

How to stimulate the private sector in Fragile states - policies and instruments

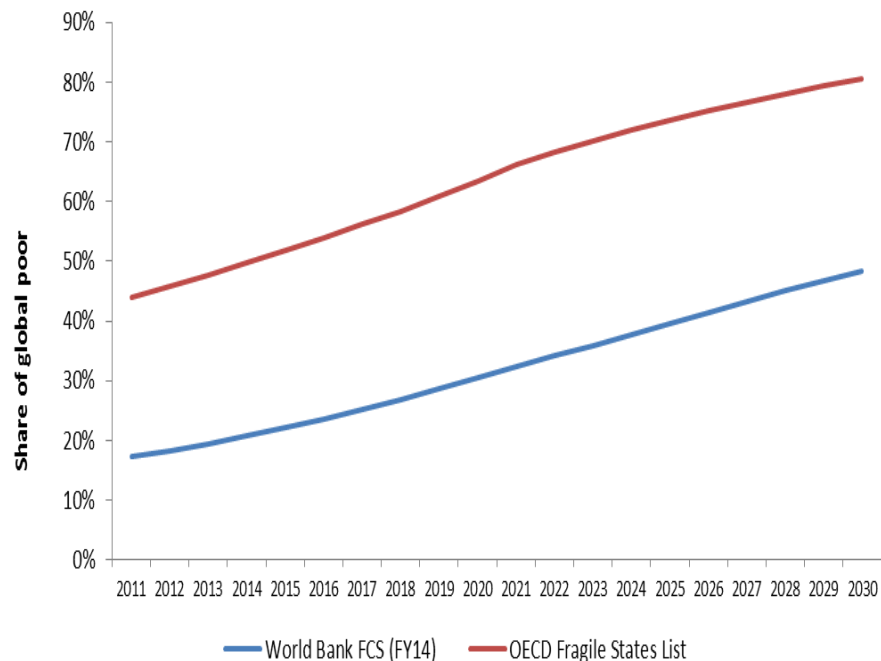
▶ **IVAN ROSSIGNOL**

▶ (BASED ON PAPER CO-AUTHORED WITH KINLEY SALMON)

**Trade and Competitiveness Global Practice
World Bank Group**

Global poverty is decreasing but is concentrating in FCVs

Concentration of Poor in FCVs, %



Poverty headcount by region, %

	Poverty headcount rate (%)		
	1990	1999	2012
East Asia and Pacific, EAP	60.6	37.5	7.2
Europe and Central Asia, ECA	1.9	7.8	2.1
Latin America and the Caribbean, LAC	17.8	13.9	5.6
Middle East and North Africa, MENA	6.0	4.2	-
South Asia, SAR	50.6	-	18.8
Sub-Saharan Africa, SSA	56.8	58.0	42.7
<i>World</i>	37.1	29.1	12.7

Source: World Bank staff's estimates from PovcalNet.

Poverty line US\$1.9/day, 2011 PPP

800m people

Leading to an unprecedented situation

50.0 Million People Displaced by Conflict (2013)
The highest proportion since World War 2



Yet the policy response often leads to this

Syrians in Lebanon



Calais, France



What research suggests is to look beyond a humanitarian-only response ...

