkina Faso and 4 years in Rwanda. When operating informally, firms usually had a checking or savings account, but no overdraft facilities (except for a couple of cases in Rwanda). However, in Rwanda, one third had access to credit, mostly through microfinance schemes. In Burkina Faso, firms did not have access to credit when operating informally, but the same is also true post registration. While informal, some firms were active in import transactions, whereas in most cases there was limited investment, and the majority had none or very low fixed assets at the time of registration.

Broad economic considerations ('wanting to expand', 'better access to customers and suppliers', 'better access to finance') were the most common motivations for registering, with the possibility of participating in public procurement appearing as a recurrent theme ("Registration was very important to me, because … I needed to work with the government especially in provision of services"). Improvements in business registration procedures, and in particular "easier access to registration information" and "lower registration burden" were also mentioned as motives for registering, but mostly in Rwanda.

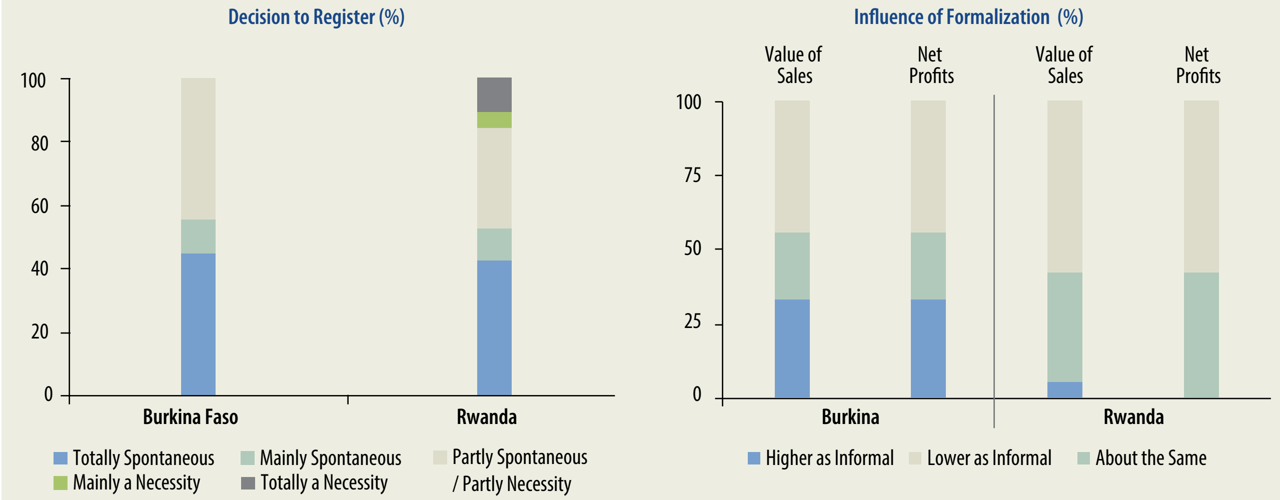
In the majority of cases, the decision to register was entirely or primarily spontaneous. However, an element of necessity was present in both countries, particularly in Rwanda ("There is no future for companies that are operating informally", "Registering was partly a decision that was taken after being mobilized and sensitized by government agencies").

23 In particular, out of the 59 randomly selected enterprises approached for the survey, 17 had ceased operations (29%) and another 5 could not be reached/located (8%).

24 The incidence of formalized firms in the five countries is as follows: Burkina Faso: 9 out of 30; Liberia: 1 out of 28; Rwanda: 20 out of 101; Sierra Leone 1 out of 25; and South Sudan 3 out of 25.

25 In Rwanda, business registry sources estimated previously informal firms to account for about 25-30% of all new registrations, at least up to 2010. In Burkina Faso, a study on firms registered in the late 2000s found that formalized firms accounted for 23% of all new registrations. See 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 définitif, Avril 2011.

EXHIBIT 5.9 PROCESS AND IMPACT OF FORMALIZATION IN BURKINA FASO AND RWANDA



Source: Own calculations based on survey results.

Views regarding the influence of formalization on performance are somewhat divergent. While nearly all previously informal firms in Rwanda believe that formalization has had a positive or neutral effect on sales and profitability, opinions are less positive in Burkina Faso, with one third of firms saying that both sales and net profits were higher when operating informally (hence seemingly regretting the decision to become formal).

5.4 INVESTMENT AND JOB CREATION

Introduction. Investment and employment growth constitute the ultimate goals of WBG's work on IC reform. IC reforms influence the process of capital formation and job creation in a variety of ways. Decreased transaction costs, reduced uncertainty regarding rights and obligations, and lower barriers to entry, exit, and competition brought about by IC reforms all contribute to improving the conditions under which firms make their investment and employment decisions. However, this multiplicity of transmission channels, together with the presence of a variety of intervening factors (general policy and political situation, overall macro-economic developments, etc.), makes it very difficult to measure the impact of IC reforms on investment and job creation. The analysis presented here focuses on two aspects where the causal linkage between IC reforms and investment & employment is stronger, namely: (i) investment and employment associated with the acceleration of the enterprise formation process induced by IC reforms ('developments in business demography'); and (ii) investment and employment resulting from investment promotion and industry specific initiatives.

Impact of Developments in Business Demography. The assessment of investments and employment associated with changes in business demography is based on two sets of parameters, namely: (i) the number of enterprises whose formation is linked to IC reforms (the 'incremental firms'); and (ii) the unit values of investment and job creation per firm (the 'firm-level parameters').[26] The number of incremental firms is taken from previous analyses of business demography. The firm-level parameters are derived from the results of the SME surveys, which collected data for both investments and employment. The analysis is limited to Liberia and Rwanda as these are the only countries where IC reforms were found to have an appreciable influence on the enterprise formation process.

The parameters used in the analysis are summarized in Exhibit 5.9. For firm-level parameters, both median and average values are used, with the average being computed after discounting for outliers (the so called 'trimmed mean'). Average values are much higher than median values. In fact, while most of the

[26] This approach is similar to the one used by WBG to estimate the impact of business registration reforms. See Santini M, Investment Climate: Managing for Impact, presentation, March 12, 2012.

EXHIBIT 5.9 KEY PARAMETERS FOR ANALYSIS

Incremental Firms	Rwanda 9,417		Liberia 1,711	
Firm-level Parameters	Low Scenario (Median)	High Scenario (Average)	Low Scenario (Median)	High Scenario (Average)
Initial Investment	US$ 1,760	US$ 5,173	US$ 525	US$ 6,255
Annual Investment in Subsequent Years	US$ 1,025	US$ 2,446	US$ 19	US$ 381
Initial Employment	2.0	2.3	2.0	2.4
Annual Job Creation in Subsequent Years	0.0	0.2	0.2	0.2

Source: Own calculations based on survey results.

firms surveyed are micro and small businesses, there are also some medium sized firms, which have much higher investment and employment figures than those of other firms. The gap between the median and the average is particularly wide in Liberia, where the distribution of observations is squarely bimodal. The difference is less marked in Rwanda, where the large sample size (101 observations compared with 28 in Liberia) also helps to smooth the distribution. Median and average values are used to compute, respectively, low and high scenarios. The impact on investment and employment is computed by taking into account both initial values (i.e. investments and employment at the moment of formation) and subsequent development (i.e. investments made and labor hired after formation, on an annual basis).

Impact estimates are presented in Exhibit 5.10. *In Rwanda, the increase in investment and employment that can plausibly be associated with IC reforms is significant.* Over the 2008-2013 period incremental investments are estimated to range from US$ 33 to 88 million for respectively, the Low and the High Scenarios. For employment, the corresponding values range from about 19,000 to about 24,000 jobs. *Impact estimates for Liberia are much lower,* with investments estimated to range between US$ 1 million and about US$ 12 million, and incremental employment being in the order of 4,000-5,000 jobs.

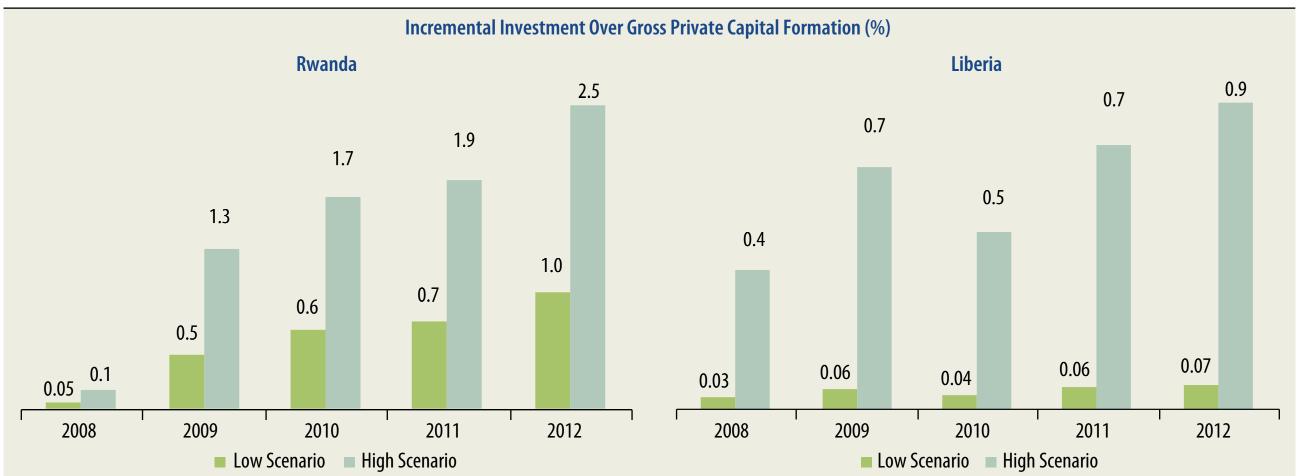
EXHIBIT 5.10 ESTIMATES FOR INCREMENTAL INVESTMENT AND JOB CREATION: 2008 – 2013

	Rwanda 9,417		Liberia 1,711	
	Low Scenario	High Scenario	Low Scenario	High Scenario
Incremental Investment	US$ 32.8 million	US$ 87.7 million	US$ 1.0 million	US$ 11.9 million
Job Creation	18,834 jobs	24,065 jobs	4,068 jobs	4,656 jobs

Source: Own calculations.

