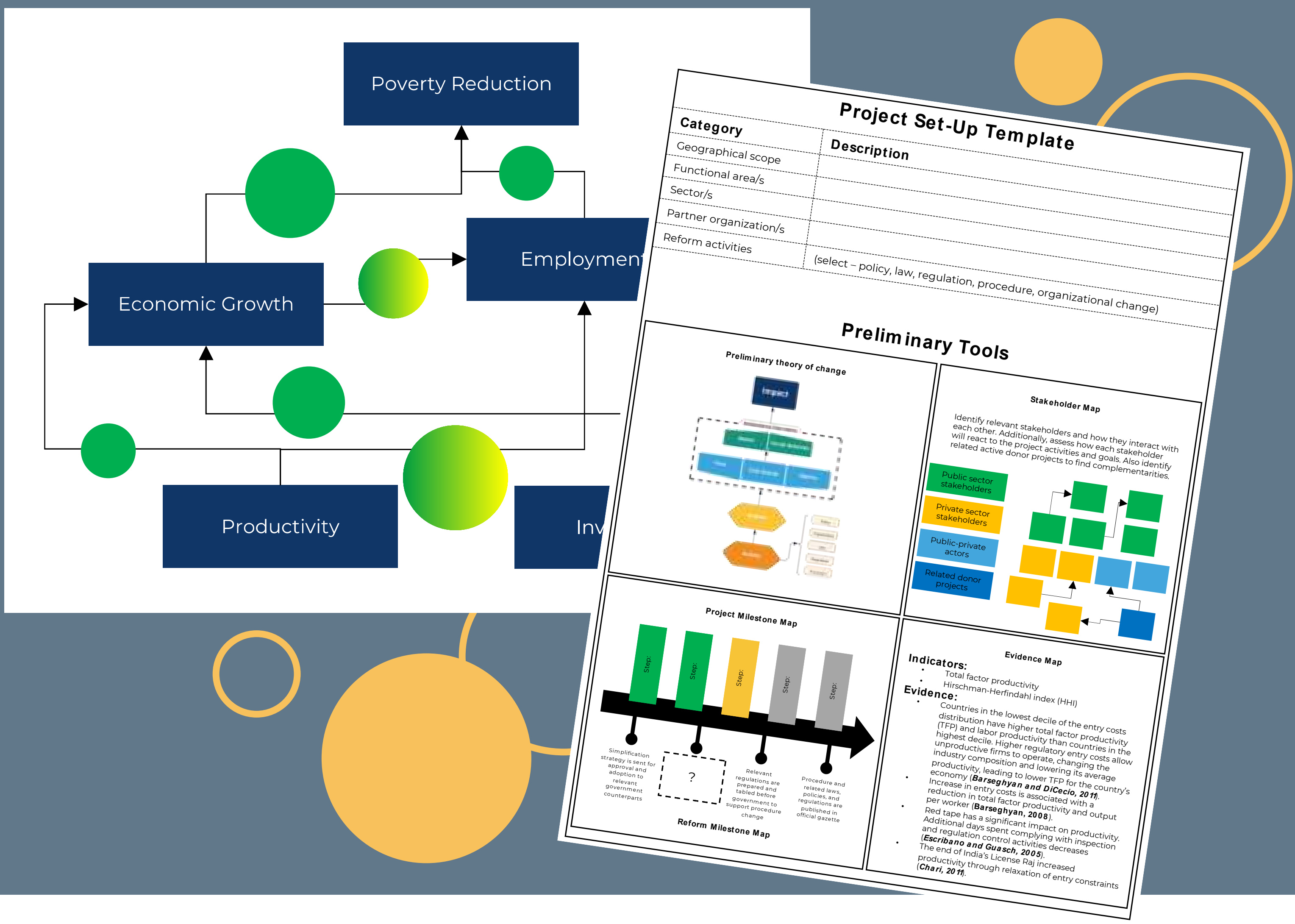
DONOR COMMITTEE FOR ENTERPRISE DEVELOPMENT

TECHNICAL REPORT

Enhancing the Use of Evidence and Results Measurement in Business Environment Reform Programming

BUSINESS ENVIRONMENT WORKING GROUP



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DCED

The Donor Committee for Enterprise Development

Business Environment Working Group

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Table of Contents

List of Figures

Executive Summary

This report was prepared at the request of the Donor Committee on Enterprise Development's (DCED) Business Environment Reform (BER) Working Group[1], with the goal of developing a clear, evidence-based narrative and associated Theory of Change on how BER contributes to economy-wide impacts such as investment, productivity, employment, economic growth, and poverty reduction. In addition to the overarching question above, the team was asked to identify key sources of global data and indicators that all BER programs should measure.

Work was conducted over a nine-month period, during which the Just Results team conducted secondary research, interviews, and held a series of virtual meetings to receive feedback from BER working group representatives. Interviews were also held with case study representatives, and project staff representing the case studies were included in the presentations and feedback sessions with the BER working group.

The first section introduces the research project and its methodology and outlines key definitions for the BER field. Upon request, the existing DCED definition for business environment[2] and the nine current functional areas[3] were used as the organizing framework for the research (see Figure E1).

Following the definitions are discussions of the origins of the BER field and the challenges in results measurement. Some of these specific challenges include long results chains, lack of counterfactuals like control groups or comparison groups, diversity of interventions, and a lack of standard definitions and measurement units in the field.

In the second section, a new theory of change is presented, based on evidence from the literature and containing clearly defined levels – activities, outputs, outcomes (firm/civil society/agency level and market/social networks level), impact. The new theory of change was developed as a result of the literature reviewed, interviews and meetings and was vetted and refined by members of the

1 The report builds on DCED's prior work including the guidance titled "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies" (2008), the consequent annex titled "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies - Annex: Measuring Donor-Supported Business Environment Reform" (2013), and the DCED Standard for Results Measurement in Private Sector Development (2017).
2 Business environment is defined "as a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate (e.g., government agencies, regulatory authorities, and business membership organizations including businesswomen associations, civil society organizations, trade unions, etc.) DCED, "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies," 2008. https://www.enterprise-development.org/wp-content/uploads/DonorGuidanceEnglish.pdf
3 These functional areas, while an important means of categorization, do not adequately encompass the depth and variety of work conducted in this field. New proposed areas under consideration include: (1) strengthening competition policy, (2) improving accounting, auditing, and business transparency, (3) establishing, implementing, and ensuring compliance with standards (technical, social/labour, environmental), (4) green growth, and (5) the digital economy. There is also general agreement among members of the BER working group that trade facilitation should have been included already, and indeed the DCED indicators do cover trade facilitation.

working group. This new theory of change is unique in that it clarifies 3 key concepts. To summarize:

1. A separation of the outcome level into two levels – firm/agency outcomes and market/network outcomes.
2. A definition for "institutions" and institutional outcomes that encompasses both the rules and the players of the game.
3. Standards patterns of change through which BER activities lead to outcomes.

Figure E1 Functional areas of BER

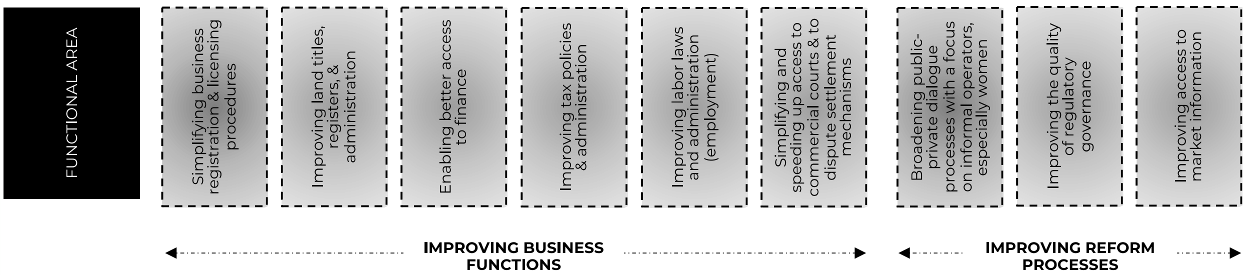
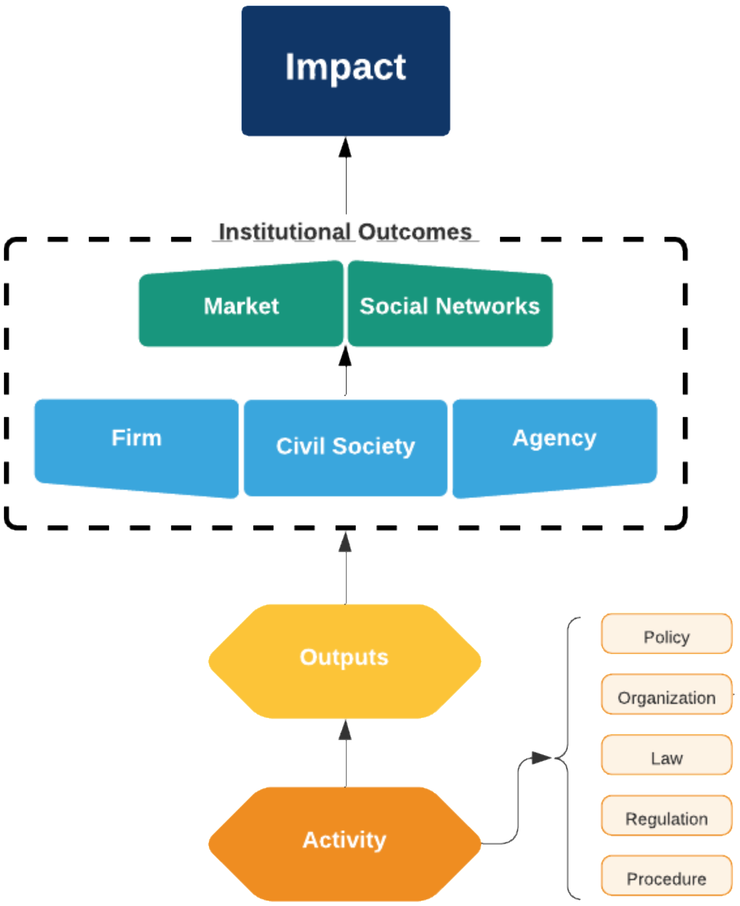


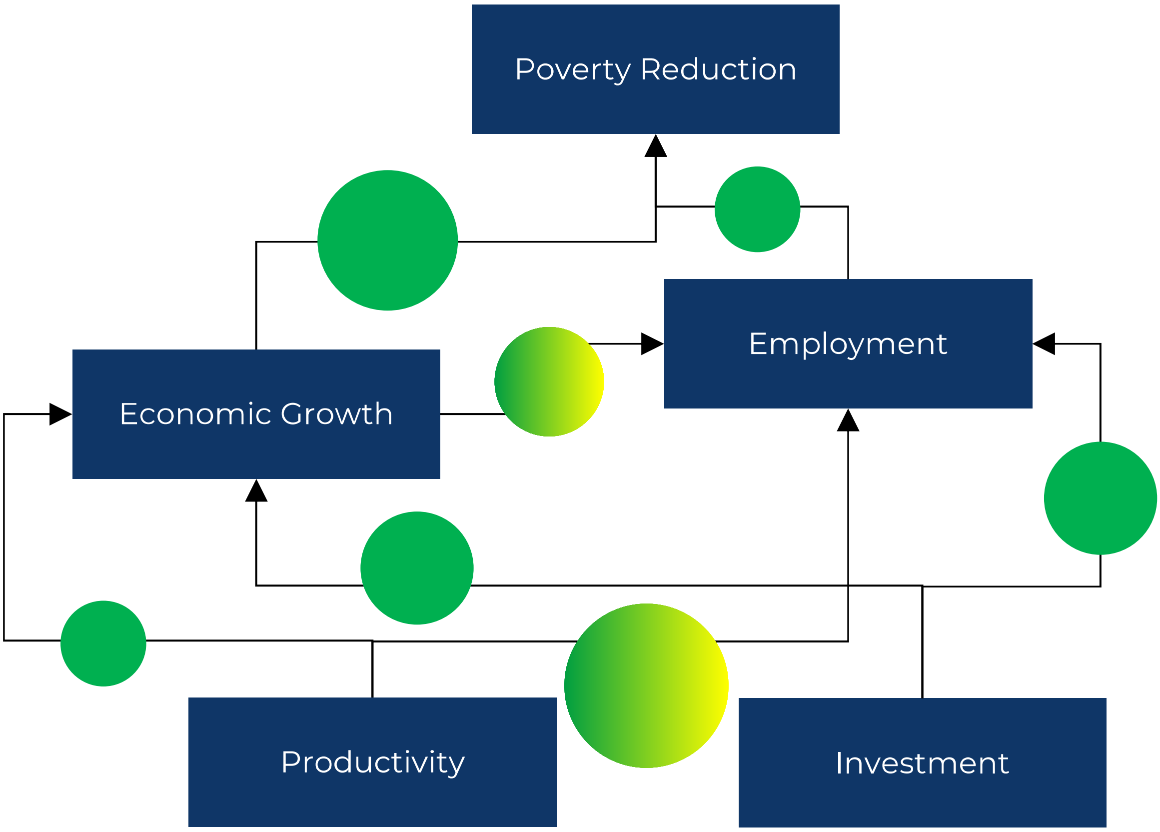
Figure E2 Functional areas of BER re-ordered according to the enterprise lifecycle



The third section is the literature review. Although there is an immense literature on business environment reform (BER) and related topics, there is no comprehensive review of the subject. This report offers a systematic review of programmatic evidence relating to each of the main functional areas of business environment reform as defined by the DCED, as well as a new compilation of topical evidence related to the interaction of larger economy-level outcomes like investment, employment, economic growth, productivity, and poverty reduction. In this process, the team reviewed over 270 works of academic and grey literature. The literature review was circulated to the members of the committee for comments in the initial stages of the development of this report.

At the impact level, the evidence points to a complex series of interactions between different types of economy-wide impacts. These are illustrated below (Figure E3). Each green circle depicts a link between two outcomes, where the size of the circle corresponds to the number of citations identified. Through careful examination, the team has found the following to be true: investment leads to employment and economic growth, productivity leads to growth but has mixed impacts on employment, economic growth is positively associated with employment, and employment means poverty reduction.

Figure E3 Mapping the evidence at the impact level



This report also summarizes a large body of evidence on the connection of activities corresponding to different functional areas and outcomes. The following evidence map (Figure E4 below) organizes the evidence along the BER results chain. Each circle mapped in the figure below refers to a specific link from BER activities and outputs to outcomes. Clusters of circles represent “outcome rich” areas of BER.

Following the summary of evidence, this report also provides practical guidance on three phases of project development that impact results measurement - setting up, developing a theory of change, and identifying indicators. Figure E5 displays an exemplary project set-up template.

The more consequential the research, the more likely it is that new questions emerge. This report is intended to clarify the challenges, nuances, and rewards of evidence-driven results measurement in BER programming.

