Investment Climate Advisory Services I World Bank Group

Early Impact of Investment Climate Programs in Africa

A preliminary external assessment of the World Bank Group's Investment Climate Advisory Programs in Burkina Faso, Liberia, Rwanda and Sierra

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Since 2005, the Investment Climate (IC) team of the World Bank Group (WBG) has undertaken investment climate reform projects in over 20 countries in Sub-Saharan Africa, with some success and admittedly some challenges. Deliberately, we chose not to focus on "easy wins", but instead we have devoted major resources to fragile and conflict-affected states (FCS), as well as low income and low-capacity countries. In those countries, enactment and implementation of reforms was always expected to be challenging and the achievement of impacts (such as new business creation, new investment and employment) was far from guaranteed.

The logic in addressing these issues in FCS and very poor states is that poverty alleviation and conflict avoidance are mutually reinforcing. Thus, in addition to meeting immediate, basic needs, it is important to improve opportunities for employment and income-generation. This prospect requires better conditions for new business formation, investment, and hiring, which in turn requires fewer barriers to business creation and greater encouragement for formalization of informal firms, such as streamlined procedures for company registration and licensing, business taxation, and trade.

The expectation was that improvements in the regulatory environment governing business growth, investment and employment opportunities would provide a more stable foundation to address poverty alleviation and income security. In FCS environments, such improvements, have in the past usually been left until some time after the initial work of reconstruction (e.g. of infrastructure and health) and institutional building had been undertaken.

In order to assess the results of our efforts, the WBG commissioned a set of four independent "interim impact evaluations". The contract was competed and awarded to Economisti Associati. To strengthen independence, the project was managed by the Results Management Unit, not by the implementing unit of the WBG. The impact evaluations were done in countries where we have had substantial investment climate reform programs in FCS or IDA countries: Rwanda, Liberia, Burkina Faso, and Sierra Leone. These programs had started at least three years earlier. While it has always been understood that final "impacts" can probably not be judged until at least five years after program completion, this interim study was designed to try to identify the impacts of some of the earliest impacts of the WBG IC programs.

Encouragingly, it is already possible to see positive impacts from project activities only 2-3 years after the first project interventions. Although it was not possible to set up rigorous "counterfactuals" to compare "with project" results against "without project" scenarios, the evaluators made every effort to isolate the effects of the projects relative to the most-likely trajectories in the impact data in the absence of the project, and from the activities of other projects.

While total project expenditure for the four countries came to $22 million, the results reported in the evaluation are:

- US$13.2 million in cost savings for businesses
- 23,000 new businesses registered
- US$75-90 million invested
- 51,500 new jobs created

RESULTS DURING PROJECT LIFE	RWANDA	LIBERIA	BURKINA FASO	SIERRA LEONE
Project cost ($ millions)	$3.3	$8.7	$2.8	$7.2
Private sector cost savings ($ millions)	$5.1	$4.6	$2.7	$0.9
Private sector investments generated ($ millions)	$44 - 51	$11 - 13	$5-6	$15-20
Number of new businesses registered	8,000	8,200	1,200	5,600
Number of new jobs created	16,250	18,350	1,800	15,100
Size of economy ($ billions)	$4.5	$0.8	$7.9	$2.0
Gross National Income per capita	$460	$160	$510	$340

The results of these detailed evaluations will help refine future project work in the same countries and improve the project design of similar projects in the pipeline for new programmatic countries.

Background

The WBG IC team works in about two dozen countries of Sub-Saharan Africa where it follows a similar but adaptable approach to supporting government's reform efforts to facilitate business creation and stimulate investment. The four IC programs evaluated offer a range of valuable models of the progress to be expected and the challenges that are faced. Three of the countries (Liberia, Rwanda, and Sierra Leone) are still recovering from civil war, their infrastructure and certain government institutions in disrepair; Liberia and Sierra Leone are still classified as Fragile and Conflict-affected states by the WBG; and two (Burkina Faso and Rwanda) are landlocked and saddled with inordinate costs for transporting goods. All rely heavily on small-scale agriculture as their chief industry, and all are exceedingly poor by world standards, their gross national income per capita ranging from $510 per year in Burkina Faso, to just $160 in Liberia.

IC teams on the ground began their work by identifying the most serious administrative barriers to investment, then designed a program of advisory assistance to address those areas most likely to have an early and positive impact on business establishment and growth, tailoring programs to address key aspects of each country's private sector. Three to four years into those programs, the evaluation team assessed the early impact of these efforts by analyzing the most straightforward, quantifiable measures, as illustrated below.

INVESTMENT CLIMATE REFORMS

- Business registration, taxation, licensing
- Construction permits
- Real estate transactions
- Labor market regulation
- Trade logistics
- Investment promotion
- Special economic zones
- Public / Private dialogue

QUANTIFIABLE IMPACTS

- Money saved
- Businesses registered
- Money invested
- Jobs created

Savings in time and money

The four programs sought to reduce existing business owners' direct costs (or out-of-pocket expenses) by eliminating or reducing certain fees, such as stamp duties and service fees. They also saved staff time and associated labor costs by streamlining the administrative process, and improved cash flow through adjustments in the payment schedules of certain fees and taxes (e.g., elimination of "advance tax payments") (see Figure 1). Together, these measures saved private investors a total of $13.2 million compared to the costs they would have incurred in the absence of the reforms.