An indication of the macroeconomic relevance of the above impacts can be obtained by comparing the values of incremental investments with private sector investment. The data for the 2008-2012 period are shown in Exhibit 5.11 below. In Rwanda,

EXHIBIT 5.11 RELATIVE IMPORTANCE OF INCREMENTAL INVESTMENTS: 2008 – 2012



Source: Own calculations.

the incremental investment plausibly linked to IC reforms, accounts for between 0.6% and 1.5% of total private investment on average, reaching a top value of 2.5% in 2012. Values are lower in Liberia, where even in the most optimistic scenario the estimated impacts of IC reforms account for 0.9% of private investment at the most.

The greater impact in Rwanda is driven by the much higher number of new enterprises, the establishment of which can be associated with IC reforms, although differences in investment parameters per firm also play a role. Both initial investment and investment in subsequent years is typically much higher in Rwanda than in Liberia. *Therefore, results suggest that IC reforms in Rwanda have helped to establish more structured businesses with some growth potential, whereas in Liberia newly established firms tend to be smaller and/or to expand at a slower pace.*

Impact of Investment Promotion and Industry Specific Initiatives. Interventions to attract FDI were undertaken by WBG programs in Liberia, Rwanda, Sierra Leone and South Sudan. These included a combination of policy advice, capacity building, and promotional activities, adopted within the framework of general investment policy & promotion initiatives and/or industry specific work. Assessing their impact is a complex exercise, fraught with both conceptual and practical difficulties, and involves a substantial degree of subjectivity (see Box 5.6). Subject to this caveat, evidence suggests variations in results across countries: significant achievements in Sierra Leone; a less impressive but still positive impact in Rwanda; and no tangible results in Liberia and South Sudan.

In Liberia investment promotion activities have not appreciably influenced FDI flows. FDI have increased dramatically since the mid-2000s, rising from US$ 100-150 million/year in 2006-2007 to about US$ 450-500 million/year in 2010-2011, and doubling to about US$ 1 billion/year in 2012-2013. However, the increase is largely attributable to a limited number of very large concession-related investments in agriculture and mining that are mostly unconnected to the WBG program (see Box 5.7). Recently, the WBG has been supporting NIC's promotional efforts to attract investments in selected sectors (fruits and

BOX 5.7 CONCESSIONS IN LIBERIA

Based on data provided by the NIC, the government signed about 15 concession agreements between 2006 and 2012, envisaging investments possibly worth a total of US$ 10.7 billion and expected to generate 93,500 jobs. These operations see the involvement of worldwide investors (e.g. Arcelor Mittal, BHP Billiton, Golden Veroleum), and often concern the rehabilitation of pre-existing operations that had been damaged or abandoned during the civil war (e.g. Firestone's rubber plantation in Margibi). Most of these deals were signed at a time when WBG support to NIC had been suspended and WBG assistance was limited to the review of certain clauses in the model concession agreement for agricultural projects, which did not have any appreciable influence on investment finalization.

BOX 5.6 DIFFICULTIES IN ASSESSING THE IMPACT OF FDI ATTRACTION ACTIVITIES

Foreign investors' decisions are based on a variety of considerations, and structural aspects, such as security conditions, access to certain resources or the size of the prospective market, typically play a key role. Therefore, promotional activities enter into the equation only indirectly to the extent that they are able to effectively communicate the desirable features of possible investment destinations. Similar considerations apply to aftercare services, which are only one of the many factors that contribute to transforming investors' initial expressions of interest into tangible investments. Also, the importance of FDI attraction initiatives varies across sectors and investor types, being comparatively less important for multinational investors active in resource-based activities, as they are accustomed to operating in difficult environments. Finally, information on FDI initiatives is usually less than ideal, as the figures on prospective investment and job creation issued by investors are often inflated. Under these circumstances, it is extremely difficult to objectively measure the impact of FDI attraction initiatives and one has to resort to circumstantial evidence, which in turn, introduces an element of subjectivity.

vegetables, fisheries and related transport). While prospects are fairly promising, the work is ongoing and potential investments assisted by NIC have yet to materialize.

In Sierra Leone investment promotion activities positively contributed to increase FDI. FDI flows increased significantly from US$ 50-100 million/year in 2006-2009 to about US$ 550 million/year in 2012-2013, after peaking at US$ 950 million in 2011. As in Liberia, the bulk of FDI relates to sizeable operations in natural resources undertaken by international companies. However, in Sierra Leone, WBG's promotional activities appear to have played a more significant role. In particular, the Trade and Investment Forum held in London at the end of 2009 with support from WBG (as well as from DFID and the EU) resulted in a significant increase in investor interest, with about 130 active leads recorded, of which half resulted in field visits. The lack of detailed information on the eventual fate of the various leads does not allow for a precise assessment of the extent to which the initial expressions of interest translated into concrete investments. However, there is evidence that at least some projects motivated by WBG promotional work and/or assisted by the WBG-supported SLIEPA did indeed materialize. WBG project documents make reference to a specific investment in the rubber sector, worth US$ 80 million, with an expected employment of 1,400 (to increase overtime to 5,000). In this case, the role played by the WBG program is not entirely confirmed,[27] but there are other instances in which investors acknowledged the support received by SLIEPA as an important factor in deciding to proceed. Overall, WBG's general investment promotion work can be considered to have facilitated investment projects worth US$ 150 to 200 million and expected to create over 5,000 jobs. Of these values, possibly one third had materialized by end 2013 (i.e. US$ 50-70 million and 1,500 jobs).

BOX 5.8 RESULTS OF FDI FACILITATION IN SIERRA LEONE

Estimates of FDI facilitated by the WBG program in Sierra Leone are based on data collected during interviews with a dozen foreign investors, of which five indicated that SLIEPA's support played a significant role in motivating the investment decision and/or during the implementation phase. These include two operations in agriculture, one in building materials, one in consumer goods, and one in services. The declared value of the investments envisaged by these five investors is US$ 169 million (of which US$ 62 million implemented by end 2013), with an expected employment of 5,500 (with about 1,600 workers hired at end 2013). The ball park estimate of US$ 150 – 200 million investment and 5,000 jobs provided in the text somewhat discounts the figures declared by these five investors but at the same time considers that other investors not interviewed during fieldwork are likely to have been motivated and/or operationally supported by the program.

In Sierra Leone industry-specific interventions focused on the tourism sector are also expected to generate investments. An example of this is the concession for the rehabilitation of the Cape Sierra Hotel, an initiative actively supported by the WBG, that is projected to entail an investment of US$ 63 million and to generate anywhere between 300 and 500 jobs. However, the finalization of the deal was delayed until mid-2014, and therefore no investment had materialized by end 2013.

In Rwanda the volume of investments mobilized by general investment promotion work is modest. FDI flows have shown little improvement since the mid-2000s, averaging at about US$ 100 million/year. In 2008-2009, WBG assisted the RDB to improve the quality of aftercare services offered to investors. Project documents suggest that as a result of this support, RDB was successful in reviving nine projects that had been dormant for some time, with an estimated investment of nearly US$ 128 million. However, about

[27] The company, with which the WBG has worked in other countries, was indeed involved in early promotional work, but according to the representatives interviewed during fieldwork, the support received had only a marginal influence on the decision to invest.

95% of this value refers to one single operation — the launch of the third mobile phone network–which can scarcely be attributed to RDB's assistance.[28] Assuming that the other revived initiatives can be credited to the RDB, WBG's support to investment promotion can be estimated to have generated investments of US$ 8 million, involving 470 jobs.

> **BOX 5.9 RESULTS OF INVESTOR AFTERCARE SERVICES IN RWANDA**
>
> The eight investments revived as a result of the RDB's aftercare efforts consist of small to medium scale operations, with individual investments ranging between US$ 100,000 and US$ 2 million. Expected employment ranges from 4 to 266 jobs. These investments include three hotel projects, a dry cleaning operation, two agri-business operations, and a manufacturing plant. The majority of revived investments were promoted by local entrepreneurs, with only two foreign investors (from China and Japan).

Comparatively better results were achieved by industry specific interventions focusing on Rwanda's agro-industry. In horticulture, the WBG-supported Rwanda Horticulture Investment Task Force has so far succeeded in attracting two investments for a total of about US$ 1.7 million and involving the creation of some 200 new jobs (of which about two thirds materialized by end 2013).[29] In the tea sector, the support provided by WBG to the privatization of tea factories helped to attract investments worth US$ 9 million from two philanthropic investors (of which US$ 5 million was invested by end 2013), with the creation of about 500 jobs. Finally, again in the tea sector, cooperatives benefitting from the recent green leaf pricing reform appear to have made some investment and expanded employment, but numbers are relatively small (see Box 5.10).

> **BOX 5.10 IMPACT OF PRICING REFORM AT THE MICRO LEVEL**
>
> The reform of the green leaf pricing system positively impacted on farmers' income, with a 27% increase in the net revenue per kilo of harvested green leaves at the first quarterly pricing following the reform. This induced the Association de Planteurs de Thé (Assopthé), one of the leading cooperatives in the tea sector, to expand operations with the recruitment of an additional 22 workers. In addition, thanks to the improved revenue position, Assopthé was able to secure a loan to finance a US$ 130,000 investment in productive equipment.

In South Sudan investment promotion activities do not seem to have appreciably influenced FDI flows. Nearly all foreign investors interviewed had not received any support from SSIA (or its predecessors) and the few who have interacted with the agency provided a fairly lukewarm assessment of the assistance provided. The investment conference organized by WBG with DFID support at end 2013 was expected to generate a significant number of deals. However, the deterioration of security conditions has so far limited the more concrete expressions of interest.

Overall Impact on Investment and Employment. A consolidated view of the investment and employment generation associated with WBG programs is provided in Exhibit 5.12. The total value of investments plausibly generated by WBG programs is in the order of US$ 97 to 184 million, with a positive contribution from both enterprise formation and investment promotion and industry specific initiatives. The corresponding values for employment range between 26,000 and 32,000 jobs, with a much higher contribution from enterprise formation due to the low labor intensity of large foreign-owned investments.

[28] The investment was made by a large multinational corporation, Millicom International Cellular, with vast experience in developing countries, including Sub-Saharan Africa, and following the launch of an international tender.
[29] Another four projects, worth an estimated US$ 10 million and possibly involving 800 jobs, are expected to materialize as soon the land leasing framework is finalized.

EXHIBIT 5.12 TOTAL IMPACT ON INVESTMENT AND JOB CREATION: 2008 – 2013

	Impact of Developments in Business Demography	Impact of Investment Promotion and Industry Specific Initiatives	Total
Investment (US$ million)			
Liberia	1 -12	0	1 - 12
Rwanda	33 – 88	14	46 - 102
Sierra Leone	0	50 - 70	50 - 70
Total	**34 - 100**	**63 - 84**	**97 - 184**
Job Creation ('000)			
Liberia	4 - 5	0	4 - 5
Rwanda	19 - 24	1	20 - 25
Sierra Leone	0	2	2
Total	**23 - 29**	**3**	**26 - 32**

NB: Data for investment and job creation resulting from investment promotion and industry specific initiatives are rough estimates of the values that had materialized at end 2013.
Source: Own calculations.