Figure E4 Evidence Map

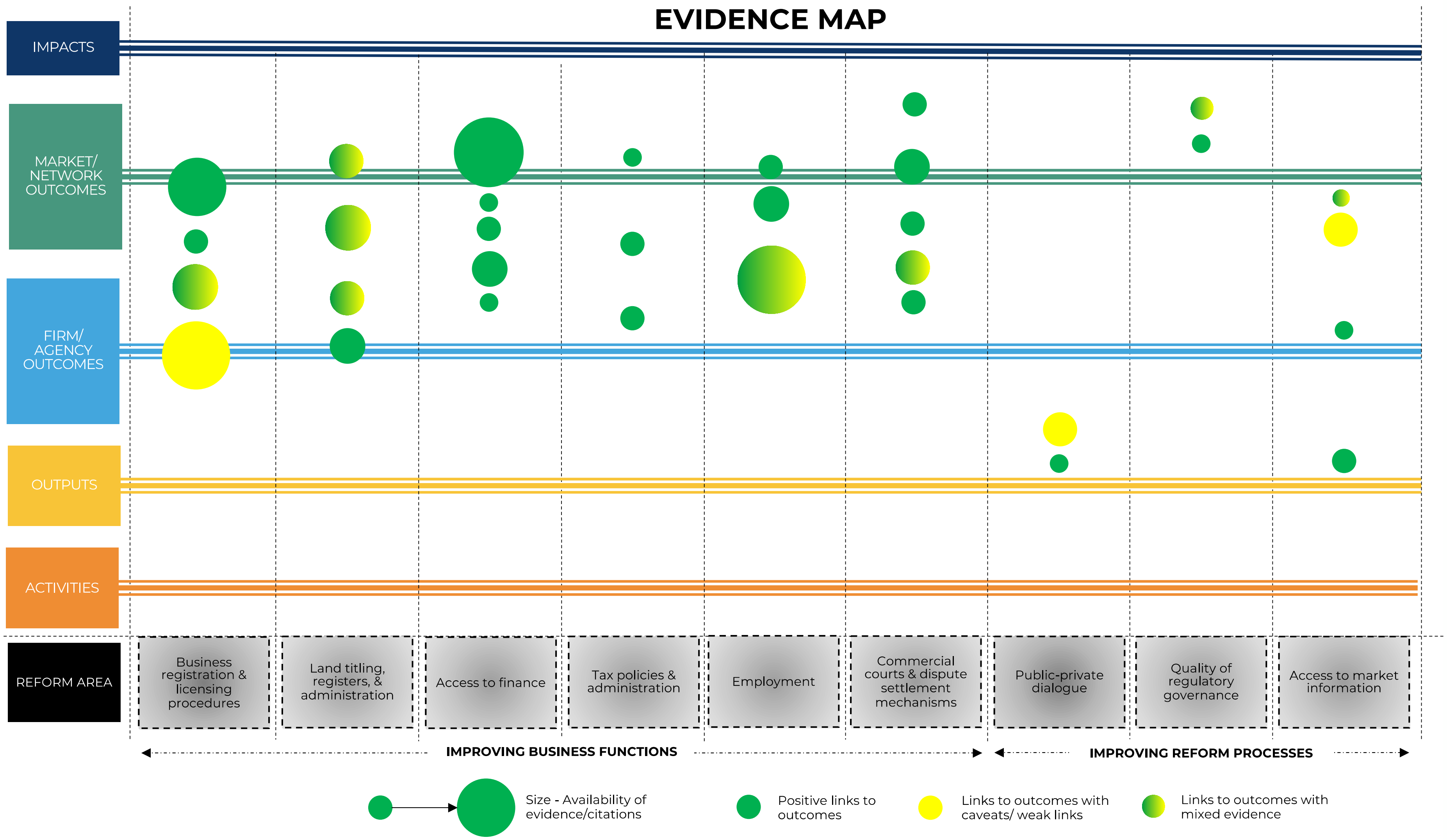


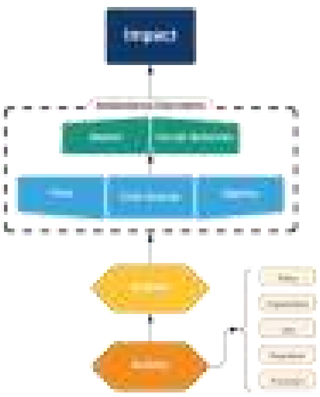
Figure E5 Exemplary Project Set-Up Template

Project Set-Up Template

Category	Description
Geographical scope	
Functional area/s	
Sector/s	
Partner organization/s	
Reform activities	(select – policy, law, regulation, procedure, organizational change)

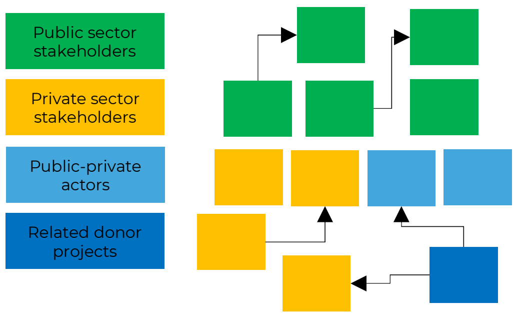
Preliminary Tools

Preliminary theory of change

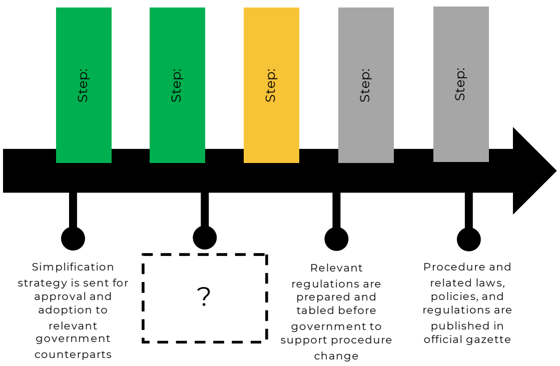


Stakeholder Map

Identify relevant stakeholders and how they interact with each other. Additionally, assess how each stakeholder will react to the project activities and goals. Also identify related active donor projects to find complementarities.



Project Milestone Map



Reform Milestone Map

Evidence Map

Indicators:

- Total factor productivity
- Hirschman-Herfindahl index (HHI)

Evidence:

- Countries in the lowest decile of the entry costs distribution have higher total factor productivity (TFP) and labor productivity than countries in the highest decile. Higher regulatory entry costs allow unproductive firms to operate, changing the industry composition and lowering its average productivity, leading to lower TFP for the country's economy (***Barseghyan and DiCecio, 2011***).
- Increase in entry costs is associated with a reduction in total factor productivity and output per worker (**Barseghyan, 2008**).
- Red tape has a significant impact on productivity. Additional days spent complying with inspection and regulation control activities decreases productivity (***Escribano and Guasch, 2005***).
- The end of India's License Raj increased productivity through relaxation of entry constraints (***Chari, 2011***).

*These are exemplary tools, which can be developed and utilized during the project set-up stage.

1. Introduction

1.1 Scope of the assignment

This report was prepared at the request of the Donor Committee on Enterprise Development's (DCED) Business Environment Reform (BER) Working Group, with the goal of developing an evidence-based measurement framework. Over a nine-month period, the Just Results team conducted research, interviews, and an iterative brainstorming process [4] that included representatives from DCED and case study projects, to address the following questions posed in the scope of work:

- Achieving a strong narrative (reflected in the Theory of Change) on how BER contributes to overarching impacts of structural transformation, leading to higher productivity, increased investment and more and better jobs.
- Is there an alternative or better measure of the state of a country's business environment than the Doing Business report (which doesn't reflect business experiences)?
- What are the key indicators that all BER programs should measure?
- Is it possible to collate sources of global data that donor and development agencies can use to inform the indicators (and map these against the indicators)?
- Is there evidence available on linkages between BER, poverty reduction, increases in prosperity (e.g., increased investment, productivity), the informal economy (e.g., transition from informal to formal) and structural transformation (e.g., a declining share of agriculture in GDP and employment)?

The Donor Committee on Enterprise Development (DCED) is a forum for facilitating exchange and sharing information on what works for private sector development – based on practical experience and evidence on results. It consists of six working groups – private sector engagement, market systems development, results measurement, business environment, women's economic empowerment, and green growth. The committee currently (2020) consists of 24 member agencies including international organizations, government and philanthropic agencies, multilaterals, and bilateral donors.[5]

This report builds on DCED's prior work including the guidance titled "Supporting Business Environment Reforms: Practical Guidance for Development Agencies" (2008), the consequent annex titled "Supporting Business Environment Reforms: Practical Guidance for Development Agencies - Annex: Measuring Donor-Supported Business Environment Reform" (2013), and the DCED Standard for Results Measurement in Private Sector Development (2017).

This report, titled "Enhancing the Use of Evidence and Results Measurement in Business

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[4] Through meetings, presentations, and interviews, both formal and informal.

[5] DCED. (n.d.). Introduction to the DCED. Retrieved from - https://www.enterprise-development.org/about-the-dced/

Environment Reform Programming", with its annexes, including the guidance note titled "Practical Guidance on Enhancing the Use of Evidence and Results Measurement in Business Environment Reform Programming" represents the full compilation of work culminating from a nine-month process of research and collaboration.

This report includes four chapters and adjoining annexes –

- An introduction to the research project and its methodology, the field of BER including widely accepted definitions, origins of the field, and the challenges results measurement presents in this area,
- A new theory of change developed with standard definitions for its various components and a summary of evidence on result of BER reforms in various functional areas as well as the interaction of higher economy level impacts like employment, economic growth, increased investment, etc. arising from BER outcomes,
- Practical guidance on project set-up, results framework development, and use indicators for effective results measurement,
- A summary of findings and recommendations for improving results measurement in BER in the future, and
- Annexes containing lists of interviews, case studies, and an interview guide utilized during the research process

1.2 Methodology

The development of this report was an iterative process and data was collected through four primary sources. These included a literature review, interviews with members of DCED, interviews with project managers of active BER projects, and a series of meetings with committee members to discuss and review the work at various stages.

1.2.1 Literature Review

While a systematic review of the entire body of work in the field of BER would be a large undertaking that was not possible within the time frame, the team comprehensively reviewed the literature limited to the salient points relevant to development of the theory of change and results frameworks for BER programs. This included studying evidence related to the nine DCED functional areas and the outcomes of activities relating to the same, as well as reviewing the interaction of higher economy-level outcomes and impacts like employment, investment, productivity, economic growth, and poverty reduction. The review also included a summary of contributing schools of thought in the field. In this process, the team reviewed over 270 works of academic and grey literature. The literature review was circulated to the members of the committee for comments in the initial stages of the development of this report. The findings from the literature review are interspersed throughout this report, though primarily concentrated in the section titled "summary of evidence". It must be noted that though comprehensive, the literature review does not represent the whole body of work in this field. Furthermore, due to the use of the DCED functional areas as a skeleton to organize the evidence seeking process, certain points of view may not be fully represented.

1.2.2 Interviews with members of DCED

Interviews were conducted with various members of the committee representing international organizations, multilaterals, and bilateral donors. These included representatives from World Bank (WB), International Labour Organization (ILO), United States Agency for International Development (USAID), UK Foreign, Commonwealth, and Development Office (FCDO), Switzerland's State Secretariat for Economic Affairs (SECO), Investment Climate Reform Facility (ICR), and International Finance Corporation (IFC). These interviews included but were not limited to conversations surrounding the goals, roles, and approach of these organizations as they relate to BER, their specific niches in BER programming, their organizations' typical theories of change, specific projects the organizations considered to be successful case studies, as well as what they believed to be challenges and successes in results measurement in the field. A complete interview guide is provided in the Annex.

1.2.3 Interviews with project managers of active BER projects

The team also conducted multiple rounds of interviews with staff of active BER projects. These projects were either referred to the team by the committee or found through team member's experience in the project countries. The project used these interviews as well as project documents including monitoring and evaluation plans, annual and semi-annual reports, and project planning documents as the repository of data to inform the case studies. The final projects that were used as case studies are –

1. Tunisia Investment Climate Reforms (Program II)
2. Tunisia Jobs, Opportunities, and Business Success
3. Inclusive Socio-Economic Development project in Beni Mellal-Khénifra, Morocco
4. Reforming No Objection Certificates in Punjab, Pakistan

1.2.4 Meetings with DCED members

Multiple meetings were conducted with the working group members, including a three-presentation series presenting a new and improved BER theory of change to solicit feedback and guidance on the same. These meetings presented the theory of change and traced real examples of existing projects through the levels of the theory of change to validate it and demonstrate its usability and efficacy. These meetings also introduced some new concepts and garnered positive feedback from members of the working group who are also practitioners in the field.

These various methods contributed to the development of the new theory of change proposed in this report. The meetings and interviews revealed that the structure of the results chains utilized in BER were fluid, changing from agency to agency, and project to project. Through mapping the evidence from the literature review onto a generic results chain including activities, outputs, outcomes, and impacts, a BER-specific results chain emerged. This new theory of change was vetted and refined through many meetings with the working group. This new theory of change is unique in that it clarifies 3 key concepts which are discussed in greater detail in the report. To summarize:

1. A separation of the outcome level into two levels – firm/agency outcomes and market/network outcomes.
2. A definition for "institutions" and institutional outcomes that encompasses both the rules and the players of the game.
3. Standards patterns of change through which BER activities lead to outcomes.

In addition to clarifying these concepts, the team also considered other systems level dynamics. First, how different variables in BER interact; whether certain activities complement each other, oppose each other, or pose as catalysts for other activities. For instance, is land titling alone effective for access to collateral for finance, if titling alone does not ensure *de facto* ownership and control of land? Additionally, how can market systems analysis be incorporated into BER programming[6]. Systems theory is primarily studied regarding private sector development on a large scale, not focussing on business environment reform and associated patterns of change. A preliminary attempt to define these has been made by the team in its identification of 6 patterns of change - changes in capacity (demonstrated by knowledge application and skills utilization), changes in investor perception (based, among other things on reduced time and costs of compliance) and changes in market dynamics (more choices, and amplification). These have been confirmed by the evidence gathered in the literature review stage. However, this is a preliminary attempt that needs refinement. The real solution is to identify systems level patterns through economic and/or systems modelling.

1.3 What is business environment reform (BER)?

Business environment is defined by the DCED 2008 Donor Guidance on BER: "as a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate (e.g., government agencies, regulatory authorities, and

[6] For resources that describe the impact and effectiveness of programs that use the market systems approach see – BEAM Exchange (2018). Evidence Map. Retrieved from - https://beamexchange.org/resources/evidence-map/
See also – Miguel Laric. 2012. Systems Change in the Business Enabling Environment (BEE) – Investment Climate Practice Note. UKAID Department for International Development.

business membership organizations including businesswomen associations, civil society organizations, trade unions, etc.)"[7]

International donors and academics have used a variety of terms for the business environment, including investment climate (e.g., World Bank and IFC) and business enabling environment (e.g., USAID). In this document we will continue to use the DCED's previously agreed upon definition of business environment, considered a subset of the larger investment climate or "overall context for investment in an economy, namely all the factors which a prospective investor (domestic or foreign) may take into consideration before investing."[8]

Perhaps more important than the actual words of the definition is that fact the business environment reform involves changing policies, laws, regulations, procedures, and organizations – and therefore requires a close partnership with the government. BER is not the same as private sector development, although it is complementary and private sector development programs often contain a BER component. BER programs may be national and broad in scope, working across multiple functional areas, government agencies, and reform areas – multilateral donors such as the World Bank and IFC tend to operate programs like this, often with support from other DCED member donors such as the Foreign, Commonwealth, and Development Office (FCDO) UK or State Secretariat for Economic Affairs (SECO). Bilateral donors such as USAID or *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) are more likely to combine their BER work with private sector development activities, such as direct assistance to small and medium enterprises, value chain strengthening, etc.