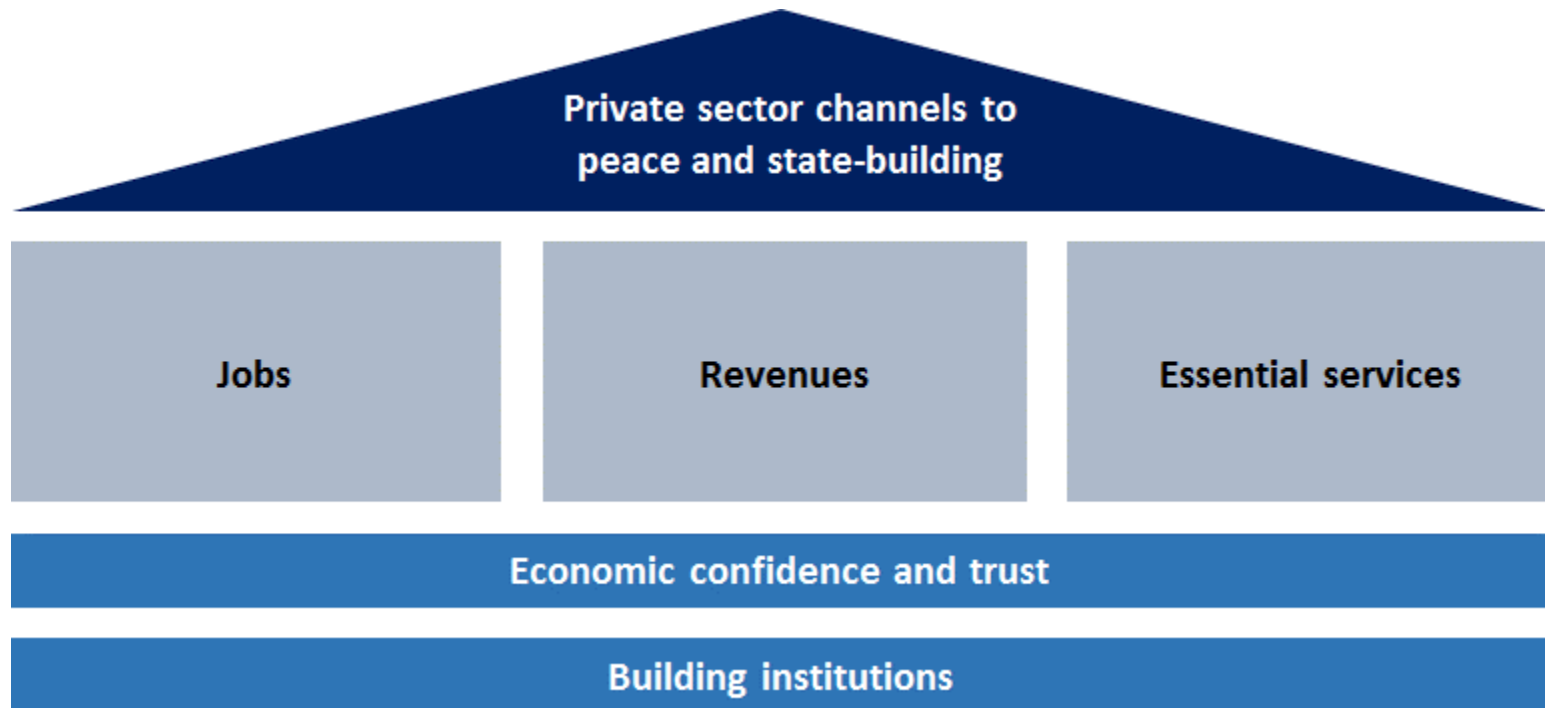
Refocusing on the private sector's role

- 90% of jobs in developing countries come from the private sector (World Bank)
- Increase economic opportunities to reduce the risk of violence (Collier)
- Public employment programs lead to sustainability issues (Collier), hence suggesting more interventions from the private sector
- Engage in continuous improvement of institutions to minimize governance failures (Robinson, Acemoglu)