The influence of IC reforms on investment and jobs appears to be limited. This is particularly the case for the incremental investment and employment associated with the establishment of new enterprises. Even in Rwanda, where absolute values are not negligible, the impact is fairly modest in relative terms, and does not exceed 2% of total private investment. Overall, this suggests that IC reforms may well be a necessary condition for the development of private sector activities but per se they are unlikely to influence overall growth prospects. This finding is fully consistent with the results of a recent evaluation of IC reform work by the WBG's Independent Evaluation Group (IEG), which concluded that: "the impact of regulatory reforms on firm creation, jobs, and investment is not clear." (page 91).

The record of interventions directly aimed at mobilizing private investment is mixed. General FDI promotion work achieved good results in Sierra Leone, but results across the other countries were much more modest (Rwanda) or disappointing (Liberia, South Sudan). No definite assessment of industry specific initiatives is possible, as some initiatives are still ongoing. However, there are encouraging signs in Sierra Leone (tourism) and Rwanda (agri-business), suggesting that the combination of advisory work targeted at removing sector specific constraints with operational support to investors could achieve interesting results.

SECTION SIX

SUSTAINABILITY OF INVESTMENT CLIMATE REFORMS

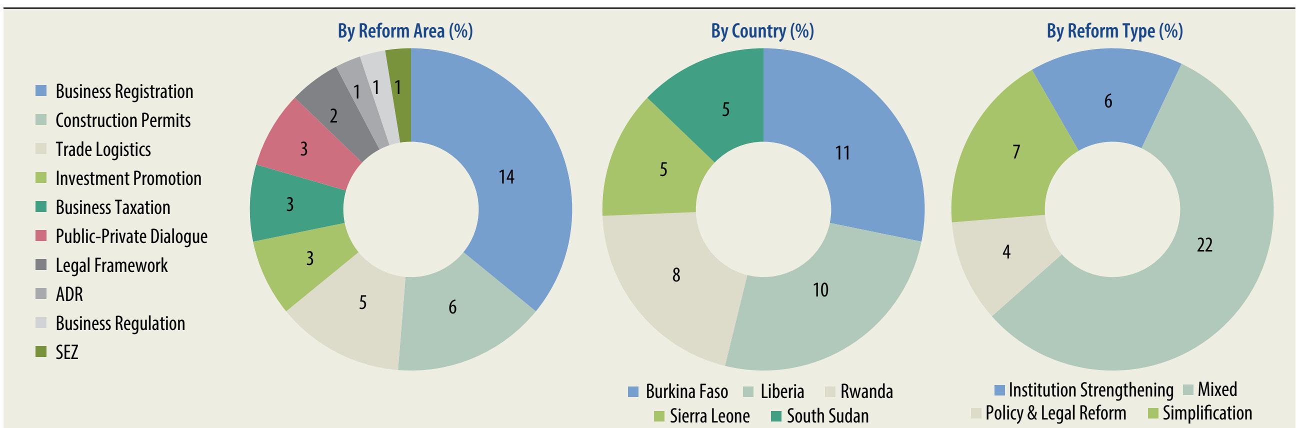
6.1 OVERVIEW

Sustainability refers to the ability of a development intervention to continue to produce positive results after assistance has been discontinued. The volume and/or quality of results required to verify sustainability depends on the nature of the intervention, and the same applies to the factors that may facilitate or hamper sustainability. In the variegated world of IC reform, the assessment of sustainability requires the analysis of a wide range of situations, from whether a certain regulatory measure is still in force and continues to generate savings, to whether a certain institution is still in existence and also able to provide the range of services in its mandate. Similarly, the factors potentially impacting sustainability are numerous, ranging from government commitment (which, in turn, can be influenced by factors such as bureaucratic resistance, presence of vested interests, etc.) to more practical aspects, such as the availability of adequate human resources (or, more prosaically, the availability of enough money to buy a new generator, without which the business registration system cannot function properly).

The analysis of sustainability covers a total of 39 reforms, across the five countries and nine reform areas. The range of interventions covered extends from the simplification of business registration to legal framework reforms, and from the streamlining of construction permits to investment promotion initiatives. Given the nature of interventions, and the different conditions and factors influencing sustainability, the reforms can be classified into four categories. These are: (i) classical simplification initiatives, involving cutting procedures and/or fees; (ii) policy and legal reform initiatives, often focusing on primary and/or secondary legislation; (iii) institution strengthening initiatives; and (iv) mixed initiatives, combining simplification and/or policy and legal reform with institution strengthening. In several cases, the reforms were implemented in succession within the same reform area. Therefore, the analysis is carried out at the level of reform area, rather than for individual reforms.

The assessment of sustainability was carried out using a checklist focusing on both current and prospective sustainability and making reference to four assessment criteria (see Box 6.1 on the following page). Ratings for each assessment criterion were then combined to provide a summary assessment, on a 1 to 4 scale, with 4 being the most favorable outcome (reform fully sustainable) and 1 representing the least favorable situation.[30]

EXHIBIT 6.1 IC REFORMS REVIEWED FOR THE ASSESSMENT OF SUSTAINABILITY(NUMBER OF REFORMS)



Source: Own estimate.

[30] The analysis of sustainability is based on a variant of the methodology developed by WBG in the framework of the Investment Climate's Impact Program. For a detailed illustration of the methodology, see Annex D.

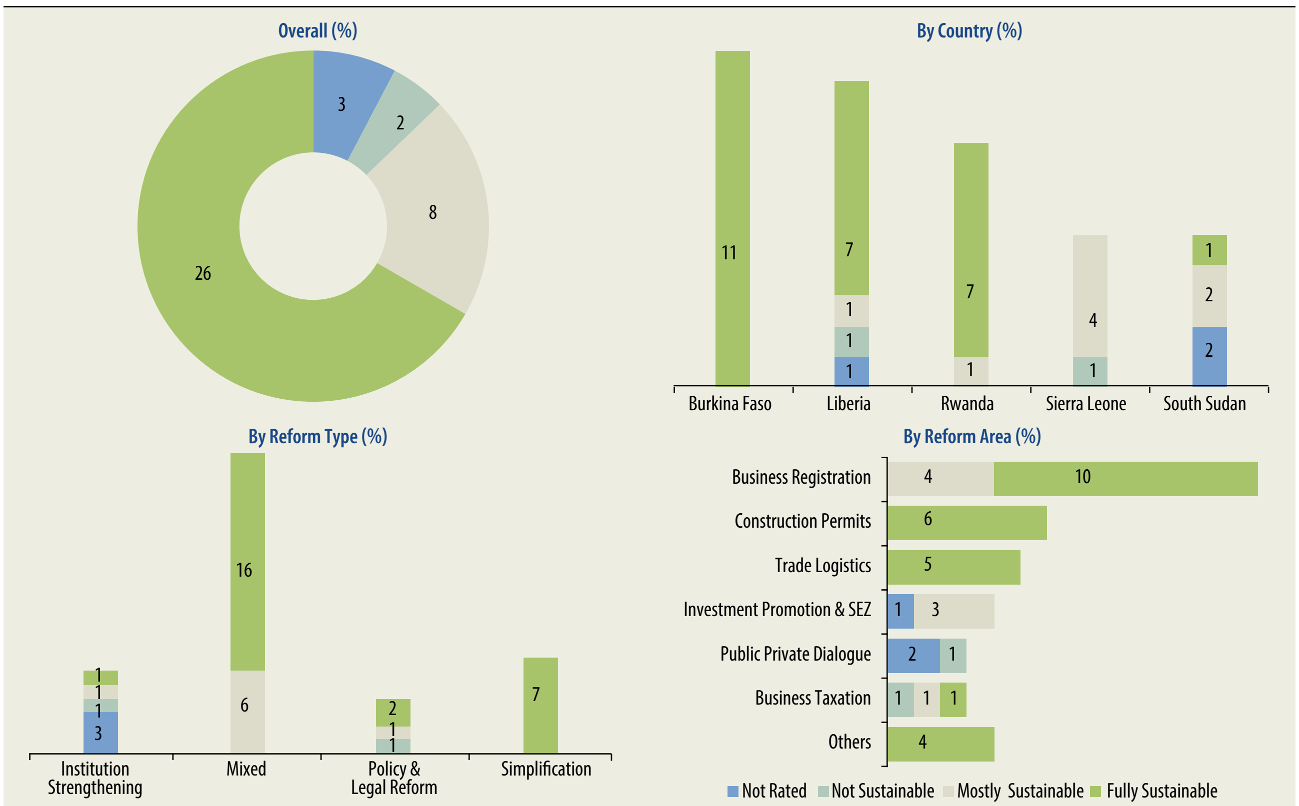
BOX 6.1 ASSESSMENT CRITERIA FOR SUSTAINABILITY

The assessment of current and future sustainability is based on four criteria, corresponding to the four basic aspects of IC reform work, and focusing on: (i) the polices, laws or regulations developed and adopted with WBG support; (ii) the administrative procedures developed and adopted with WBG support; (iii) the institutions and/or coordination mechanisms established or strengthened with WBG support; and (iv) the operational and/or analytical tools developed and adopted with WBG support. Not all the assessment criteria are equally relevant for all IC reforms, and therefore, different weights were assigned to different reform types. In practice, in the case of purely legislative or regulatory reforms (e.g. the enactment of a new labor code) the focus was on whether the relevant pieces of primary or secondary legislation were still in force and effectively applied. Instead, in the case of reforms involving the modification of operational procedures (e.g. the procedures for tax audit) and/or the setting up or strengthening of institutions (e.g. an investment promotion agency), more emphasis was placed on organizational aspects.