1.4 Functional areas of business environment reform (BER)

DCED has previously defined the key functional areas of BER as:

1. Simplifying business registration and licensing procedures
2. Improving tax policies and administration
3. Enabling better access to finance
4. Improving labour laws and administration
5. Improving the overall quality of regulatory governance
6. Improving land titles, registers, and administration
7. Simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms

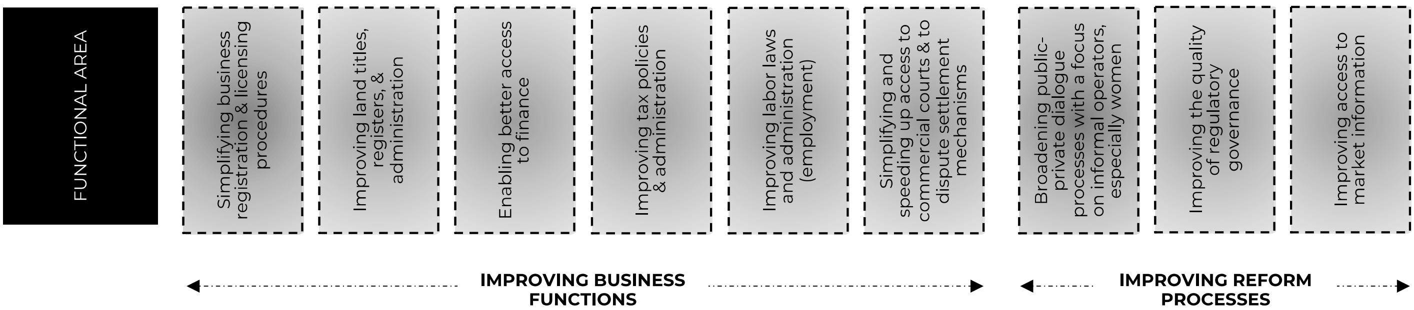
[7] DCED. "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies," 2008. https://www.enterprise-development.org/wp-content/uploads/DonorGuidanceEnglish.pdf
[8] Further discussion of the definitional differences between donors is included in the following sources:
European Commission. "Business Environment Reform: Guidelines," February 2020. http://www.businessenvironment.org/dyn/be/docs/detail2/309/6
DCED. "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies," 2008.

8. Broadening public-private dialogue processes with a particular focus on including informal operators, especially women
9. Improving access to market information

These functional areas, while an important means of categorization, do not adequately encompass the depth and variety of work conducted in this field. New proposed areas under consideration include: (1) strengthening competition policy, (2) improving accounting, auditing, and business transparency, (3) establishing, implementing, and ensuring compliance with standards (technical, social/labour, environmental), (4) green growth, and (5) the digital economy. There is also general agreement among members of the BER committee that trade facilitation should have been included already, and indeed the DCED indicators do cover trade facilitation.

The nine current functional areas are also not comparable since they are not organized by a grounding logic. Below is a recategorization of the functional areas around the stages of an enterprise lifecycle. It utilizes stages of the enterprise lifecycle as the functional areas and treat cross-cutting considerations like inclusion and sustainability and amplifiers like PPD and quality of regulatory governance as separate from business functions.

Figure 1 Functional areas of BER re-ordered



For this report, while the functional areas do not provide additional rigor, they have been useful as a definitional tool to categorize BER activities across countries and projects. However, in line with the discussion above, they have been reordered into two buckets, as shown in Figure 1 and when discussing illustrative project examples. The team focused primarily on the six areas related to business functions.

Improving business functions:

1. simplifying business registration and licensing procedures,
2. improving land titles, registers, and administrations,
3. enabling better access to finance,
4. improving tax policies and administration,
5. improving labour laws and administration, and
6. simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms.

Improving reform processes:

1. broadening public-private dialogue processes with a particular focus on including informal operators, especially women,
2. improving the quality of regulatory governance, and
3. improving access to market information.

Some are related to direct business functions where businesses interact with the government or with each other. These are thematic and oriented around the business lifecycle: (1) simplifying business registration and licensing procedures, (2) improving land titles, registers, and administration, (3) enabling access to finance, (4) improving tax policies and administration, (5) improving labour laws and administration, and (6) simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms. These all relate to vital business functions like starting up a business, acquiring property, accessing start-up, operating, or scaling up capital, paying taxes, employing workers, and accessing contract enforcement mechanisms and managing commercial disputes. It can be argued that these do not adequately address all business functions (as per proposed areas above). Conversely, the remaining areas are not directly related to business functions. These relate to either improving the business environment reform process or improving the process of businesses performing the previously mentioned business functions. These are – (1) broadening public-private dialogue processes with a particular focus on including informal operators, especially women, (2) improving the quality of regulatory governance, and (3) improving access to market information. These are considered as *amplifiers*, that improve the quantity or quality of reforms made to the six business function areas. For instance, public private dialogue can help identify, and build support for, necessary reforms by strengthening the connection between actors in the government and the private sector.[9] However, without the implementation of these reforms, PPD does not yield economic outcomes.

[9] In World Bank-sponsored PPDs in 30 countries over 5 years, "the PPD network could be associated with about 400 reforms and $400 million in private sector savings." See World Bank. "Review of World Bank Group Support to Structured Public-Private Dialogue for Private and Financial Sector Development," April 2009. http://www.publicprivatedialogue.org/workshop%202009/Review%20of%20World%20Bank%20Group%20Support%20to%20PPD%20-%20April%202009.pdf

The difficulty of categorizing BER work into functional areas is a classic example that illuminates a challenge and the need for standard definitions in the field. Currently, there aren't clear definitions of how different BER activities fit into business functions. Other than business function, it is also possible to categorize BER activities through different lenses, like:

- the specific sector/industry the reform is conducted in like agriculture, information technology, mining, etc.
- what geographic level the reform is implemented in (global, regional, national, sub-national, etc.)
- what specific type of activity the reform is funnelled through (policies, laws, regulations, procedures, or organizational change, or a combination of them)

There may be additional ways to look and categorize BER activities. While seemingly tedious, this categorization will allow practitioners to compare projects and aggregate cross-project data to paint a picture of a country's/region's reform process.

1.5 Levels of reform

As mentioned in both 2008 DCED BER guidance and the 2013 Annex, BER programming includes interventions at one or more levels of reform.[10] BER reform can happen at the level of policy, law, regulation, procedure, or organizations or some combination of the above. Below is defined what is meant by each to help set the stage for defining types of BER programs and what kinds of measurement is best applied to each.

Policy: A course of action adopted or created by the government in response to public problems.[11]

> In the context of public policy, such as in BER, it is useful to take a narrow definition of policy which distinguishes between policy and regulations and laws (e.g., while law can compel or prohibit behaviours, policy merely guides actions including the decisions to pass laws and regulations).[12] Policies can include a variety of components directing action, including vision, strategy, and guidance on implementation (which in turn leads to the lower levels of reform: law, regulation, etc.).

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[10] DCED. "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies," 2008. https://www.enterprise-development.org/wp-content/uploads/DonorGuidanceEnglish.pdf DCED. "Supporting Business Environment Reforms Supporting Business Environment Reforms Practical Guidance for Development Agencies - Annex: Measuring Donor-Supported Business Environment Reform," 2013.

[11] Sara Rinfret, Denise Scheberie,and Michelle Pautz. "Chapter 2: The Policy Process and Policy Theories" in *Public Policy: A Concise Introduction.* SAGE Publications: 2018. pp. 19-44. ISBN 978-1-5063-2971-0.

[12] Mădălina Voican. "Government's Role in Coordination of Decision- Making Process: Government's Role in Coordination of Decision- Making Process," *Revista de Științe Politice. Revue des Sciences Politiques*, 2008 no. 17, pp26-31. https://www.ceeol.com/search/article-detail?id=733087

Law: Written rules put in place by a government to govern conduct, backed and sanctioned by the power of the state by means of legal capacities and legal redress.

While law can be broadly defined as "a scheme of social control, backed and sanctioned by the power of the state for the protection of social interests, by means of legal capacities and legal redress," it is practical to define it more precisely as the written mandates which govern conduct for those aspects of daily life that operate under the authority of the government – usually issued either by legislative or executive branches of government. This is as opposed to regulations which are rules that are put in place to implement the dictates of a law – usually through power devolved to agencies by the legislative or executive branches.[13] This definition attempts to catch this nuance.

Regulation: The primary vehicle by which governments implement policies and laws. They are specific instructions concerning what individuals, businesses, and other organizations can or cannot do.

As noted by regulatory scholar David Levi-Faur, those who define regulation are divided into two camps: those with state-centric definitions of regulation and those who define regulation in broader institutional terms (e.g., civil-to-civil regulation).[14] For the purposes of BER reform, it makes sense to define regulation strictly in the legal sense rather than the broader institutional sense which can include several forms of non-government "regulation." For this reason, we chose the narrower definition above, adapted from Dudley and Brito (2012) as simple and practical in its application to BER and use by practitioners.[15]

Procedure: A set of interactions between businesses and government whereby the business provides information, pays a fee, and requests permission for something or recognition of something, and the government grants (or not) such permission or recognition.

Procedural reform is also referred to as administrative reform, while administrative procedures may also be called formalities. Sometimes BER activities focus on authorizations such as licenses or permits. An authorization is the permission granted by the government to businesses as the final step in a procedure. This can include both activity authorizations (required prior to entering the market) and administrative authorizations (ongoing regulatory requirements for existing enterprises).

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[13] Willis, Hugh. "A Definition of Law". *Virginia Law Review*, Evander, January 1926, **12** (3): 203–214. https://www.repository.law.indiana.edu/cgi/viewcontent.cgi?article=2248&context=facpub

[14] David Levi-Faur. "Regulation and Regulatory governance," in *Handbook on Politics and Regulation*, e.d by David Levi-Faur. Cheltenham: Edward Elgar P, 2011.

[15] Susan E. Dudley and Jerry Brito. "Regulation: A Primer," Mercatus Center, 2012. https://www.mercatus.org/system/files/RegulatoryPrimer_DudleyBrito_0.pdf

Organizational change: Any activities to improve the structures, functioning, and/or capacity of organizations and their members.

In this work, organizations are regarded as entities that have some form of membership, shared goals, hierarchy, and decision-making autonomy.[16] Using this definition, organizations include three main types – private sector organizations (including firms, cooperatives, business associations, networks, chambers of commerce, business advocacy groups etc.), civil society organizations (non-profit research or advocacy organizations), and public sector organizations (government agencies, ministries, legislative bodies, etc.), In addition to these, there are also organizations of a public-private nature like public-private dialogue committees, tri-partite forums, etc. In BER, organizational change refers to the capacity development of the entities listed above. Capacity development is the "process by which individuals, groups and organizations, institutions and countries develop, enhance and organize their systems, resources and knowledge; all reflected in their abilities, individually and collectively, to perform functions, solve problems and achieve objectives."[17] Four core issues that influence capacity development are "institutional arrangements, leadership, knowledge, and accountability", and 5 functional capacities that are addressed through this process are – "to engage stakeholders; to assess a situation and define a vision; to formulate policies and strategies; to budget, manage and implement; and to evaluate."[18]

1.6 Origins of the field

Social scientists have long studied the various policy, legal, institutional, regulatory, and administrative conditions for businesses to develop and thrive. While BER is a relatively recent field, it draws upon several other fields of economics and political economy, some old and some new. These prominently include the fields of regulatory economics, governance, and rule of law (broadly including new institutional economics and the field of law and economics), competitiveness, market systems development, and e-government.

1.6.1 Regulatory economics

There is substantial literature on the history and origins of regulatory economics from the 19th century onwards, which will be only briefly summarized here as relevant for BER.[19] Economic

[16] Stefan Kühl. "Chapter 1 – Organizations: What are They, actually?" *Organizations – A Systems Approach.* 1st Edition. 2014. Routledge. ISBN 9781315247526

[17] OECD, 2006, DAC Guidelines and Reference Series Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation, OECD, Paris.

[18] OECD. 2011. Perspective Note: Environment for Capacity Development.

[19] Claudia Goldin and Gary D. Libecap. *The Regulated Economy: A Historical Approach to Political Economy*, University of Chicago Press: January 1994.

regulation is by definition a tool of government in market economies.[20] As such, with the move away from centrally planned economies and state ownership, regulatory economics has gained increasing attention. Although regulation played an extensive part in the economies of the United States and Europe in the 18th and 19th centuries, it was only in the late 19th century that regulatory economics as a field began to develop. Early theories of regulatory economics, derived from formalization of welfare economics associated with Walras, Pareto, and Pigou and further developed by Keynes and others, led to the origins of the public interest theory of regulation. Public interest theory saw regulators as technicians who corrected "market failures" through regulation. Proponents of public interest theory generally viewed markets as efficient, but in need of government intervention when they, at times, failed to allocate resources efficiently.[21] In these scenarios, regulation was deemed appropriate as a method of addressing asymmetric information, competition, externalities, and public goods.[22]

As the field of regulatory economics continued to develop in the mid-20th century, economists examined real-life exceptions to the predictions of public interest theory, where regulations did not in fact promote the public interest but rather those of corporations or other special interests. While this concept was not new – Adam Smith referenced rent seeking behaviour in *Wealth of Nations*[23] – the theory of regulatory capture became especially prominent in mainstream economics during the 1960s-70s and remains a prominent concept in economic and political discourse to this day (Stigler, 1971; Quirk, 1981).[24] Regulatory capture is often divided in the literature into two categories: 1) Strong capture: where the regulation no longer serves public interest and may even harm it, and 2) Weak capture: where the public interest is still served by the regulation, but capture dampens its benefits. "Weak capture" is generally considered somewhat ubiquitous, and the focus of policy recommendations is generally on countering strong capture (Carpenter and Moss).[25]

In the second half of the 20th century, the increased focus on regulatory capture led to growing emphasis on an alternative theory of regulation: public choice. While most often associated

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[20] Martin Ricketts. "Economic regulation: principles, history, and methods," in *International Handbook on Economic Regulation*, Edward Elgar: 2006, (pp.34-62). https://www.researchgate.net/publication/286291621_Economic_regulation_principles_history_and_methods

[21] Martin Ricketts. "Economic regulation: principles, history, and methods," in *International Handbook on Economic Regulation*, Edward Elgar: 2006, (pp.34-62). https://www.researchgate.net/publication/286291621_Economic_regulation_principles_history_and_methods

[22] Susan E. Dudley and Jerry Brito. "Regulation: A Primer," Mercatus Center, 2012. https://www.mercatus.org/system/files/RegulatoryPrimer_DudleyBrito_0.pdf

[23] Adam Smith. *The Wealth of Nations,* Book IV Chapter VIII, p. 145, para. c27.