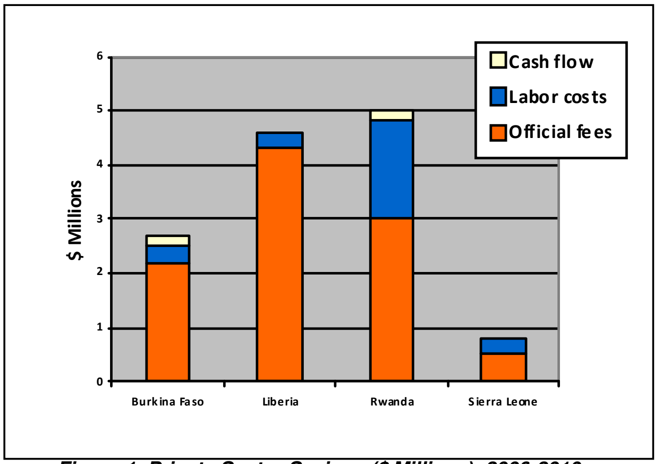

Figure 1. Private Sector Savings ($ Millions), 2008-2010

Although the four country programs together introduced more than 70 reforms in such areas as business registration, construction permits, real estate transactions, and trade logistics, the bulk of the quantifiable savings to private investors and business owners stemmed from only a few measures, mostly those that either involved modest reductions in costs (mostly official fees) for a large number of transactions (e.g., company registration or import/export shipments) or major cost reductions for a relatively small number of transactions (e.g., taxes on sales of real estate). These cost savings represented between 0.01% to 0.17% of GDP, which sound quite small, but often represent a very significant cost reduction for a new, small business. For example, in Rwanda, the cost of first registering a business (business entry) went from over 100% of per capita GDP to under 10%.

New Business creation and formalization

The programs supported the Governments' efforts to streamline the process of formal business registration, reduce costs and diminish opportunities for bureaucratic harassment and corruption. Although it is not possible to attribute the impacts solely to the IC programs (given potential other reform activities of our government clients, the involvement of other donors and the influence of other reforms and global economic conditions), the evaluators were able to document an increase, of 23,000 additional formal-sector companies, partnerships and sole-proprietors than would have been predicted based on pre-reform trends (see Figure 2). Of this total, roughly half appeared to be newly-created businesses (e.g., by people who may have worked for another formal company previously, and decided to leave and start their own businesses) and the other half appeared to be firms that had previously operated in the informal sector.

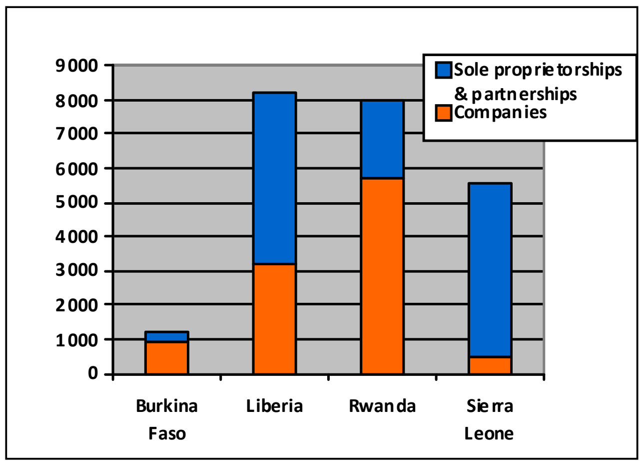

Figure 2. New Business Registrations, 2008-2010

Investment and employment

With more businesses come more investment, innovation, competition, business expansion (as well as closing), and ultimately more employment and economic growth. Below are estimates of the new investment (see Figure 3) and employment (see Figure 4) generated by the programs reforms, based on estimates of average investment rates and employment rates of start-ups in each of the countries concerned, applied to the estimates of the numbers of new businesses created as a result of the reforms.

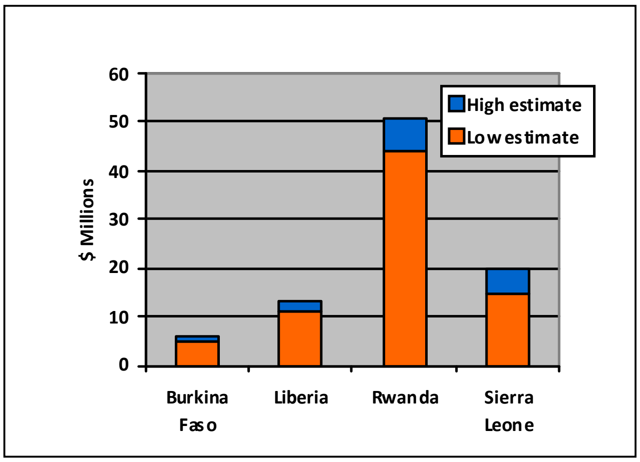

Figure 3. Estimate of Private Sector Investment Generated ($ Millions), 2008-2010