6.2 CURRENT SUSTAINABILITY AND FUTURE PROSPECTS

The current situation is quite positive, with two thirds of IC reforms regarded as fully sustainable. The remaining reforms can be considered as mostly sustainable, with only two negative cases and three reforms that cannot be rated owing to their recent/ ongoing status. Burkina Faso and Rwanda posted the best results, with nearly all reforms regarded as fully sustainable. The situation is also positive in the other countries, although with some differences (e.g. no fully sustainable reform in Sierra Leone). Simplification initiatives are the most successful, all being fully sustainable. The picture is more mixed for other reform types, with somewhat contrasting results in the case of institutional strengthening initiatives. Accordingly, sustainability is highest for reforms focusing on cutting red tape in construction permits and trade logistics, whereas reforms touching on sensitive subjects (e.g. business taxation) or dealing with institutional aspects, see less positive results. The two negative cases concern a business taxation reform

EXHIBIT 6.2 ASSESSMENT OF CURRENT SUSTAINABILITY (NUMBER OF REFORMS)

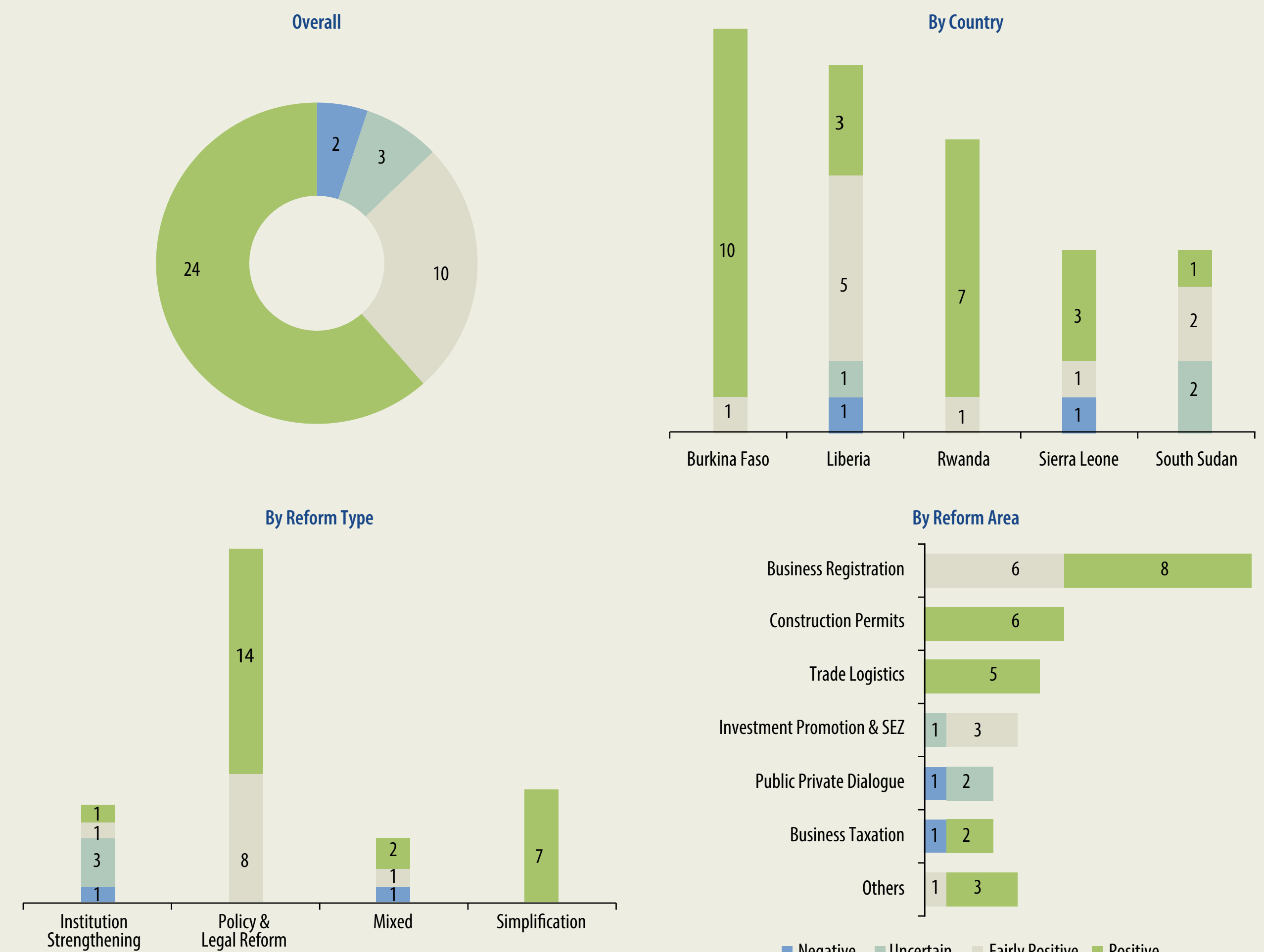


Source: Own calculations.

in Liberia, where the government reintroduced the payment of an advance tax based on turnover, and the PPD platform in Sierra Leone, that has barely been operational since the end of the WBG program.

The assessment of future sustainability is also generally encouraging, with positive or fairly positive prospects for more than four fifths of reforms. The outlook remains negative for the two completed reforms that are currently not sustained and there are significant elements of uncertainty for another three recently completed/ongoing reforms. The picture is again overall positive for simplification initiatives, including those with simple capacity building elements (e.g. training), whereas risk factors are present for virtually all institution strengthening and policy reform initiatives. PPD mechanisms appear as the reform area comparatively more at risk, followed by interventions focusing on investment promotion. Burkina Faso and Rwanda remain the countries with better prospects, while the situation is more differentiated in South Sudan.

EXHIBIT 6.3 PROSPECTS FOR FUTURE SUSTAINABILITY (NUMBER OF REFORMS)



Source: Own calculations.

6.3 FACTORS AFFECTING SUSTAINABILITY

Factors that negatively affect current or prospective sustainability have been identified for 21 reforms. However, in only 11 cases can the intensity of factors be considered as moderate or significant.

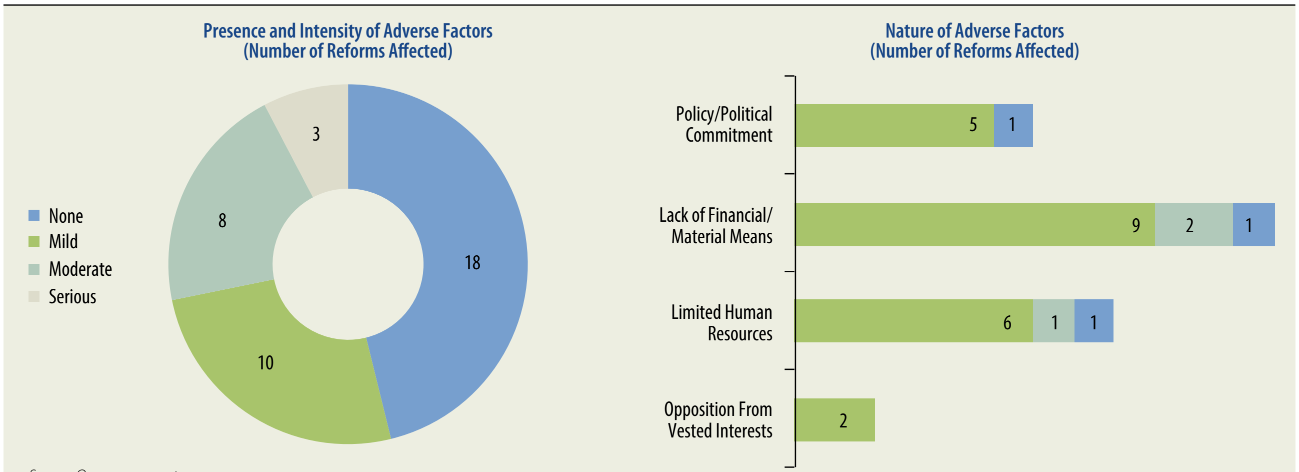
Insufficient material means and/or limited human resources are the most common adverse factors as they feature, to varying degree of intensity, in about half of the reforms analyzed. Predictably, these include nearly all the reforms involving institution strengthening interventions. Problems range from relatively minor issues such as limited functionality of IT systems — a frequent occurrence for business registries — to more serious situations, with some institutions burdened by debt and/or unable to regularly pay their personnel. It is important to note that the sustainability of some WBG-supported reforms was significantly enhanced by the parallel or subsequent interventions of other donors/IFI that often contributed substantial funding for technical assistance and infrastructure. Examples include the generous funding provided by ICF to the business registries in all countries except South Sudan, and the assistance extended by the EU to Sierra Leone's investment promotion agency.

Issues of policy/political commitment are deemed to affect the sustainability of half a dozen reforms, but the majority of problems are not particularly severe (e.g. institutional rivalry between the WBG-supported institution and its overseeing ministry). Interestingly, policy commitment is virtually a non-issue for the vast majority of deregulatory reforms and for legal reforms on DB-related topics. In these areas there might have been some hesitation at the outset, but once the reforms were implemented, there are usually no second thoughts or signs of backtracking. Finally, opposition from vested interests is considered to potentially affect two of the reforms, both in Burkina Faso, but the risks of policy reversal are fairly remote.

6.4 COUNTRY SPECIFIC CONSIDERATIONS

In Burkina Faso the legal and regulatory reforms implemented with WBG support are still in force, as are the various institutions created or strengthened with WBG assistance. The reform process kick-started by the WBG program has been continued by government authorities in some cases (e.g. setting up of business registries in various urban centers outside of the capital). There are occasional operational difficulties (e.g. the CEFAC in Ouagadougou is currently operating with a slim technical staff of only three), but these do not constitute a major threat to sustainability. Regarding more politically sensitive reforms, there is some pressure from trade unions to modify the Labor Code approved in 2007 with

EXHIBIT 6.4 FACTORS AFFECTING SUSTAINABILITY



Source: Own assessment.
Note: A reform may be affected by more than one adverse factor. Therefore, the sum of adverse factors exceeds the number of reforms affected.

WBG support, which greatly increased flexibility in the hiring and firing of workers, and more generally, in managing the labor force (e.g. de facto endless renewal of fixed term contracts). In 2013, the Minister of Labor commissioned a review of the Labor Code, and this might lead to some amendments, but indications are that the spirit of the reform will not be significantly affected.

In Liberia the overall picture is mixed with a combination of positive and negative cases, and as some reforms were only recently introduced, no definitive assessment is possible. Early measures aimed at streamlining import export transactions are still in force and the government recently moved further in the same direction, notably with the elimination of import declaration permits for a number of commodities. The assessment is positive too for the reform of business registration, with the Liberian Business Registry now well established (although the IT system would need an upgrade). A case of policy reversal occurred in business taxation, with the government reinstating the 2% advance turnover tax that had been abolished by the Consolidated Tax Amendments Act of 2011. Sustainability prospects appear somewhat problematic for the Liberian Better Business Forum, as the possibility of mobilizing funds necessary for its continued existence is in doubt.