[24] See among others: George J. Stigler. "The Theory of Economic regulation," *The Bell Journal of Economics and Management Science*, vol. 2, no. 1, Spring, 1971, pp. 3-21. https://www.jstor.org/stable/3003160
Paul J. Quirk. *Industry Influence in Federal Regulatory Agencies*, Princeton University Press: 1981. https://www.jstor.org/stable/j.ctt7zvk5b

[25] Daniel Carpenter and David Moss. *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*, Cambridge University Press: 2014. https://www.tobinproject.org/sites/tobinproject.org/files/assets/Introduction%20from%20Preventing%20Regulatory%20Capture.pdf

with Nobel laureate James Buchannan, public choice theory has its roots in earlier work, by the Scottish economist Duncan Black in the late 1940s as well as Kenneth Arrow's 1951 book, *Social Choice and Individual Values*.[26] Building inthese and other works, James Buchannan and Gordon Tullock's 1962 book *Calculus of Consent: Logical Foundations of Constitutional Democracy*, brought public choice theory into mainstream economics, with Buchannan winning the Nobel prize for Economics in 1985.[27]

Public choice theory takes market principles and applies them to collective decision making, such as in government. As individual behaviour is generally seen as being primarily motivated by self-interest in marketplace, public choice theory opines that this is also the case in collective decision making: public and private choice processes differ, not because the motivations of actors are different, but because of differences in the incentives and constraints each set of actors faces in the pursuit of self-interest.[28] In short, public choice economists pointed out that while regulators in theory should be identifying market failures and offering a government solutions, in reality government failures are also pervasive due to rent seeking and self-interest on the part of bureaucrats (Ricketts, 2006; Niskanen, 1971).[29]

The origins of the BER field derive in large part from this movement in mainstream economics during the second part of the 20th century to assess the negative as well as positive effects of regulation on business. An early trailblazer was Hernando de Soto, whose 1989 study on business entry in Lima, Peru found that the enormous burden of administrative procedures led most Peruvian entrepreneurs to remain informal.[30] Since de Soto's influential study, a large body of literature has emerged examining not only the regulatory and administrative burdens for business but also other legal and institutional conditions for businesses to succeed. While regulation is only one aspect of BER, this field and the work of De Soto and his successors contributed to the founding of the World Bank's Doing Business project and the proliferation of BER globally (more on this below).

1.6.2 Governance and Rule of Law

"Why are the ambitions of economic development practitioners and reformers so often disappointed?" was the question asked by Nobel laureate Oliver Williamson in his 1998 paper,

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[26] Charles Rowley and Friedrich Schneider. *Readings in Public Choice and Constitutional Political Economy*, Springer: 2008. https://books.google.com/books?id=3X0HxOHjw8MC&pg=PA83&lpg=#v=onepage&q&f=false

[27] James Buchannan and Gordon Tullock. *Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press: 1962.

[28] Charles Rowley and Friedrich Schneider. *Readings in Public Choice and Constitutional Political Economy*, Springer: 2008. https://books.google.com/books?id=3X0HxOHjw8MC&pg=PA83&lpg=#v=onepage&q&f=false

[29] Martin Ricketts. "Economic regulation: principles, history, and methods," in *International Handbook on Economic Regulation*, Edward Elgar: 2006, (pp.34-62).
William Niskanen. *Bureaucracy and Representative Government*, Transaction Publishers: 1971. https://books.google.com/books/about/Bureaucracy_and_Representative_Governmen.html?id=dOYe1ld9F1QC

[30] Hernando de Soto. The Other Path: The Invisible Revolution in the Third World, Harper Collins: 1989.

"The Institutions and Governance of Economic Development and Reform."[31] While public choice theory provided one set of answers to this question, the end of the Cold War and attempts to rebuild former Soviet bloc countries and reintegrate them into the global economy, increasingly pointed to issues related to governance and institutions. Ronald Coase expressed this in his 1991 Nobel lecture saying, "The value of including...institutional factors in the corpus of mainstream economics is made clear by recent events in Eastern Europe. These ex-communist countries are advised to move to a market economy, and their leaders wish to do so, but without the appropriate institutions no market economy of any significance is possible. If we knew more about our own economy, we would be in a better position to advise them."[32]

Governance is a broad and often ill-defined subject area that encompasses fields in economics and political science and can include components such as rule of law, voice and accountability, corruption control, and state capture.[33] 'New institutional economics' is one such governance field with relevance for BER. New institutional economics far predated the end of the Cold War, however the post-Cold War era and afterwards the War on Terror provided momentum in the adoption of its ideas, and the study of governance and institutions more broadly, in the field of economic development. New institutional economics combines insights from traditional economics with earlier work on institutions from economics, sociology, and political science. It assumes a world of actors who are rational but also subject to information asymmetries and other cognitive limitations. As such, institutions (whether formal or informal) are formed in large part as a method of reducing transaction costs.[34]

New institutional economics has its roots in the work of Ronald Coase[35] and Oliver Williamson (who coined the phrase in 1975)[36] among others. However, another Nobel laureate, Douglass

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[31] Oliver Williamson. "The Institutions and Governance of Economic Development and Reform," *American Economic Review*, February 1998, 88(2):75-79. https://www.researchgate.net/publication/4726247_The_Institutions_of_Governance

[32] Ronald Coase. "The Institutional Structure of Production," Lecture to the memory of Alfred Nobel, December 9, 1991. https://www.nobelprize.org/prizes/economic-sciences/1991/coase/lecture/

[33] Daniel Kaufmann. "Rethinking Governance Empirical Lessons Challenge Orthodoxy," World Bank, March 2003. https://web.archive.org/web/20070625201750id_/http://www1.worldbank.org/publicsector/anticorrupt/CoreCourse2005/rethinkgovstanford.pdf

Douglass North. "Transaction costs, institutions, and economic performance," International Centre for Economic Growth, 1992. https://khosachonline.ucoz.com/_ld/1/144_chi_ph_gd-th_ch.pdf

[34] Walter W. Powell and Paul J. DiMaggio. *The New Institutionalism in Organizational Analysis*, University of Chicago Press: 1991. https://www.bibliovault.org/BV.landing.epl?ISBN=9780226185941

[35] Coase's papers "The Nature of the Firm" (1937) and "The Problem of Social Cost" (1960) were pivotal to the development of new institutional economics, though predating the field as it later became known.

Ronald Coase. "The Nature of the Firm," *Economica*, New Series, vol. 4, no. 16, Nov., 1937, pp. 386-405. https://www.jstor.org/stable/2626876

Ronald Coase. "The Problem of Social Cost," *Journal of Law and Economics*, vol. 3, October, 1960, pp. 1-44. http://home.cerge-ei.cz/ortmann/UpcesCourse/Coase%20-%20The%20problem%20of%20Social%20Cost.pdf

[36] Oliver Williamson. "Markets and Hierarchies, Analysis and Antitrust Implications: A Study in the Economics of Internal Organization," University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship, 1975. https://ssrn.com/abstract=1496220

North, is most often associated with the new institutional economics school of thought. North wrote several important works on the subject,[37] and one paper in particular exemplifies how the theories of new institutional economics informed the field of BER. North's 1995 work, "The New Institutional Economics and Third World Development," discusses the historical development of what he calls the social environment for economic change, describing the development of institutions as ways of mitigating transaction costs. Three other North findings offer political economy implications relevant to BER:

1. Institutions are informal as well as formal, with informal "rules" being very slow to change. As such, transferring formal economic and political rules from successful Western countries is "not a sufficient condition for good economic performance" in non-Western countries.
2. Because government enforces economic rules, "the heart of development must be the creation of polities that will create and enforce efficient property rights."
3. Policy should be guided by adaptive rather than allocative efficiency, ensuring institutions can flexibly adapt to changing technological, demographic, and economic realities.[38]

Since the 1990s the influence of new institutional economics on BER has been strong (Kauffman, 2003; Moore and Schmitz, 2008; Martinez and Allard, 2008).[39] However, some authors remain wary of placing emphasis on institutions over other factors in BER. For instance, Gillanders and Whelan (2014) find that the "focus on the primacy of legal and political institutions may be misplaced" and that measure of business environment used by the World bank's Doing Business index are much more explanatory of a country's income per capita than a wide array of legal and political institutional quality indicators.[40]

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[37] Among others: Douglass North. ""Institutions and economic growth: An historical introduction". *World Development*., vol.7, no. 9), September 1989, pp. 1319–1332.
https://www.sciencedirect.com/science/article/abs/pii/0305750X89900752?via%3Dihub
Douglass North. Institutions, Institutional Change and Economic Performance, Cambridge University Press: 1990.
Douglass North. "Institutions," *Journal of Economic Perspectives*, vol. 5, no. 1, Winter 1991, (pp. 97-112).
https://www.aeaweb.org/articles?id=10.1257/jep.5.1.97
Douglass North. "Transaction costs, institutions, and economic performance," International Centre for Economic Growth, 1992. https://khosachonline.ucoz.com/_ld/1/144_chi_ph_gd-th_ch.pdf

[38] Douglass North. "The New Institutional Economics and Third World Development," in *The New Institutional Economics and Third World Development*, J. Harris, J. Hunter, and C. M. Lewis, ed., 1995, pp. 17-26.

[39] Daniel Kauffman, "Rethinking Governance Empirical Lessons Challenge Orthodoxy," World Bank, March 2003.
https://web.archive.org/web/20070625201750id_/http://www1.worldbank.org/publicsector/anticorrupt/CoreCourse2005/rethinkgovstanford.pdf
Mick Moore and Hubert Schmitz. "Idealism, Realism and the Investment Climate in Developing Countries," Institute for Development Studies Working Paper 307, June 2008.
https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/4166/Wp307.pdf
Candace A. Martinez and Gayle Allard. "Foreign Direct Investment and Social Policy: The Links In Developing Countries," *FDI and Social Policy*, vol. 11, 2008.
https://www.jjay.cuny.edu/sites/default/files/contentgroups/center_international_human_rights/jbdnv1103_0.pdf

[40] Robert Gillanders and Karl Whelan. "Open For Business? Institutions, Business Environment and Economic

The post-Cold War era also gave prominence to other governance streams of thought that are relevant to BER, such as rule of law, transparency, and accountability. In his influential 1998 *Foreign Policy* article, "The Rule of Law Revival," Thomas Carothers defined rule of law as "a system in which laws are public knowledge, are clear in meaning, and apply equally to everyone," going on to enumerate more specific qualities which rule of law encompasses the protection of political and civil liberties, fair and prompt judicial systems with a presumption of innocence, and a legal framework which ensure government officials are held to the same code of conduct as citizens.[41]

An important rule of law topic highlighted in the BER literature is property rights. Following his work on the regulatory aspects of the business environment, Hernando de Soto addressed property rights in his 2001 book, *The Mystery of Capital*. De Soto introduced the concept of dead capital, referring to property which is informally held and thus cannot be exchanged (or serve as collateral) for financial capital. He describes the situation of many developing countries affected by dead capital: "An elite minority enjoys the economic benefits of the law and globalization, while the majority of entrepreneurs are stuck in poverty, where their assets—adding up to more than US$10 trillion worldwide—languish as dead capital in the shadows of the law." [42]

In sum, the literature on governance and institutions have had a profound impact on the development of BER over the past two decades. However, the application of these concepts can be challenging. While acknowledging the importance of good laws and strong institutions, Kauffman (2010) points out the importance of recognizing the gap between *de jure* aspects of the rule of law and the *de facto* realities of how law and regulation are implemented in practice.[43] Channell (2006; 2012) points out that "most legal reform projects - those in which development programs focus primarily on writing new laws or improving the efficiency of the judiciary at upholding laws - have shown little measurable positive impact." [44] According to Channell and colleagues, most reform projects fail to account for local realities, do not use participatory methods, and ultimately are unable to ensure that legal systems are inclusive and

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Development," *Kyklos*, vol. 67, no. 4, November 2014, Pages 535-558.
https://onlinelibrary.wiley.com/doi/abs/10.1111/kykl.12067

[41] Thomas Carothers. " The Rule of Law Revival," *Foreign* Policy, March/April 1998.
http://its.law.nyu.edu/faculty/coursepages/data/Carothers%20on%20Rule%20of%20law%20revival.pdf

[42] Hernando de Soto. The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else, Black Swan: 2001.

[43] Daniel Kauffman. "Rule of Law Matters: Unorthodoxy in Brief," Brookings Institution, January 21, 2010.
https://www.brookings.edu/research/rule-of-law-matters-unorthodoxy-in-brief/

[44] Wade Channell. "Rule of Law and Development: A Better Role For Lawyers," Why Nations Fail: 2012 International Law Weekend Panel Addresses Law and Development Movement, Underlying Assumptions, and Challenges, 2012.
https://nsuworks.nova.edu/cgi/viewcontent.cgi?article=1798&context=ilsajournal
Wade Channell. "Lessons not Learned about Legal Reform," Promoting the Rule of Law Abroad: in *In Search of Knowledge* ed. by Thomas Carothers, Carnegie Endowment for International Peace:2006.
Channell also contributed to developing USAID's BizCLIR methodology which attempted to account for these challenges by examining CSO participation and social dynamics in addition to government institutions.

relevant.[45] Thomas Carothers (1999) also points out the challenges of measuring governance related reforms, compared to economic reforms.[46] Other relevant literature, notably by Matt Andrews, has discussed methods for the overcoming challenges in reform implementation to obtain results in institutional reform.[47]

1.6.3 Competitiveness

The concept of competitiveness was popularized by Michael Porter (1990) and has since become a fixture in the literature and practice of international economic development. [48] Porter argues that a nation's prosperity depends on its competitiveness, defined as 'sustained increases in productivity' and rooted in microeconomic fundamentals such as the sophistication of company operations and the quality of the business environment in the country. A country's competitive advantage depends on the performance of individual companies in particular sectors (and their supply chains) often "clustering" in groups of successful firms in geographic regions, which emerge to gain a leading position in the world market. Porter's theory of competitiveness emphasizes the importance of policies to boost competition, especially by eliminating regulations that limit competition and enforcement of antitrust laws.[49]

A related concept that has become influential as a framework for addressing economic competitiveness in international development, is value chain analysis. Different from Porter's horizontal supply chain analysis, value chain analysis is depicted vertically, and has its roots in agricultural marketing concepts taught at Harvard Business School in the 1950s and 1960s under the label of "commodity systems analysis," and later "sub-sector analysis."[50] This value chain concept was first applied to the field of international economic development in the 1980s by researchers at Michigan State University working on rural development in Africa. [51]

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[45] Ibid.