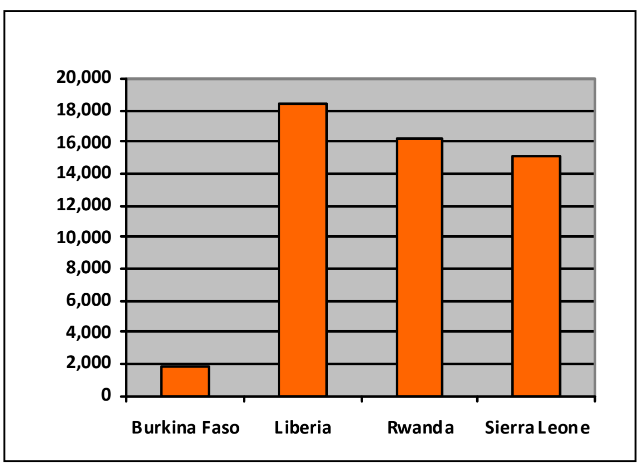

Figure 4. Estimate of Jobs Created, 2008-2010

Caveats and Other Considerations

In a perfect world, this impact assessment would have relied on controls—i.e., comparisons of jurisdictions with and without the WBG's' interventions. However, "Private Sector Cost savings", for which the evaluators used a methodology quite similar to the 'compliance cost savings' indicator now used by the IC team, were estimated very conservatively, and focused on specific reforms supported by the WBG projects that yielded tangible reductions in official fees and/or staff-time required to complete procedures. The evaluators undertook regressions on data on new company formation to establish trend-lines before the projects started in order to compare the actual data after project interventions with the trend that would have been expected in the absence of any reforms. They then used data on average investment and employment levels for new companies to estimate the overall impact of project reforms on investment and employment.

The serious data limitations in these low-capacity countries, coupled with the conservative evaluation methodology, probably means that actual impacts are much higher than could be measured with confidence. In addition, the projects lacked solid baseline data, such that evaluators sometimes had to rely on the memories of key stakeholders and in-country experts to develop appropriate assumptions and/or re-create baseline data based on estimates.

Finally, the very nature of reliance solely on quantitative measures leaves out many of the improvements generated by the IC Program in general. Our work in certain areas—such as laying the foundation for increased transparency and better governance, leveling the playing field in the implementation of government procedures, reducing the opportunities for corruption and cronyism—is vitally important for improving investor confidence, but is not something anyone can measure easily. They are also impacts that build up slowly over time, with returns that are likely to pay off mostly in the medium to long term.

Lessons Learned

It can take quite some time to identify and engage clients and stakeholders, and to mobilize them around the reform agenda. The evaluators noted that such programs clearly require a strong and consistent in-country presence to work regularly and continuously with counterparts and beneficiaries to get reforms designed, enacted, and implemented. The programs, which were administered by IFC, also took good advantage of opportunities for cooperation with other units of the World Bank Group, the Investment Climate Facility, the IMF and bi-lateral donors to ensure a comprehensive package of reforms were implemented in each country.

The evaluators also noted that flexibility in program design, especially the ability to change or abandon ineffective components and add new ones, seemed to be critical to the cost-effectiveness of the programs in each country. Given the dearth of rigorous data available at the time of program design, the program teams and their counterparts were forced to get started on the basis of "best guesses" and to adapt to circumstances as they went along.

As expected, project impacts did indeed vary across the four countries. Rwanda's reforms appeared to benefit from strong political leadership. "Bang for buck" appeared highest in Liberia and Sierra Leone, where the after-effects of the civil war were still being felt in struggling public sector institutions. It appeared moderate in Rwanda, which was farther along in post-war reconstruction, and lowest in Burkina Faso, which had not experienced the civil strife of the other three countries, and is slightly wealthier but with a very small total economy. These results confirm that investment climate programs can indeed be even more effective in post-conflict countries, determined to break with their past, than in those with easier project environments. They also confirm the importance of engaging early in FCS, as they seek to return to stability.

Based on the results of the assessment, the IC team is now planning to provide further support to the respective governments, building on the foundation it has created. We will:

- Further support established businesses
- Help facilitate access to finance
- Focus on promoting key sectors
- Further improve trade logistics

More information

The following five documents are available on the Investment Climate internet site of the World Bank Group at https://www.wbginvestmentclimate.org/results/results-of-our-work/impact-assessment-in-africa.cfm

- Comparative Report: Investment Climate Program in Africa - Four Country Impact Assessment
- Impact Assessment: Investment Climate Program in Burkina Faso
- Impact Assessment: Investment Climate Program in Liberia
- Impact Assessment: Investment Climate Program in Rwanda
- Impact Assessment: Investment Climate Program in Sierra Leone

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