In Rwanda the reforms supported by WBG projects display a high level of sustainability, with no significant instances of policy reversal. Reforms aimed at simplifying procedures for business registration, business licensing, international transactions, and the payment of taxes are all still fully in force. Furthermore, in some cases the government authorities have taken steps to deepen and/or expand the scope of the reform process. In the area of trade logistics, streamlining procedures has increasingly been accompanied by structural measures to facilitate import export transactions, such as setting up an electronic single window at the border (with assistance from TMEA). The picture is also fairly positive regarding capacity building interventions, although there are some operational challenges. In particular, the entity overseeing special economic zones operates with a skeleton staff of three, which is insufficient for the smooth running of operations. The recruitment of additional staff is envisaged, although the timing is uncertain.

In Sierra Leone the policy and regulatory reforms introduced with WBG support are still in place, but the institutions entrusted with their implementation often face operational challenges. The business registry has expanded its functions, but faces practical challenges nearly on a daily basis (rundown power generator). Operational difficulties are also experienced by the investment promotion agency, as an increase in requests from investors necessitates more staff, as well as an expansion of services beyond the capital. The situation is quite problematic for the PPD mechanism set up with WBG (and DFID) support. Although still formally in existence, the SLBF has barely been operational since 2011. The government never budgeted its expected contribution and the SLBF was able to obtain some funding only in June 2014 through direct negotiations. Funding from other sources has been limited, and targeted to specific initiatives. As a result, the SLBF is facing a difficult financial situation, with substantial debts for overdue salaries and rent. Financial difficulties have had implications for operational work and the various thematic PPD working groups established by the SLBF have been de facto taken over by line ministries. Overall, the SLBF can hardly be regarded as a sustainable entity. The discontinuation of WBG support in 2011 certainly affected SLBF's operations, but since difficulties are also experienced by PPD mechanisms in Liberia and South Sudan, the overall viability of the PPD interventions appears doubtful.

In South Sudan no definitive assessment is possible. While there are some positive signs, the political and institutional environment is highly volatile and this inevitably affects future prospects. The situation is comparatively more favorable in the area of legal reforms. The value of various pieces of legislation that constitute the basis for a well-functioning market economy (law on companies, law on cooperatives, insolvency law, etc.) is unanimously recognized, and barring a major political crisis, there are no significant risks of policy reversal. The same can be said of the business registry, which is fully integrated into the Ministry of Justice and whose functions are widely regarded as being essential by government authorities and the business community. However, the attempt to extend registration services to areas outside Juba suffered a major setback following the events of December 2013, with only one of the two branch offices established with WBG support still functioning. The situation appears to be fairly problematic at the South Sudan Investment Authority: the agency is struggling to repay some overdue debts and staff morale has been visibly affected by delays in salary payments. The PPD mechanism established with WBG support is functioning well, and thanks to highly dedicated staff, managed to remain operational throughout the recent crisis. However, the ability to mobilize adequate funding is critical for its future sustainability. Given the difficult budgetary conditions faced by the government and the limited means of private sector organizations, its prospects are not favorable.

SECTION SEVEN

CONCLUSIONS

7.1 THE BIG PICTURE

WBG programs have been quite successful in terms of outcomes, contributing to the implementation of a number of IC reforms. While the WBG role is at times difficult to ascertain with precision, there is no doubt that WBG programs were instrumental in setting the IC reform process in motion. In turn, various reforms have contributed to improving the business environment in the five countries, which is captured by the indicators commonly used to measure the quality of the IC. There are differences among these indicators, which reflects the relative emphasis placed on the various IC dimensions, but it is clear that there has been significant progress. A general improvement in the IC is also perceived by the business community, as witnessed by the results of the SME surveys.

About half of WBG-supported reforms involved simplification in the regulatory framework that delivered tangible benefits for enterprises. Overall, costs savings are estimated at almost US$ 40 million, a value similar to the total budget of WBG programs in the five countries. In at least two countries, Rwanda and Liberia, the value of these cost savings is respectable, being in the order of 0.4-0.5% of private investments. However, this positive result is subject to two important qualifications: first, cost savings are highly concentrated in a few reform areas and, second, savings were achieved primarily by reforms undertaken in the early days of the reform process. This has important implications for future operations. In fact, business registration and trade logistics, the two reform areas where most of the savings were achieved, offer limited opportunities for further streamlining of regulations while in the other reform areas the number of enterprises potentially to benefit from simplification measures is relatively small to yield significant savings. Overall, the implication is that red tape cutting has entered a phase of declining marginal returns.

IC reforms have been found to exert some influence on enterprise formation, but only in two countries: Rwanda, with a major increase in business registrations; and Liberia, where the assessment is highly hypothetical, and the impact is not particularly strong. Overall, it is estimated that WBG-supported reforms contributed to the formation of about 11,100 new firms. Rwanda is an interesting case, because the strong and protracted increase in business registrations coexists with a low share of surviving active firms. This clearly suggests that even in a country where the ideal of frictionless entry is within reach ("Nowadays, setting up a company is as easy as going to the supermarket"), the stock of latent entrepreneurship that can be mobilized through IC reforms is not infinite.

Very little can be said about the influence of IC reforms on formalization. While a positive effect of deregulatory measures can legitimately be presumed, the information on the relative importance of the factors inducing firms to become formal (red tape cutting, threat from authorities, commercial considerations, or simply aspiration to legitimacy) is simply too limited to allow for any meaningful assessment.

The impact of IC reforms on investment and employment is rather limited. In Rwanda and Liberia, the acceleration of the enterprise formation process fostered by IC reforms did result in an increase in investment and jobs, but values are rather modest. Even in Rwanda, by far the country displaying the best performance, the incremental investment associated with IC reforms does not exceed 2% of total private capital formation. Overall, this suggests that IC reforms may well be a necessary condition for the development of private activities but per se they are unlikely to significantly influence overall growth prospects.

The record of interventions directly aimed at mobilizing private investment is mixed. General FDI promotion work attained good results in Sierra Leone, but achievements in other countries were much more modest (Rwanda) or disappointing (Liberia, South Sudan). A definite assessment of industry specific initiatives is not possible as some initiatives are still ongoing. However, there are encouraging signs in Sierra Leone (tourism) and Rwanda (agri-business), suggesting that the combination of advisory work to remove sector specific constraints and operational support to investors, could deliver interesting results.

The assessment of sustainability is quite positive, with the vast majority of IC reforms being fully or mostly sustainable, and expected to remain so for the foreseeable future. Many reforms consist of regulatory measures and legislative acts focusing on fairly technical aspects (e.g. directors' liability and information disclosure in companies, range of assets that can used as collateral, procedures for handling insolvency, etc.) and in these cases a policy reversal is quite unlikely. Risks for sustainability exist in the case of institutional reforms, but the main issue is not so much political commitment but rather the scarcity of material means and/or human resources. In this respect, it is important to note that in some cases the presence of other donor/IFI initiatives helped to alleviate sustainability risks.

7.2 SELECTED ASPECTS

Influence of Program Design. Program design does not seem to have an appreciable influence on performance. In fact, in most countries the WBG programs ended up being quite similar in terms of approach and reforms areas targeted, with a fairly balanced combination of simplification work, legal reform advice, institution building, and promotional work. The exception is South Sudan, where WBG activities were focused on creating new legal and institutional frameworks, and therefore could not be expected to generate significant cost savings. In retrospect, however, the way in which the individual programs evolved did have an influence on performance. For instance, the addition of the trade logistics component in Liberia and of the business taxation component in Rwanda, considerably improved cost savings. Therefore, the ability to flexibly adapt to opportunities that emerge along the way is a positive feature of WBG programs.

Influence of Country Conditions. The influence of country conditions on the performance of WBG programs is not unambiguous. On the one hand, political stability and high commitment to reform obviously facilitated operational work, greatly contributing to the achievement of positive results. This is the case of Burkina Faso and, especially, Rwanda. On the other hand, difficult operating conditions were associated with fairly backward legal and regulatory frameworks, which in turn offered good opportunities for reform, especially in terms of red tape cutting. This is the case of Liberia and Sierra Leone, where WBG programs were able to reap some 'low-hanging fruits'. The exception is, once again, South Sudan, where the difficulties posed by the very challenging environment more than outweighed the potential benefits of 'easy gains'.

Linkage between Outcomes and Impacts. Impacts, measured in terms of cost savings, are generally correlated with outcomes, measured by IC reforms, but there are exceptions. Business registration, trade logistics, and business taxation, the top three reform areas in terms of number of IC reforms, are also the three main generators of PSCS. However, the relationship does not hold for construction permits, where the numerous reforms resulted in fairly modest PSCS, and for property registration, for which the opposite is true. Whatever its strength, the correlation between outcomes and impacts is largely an ex post phenomenon, and not the result of deliberate action. To a large degree, this reflects the historic legacy: in the early days of IC reform, efforts were mostly driven by outcome-related considerations with comparatively limited focus on impacts. Things have since changed, with an increase in emphasis on impact achievement. However, even in the case of recent initiatives, project documents contain surprisingly limited information on the number of firms potentially benefitting from reforms in the various target areas, an indication that the drivers of impacts may not have been fully understood.

Linkage between Level of Effort and Impacts. The relationship between the level of effort, measured by the resources allocated to the various reform themes, and impacts, measured by PSCS, is also far from linear. A loose relationship can be detected at the aggregate level, with business registration coming on top in terms of both budget allocations and cost savings, followed by trade logistics and business taxation (although in the reverse order). However, there are striking differences at the level of country reform programs. For instance, the US$ 6.5 million cost savings achieved by business registration reforms in Rwanda are a multiple of the US$ 200,000 invested in this area by the WBG program, prima facie suggesting a cost effectiveness ration of no less than 1:35. The opposite situation is found in South Sudan, where the US$ 300,000 cost savings achieved by business registration reforms are a fraction of the US$ 2 million spent by the WBG program. These differences are largely explained by the different nature of the work performed by the various WBG program and, especially, by the presence of parallel donor/IFI initiatives. In South Sudan, the WBG program was the only player in business registration reform, and the work performed also included resource-intensive capacity building activities. Instead, in Rwanda, the WBG program focused on policy reform advisory, while the more expensive institution building work was carried out by the ICF, which invested an estimated US$ 3 million. Once ICF's contribution is taken into account, the 'bank for the buck' ratio drops to 1:2. Similar situations are found in other reform areas and countries. Since information on the resources spent by other donor/IFI is usually not available, it is not possible to meaningfully assess the cost effectiveness of WBG reform actions.