[46] Thomas Carothers. *Aiding Democracy Abroad: The Learning Curve*, Carnegie Endowment for International Peace: 1999.

[47] Once such method in common use in the international development field is the Problem Driven Iterative Adaptation (PDIA) approach developed by Matt Andrews and the Harvard Center for International Development's Building State Capability (BSC) program: https://bsc.cid.harvard.edu/
Matthew Andrews. The Limits of Institutional Reform in Development, Cambridge University Press: 2013.

[48] Michael Porter. "The Competitive Advantage of Nations," Harvard Business Review, March 1990. https://hbr.org/1990/03/the-competitive-advantage-of-nations

[49] Michael Porter. "How Competitive Forces Shape Strategy," Harvard Business Review, March 1979. https://hbr.org/1979/03/how-competitive-forces-shape-strategy
Michael Porter. "The Competitive Advantage of Nations," Harvard Business Review, March 1990. https://hbr.org/1990/03/the-competitive-advantage-of-nations

[50] Cynthia Steen, Rich Magnani, and Lara Goldmark. "Competitive Strategies for Agriculture-Related MSEs: From Seeds To Supermarket Shelves," USAID, June 2005. https://www.marketlinks.org/sites/default/files/resource/files/ML3520_mr_37_competitive_strategies_for_ag-related_mses.pdf

[51] James Boomgard, Stephen Davies, Steve Haggblade, and Donald Mead. "Subsector Analysis: Its Nature, Conduct and Potential Contribution to Small Enterprise Development," Working Paper No. 26, Michigan State University, 1986.

(Boomgard, et al., 1986) presented the value chain framework as a relevant way to understand to non-farm income by examining the "the interdependence of economic units, particularly those involved in the production and distribution process."

A commodity value chain, for example, is typically mapped from the point of production with goods flowing upwards through trading relationships, processing steps, and finally to distribution and consumption at end markets.[52] This framework provides a tool for analyzing the relationship between firms at different levels of the value chain to find "leverage points" where economic development interventions can yield benefits to firms or workers (e.g. "upgrading" from a low-value channel to one which offers higher returns). This mapping approach can be a key tool for sectoral BER activities, used to systematically identify legal, regulatory, and administrative constraints at each level of the value chain.

USAID's 2008 tool "CIBER: Enhancing Competitiveness Impacts of Business Environment Reforms - A Value-Chain Approach for Analysis and Action" combines Porter's competitiveness concepts with the value chain framework, and applies both to BER.[53] A CIBER analysis takes a participatory approach to identifying BER priorities, by estimating the cost and quality impacts of regulations and other constraints to competitiveness at each level of the value chain.[54] Beginning in 2011, the World Bank Group also promoted the use of a value chain approach to BER through its Investment Climate for Industry team.[55] Over the past decade, the value chain approach has been a standard component in many investment climate interventions funded by the World Bank and IFC.

1.6.4 Market Systems Development

Another relevant approach in international economic development is market systems development, referred to in some contexts as "Making Markets Work for the Poor" (M4P).[56] Market systems development sees poverty as a symptom of flaws or 'systemic constraints' in

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https://www.canr.msu.edu/fsg/publications/idwp-documents/idwp26.pdf

52 Cynthia Steen, Rich Magnani, and Lara Goldmark. "Competitive Strategies for Agriculture-Related MSEs: From Seeds to Supermarket Shelves," USAID, June 2005. https://www.marketlinks.org/sites/default/files/resource/files/ML3520_mr_37_competitive_strategies_for_ag-related_mses.pdf

53 USAID. "CIBER: Enhancing Competitiveness Impacts of Business Environment Reforms - A Value Chain Approach for Analysis and Action," USAID, August 2008.

54 Bryanna Millis and Dan Charette. "Competitiveness Impacts of Business Environment Reform: A Bottom - Up Approach," *Developing Alternatives*, vol. 9, no. 1, Winter 2009. https://www.marketlinks.org/sites/default/files/media/file/2020-10/Grounds%20for%20Growth.pdf

55 World Bank. "Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations," 2015. https://documents1.worldbank.org/curated/en/989551468334811535/Investment-climate-reform-An-independent-evaluation-of-World-Bank-Group-support-to-reforms-of-business-regulations.pdf

56 David Ferrand, Alan Gibson, and Hugh Scott. "Making Markets Work for the Poor" An Objective and an Approach for Governments and Development Agencies," July 2004. https://beamexchange.org/uploads/filer_public/94/89/9489ca71-93d6-45ba-975b-0c8cc490b59e/making_markets_work_for_the_poor_2004.pdf

the structures and processes of the social, economic and institutional environment. A market is divided into rules (e.g., laws, regulations, standards, and norms) and supporting functions (e.g., infrastructure, information, skills and technology, related services).[57] This is a broader private sector development framework that emphasizes a systemic approach to market development and includes BER as an intrinsic component. Market systems development has informed BER approaches used by several donors, notably DfID[58] and USAID.[59]

1.6.5 e-Government

Starting in the 1990s and linked to the rise of the internet and its accompanying technological revolution, e-government quickly became a new factor in the field of public administration and later BER.[60] By incorporating e-government into BER, simplification and harmonization at the levels of regulatory and procedural reform can lead to greatly reduced costs, both for the external users in the front office (e.g., businesses and citizens) and for government agencies, or in the back office.[61] In 2002, the UN Department of Economic and Social Affairs (UNDESA) published a study "Benchmarking e-Government: A Global Perspective," followed the next year by the first of the "UN e-Government Survey" reports, which continue to be published every two years to this day.[62]

In 2002, 36 countries had single entry portals and 17 countries had the ability to complete at least some government transactions online.[63] By 2020, every country except South Sudan had a national portal and backend systems automating core administrative tasks, 162 countries had at least one online transactional service, and 65% of countries were ranked as "High" on the report's e-Government Development Index (EGDI).[64] While e-government has become a near

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[57] Mike Albu. "Making Markets Work for Poor Comparing M4P and SLA frameworks: Complementarities, divergences and synergies," The Springfield Centre, June 2008. https://beamexchange.org/uploads/filer_public/1e/9d/1e9d9fac-ad67-434a-99a1-ee4afccb1715/261_sp0803.pdf

[58] Miguel Laric. "Systems Change in The Business Enabling Environment: Investment Climate Practice Note," DfID, July 2012.
http://www.businessenvironment.org/dyn/be/docs/234/INVESTMENT_CLIMATE_PRACTICE_NOTE_Taking_A_Systems.pdf

[59] USAID. "Practical Analytical Framework for Inclusive Entrepreneurial Market Systems: Assessing the Underlying Factors Enabling Inclusive Economic Growth," Feed The Future Enabling Environment For Food Security Project, October 2020. https://www.marketlinks.org/sites/default/files/media/file/2020-10/Practical%20Analytical%20Framework%20for%20Inclusive%20Entrepreneurial%20Market%20Systems.pdf

[60] C. Bellamy and A.J. Taylor. *Governing in the information age. Buckingham*: Open University Press: 1998.

[61] Mirlinda Batalli. "Simplification of Public Administration Through Use of ICT and Other Tools," *European Journal of ePractice,* March/April 2011, no. 12. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2630028

[62] UNDESA. "Benchmarking e-Government: A Global Perspective," 2002.
https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/English.pdf
UNDESA. "UN Global E-government Survey 2003," 2003.
https://publicadministration.un.org/egovkb/portals/egovkb/Documents/un/2003-Survey/unpan016066.pdf

[63] UNDESA. "Benchmarking e-Government: A Global Perspective," 2002.
https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/English.pdf

[64] UNDESA. "E-government Survey 2020," 2020.
https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2020-Survey/2020%20UN%20E-

universal priority of governments, especially recently considering the COVID-19 pandemic, it is an area not yet consistently integrated into BER programming activities.

Numerous studies have shown the positive effect on business environment and economic development that e-government can have (referenced under the functional area sections of this literature review). For instance, a study of cities in 100 countries over a 12-year period shows that higher levels of e-government are positively associated with GDP and regional competition.[65] Another recent study of 160 countries showed that increased use of e-government had significant positive impact on 6 six business areas measured by the World Bank's Doing Business report: Starting a Business, Getting Electricity, Registering Property, Getting Credit, Trading Across Borders and Protecting Minority Investors.[66]

1.6.6 Doing Business and the proliferation of BER

Perhaps the watershed moment for the field of BER, was the launch of the World Bank's Doing Business project in 2003. Doing Business was predicated on a series of World Bank studies, most importantly the 2002 paper "The Regulation of Entry," by Simeon Djankov and colleagues which has since become one of the most highly cited studies in the field of economics. This paper found that most countries had very high official costs of entry with correspondingly high levels of corruption and informality and concludes that "the evidence is inconsistent with public interest theories of regulation but supports the public choice view that entry regulation benefits politicians and bureaucrats." [67]

The Doing Business project, in the words of its first annual report, was established to provide a "new approach to measurement" which could provide cross-country comparisons using indicators directly predicated on information contained in the laws, regulations, and procedures of each country. The uses of the Doing Business reports were listed as: "1) Motivating reforms through country benchmarking, 2) Informing the design of reforms, 3)

Government%20Survey%20(Full%20Report).pdf

[65] Alex Ingrams, Aroon Manoharan, Lisa Schmidthuber, and Marc Holzer. "Stages and Determinants of E-Government Development: A Twelve-Year Longitudinal Study of Global Cities," *International Public Management Journal*, vol.23, no. 6, 2020. https://www.tandfonline.com/doi/full/10.1080/10967494.2018.1467987?src=recsys

[66] João Martins and Linda Veiga. "Electronic Government and the Ease of Doing Business," ICEGOV '18: Proceedings of the 11th International Conference on Theory and Practice of Electronic Governance, April 2018, Pages 584-587. https://doi.org/10.1145/3209415.3209438

[67] Simeon Djankov Rafael La Porta Florencio Lopez-De-Silanes and Andrei Shleifer. "The Regulation of Entry," *Quarterly Journal of Economics*, vol. CXVII, issue 1 February 2002. https://scholar.harvard.edu/files/shleifer/files/reg_entry.pdf
Other early World Bank studies on the investment climate leading up to the launch pf Doing Business included: Aymo Brunetti, Gregory Kisunko, Beatrice Weder. "Institutional Obstacles to Doing Business: Region-by-Region Results dealings with the state from a Worldwide Survey of the Private Sector," World Bank Policy Research Working Paper no. 1759, 1997. http://documents1.worldbank.org/curated/en/449061468131976033/pdf/multi-page.pdf , and Geeta Batra Daniel Kaufmann Andrew H. W. Stone. ""Voices of the Firms 2000: Investment Climate and Governance Findings of the World Business Environment Survey (WBES),"" The World Bank Group, May 2002.https://pdfs.semanticscholar.org/92c5/78e2f9855a0536bf52974d47f44c18efbdaa.pdf?_ga=2.54090536.1271681325.1597069949-1615363194.1591121798

Enriching international initiatives on development effectiveness, and 4) Informing theory [on regulatory economics].” [68]

The overall findings were summarized in the following way: “Heavier regulation was generally associated with more inefficiency in public institutions—longer delays and higher cost—and more unemployed people, corruption, less productivity and investment, but not with better quality of private or public goods.” Based on its findings the 2004 Doing Business report recommended the following best practices for countries to improve their business environment:

- Simplify and deregulate in competitive markets
- Focus on enhancing property rights
- Expand the use of technology
- Reduce court involvement in business matters
- Make reform a continuous process. [69]

Since its launch, the Doing Business project, and its associated Ease of Doing Business index (EDBI) have played an influential role in motivating governments to undertake transformational reforms and in shaping donor programming on BER.[70] The period since the launch of Doing Business has also seen an extensive growth in the literature around BER. As of September 2021, the Doing Business Report has been discontinued, citing data irregularities in the Doing Business Reports of 2018 and 2020.These initiated a series of reviews and audits of the report and its methodology[71]. The review of the data irregularities revealed required corrections for four countries – Azerbaijan, Saudi Arabia, United Arab Emirates, and China[72].

World Bank has since put forth their vision for their business enabling environment (BEE) work through a concept note which outlines their approach and priorities to address the topic. Business enabling environment (BEE) has been announced as the World Bank Group’s new

[68] World Bank. “Doing Business in 2004: Understanding Regulation,” 2004. https://www.doingbusiness.org/en/reports/global-reports/doing-business-2004

[69] World Bank. “Doing Business in 2004: Understanding Regulation,” 2004. https://www.doingbusiness.org/en/reports/global-reports/doing-business-2004

[70] Rush Doshi, Judith G. Kelley, and Beth A. Simmons. “The Power of Ranking: The Ease of Doing Business Indicator and Global Regulatory Behaviour,” *International Organization*, vol 73, no. 3. https://www.cambridge.org/core/journals/international-organization/article/abs/power-of-ranking-the-ease-of-doing-business-indicator-and-global-regulatory-behaviour/1A1A9602B52185FA0A28F3DFDE2DCF5A

Takaaki Masaki & Bradley C. Parks. “When do performance assessments influence policy behaviour? Micro-evidence from the 2014 Reform Efforts Survey,” *The Review of International Organizations,* 2020, vol. 15, pages 371–408. https://link.springer.com/article/10.1007/s11558-018-9342-3?shared-article-renderer

[71] World Bank. “World Bank Group to Discontinue Doing Business Report.” 2021. https://www.worldbank.org/en/news/statement/2021/09/16/world-bank-group-to-discontinue-doing-business-report

[72] World Bank. “Review of Data Irregularities in Doing Business.”. 2020. https://thedocs.worldbank.org/en/doc/791761608145561083-0050022020/original/DBDataIrregularitiesReviewDec2020.pdf

World Bank. “Doing Business: External Panel Review – Final Report.” 2021. https://www.worldbank.org/content/dam/doingBusiness/pdf/db-2021/Final-Report-EPR-Doing-Business.pdf quantitative approach to assessing the business and investment climate. Like Doing Business, the purpose of BEE will be to promote economic reforms. Similar to BER in this report, BEE is considered a subset of private sector development, where successful interventions are expected to bring about poverty reduction and shared prosperity.

Thinking back to the introduction of the Doing Business index, one can recall that it was a revolution of sorts. For the first time in history, comparable measures (time and cost representing administrative burden) were made available for every economy in the world. Some indicators, originally referred to using the adjective "time and motion" were built primarily using this metric. Most audiences agreed then, and agree now, that less time and cost is good for business and good for the economy. Others, called the "legal indicators" contained a more normative policy evaluation and tended to generate controversy.

The BEE concept notes states that the goal is a "balanced" approach, meaning that all themes or topics will contain indicators analyzing the quality of laws and regulations (*de jure*) and the effectiveness in which they are implemented (*de facto*), with firm-level surveys serving as the primary source for de facto data. Like DB, BEE it will include comparable measures across economies, but will first analyze each nation's economic activity and accessibility for foreign investment[73]. As DB did, BEE will use the firm lifecycle as the grounding framework, with the following stages considered: business entry, business location, utility connections, labour, financial services, international trade, taxation, dispute resolution, market competition and business insolvency.