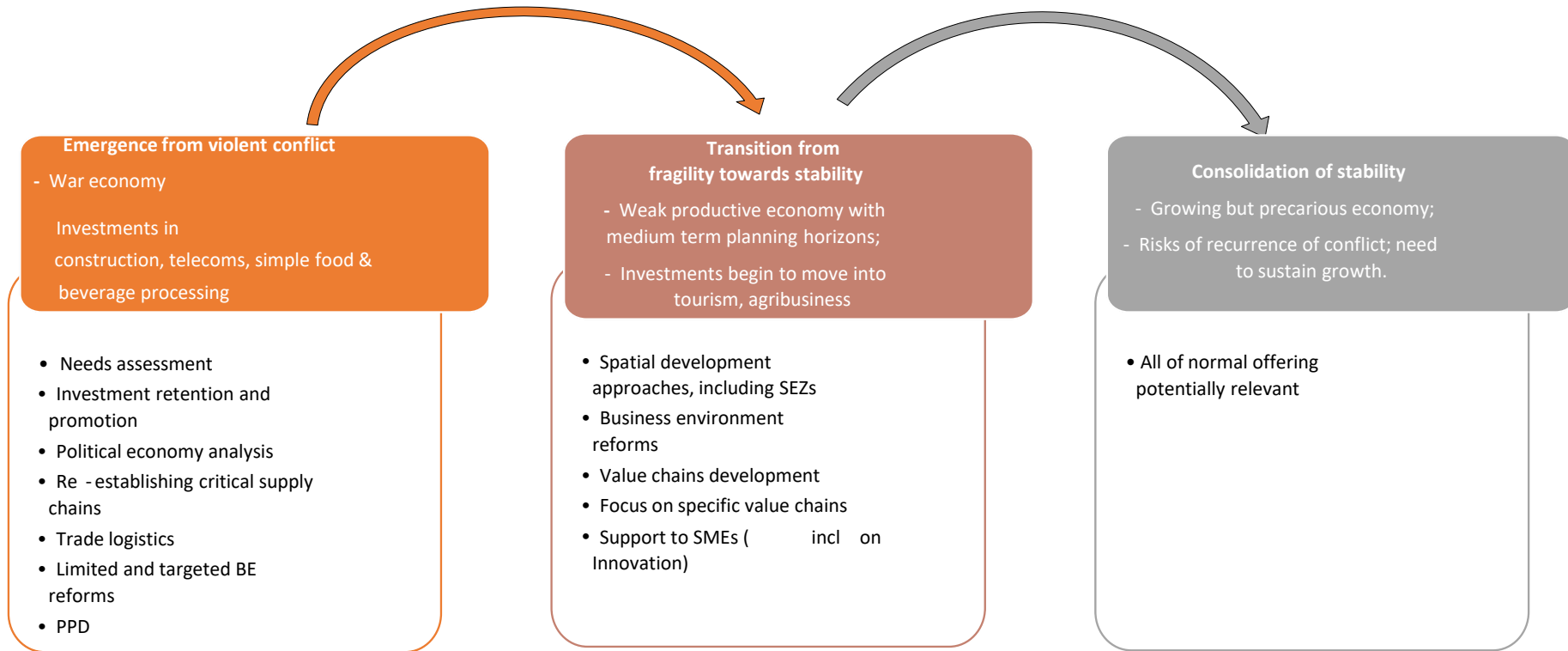
But doing so with prudence due to the lack of empirical evidence

- Causality between Jobs and Reduced Violence or Peacebuilding not well established (Blattman; Brück)
- Regional trade is correlated with lower intensity of conflict (Cali)

... evidencing the importance of the private sector



How to stimulate the private sector ?



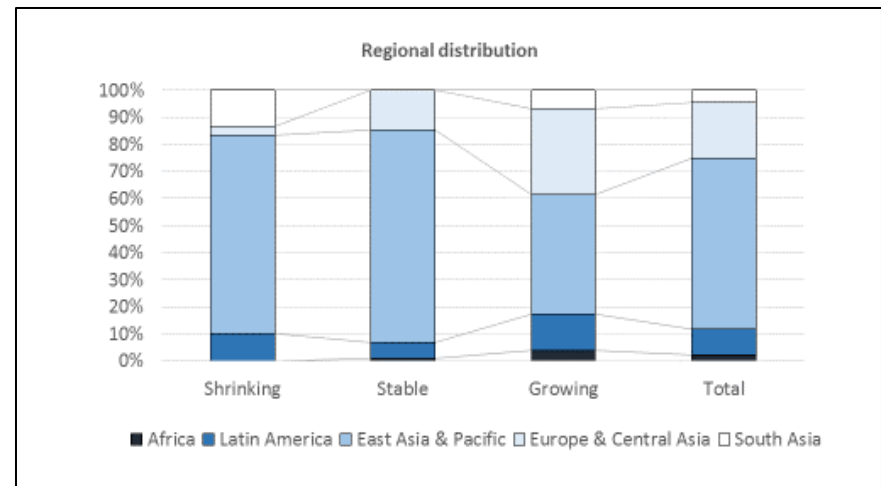
What have we learned: few templates, little learning