ANNEXES

ANNEX A: LIST OF PROJECTS ANALYZED

Country	Project Title	Period	Status[1]	Budget (US$)	Expenditure (US$)
Burkina Faso	Doing Business Better in Burkina Faso (DBBBF)	03/06-03/11	Closed	2,444,328	2,348,436
Burkina Faso	Diagnostic Study on Investment and Competition Policy	04/04-03/05	Closed	135,500	135,500
Burkina Faso	Trade Logistics Burkina Faso	03/09-02/14	Active	823,592	640,828
Burkina Faso	Alternative Dispute Resolution Africa - Burkina Faso	03/10-03/12	Closed	395,003	378,239
Burkina Faso	Burkina Faso Investment Climate Reform Program (BFICRP)	06/11-06/15	Active	2,283,000	1,030,090
Burkina Faso	Health in Africa Burkina Faso	10/13-10/15	Active	666,000	100,000
Liberia	Business Enabling Environment (BEE)	10/06-03/11	Closed	4,600,925	3,967,430
Liberia	Liberia Trade Logistics Project	11/07-06/11	Closed	850,000	602,500
Liberia	Liberia PSD growth support through SEZs	04/08-11/10	Closed	700,000	412,363
Liberia	Liberia Investment Climate AS 3	07/11-06/14	Active	3,318,500	2,559,240
Rwanda	Sectoral Study of the Effective Tax Burden	09/05 - 03/06	Closed	138,665	138,665
Rwanda	Rwanda Investment Climate Reform Project (RICRP) Phase I	01/08-11/10	Closed	2,833,000	2,671,076
Rwanda	Rwanda Private Public Dialogue	12/07-10/10	Closed	488,000	488,000
Rwanda	Rwanda Investment Climate Reform Program (RICRP) Phase II	01/11-12/13	Closed	4,614,730	3,726,500
Sierra Leone	Diagnostic Study	01/04-09-04	Closed	70,600	70,600
Sierra Leone	Sierra Leone Doing Business	11/05-07/07	Closed	251,055	175,383
Sierra Leone	Sierra Leone M&E Baseline Design and Set-up	01/06-06/06	Closed	206,020	174,301
Sierra Leone	Sierra Leone Implementation Project 2: Land and titling	01/06-08/08	Closed	300,285	617,877
Sierra Leone	Sierra Leone Customs & Tax Sub-Component Implementation	09/06-06/07	Closed	447,962	262,454
Sierra Leone	Sierra Leone Tax Simplification Rollout	04/08-12/11	Closed	2,050,000	1,847,297
Sierra Leone	Removing Administrative Barriers to Investment (RABI) Ext phase 2	12/08-12/10	Closed	1,860,858	1,352,014
Sierra Leone	Promoting Investment and Export for Sierra Leone	06/09-12/11	Closed	1,700,000	1,633,563
Sierra Leone	Sierra Leone Tourism	01/09-06/11	Closed	1,999,500	1,529,719
South Sudan	Removing Barriers to Investment in Southern Sudan (RBISS)	01/07-12/10	Closed	1,954,855	2,048,990
South Sudan	South Sudan Investment Climate Reform Program (SSICRP) Phase 2	01/11-12/13	Closed	4,648,176	4,492,507

[1] *As of 31st December 2013.*

ANNEX B: LIST OF INVESTMENT CLIMATE REFORMS

Country	FY	Reform Area	Summary Description
Burkina Faso	FY07	Construction Permits	Reduction of fees for soil study.
Burkina Faso	FY07	Property Registration	Reduction of property transfer tax from 15% to 10%.
Burkina Faso	FY07	Business Registration	Simplification of documentation requirements and reduction of certain fees.
Burkina Faso	FY08	Construction Permits	Establishment of one-stop-shop (CEFAC), with consolidation/elimination of various procedures, further reduction of fees for soil study and elimination of fee for technical check.
Burkina Faso	FY08	Legal Framework (Labor Regulations)	Enactment of a new labor code, including various pro-business measures (e.g. indefinite renewal of fixed term contracts).
Burkina Faso	FY08	Property Registration	Further reduction of property transfer tax from 10% to 8% and elimination of permission from municipality & related fee.
Burkina Faso	FY09	Legal Framework (Contract Enforcement)	Improvement of court award registration procedures, with reduction of fees for registration.
Burkina Faso	FY09	Property Registration	Establishment of one-stop-shop (GUF), with simplification of some procedures and cutting of fees.
Burkina Faso	FY09	Business Registration	Further simplification of documentation requirements and reduction of fees.
Burkina Faso	FY09	Business Taxation	Reduction of the deposit required for filing an appeal against an assessment made by the tax administration.
Burkina Faso	FY09	Trade Logistics	Elimination of police escorts for freight traffic.
Burkina Faso	FY10	Construction Permits	Reduction of fees for fire safety study.
Burkina Faso	FY10	Trade Logistics	Extension of validity of import-export documents.
Burkina Faso	FY11	Legal Framework (Contract Enforcement)	Establishment of Commercial Court.
Burkina Faso	FY11	Business Registration	Simplification of documentation, with replacement of criminal record with sworn declaration.
Burkina Faso	FY11	Business Taxation	Reduction of corporate tax, apprentice tax and adoption of new tax administration procedures.
Burkina Faso	FY12	ADR	Strengthening of arbitration center (CAMC-O), especially in the area of mediation.
Burkina Faso	FY13	Business Regulation	Streamlining of business licensing procedures in various sectors.
Burkina Faso	FY13	Trade Logistics	Improvement in border clearance procedures, through better interconnection at border post with Togo.
Liberia	FY08	Construction Permits	Simplification of certain procedures and reduction in fees charged by the Ministry of Public Works.
Liberia	FY08	Legal Framework (Access to Credit)	Establishment of a public credit registry in the Central Bank of Liberia.
Liberia	FY08	Public-Private Dialogue	Establishment of a public-private dialogue platform (Liberia Better Business Forum).
Liberia	FY08	Business Registration	Simplification of registration procedures and concentration of responsibilities in a single office at the Ministry of Commerce and Industry.
Liberia	FY08	Trade Logistics	Reduction of the Pre-Shipment Inspection fee, 1.5% to 1.1% of FOB value of imports, accompanied by various other improvements.
Liberia	FY09	Construction Permits	Simplification of some procedures and reduction in fees levied by the Monrovia City Corporation.
Liberia	FY09	Business Registration	Introduction of standardized forms for Articles of Incorporation and elimination of the need to obtain an environmental permit prior to the establishment of a company.
Liberia	FY09	Trade Logistics	Simplification of various procedures and elimination of the fee for Import Permit Declarations.
Liberia	FY11	Legal Framework (Access to Credit)	Enactment of new commercial code, broadening the range of assets that can be used as collateral.
Liberia	FY11	Legal Framework (Contract Enforcement)	Establishment of Commercial Court.
Liberia	FY11	Investment Policy & Promotion	Enactment of new investment code, introducing various improvements (e.g. reducing the number of sectors reserved to local investors).

Country	FY	Reform Area	Summary Description
Liberia	FY11	Business Registration	Establishment of the Liberia Business Registry, with consolidation of various procedures.
Liberia	FY11	Trade Logistics	Improvement in border clearance procedures, with expanded use of risk based inspections.
Liberia	FY12	Business Regulation	Streamlining of the business inspections regime, passing from weekly quarterly inspections.
Liberia	FY12	Business Taxation	Reduction of profit tax and elimination of advance turnover tax.
Liberia	FY13	Business Registration	Elimination of business trading license fee.
Liberia	FY13	Trade Logistics	Reduction in the number of products for which import or export permits are required.
Rwanda	FY07	Business Registration	Elimination of ad valorem registration fee, replaced with a lower flat fee.
Rwanda	FY08	Construction Permits	Simplification of procedures for the issuance of construction permits.
Rwanda	FY08	Property Registration	Elimination of 6% registration fee, replaced with a much lower flat fee.
Rwanda	FY08	Trade Logistics	Improvement in border clearance procedures, through the introduction of various simplification measures.
Rwanda	FY09	Legal Framework (Access to Credit)	Enactment of new Secured Transactions Act and Insolvency Act, allowing for a wider range of assets to be used as collateral and reinforcing the rights of secured creditors.
Rwanda	FY09	Legal Framework (Investor Protection)	Enactment of a new company law strengthening investor protections (greater corporate disclosure, enhanced director liability, etc.).
Rwanda	FY09	Investment Policy & Promotion	Establishment of a new investor after care unit within the Rwanda Development Board.
Rwanda	FY09	Legal Framework (Labor Regulations)	Introduction of changes in labor regulations (increased maximum duration of fixed-term contracts, simplification of procedures for redundancy dismissals, reduced duration of maternity leave).
Rwanda	FY09	Legal Framework (Insolvency)	Enactment of new Secured Transactions Act and Insolvency Act, allowing for a wider range of assets to be used as collateral and reinforcing the rights of secured creditors.
Rwanda	FY09	Business Registration	Simplification of registration procedures (standardized memoranda of association, publication on-line, etc.) and setting up of one-stop-shop (Office of the Registrar General).
Rwanda	FY09	Business Taxation	Streamlining of tax administration processes and possibility to obtain tax clearance certificates online.
Rwanda	FY09	Trade Logistics	Improvement of border clearance procedures through consolidation of procedures, organizational changes (increased operating hours) and introduction of new risk-based selectivity facilities (Super Gold and Blue Channels).
Rwanda	FY10	Construction Permits	Enactment of a decree setting up time limits for the issuance of construction permits and simplifying related procedures.
Rwanda	FY10	Legal Framework (Access to Credit)	Enactment of legislation creating the conditions for the sharing of credit information and the establishment of private credit bureaus.
Rwanda	FY10	Property Registration	Simplification of property transfers, eliminating the need to make a sale contract and to register it with a notary public or with the NLC.
Rwanda	FY10	Trade Logistics	Improvement of border clearance procedures through the simplification of process and the introduction of joint border management at the Gatuna border post with Uganda.
Rwanda	FY11	Industry specific	Privatization of tea factories through international tender.
Rwanda	FY11	Business Regulation	Simplification of procedures for the issuance of some business licenses (EIA, clearing agents, etc.).
Rwanda	FY11	Special Economic Zones	Enactment of a law regulating the establishment, development, operation and maintenance of special economic zone.
Rwanda	FY11	Business Registration	Further simplification of business registration, through the implementation of online registration.
Rwanda	FY11	Business Taxation	Reduction in the frequency of VAT filings and payments for small businesses (from monthly to quarterly).
Rwanda	FY11	Legal Framework (Access to Credit)	Private credit bureau becomes operational.
Rwanda	FY13	Construction Permits	Improvement in conditions for the issuance of construction permits (reduction of fees, implementation of electronic platform for building permit applications and streamlining of procedures).
Rwanda	FY13	Industry specific	Adoption of a logistics distribution services strategy, with identification of potential PPP partners for specific trade logistics flagship projects.