To provide a comprehensive understanding of a nation's economy, BEE's website will feature a "complementary resources" tab, making it a one-stop shop for economic research.[74] It is still being decided how the information BEE presents will be formatted and scored, however it is clear that it will look different from, and be less stark than, DB's ranking system.

1.7 Challenges in BER results measurement

In all fields, there are difficulties in measurement. There are some challenges that are endemic to results measurement in economic growth programming. At the core of these challenges is the interconnectedness of economies. This means that the effects of interventions are likely to bleed into different markets, communities, sectors, etc. In addition to this, economies are

[73] The greater emphasis on foreign investment is new; DB case studies were previously based on domestic small businesses. Given that the index was used internationally, and BEE will also have an international audience, this shift makes sense. The move away from case studies does beg the question, however, whether it is possible to provide information that is as simple and clear as DB was when there are so many with so many different possible outcomes to evaluate.

[74] These resources will include the *Worldwide Governance Indicators* information on corruption, *Women Business and the Law* for gender, *Human Capital Index* for human capital, *United Nations Office on Drugs and Crime Statistics* for violence, and others. For each theme, international standards will be considered such as UNCITRAL, International Benchmarking Network (IBNET), the International Telecommunication Union (ITU), and Regulatory Indicators for Sustainable Energy (RISE) of the World Bank.

diverse in their characteristics, not only at the global and national level, but at the local level too. Does BER mean the same thing in a developed country context, a fragile country context, or a middle or lower-income country context? Does it mean the same for a trade-driven or investment-driven economy? An extractive, industrial, or service-based economy? Some specific challenges associated with measuring results in business environment reform are:

- Many (though not all) BER programs are explicitly designed to achieve economy-wide transformation, however numerous factors (including external shocks and global trends) play a major role in determining whether such a transformation can occur.
- Not all business environment practices are clearly laid-out. [75]
- It is not always clear what "success" in BER entails.[76] While there is general agreement about the benefits of reducing administrative burden, there are instances where regulatory burden is justified. Situations where regulations ensure safety like obtaining construction permits or starting businesses that involve hazardous materials.
- BER programs typically involve very long results chains that contain many elements (e.g., policy, legal and regulatory frameworks, administration, and governance systems).
- The development and implementation of policy is often not linear. There may be political influences that resist change or retard progress, just as there can be influences that trigger change and create a more cohesive demand for reform.
- Control groups, and even comparison groups, are next to impossible to establish for BER interventions. This creates the challenge of attribution.

In economic development, the challenge of attribution of results to interventions is pervasive. Some stakeholders believe that "it may not be realistic that evaluations of donor interventions should be able to measure the extent to which observed changes in firm behaviour could be attributed to [a] specific [BER] intervention".[77] "Attribution refers to both isolating and estimating accurately the particular contribution and ensuring that causality runs from the intervention to the outcome."[78] However, rigorous attribution is grounded in the assumption that a counterfactual (what would the outcome have been if the reform measure had not been implemented?)[79] can be established.

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[75] This challenge is further detailed in the 2013 DCED guidance as follows: "For example, there can be significant differences in what the law says and how it is implemented. Thus, outcomes are not always clearly observable or measurable. There are also qualitative aspects in BER that are not always easy to capture. The effects of improvements in the quality of regulation on business behaviour can be difficult to track and measure. Similarly, improvement in government services to business, while at the heart of business environment transactions, opens different analytical challenges and heightens the importance of tracking results among local systems."

[76] International Finance Corporation in collaboration with GTZ and DFID. 2008. Monitoring and Evaluation for Business Environment Reform: A Handbook for Practitioners. *IFC Advisory Services BEE Business Line.*

[77] Lindahl, et. al., (2011, p. 12)

[78] Frans Leeuw and Jos Vaessen. 2009. Impact evaluations and development - address the attribution problem. *NONIE – The Network of Networks on Impact Evaluation.*

[79] International Finance Corporation in collaboration with GTZ and DFID. 2008. Monitoring and Evaluation for Business Environment Reform: A Handbook for Practitioners. *IFC Advisory Services BEE Business Line.*

There are various attribution methods that can be employed with different levels of rigor to determine attribution of impact to specific interventions. Key attribution techniques (in ascending order of rigor) include - before and after comparison (BAC), before and after comparison with opinion (BACO), quasi-experimental design (QED), comparison groups (CG), comparing trends (CT), regression analysis (RA), and randomized control trials (RCT)[80].

The more rigorous of the methods establish treatment and comparison or control groups. Comparison groups are not randomly selected from the population, as is the case in control groups. This implies a risk that a comparison group is not identical to the treatment group. Once these groups are established, a baseline assessment of both is conducted. The treatment group undergoes an intervention, whereas the comparison or control groups do not. At the end of the treatment, both groups are compared to analyse the "difference-in-differences" (DiD). DiD is the difference in the before and after situation of the treatment group minus the difference in the same for the comparison/control group; this is meant to reveal the direction and magnitude of the impact of an intervention.

However, this is grounded in the assumption that both groups are identical and exposed to the same external factors. And therein lies the challenge of measurement in BER. In economic development, interventions in general, it is highly challenging to find counterfactuals, i.e., identical treatment and comparison groups – two economies, markets, or value chains, with the same characteristics and external influences. Even if a project were to identify two groups with similar characteristics within an economy, it would then be challenging to isolate the intervention to one group alone. As with private sector development interventions (enterprise development, access to finance) BER interventions like changes in policies, laws, regulations, procedures, etc. cannot be isolated to one community alone. And ideally, projects would want their interventions to spread and produce impacts beyond the direct beneficiaries.

Because attribution is so hard, there are practitioners who recommend focusing on just establishing causality, that is, identifying whether each consequent change at each level of the theory of change is due to the previous change? This method called contribution analysis calculates the degree to which BER interventions contribute to the observed changes.Contribution analysis involves the process of evaluating the causal linkage from one level of a theory of change to another, identifying carefully what is happening at each level (activities, outputs, outcomes, and impacts), while identifying and acknowledging the external factors which are also likely to contribute the effects.[81] While *contribution* qualitatively allows

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[80] For complete descriptions see - Hans Posthumus and Phitcha Wanitphon. 2015. Measuring Attribution: a practical framework to select appropriate attribution methods, with cases from ALCP in Georgia, MDF in East Timor, Propcom Mai-Karfi in Nigeria and Samarth-NMDP in Nepal. Donor Committee for Enterprise Development (DCED)

[81] For methods to conduct contribution analysis see - Measuring Attributable Change. *Implementation Guidelines for the DCED Standard.* Updated by Nabanita Sen Bekkers. 2021. Retrieved from - https://www.enterprise-development.org/wp-content/uploads/3_Implementation_Guidelines_Measuring_Attributable_Change.pdf

See also – Definition of contribution analysis by Better Evaluation. "Contribution analysis is an approach for assessing causal questions and inferring causality in real-life program evaluations. It offers a step-by-step approach designed to help for the determination of whether an impact was in part due to an intervention, it does not measure the magnitude of the intervention's effect.

There are some who say the quest for attribution should be abandoned entirely, and instead focus should be redirected to try to calculate the degree to which BER interventions contribute to the observed changes. While both points of view of *contribution* vs. *attribution* have some validity, the attribution vs. contribution debate may not be the best way to focus energy and resources, at least not yet. The first necessary task is far simpler and more practical. It is to address the more easily solved of the issues mentioned above, such as the long results chains, lack of clarity in how BER practices are defined and described, and non-linear nature of the change process. Categorizing BER activities and the describing the results chain through standard definitions. These definitions could include:

- what specific business functions in the enterprise lifecycle do specific BER activities tackle
- what geographic level the reform is implemented in (global, regional, national, sub-national, etc.)
- what specific type of activity the reform is funnelled through (policies, laws, regulations, procedures, or organizational change, or a combination of them).

Beyond definitions, standardization in some basic project set-up and results measurement methodology – collecting simple baselines in comparable units, designing consistent theories or change, etc. will allow for not just comparison of results across different donor or government led BER projects at different levels but also allow practitioners to aggregate the consistently measured results of these projects to look at higher-level impact over time. They will also allow practitioners to aggregate results across different intervention areas of the same project. A tedious yet critically important example of deconstructing and defining the elements of a theory of change (activities, outputs, outcomes, and impacts) has been tackled in the next chapter and although imperfect, the theory of change framework provided later when fully applied will allow donors to know what to expect, how to measure whether it is achieved, and to compare results across programs and countries.

Once standardization of definitions and measurement is attained, the goal is to get rigor. Here, one must start with the question – "What is worth measuring?" which begs the related question "Which BER activities are the most likely to lead to the higher-level impacts we seek?" or simply "what works." Identifying what works then leads to the question – to what extent – how much of an economic outcome can be attributed to a specific activity? There is a scientific way to answer these questions: by gathering extensive data and running a series of economic

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managers, researchers and policymakers arrive at conclusions about the contribution their program has made (or is currently making) to particular outcomes. The essential value of contribution analysis is that it reduces uncertainty about the contribution that the intervention is making to the observed results through an increased understanding of why the observed results have occurred (or not!), and the roles played by other internal and external factors." Retrieved from - https://www.betterevaluation.org/en/plan/approach/contribution_analysis models where gross domestic product (GDP) growth, employment, or investment, are taken as a proxy for an improved business environment. This could be done in one country, or in many, and a robust model applied in a standardized way would reveal what the driving factors are for successful business environment reform and enable quantification and ranking of activities by efficacy. One can imagine that while the driving factors might differ from one country to another, a global model would reveal a set of recurring factors that could then be organized into a global index for BER. This, however, would require standardization as the first step, agreement on what is worth measuring and how it is measured, and then the large undertaking of gathering the necessary data and building the model. This is articulated further in the recommendations section of this document.

This report tackles the first step of standardization by providing a BER-specific standard theory of change with well-defined levels supported by evidence. The next section walks through the development of this new theory of change. A broadly accepted logical framework has been adapted into a more customized BER-specific theory of change that can be used across all nine functional areas (and more, or different functional areas if those were to undergo revision).

2. Theory of Change

As mentioned in the methodology, this new theory of change was developed as a result of the literature reviewed, interviews and meetings and was vetted and refined by members of the working group. This new theory of change is unique in that it clarifies 3 key concepts. To summarize:

1. A separation of the outcome level into two levels – firm/agency outcomes and market/network outcomes.
2. A definition for "institutions" and institutional outcomes that encompasses both the rules and the players of the game.
3. Standards patterns of change through which BER activities lead to outcomes.

2.1 Developing a BER specific theory of change

In this BER-specific results chain, there are nuances unique to such programs. Since this is not a dynamic systems model, relationships between the levels are linear, however, the patterns of change that emerge repeatedly in the summary of evidence continue to be relevant (discussed later). Standardized definitional units to describe and deconstruct the elements of the theory of change (activities, outputs, outcomes, and impacts) provides the basis to trace "change pathways" for typical BER interventions all the way from the activity to the impact level. Therefore, although imperfect, the theory of change framework below when fully applied will allow donors to know what to expect, how to measure whether it is achieved, and to compare results across programs and countries.

While the basic building blocks remain the same as other generic results chain, the BER-specific results chain below slightly modifies the structure, to better illustrate the dynamics of change at the outcome level, as shown below in Figure 2. Practical guidance on applying this theory of change is provided in the following chapter.

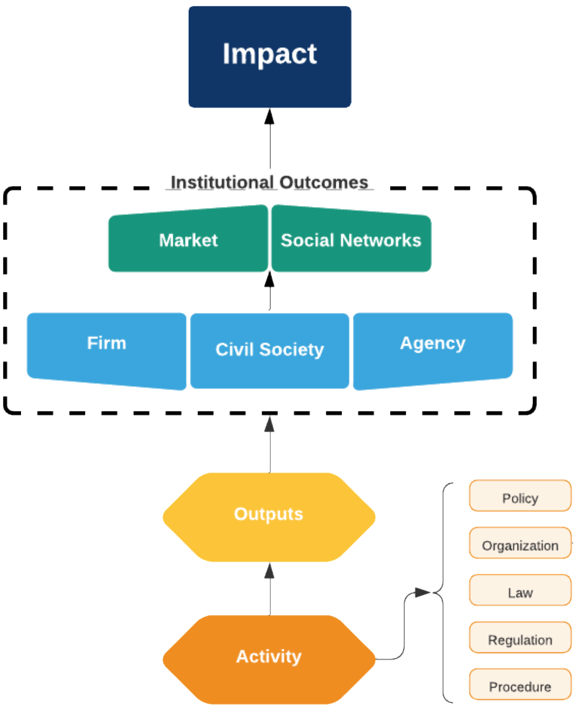
A. ACTIVITIES

An activity can be described as a specific, discrete piece of work that is conducted by the project personnel[82]. Examples include conducting workshops, writing recommendations, conducting a baseline survey, etc. This is different from an intervention. An intervention exists when several activities add up to something, such as: introducing a public credit registry, improving land titling procedures, etc. For simplicity's sake and to conserve space, intervention

[82] DCED. 2017. DCED Standard for Measuring Results in Private Sector Development, Version VIII. Retrieved from: https://www.enterprise-development.org/wp-content/uploads/DCED_Standard_VersionVIII_Apr17.pdf

names have been used at the "activity" level of these first few diagrams. However later, these interventions are deconstructed, pulled them apart into different reform activities and types. At the activity level, business environment reform takes place in several ways. These include making changes in policies, laws, regulations, procedures, and organizational structure or practices. Reform efforts can also categorized into one of the nine DCED functional areas (1) business registration and licensing procedures, (2) tax policies and administration, (3) labour laws and administration, (4) quality of regulation and compliance enforcement, (5) land title registers and land-market administration, (6) access to commercial courts and to alternative dispute resolution mechanisms for commercial disputes, (7) public–private dialogue processes with a particular focus on including informal operators, especially women, (8) business access to market information, and (9) enabling better access to finance. Depending on what areas are addressed and how reform activities are structured, monitoring and evaluation methods require adjustments.

Figure 2 A theory of change tailored for BER



B. OUTPUT

Outputs are direct and measurable results arising from reforms at the activity level. These are the products, capital goods, and services which result from a development intervention (combination of activities)[83]. These are a direct result of activities and should be measurable.

[83] OECD Development Assistance committee. Measuring and Managing Results in Development Cooperation. Retrieved

These include the outputs produced by the project team itself as well as any joint outputs produced with or by project partners. In a BER framework, it is useful to categorize outputs into project outputs and joint outputs. Project outputs are controlled wholly by the project such as trainings delivered, assessment conducted, recommendations made. In some cases, these outputs are not visible to the public. When BER project teams work closely with counterparts and produce joint outputs, these become more visible – such as guidance for ministry employees to follow, websites providing greater availability of information, or process re-engineering that yields reduced time and cost for administrative procedures.

C. OUTCOME

At level C, above outputs, are outcomes. These are likely or achieved short-term and medium-term effects of the output[84]. Differently from outputs, the project team has little control over outcomes. While they are supposed to happen, according to theory, evidence from the literature, and best practice examples, they might not! Outcomes are also harder to attribute to the project's activities.