“Whatever it takes” as long as you “Do no harm”

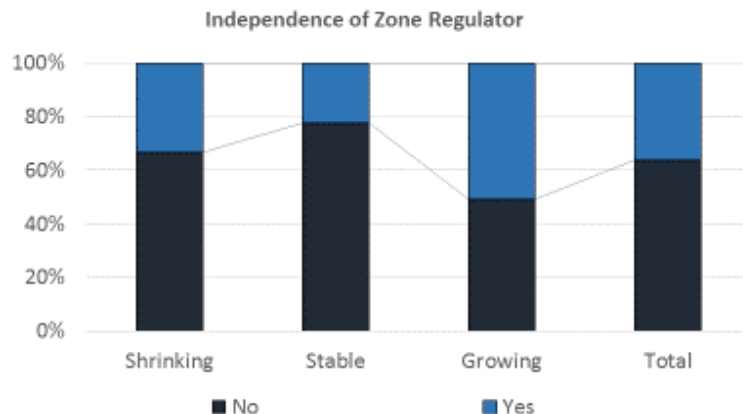
- No template of intervention, *instruments are not different (but the sequencing is)*
- Instruments/products often designed without specific data on the status of the private sector (*e.g.*: enterprise or household surveys)
- The private sector is rarely at the center of the policy design
- Political economy analyses are rare

Popular instruments 1: industrial zones

- Global universe: 3,500+ zones
- This study:
 - Dataset: 17 countries (incl. South Korea)
 - 237 zones (out of 1000+)
 - Night light proxy, Manufacturing focus, 90ha+



- The nature of the incentive influences economic success (utilities are positive – tax exemption matter little)
- One stop shop not correlated to success
- Contextual factors: location, management choice, comparative advantages

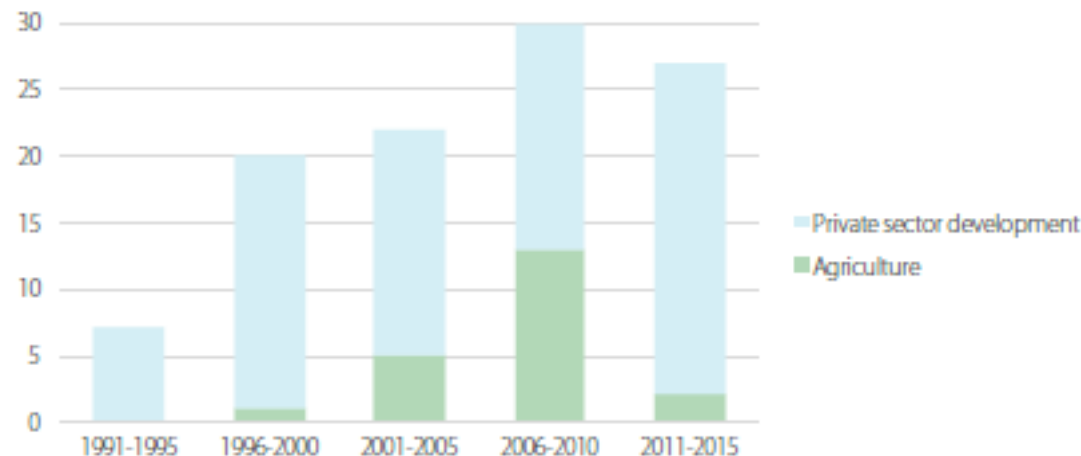


Popular instruments 2: Matching grants (SMEs)