Country	FY	Reform Area	Summary Description
Rwanda	FY13	Legal Framework (Investor Protection)	Enactment of a new insolvency law, including provisions on investor protection.
Rwanda	FY13	Industry specific	Adoption of a new tea pricing system (green leaf pricing reform).
Rwanda	FY13	Property Registration	Simplification of property transfers, through elimination of the requirement to obtain a tax clearance certificate and implementation of a web-based Land Administration Information System for processing land transactions.
Rwanda	FY13	Legal Framework (Insolvency)	Enactment of a new insolvency law, further improving investor protection (clarifying the commencement standards for insolvency; preventing the separation of assets from the insolvency estate during reorganization proceedings; etc.).
Rwanda	FY13	Business Registration	Further improvement of registration procedures with full implementation of online registration.
Rwanda	FY12	Business Taxation	Enactment of new SME taxation regime, raising threshold for eligibility and reducing the tax rate.
Rwanda	FY13	Trade Logistics	Improvement of border clearance procedures, through the introduction of an electronic single window at the border.
Sierra Leone	FY08	Investment Policy & Promotion	Sierra Leone Investment and Export Promotion Agency becomes operational.
Sierra Leone	FY08	Public-Private Dialogue	Establishment of a public-private dialogue platform (Sierra Leone Business Forum).
Sierra Leone	FY08	Business Registration	Simplification of some registration procedures and elimination of annual renewals.
Sierra Leone	FY08	Business Taxation	Improvements in tax administration procedures and organization.
Sierra Leone	FY09	Legal Framework (Access to Credit)	Enactment of new Companies Act, broadening options for collateralization of assets.
Sierra Leone	FY09	Legal Framework (Investor Protection)	Enactment of new Companies Act, which increases directors' liability and introduces more stringent disclosure requirements.
Sierra Leone	FY09	Business Registration	Establishment of a registration one-stop-shop within the Office of the Administrator and Registrar General.
Sierra Leone	FY09	Business Taxation	Enactment of revised Tax Act and VAT Act, with replacement of various taxes.
Sierra Leone	FY10	Industry specific	Finalization of concession agreement for the privatization of Cape Sierra Hotel.
Sierra Leone	FY10	Business Taxation	Implementation of VAT.
Sierra Leone	FY11	Construction Permits	Simplification of procedures for the issuance of construction permits, with transfer of responsibilities from the Ministry of Lands to the Ministry of Works.
Sierra Leone	FY11	Legal Framework (Access to Credit)	Enactment of the Credit Reference Act and setting up of the public credit registry at the Bank of Sierra Leone.
Sierra Leone	FY11	Legal Framework (Contract Enforcement)	Establishment of a fast-track commercial court.
Sierra Leone	FY11	Business Taxation	Improvement in tax payment procedures, with introduction of payments at banks.
Sierra Leone	FY12	Legal Framework (Access to Credit)	Establishment/improvement of public credit registry at the Bank of Sierra Leone.
Sierra Leone	FY13	Business Taxation	Enactment of new SME taxation regime, with introduction of turnover tax in lieu of fixed tax for small businesses.
South Sudan	FY10	Public-Private Dialogue	Establishment of a public-private dialogue mechanism (South Sudan Business Forum).
South Sudan	FY10	Business Registration	Re-establishment of the Business Registry within the Ministry of Justice.
South Sudan	FY13	Industry specific	Establishment of the Drug and Food Control Authority.
South Sudan	FY13	Legal Framework (Investor Protection)	Enactment of new Companies Act, including stronger provisions for the protection of minority shareholders.
South Sudan	FY13	Investment Policy & Promotion	Establishment of the Southern Sudan Investment Authority and adoption of regulations implementing the Investment Act.
South Sudan	FY13	Trade Logistics	Enactment of new law on licensing of imports and exports, clarifying the procedures for application of licenses.
South Sudan	FY13	Business Regulation	Dismantling of road blocks on the main road connecting Juba with the Ugandan border.
South Sudan	FY13	Business Registration	Establishment of business registration branch offices.

ANNEX C: ASSESSMENT OF PRIVATE SECTOR COST SAVINGS – METHODOLOGY

Private Sector Cost Savings (PSCS) are defined as savings accruing to private economic agents as a result of reforms in the investment climate. PSCS can result from three situations, namely:

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

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 the obligation to hire a solicitor to prepare and sign the Memorandum and Articles of Association).

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 relevant for a wide range of areas of intervention, from business registration (e.g. as a result of the establishment of one stop facilities) to taxation (e.g. reduced number of tax forms to file).

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 Sierra Leone, following WBG recommendations, the government decided to eliminate the tax advance payment system for newly registered companies, and this provides some cash flow advantages to tax payers.

Estimating PSCS. 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'.

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 is expressed in ad valorem terms it is necessary to make reference to the value of the goods on which the fee is levied. The value of time savings is the result of the multiplication of the time saved thanks to a certain reform (expressed in terms of hours) times the unit value of labor (expressed in hourly total labor costs). Finally, the value of financial savings is determined by multiplying the amount of the 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 differs depending upon the reform considered. In certain cases, e.g. the registration of newly established businesses, the number of transactions coincides with the number of economic agents affected by a certain reform. In other cases, e.g. the payment of a certain tax, the number of transactions is the result of the multiplication of the number of economic agents subject to the tax times the number of times these agents have to undergo a certain procedure.

Two further aspects are worth highlighting. First, PSCS are calculated for the whole life of IC projects. 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 the reference point. This is done using the relevant real interest rate. Second, some costs incurred by private operators (e.g. fees 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 subject to simplified tax regimes involving the payment of a flat tax or a turnover tax.

Practical Issues. While the method of calculating PSCS is relatively simple, the method is data intensive and significant problems may arise in collecting the relevant information. Data were retrieved from a variety of primary and secondary sources and the exercise proved quite challenging. In the case of time savings, 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 imposed on private businesses were retrieved from official sources. Data collection was particularly complex in the case of fees 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 required). Similarly, in the case of financial savings, it was necessary to estimate the value of the tax payments postponed. Finally, 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 and it was often necessary to resort to crude estimates.

PSCS vs. Compliance Cost Savings. The PSCS concept is similar to that of Compliance Cost Savings (CCS) that are commonly used by the WBG to assess the impact of IC reform projects.[31] However there are significant differences between PSCS and CCS, concerning the nature of cost savings considered and, especially, the method of calculations. First, the notion of PSCS is broader of that of CCS, as it also includes financial savings, which instead are not considered when computing CCS. Second, PSCS are calculated with reference to the terminal year of IC projects, whereas CCS are calculated with reference to the 'baseline' year. Accordingly, in the case of PSCS the savings occurring at different points in time over the period analyzed are compounded using the relevant rate, while in the case of CCS the cost savings are discounted back to the 'baseline' year. Third, PSCS refer to 'life time' cost savings of IC reforms, i.e. consider cost savings irrespective of when the reforms were implemented during the reference period. Instead, CCS consider cost savings over only a period of four years, under the assumption that after a period of four years, the reforms would still be implemented even without WBG assistance. Fourth, and most important, PSCS are calculated considering the actual number of transactions over the relevant period, whereas CCS are calculated with reference to the number of transactions in the 'baseline' year. In practice, in the case of PSCS the number of transactions is assumed to reflect a 'natural' trend, not influenced by the reform. There are, however, two exceptions in which the reforms are indeed considered to have influenced the number of transactions.[32] In these cases, the actual number of transactions is replaced by the predicted number of transactions, on the basis of the trend prevailing in the pre reform period. As a result of the above, for any given reform the value of PSCS is greater than the value of CCS.

[31] For a detailed description of CCS see WBG, Guideline for Calculating Direct Compliance Cost Savings, November 2012.
[32] These two cases refer to the number of registered businesses in Rwanda and Liberia. For further details see Sections 5 and 6.

ANNEX D: ASSESSMENT OF SUSTAINABILITY – METHODOLOGY

This annex illustrates the approach used in the analysis of the sustainability of WBG-supported IC reforms. The analysis covers a total of 39 reforms, across all the five countries and 11 reform areas. In several cases, more than one reform were implemented in succession within the same reform area. As these reforms are obviously linked, the sustainability analysis is carried out for homogenous groups of reforms. Also, while the analysis mostly focuses on reforms that have been in place for some time ('completed reforms'), in a few cases an assessment is also provided for reforms that have just been completed or that are still ongoing ('recent/ongoing reforms').

The assessment of sustainability focuses on three aspects, namely: (i) the current degree of sustainability (i.e. reflecting the situation at end 2013/early 2014); (ii) the factors influencing sustainability; and (iii) the prospects for future sustainability. In the case of completed reforms, the assessment concerns all three aspects, whereas for recent/ongoing reforms no assessment of the current sustainability is provided. The exercise makes use of a Reform Sustainability Assessment Tool, which is based off a similar instrument developed by the WBG's Investment Climate's Impact Program. This tool is illustrated in detail at the end of this Annex.

Assessment Criteria. The assessment of current and future sustainability is based on four criteria, corresponding to the four basic dimensions of IC reform work, and focusing on:

- The polices and/or laws and/or regulations developed and adopted with WBG support;
- The administrative procedures developed and adopted with WBG support;
- The institutions and/or coordination mechanisms established/strengthened with WBG support; and
- The operational and/or analytical tools developed and adopted with WBG support.

For each criterion a score is provided on a 1 to 4 scale, with 1 representing the least favorable situation (e.g. law abolished) and 4 being the most favorable outcome (e.g. law still fully in force). Individual scores are subsequently combined, using a weighting system (see below), so as to provide a summary assessment, also on a 1 to 4 scale. The ratings used for the summary assessment are indicated in the table below. It should be noted that the rating system for the current degree of sustainability is deliberately narrower than the one used for future sustainability, as the ex post perspective allows for a more precise assessment of the various factors at play.