A central finding from the literature review, supported by an analysis of several case studies[85], was that BER outcomes occur in the context of institutional change. Institutions can be defined broadly as the intangible interactions, rules, and customs that govern the business environment. However, institutions entail not just the "rules of the game" but also the entities or the "players of the game"[86]. In the figure above, these two levels of outcomes are separated

from: https://www.oecd.org/development/peer-reviews/Measuring-and-managing-results.pdf

84 OECD Development Assistance committee. Measuring and Managing Results in Development Cooperation. Retrieved from: https://www.oecd.org/development/peer-reviews/Measuring-and-managing-results.pdf

85 Five sets of case study interviews were conducted, and four case studies were documented as part of the supporting research for this note. Additionally, the Just Results team was contracted by ILO to develop case studies of successful experiences in BER in Africa over the past ten years. These five additional case studies are documented in the forthcoming ILO report, *Enabling Environment for Sustainable Enterprises in the African Union*.

86 Formal institutions are the "written rules" of the game, shaping the structure and the legal framework of an economy that govern the transactions by defining rules and regulations (Williamson, 1975; North, 2008; Morgan *et al.*, 2010). Some scholars, such as North (1990), have excluded governmental organizations from being considered as formal institutions because he defines institutions as the rules of the game and the organizations as the players of the game. However, in general, the formal institution is defined in a broader sense because an *institution* may be viewed as a particular type of *organization* (Hodgson, 1998, 2006). One which does not use negotiation or contract in its relations with agents, but in one way or another, relies on control and coercion. Thus, both rules and the so-called players are equated as institutions. See also: Hodgson, G. M. (1998) 'The approach of institutional economics', *Journal of economic literature*, 36(1), pp. 166–192; Hodgson, G. M. (2006) 'What are institutions?', *Journal of economic issues*, 40(1), pp. 1–25. doi: 10.1080/00213624.2006.11506879; Morgan, G. *et al.* (eds) (2010) *The oxford handbook of comparative institutional analysis*. Oxford University Press. doi: 10.1093/oxfordhb/9780199233762.001.0001; North, D. C. (1990) *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press; North, D. C. (1991) 'Institutions', *Journal of Economic Perspectives*, 5(1), pp. 97–112. doi: 10.1257/jep.5.1.97; North, D. C. (2008) 'Institutions and the Performance of Economies over Time', in Ménard, C. and Shirley, M. M. (eds) *Handbook of New Institutional Economics*. Springer Berlin Heidelberg, pp. 21–30; Williamson, O. E. (1975) *Markets and hierarchies, analysis and antitrust implications: A study in the economics of internal organization*. New York: Free Press, and Williamson, O. E. (2000) 'The new institutional economics: taking stock, looking ahead', *Journal of economic literature*, 38(3), pp. 595–613. doi: 10.1257/jel.38.3.595.

for clarity, but bound together by the dotted lines forming a perimeter around them. Therefore, a key modification of the results framework to accommodate BER change dynamics is the separation of outcomes into two levels, as further detailed below:

- **"Firms, Civil Society, Agency" – the players of the game:** These are the physical organizations (both public and private) that are operate in the market and are affected by business environment reform. These include firms, financial institutions, civil society, agencies, public-private bodies, business associations, etc. Examples of outcomes for the players of the game could include increased access to loans by firms, increased firm level productivity, improved customer service by specific government agencies, etc. These can be tracked at the firm or agency level through project indicators, surveys, or preexisting indicators and indexes.
- **"Markets, Social Networks" – the rules of the game:** These are the intangible norms, rules, and customs that govern the operating environment for the "players" of the game. Essentially this represents a system-wide change; for the purposes of the BER results framework two relevant configurations are highlighted, markets and social networks. The "rules" represent a higher level of outcomes, relating to (i) aggregate outcomes, such as "investment" in the market as opposed to "investment on the part of one or a specific number of firms; (ii) the way firms and agencies interact with each other, and (iii) mindsets, going beyond the specific perceptions of one or a specific number of business owners, investors, civil servants, policymakers, etc. Examples of outcomes for "rules" include increased competition in the market, increased level of private investment in the market, increased transparency in government activities, reduced corruption, etc. These outcomes are harder to attribute directly to project activities, however, if the outcome is sufficiently clearly defined, data can be systematically gathered on these aspects using custom indicators, external indicators and indexes, or a combination.

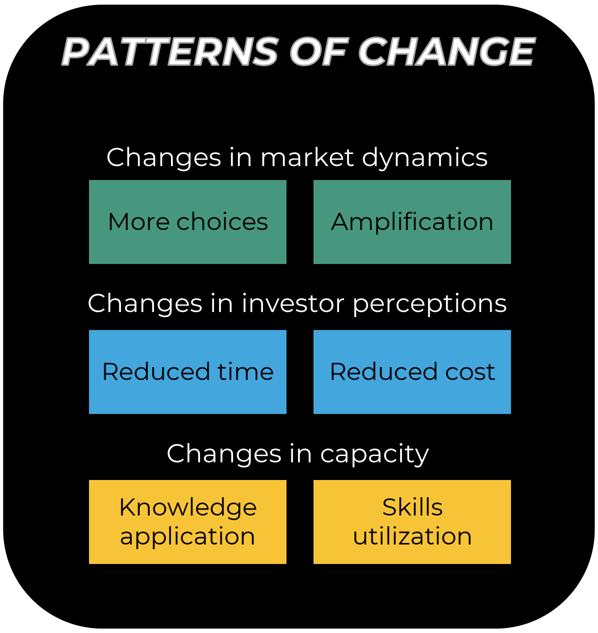
D. IMPACT

Impacts are the overarching long-term effects of reform activities. In BER programs, these include increased economic growth, employment, investment, etc. Here an important particularity of BER results measurement is to be noted. Almost always, BER programs will be seeking economy-wide impacts such as increased economic growth and employment[87] and BER reforms typically produce economic impacts. However, they may also have social outcomes like improved governance, inclusion of marginalized groups, and poverty reduction. In the interest of clarity, this report focuses on economic impacts, however, it is possible in some cases to trace BER outcomes to social impacts. Based on the literature review, interviews conducted with donor committee members, and analysis of the case studies, the impacts

[87] Usually at the national level but may be sub-national or local.

investigated for the revised DCED framework are economic growth, employment, investment, productivity, etc. which were discussed prior. Again, as discussed previously, attribution of these higher-level outcomes to specific BER activities is challenging.

2.2 How change happens



There are so many potential BER activities, functional areas, outputs, and outcomes, that it can be overwhelming to think about mapping them all. One important question to ask is – what patterns of change appear in BER projects? How do successful change pathways manifest themselves? What changes are seen across multiple functional areas and types of reform? Engaging with this question while studying the evidence presented above reveals six "patterns of change." They are – changes in capacity (demonstrated by knowledge application and skills utilization), changes in investor perception (based, among other things on reduced time and costs of compliance) and the third are changes in market dynamics (more choices, and amplification).

While these change patterns can appear anywhere along the theory of change, they tend to show up as listed, from bottom to top. The flow goes like this: activities designed to strengthen the capacity of public organizations, if they are successful, result in the application and use of the knowledge and skills that are shared. As policymakers and the staff of public agencies apply their knowledge with BER goals in mind, whether through changes in policies, laws, regulations, or procedures, these changes lead to more favorable conditions for businesses, most typically reflected in lower administrative burden (time and cost) though there may also be other, harder-to-measure effects like greater transparency or reduced uncertainty.

When investor perceptions change, we see other effects at the market level – for example, changes in financial indicators like share prices and interest rates. These market changes may produce self-reinforcing effects, and in turn further amplify the phenomenon. Other amplifiers are, as discussed earlier, activities like public private dialogue, that can help accelerate reform processes (this is an example of an amplifier that appears at a lower level of the theory of change and can be stimulated by projects directly). Finally, greater choice can manifest itself in several ways –through increased competition, greater inclusion, or the introduction of new models (such as green growth

2.3 Summary of evidence

Although a number of literature reviews on Business Environment Reform (BER) and related topics already exist, there is no comprehensive review of the subject. Most studies focus on functional areas or subsets of BER,[88] specific outcomes of BER[89], or BER in a geographic region[90]. This summary of evidence represents a new compilation of topical evidence related to the interaction of larger economy-level outcomes like investment, employment, economic growth, productivity, and poverty reduction and the main functional areas of business environment reform as defined by the DCED. This compilation of evidence underpins the design of the new theory of change discussed previously which contains the following levels – activity, output, institutional outcomes, and impact. The following summary of evidence contain some sources included in prior DCED BER guidance completed in 2008 and 2013. The majority, however, are a new compilation.

While a comprehensive systematic review of BER literature would be beneficial to the field, it would be a rather large undertaking. For the development of this report, the literature review was limited to identifying salient points relevant to the development of theories of change and results frameworks for BER programs. The first section maps the interaction of higher economy level outcomes corresponding to the impact level of the theory of change (see above). The second section maps the links of evidence connecting the functional areas of BER to outputs and outcomes.

2.3.1 Mapping interactions at the impact level

At the impact level, the evidence points to a complex series of interactions between different types of economy-wide impacts. These are illustrated below (Figure 3). Each green circle depicts a link between two outcomes. Through careful examination, the team has found the following to be true: investment leads to employment and economic growth, productivity leads to growth but has mixed impacts on employment, economic growth is positively associated with employment, and employment means poverty reduction. The following explores each of these claims further, approaching them in a nuanced and analytical view to show how these higher-level impacts interact and to what degree these links hold.

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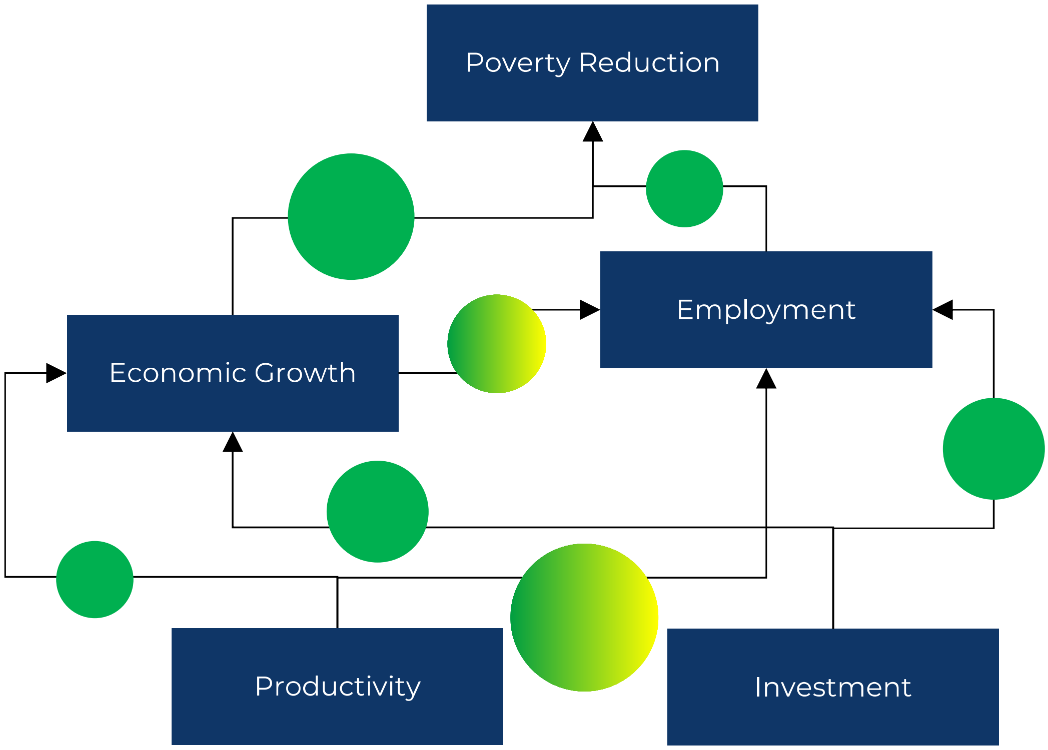
[88] Morton Meyerhoff Nielsen, Nuno Ramos Carvalho, Linda Veiga, Luis Barbosa. "Administrative Burden Reduction Over Time: Literature Review, Trends and Gap Analysis," 10th International Conference on Theory and Practice of Electronic Governance in New Delhi, vol 10, 2017. https://www.researchgate.net/publication/315892255_Administrative_Burden_Reduction_Over_Time_Literature_Review_Trends_and_Gap_Analysis

[89] Seema Malik. "Ease of Doing Business and Foreign Direct Investment: A Review Paper," *Pacific Business Review International,* vol 10, issue 12, June 2018. http://www.pbr.co.in/2018/2018_month/June/8.pdf

[90] Tristan A. Canare, Alvin Ang, and Ronald U. Mendoza. "Enhancing the Ease of Doing Business in APEC Countries: A Comprehensive Review of Literature," Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness, Working Paper 15-005, May 2015.

Figure 3 Mapping evidence at the impact level



Public investment leads to employment - whether in a solidified economy like the United States' or an emerging one such as Senegal's. Deduced from panel-data taken in forty-one countries with advanced economies, emerging market economies, and low-income developing countries over nineteen years, one percentage point of global GDP spent on public investment in infrastructure can create over seven million jobs alone, and lead to even more as a result of the benefits provided by the improved infrastructure (Moszoro, 2021).[91] In other words, public investment in infrastructure projects creates direct and indirect job growth. The United States hopes to achieve similar results through their recovery plan from COVID-19. President Joe Biden and the 117th Congress have the opportunity to accelerate reemployment, replace low-wage dead-end jobs, and create inclusive sustainable growth by implementing a to federal infrastructure investment program (Escobari, Gandhi, and Strauss, 2021).[92] According to analysis, 200,000 jobs could be created at once from the $80 billion dollar budget, 85% of which could be filled by currently unemployed workers. Programs such as improving the nation's railway system would immediately create jobs during construction and a lay a foundation for employing railway workers in the future. Or try upgrading the United States' energy grid, which would again require construction and subsequent maintenance.

[91] Mozoro, Marian. *The Direct Employment Impact of Public Investment*. International Monetary Fund, 2021.
[92] Escobari, Marcela; Gandhi, Dhruv; Strauss, Sebastian. *How federal infrastructure investment can put America back to work*. Brookings Institute, 2021.