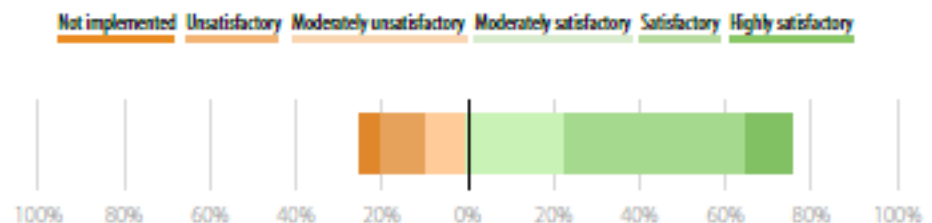
- 106 MG assessed, 55% to SMEs, \$76k grant (median)
- Focus on investments to improve business development services e.g. marketing, certification, trade fairs, production design
- Success for 75% (loosely defined), no correlation between design features and outcomes
- Recommendations:
 - Identify market failure
 - Consider alternatives
 - Cost benefit analysis
 - Robust M&E

Approval of World Bank projects with an MG component (fiscal years)

Number of projects



Breakdown of the sample projects by MG component rating

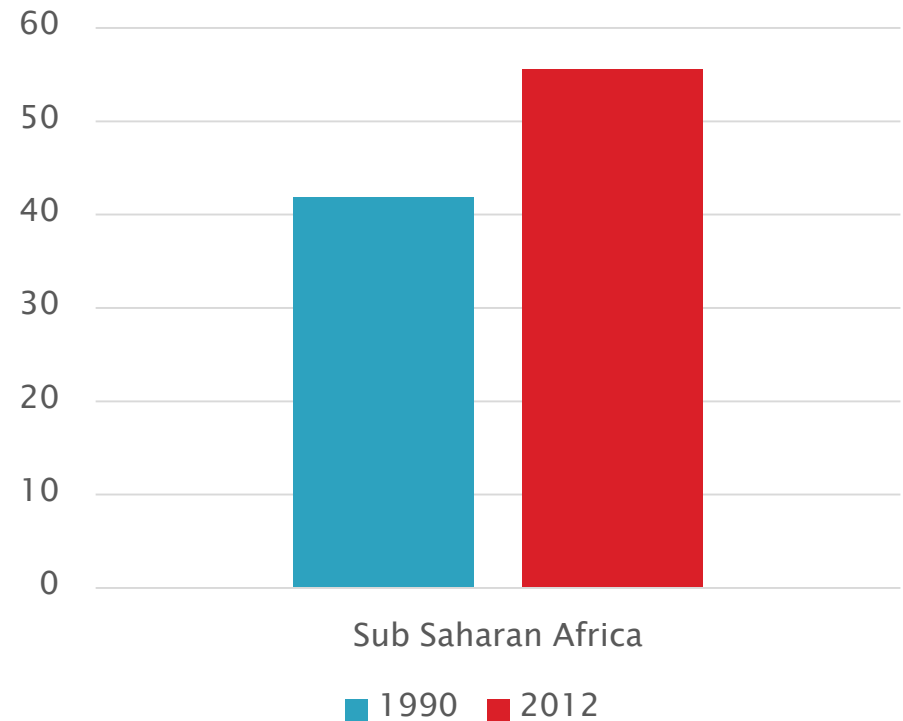


Popular instruments 3: Doing Business

Doing business and GDP, ranking



Access to electricity in SSA, % households



Factor conditions are difficult to change

Not all Doom and Gloom

- **A new multilateral reality is emerging**
 - Refugee crisis => new lending architecture, new concessionality terms (third party country, middle income country question)
 - IDA 18 with resources x2 in FCS and the objective of jobs creation
 - Set up of a private sector window (\$2.5bn) to develop guarantee instruments and financing
 - Local currency hedging,
 - Risk mitigation,
 - SME facility, Investment facility,
 - First Loss facility and Reinsurance facility
- **More analytical efforts** starting (lots of foras, new strategies, refreshed interest from academia, some appetite to learn)

What's the answer to the question ?

1– To Stimulate:

- Address Land / Finance/ Trade and Skills issues
- Use Political Economy analysis and M&E systems to improve design and implementation of instruments
- Influence reconstruction in broader sense (role of needs assessments)
- Build capacity *and not* Deliver reports on capacity

2– Accelerate learning at country and global level

3– Embrace complexity and adjust over time (feedback loops)

4– Dare to go the distance to show results