Current Degree of Sustainability		Prospects for Future Sustainability	
Rating	**Assessment**	**Rating**	**Assessment**
3.9 - 4.0	Reform fully sustainable	3.6 - 4.0	Positive sustainability prospects
3.1 - 3.8	Reform mostly sustainable	3.1 - 3.5	Fairly positive sustainability prospects
2.1 - 3.0	Reform partly sustainable	2.1 - 3.0	Uncertain sustainability prospects
1.0 - 2.0	Reform not sustainable	1.0 - 2.0	Negative sustainability prospects

Not all the assessment criteria are equally relevant for all IC reforms. In general, the assessment of 'purely' legislative or regulatory reforms (e.g. the enactment of a new company law) does not require the assessment of institutional aspects. Instead, an institutional analysis is necessary in the case of reforms involving the modification of operational procedures (e.g. the reform of procedures for tax audit) and/or the setting up or strengthening of institutions (e.g. an investment promotion agency, a one-stop-shop for business registration, etc.). Therefore, IC reforms were categorized into four typologies, namely: (i) classical simplification initiatives, involving the 'cutting' of procedures and/or fees (SIM); (ii) policy and legal reform initiatives (P&L); (iii) institution strengthening initiatives (INS); and (iv) 'mixed' initiatives, combining simplification and/or policy and legal reform with institution strengthening (MIX). For each reform type, different weights were assigned to the four assessment criteria. The weights used are shown in the table below.

Reform Type	Polices and/or Laws and/or Regulations	Administrative Procedures	Operational and/or Analytical Tools	Institutions and/or Coordination Mechanisms
SIM	75%		25%	
P&L	75%		25%	
INS	25%			75%
MIX	25%	25%	25%	25%

Factors Influencing Sustainability. The analysis of the determinants of sustainability takes into account six different factors, namely:

- degree of commitment to the reform displayed by higher level government authorities;
- degree of commitment to the reform displayed by government officials;
- degree of rent seeking prevailing in the pre reform situation and the opposition to reform from vested interests;
- degree of support to the reform displayed by intended beneficiaries (i.e. typically, the business community) and/or by other stakeholders (i.e. typically, professionals — lawyers, etc.— or intermediaries somehow involved);
- extent to which institutions responsible for implementing the reform can count on adequate material means; and
- extent to which institutions responsible for implementing the reform can count on adequate human resources.

Each factor influencing sustainability is also scored on a 1 to 4 scale, with 1 being the least favorable situation (e.g. government bureaucrats are/were strongly opposed to the reform) and 4 representing the most favorable outcome (e.g. the institution is well endowed with material means). However, contrary to the assessment of current and future sustainability, the scores attributed to the various factors are not combined into one single summary rating, as the various elements are not 'additive'. This part of the analysis is therefore only descriptive.

Reform Sustainability Assessment Tool. The Reform Sustainability Assessment Tool (the 'Tool') is broadly based off the Sustainability Diagnostic Checklist (the 'Checklist') developed by the WBG's Investment Climate's Impact Program.[33] The Tool consists of three sections, dealing respectively with current sustainability, factors affecting sustainability and prospects for future sustainability. Each section of the Tool consists of a series of statements describing specific sustainability conditions (e.g. whether the 'reformed' legal texts are still in force, whether the resources available to 'reformed' institutions are sufficient, etc.) and each statement is scored in terms of its truthfulness (4 = the statement is true; 3 = the statement is mostly true; 2 = the statement is mostly untrue; 1 = the statement is untrue). Each score is accompanied by a comment, providing the basis for the assessment.

33 WBG, Sustainability of Investment Climate Reforms: A Diagnostic Check-list, October 12, 2013. The Checklist involves the rating of various elements and the criteria for scoring are presented in detailed in the companion WBG, Sustainability of Investment Climate Reforms: A Diagnostic Check-list - Guidance for Scoring, October 12, 2013. Both documents were presented at a brown bag lunch organized by the Impact Program and can be retrieved through https://www.wbginvestmentclimate.org/results/impact-program-bbl-series.cfm. For an overview of the Impact Program see https://www.wbginvestmentclimate.org/results/impact-program.cfm.

The structure of the Tool is presented in the table below.

1. Current Level of Sustainability	Score					Explanation of Score Assigned
1.1 The policy/ies and/or law(s) and/or regulation(s) developed and adopted with WBG support is/are still in force and its/their scope and applicability has/have not been eroded by subsequent legislation. Amendments introduced after the passing of the law(s) (if any) have been of a minor nature and have not encroached upon the spirit of the reform.	1	2	3	4	NA	
1.2 The administrative procedure(s) developed and adopted with WBG support is/are still in force and its/their scope and applicability have not been eroded by subsequent changes. Modifications introduced after the adoption of the administrative procedure(s) (if any) have been of a minor nature and have not encroached upon the spirit of the reform.	1	2	3	4	NA	
1.3 The institution(s) and/or coordination mechanism(s) established/strengthened with WBG support is/are still in existence and its/their mandate(s) has/have not been eroded by subsequent changes. Institutional changes introduced after the establishment/strengthening of the institution(s) (if any) have not unfavorably altered the institutional setting or encroached upon the spirit of the reform.	1	2	3	4	NA	
1.4 The operational and/or analytical tool(s) developed and adopted with WBG support is/are still in use and its/their scope and applicability has/have not been eroded by subsequent changes. Subsequent modifications (if any) have been of a minor nature and have not encroached upon the spirit of the reform.	1	2	3	4	NA	
1.5 Overall Assessment						
2. Determinants of Sustainability	**Score**					**Explanation of Score Assigned**
2.1 Higher level government authorities have remained committed to achieving the strategic objectives of the reform.	1	2	3	4	NA	
2.2 Government officials have remained committed to achieving the operational objectives of the reform.	1	2	3	4	NA	
2.3 The overall degree of rent seeking in the pre reform situation was low and there was limited opposition from vested interests.	1	2	3	4	NA	
2.4 Intended beneficiaries and/or other stakeholders have proactively supported the implementation of the reform.	1	2	3	4	NA	
2.5 Institutions responsible for implementing the reform have been able to count on adequate material means.	1	2	3	4	NA	
2.6 Institutions responsible for implementing the reform have been able to count on adequate human resources.	1	2	3	4	NA	
3. Prospects for Future Sustainability	**Score**					**Explanation of Score Assigned**
3.1 The policy/ies and/or law(s) and/or regulation(s) developed and adopted with WBG support will remain in force and their scope and applicability will not be eroded by future measures. Whatever changes may take place in the medium term are expected to be of a minor nature and not to encroach upon the spirit of the reform.	1	2	3	4	NA	
3.2 The administrative procedure(s) developed and adopted with WBG support is/are still in force will remain in force and their scope and applicability will not be eroded by future measures. Whatever changes may take place in the medium term are expected to be of a minor nature and not to encroach upon the spirit of the reform.	1	2	3	4	NA	
3.3 The institution(s) and/or coordination mechanism(s) established/strengthened with WBG support will continue to exist and its/their mandate(s) will not be eroded by future measures. Whatever changes may take place in the medium term are expected not to unfavorably alter the institutional setting or encroach upon the spirit of the reform.	1	2	3	4	NA	
3.4 The operational and/or analytical tool(s) developed and adopted with WBG support will remain in use and their scope and applicability will not be eroded by future measures. Whatever changes may take place in the medium term are expected to be of a minor nature and not to encroach upon the spirit of the reform.	1	2	3	4	NA	

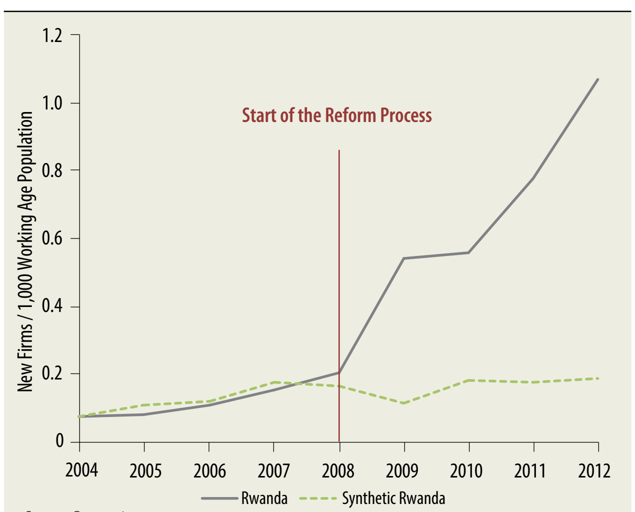
ANNEX E: COUNTERFACTUAL ANALYSIS OF BUSINESS REGISTRATIONS IN RWANDA

The counterfactual analysis of business registrations in Rwanda relied on the so called Synthetic Control Method (SCM). The SCM involves the creation of a control entity for a country (or other geographic area) where a policy change (the 'intervention') has taken place (the 'treatment country'). The control entity is called 'synthetic' because it is constructed using a linear combination of alternative countries where the intervention has not taken place (the 'control country').[34]

In essence, the exercise aimed at replicating an earlier study[35] that analyzed business registrations in Rwanda in the year 2009, with a view to extending the analysis to subsequent years. However, the scope of the analysis was limited by the lack of recent data on business registrations in several countries that could potentially contribute to the construction of the 'control country'. This reduced to number of comparator countries to only five (Cambodia, Indonesia, Moldova, Pakistan and Uganda), of which ultimately only two were used to construct the 'Synthetic Rwanda'.

The diagram plotting business registration data for both Rwanda and Synthetic Rwanda is provided below. The fit for the variable of interest (number of registrations per 1,000 people) in the pretreatment period is reasonably good, but the features of Synthetic Rwanda as defined by a series of 'control variables' are at times quite different from those of real Rwanda (e.g. GDP per capita of US$ 700 compared with US$ 330 for real Rwanda).

A comparison of the hypothetical business registrations in Synthetic Rwanda with actual registrations in Rwanda in the 2009-2012 period yields a total of 13,579 incremental registrations attributable to IC reforms. As the exercise only covers companies and assuming that a similar pattern would hold also for other firms (sole proprietorships and partnerships), which account for about 30% of all registrations, the total number of incremental registrations can be estimated at about 19,400, which is not too different from the 21,000 estimated though the crude extrapolation for the 2009-2013 period.



Source: Own estimates.

[34] For a more detailed illustration of the SCM see Abadie A and J Gardeazabal, "The Economic Costs of Conflict: A Case Study of the Basque Country." American Economic Review, 2003. See also Abadie A, A Diamond and J Hainmueller, "Synthetic control methods for comparative case studies: Estimating the effect of California's tobacco control program." Journal of the American Statistical Association, 2010.

[35] Gathani S, M Santini and D Stoelinga, "Innovative techniques to evaluate the impact of private sector development reforms: An application to Rwanda and 11 other countries." MPSA Annual Conference, 2013.

BURKINA FASO LIBERIA RWANDA SIERRA LEONE SOUTH SUDAN
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