Transition now to an emerging economy like Senegal which depicts how economic growth has translated to employment. Over the past twenty years, Senegal has seen significant results in economic growth yielding employment as the share of public investment in public expenditure by the Central Bank of West African States (CBWAS) has risen from 31% in 2001 to 40.4% in 2016[93] during which their economy grew from $6 billion to nearly $25 billion in 2020[94] creating millions of jobs in the process.[95]

Investment leads to economic growth and this is bolstered by the presence of human capital. A threshold level of human capital enables foreign direct investment (FDI) to have a more significant impact on economic growth, which a group of economists from an array of Chinese universities defines as having received tertiary, or post-high school, education (Jiang, Shi, Zhang, and Ji, 2011).[96] When this level of education is achieved, firms are much better equipped to make the most of FDI, which would otherwise lag due to unproductive labour. Additionally, having a good stock of human capital helps small businesses grow as they attempt to move along in their life cycle and add employees (Nichter and Goldmark, 2009).[97]

Even with this threshold of human capital, sector-to-sector growth varies depending on a firm's latent comparative advantage,[98] support by the government (such as compensation for externalities and improving infrastructure), and ability to scale from investment (WBG).[99] Additionally, it is imperative that companies benefitting from foreign investment do not compete with domestic firms or cause unnatural consumption habits.[100] An example of such is Renaults involvement in Moroccan car manufacturing. By entering in a market without domestic competition, Renault was able to implement a small operation and eventually ramp up production after establishing success, drawing another car manufacturer into the market. The results have been incredibly lucrative, sporting over 90,000 new jobs in five years.[101] All benefits aside, it is important to remember that government involvement is key in keeping

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[93] Senegal's economy grew 4.5% in 2016 and 6.8% in 2018 alongside this investment.
Mame Cheich Anta, Sall and Burlea-Schiopoiu, Adriana. *An Analysis of the Effects of Public Investment on Labour Demand through the Channel of Economic Growth with a Focus on Socio-Professional Categories and Gender*. Journal of Risk and Financial Management, 2021.

[94] *GDP (current US$)*. World Bank.

[95] *Africa at Work: Job Creation and Inclusive Growth*. McKinsey Global institute, 2012.

[96] Jiang, Yitao; Shi, Xiaojun; Zhang, Shunming; Ji, Jingjing. *The Threshold Effect of High-Level Human Capital Investment on China's Urban-Rural Income Gap*. China Agricultural Economic Review, 2011.

[97] Nichter, Simeon and Goldmark, Lara. *Small Firm Growth in Developing Countries*. Elsevier, 2009.

[98] Latent comparative advantage is defined as "an industry in which the economy has low factor costs of production but the transaction costs are too high to be competitive in domestic and international markets."
Yifu Lin, Justin. *Industrial Policy Revisited: A New Structural Economies Perspective*. Revue d'Économie Du Développement, 2013.

[99] *Sector Competitiveness Analysis Tools*. World Bank Group.

[100] Khaliq, Abdul and Noy, Ilan. *Foreign Direct Investment and Economic Growth: Empirical Evidence from Sectoral Data in Indonesia*. Journal of Economic Literature, 2007.

[101] United States Agency for International Development (USAID). *Moroccan Automotive Industry: Rapid Analysis*. USAID, 2015.

firms productive and fair.

Reforming trade regulations leads to increased productivity which consequently translates into economic growth.[102] Seen in Bosnia and Herzegovina, simplifying issuance of export-import licenses which reduced approval costs. Firms saved an estimated $1.26 million in compliance costs, strengthening business environment and reducing the cost of doing business. In Macedonia, improving the efficiency of cross-border inspections resulted in a seventy percent decrease in physical border inspections, reducing transit times and resulting in a much more productive economy. Lastly, by Indonesia simplifying their non-tariff barriers, they were able to reduce their time to export and import by four days, enabling them to move more goods and services at an expedited rate.[103] It is clear that across economies, improved productivity as a result of trade reform leads to growth.

The literature demonstrates that the path from economic growth to increased employment to poverty reduction is not automatically a straight shot and illuminates the complicated role that productivity plays[104]. The overwhelming conventional wisdom is that economic growth reduces poverty,[105] but history has shown the reality to be much more complicated and context specific. So-called jobless growth is not only a huge problem for African economies,[106] but has also marked Indian[107] and Latin American experiences.[108] Additionally, according to ILO numbers, approximately 40% of workers remain poor around the world; meaning they do not earn enough to keep their families above the $2-a-day marker.[109]

For growth to reduce poverty through the mechanism of employment, there are two dynamics that must take place. First, the economic growth experienced must generate an increased demand for labour and/or an increase in the productivity of each worker and second, these must result in earnings. In an ideal world, both demand for labour and productivity of labour would always increase simultaneously. Instead, a quantity/quality tradeoff is emerging in the global demand for labour, as over time the impact of productivity growth seems to be to slow down the rate of employment growth. While in the 1960s, a 1% increase in output per worker was associated with a reduction in employment growth of 0.07%, by the first decade of this century the same productivity increase implies reduced employment growth by 0.54%.[110]

At a quick glance, this inverse relationship seems to be a hard-and-fast rule. The reality is much

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[102] *Stronger Open Trade Policies Enable Economic Growth for All*. World Bank Group, 2018.
[103] Time to export reduction was reduced from 21 to 17 days, and time to import from 27 to 23.
[104] Melamed, Hartwig and Grant. 2011. Jobs, growth and poverty: what do we know, what don't we know, what should we know? Background Note. Overseas Development Institute.
[105] Dollar, D. and Kraay, A. (2002) 'Growth Is Good for the Poor', Journal of Economic Growth 7 (3): 195-225.
[106] Aryeetey, E. and Baah-Boateng, W. (2007) Growth, Investment and Employment in Ghana. Geneva: ILO.
[107] Mehta, A., Shepherd, A., Bide, S., Shah, A. and Kumar, A. (2011) India Chronic Poverty Report: Towards solutions and new compacts in a dynamic context. New Delhi: Indian Institute of Public Administration/CPRC.
[108] Jemio, L. and del Carmen Choque, M. (2006) 'Boliva: Employment- Poverty Linkages' in Islam (ed.) (2006).
[109] ILO (2011) Global Employment Trends 2011: The Challenge of a Jobs Recovery. Geneva: ILO.
[110] UNRISD (2010) Combating Poverty and Inequality: Structural Change, Social Policy and Politics. Geneva: UNRISD.

more nuanced. A productivity-increasing technological innovation for instance, may make a large number of jobs obsolete but in time may create just as many jobs of a different type as demand for output rises. In short, there are many market and policy factors that shape the employment impact of productivity increases, including the level of development, the nature of the productivity increases, and types of innovation that drive increased productivity.[111]

Once demand for labour and productivity of labour diverge and are no longer increasing simultaneously, the exact combination required to lead to increased earnings and therefore poverty reduction then becomes an empirical question that needs to be assessed on a country-by-country basis. Increases in the quantity of employment without productivity gains can lead to a rise in the number of 'working poor'. For instance, a multi-country study shows that increased employment in agriculture without rises in productivity is associated with increased poverty, while productivity growth in the same sector is associated with poverty reduction.[112] For example, low-wage and insecure employment has been increasing at a much faster pace than higher-wage, more secure jobs in both rural and urban India.[113] As a result, many experts agree that labour market policies should focus on job quality, rather than quantity.[114]

Not all types of jobs are equally suited to reduce poverty, however. Some empirical evidence shows that focusing on raising productivity and shifting workers into high productivity sectors can be more effective at reducing poverty than focusing on low-skill jobs or expansion of employment alone.[115] The success of employment in lifting large amounts of people out of poverty in East Asia seems, at least in part, to be driven by increasing productivity and rising wages, while in Africa and the Middle East labour productivity increased extremely slowly.[116] In Vietnam, on the other hand, employment numbers have been unable to increase in recent years due to productivity gains.[117] At the same time though, a labour market dominated by a few highly productive, high-skill jobs can be a recipe for disaster, leading to rising inequality and high unemployment. Additionally, there is no guarantee that increased productivity will result higher wages. In the US, for example, the gap between productivity and wages has been

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[111] Millis, B. and Krivoshlykova M. (2012) Smashing the Looms: Productivity vs. Employment— A Tradeoff?

[112] Gutierrez, C., Orecchia, P. and Serneels, P. (2009) 'Does Employment Generation Really Matter for Poverty Reduction' in R.
Kanbur, and J. Svejnar (eds), Labour Markets and Economic Development. Abingdon: Routledge.

[113] Mehta, A., Shepherd, A., Bide, S., Shah, A. and Kumar, A. (2011) India Chronic Poverty Report: Towards solutions and new compacts in a dynamic context. New Delhi: Indian Institute of Public Administration/CPRC.

[114] Fields, G. (2007) 'Economic Development, Labour Market and Poverty Reduction'. Policy and Issue Briefs, 24. Ithaca, NY: School of Industrial and Labour Relations, Cornell University.

[115] Gutierrez, C., Orecchia, P. and Serneels, P. (2009) 'Does Employment Generation Really Matter for Poverty Reduction' in R.
Kanbur, and J. Svejnar (eds), Labour Markets and Economic Development. Abingdon: Routledge.

[116] Kapsos, S. (2005) 'The Employment Instensity of Growth: Trends and Macroeconomic Determinants'. Employment Strategy Paper 2005/12. Geneva: ILO.

[117] Jenkins, R. (2004) 'Why has employment not grown more quickly in Vietnam?', Journal of the Asia Pacific Economy, 9 (2): 191-208.

rising since the 1980s.[118]

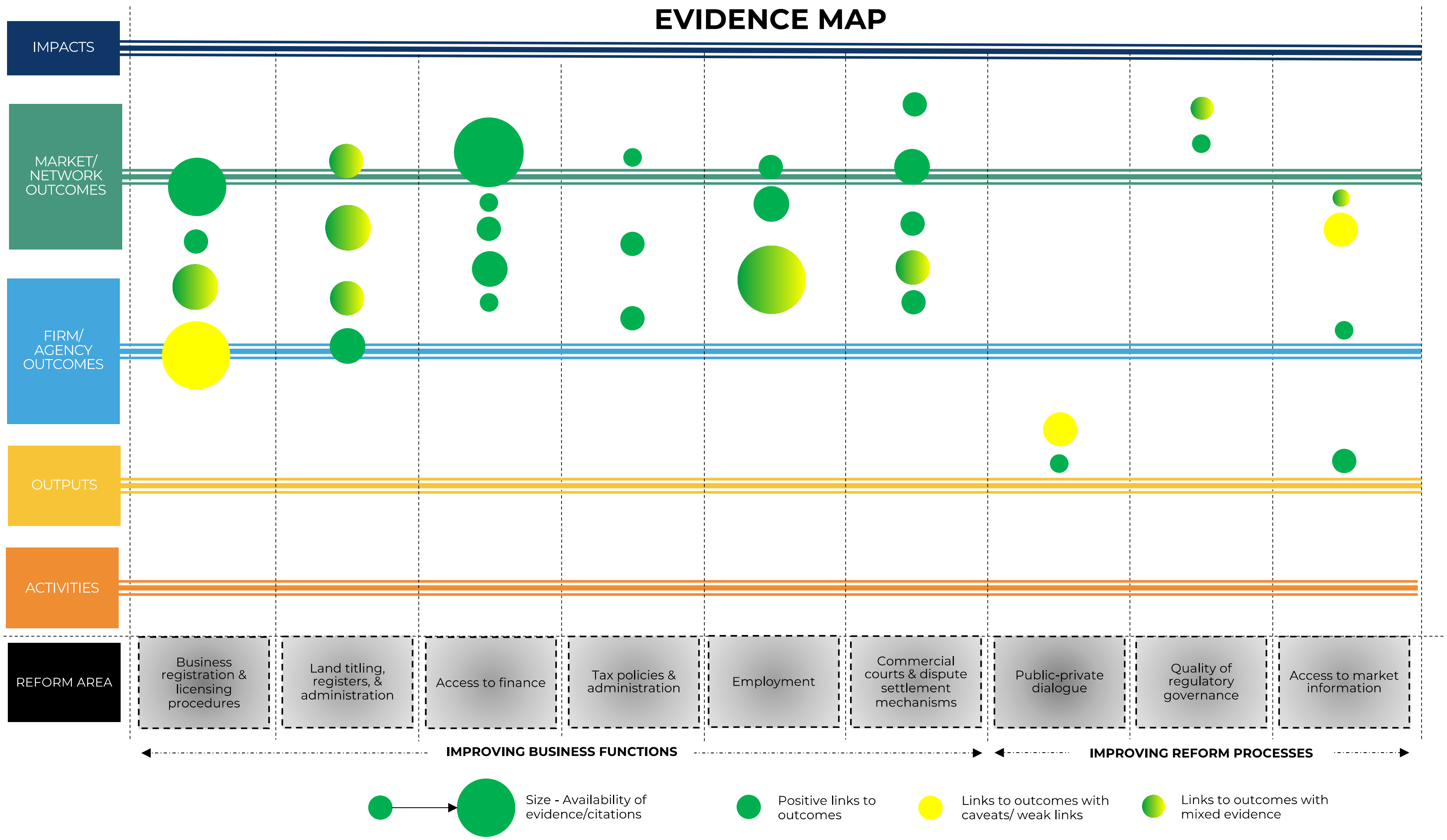
Examining the literature depicts how these links aren't entirely simplistic and straightforward, but rather very nuanced. This has implications for results measurement in BER results chains which must account for these higher-level interactions.

2.3.3 Mapping the evidence in the functional areas of BER

The following evidence map (Figure 4 below) organizes the evidence along the BER results chain. Each circle mapped in the figure below refers to a specific link from BER activities and outputs to outcomes. Clusters of circles represent "outcome rich" areas of BER. The section that follows summarizes, in detail, the evidence base related to each functional area (re-organized as indicated previously). Within each functional area, the most relevant level(s) of reform(s) is/are identified, and special attention is given to the links between interventions and desired outcomes.

[118] Wuyts, M. (2011) 'Growth, Employment and the Productivty-Wage Gap: Revisiting the Growth-Poverty Nexus', Development and Change 1-11.

Figure 4 Evidence Map



Functional Area 1: Simplifying business registration and licensing procedures

Level of reform (1-5, where 5 is most relevant)		Example
Policy	n.a.	
Law	✓✓✓	Mali passed a law in 2015 reducing the paid-in minimum capital requirement for the start-up of limited liability companies (LLCs) from $2,000 to $10, leading to the creation of 400 new enterprises.[119]
Organizational Change	n.a.	
Regulation	✓✓✓✓	Tunisia's *Decree 417* mandated agencies to replace 100 authorizations for economic activities requiring government authorization with *cahier des charges*, or technical specifications.[120]
Procedures	✓✓✓✓✓	In 2009, Georgia implemented a simplified unified business and tax registration procedure, leading to a 67% increase in business registrations over the next 5 years.[121]

Definitions

Simplification: To eliminate a procedure completely or reduce complexity, fees, time spent on procedure.

Harmonization: To standardize procedures and ensure that they can be treated in groups.

Digitization: Process of putting the front office and/or back-office functions of an administrative procedure online.

Administrative simplification of business registration and other business licenses is a core component of much of the work done on BER, stemming back to Hernando de Soto's research in Peru and work published by the World Bank, including Simeon Djankov 's groundbreaking study, "Regulation of Entry," which inspired the launch of the World Bank's Doing Business project.[122] This study provided the basis for Doing Business' use of a "time and motion" approach – measuring the number of steps required to complete a procedure and time needed to complete them – for a number of its indicators including "Starting a Business." Doing Business' "Starting a Business" indicator measures "records all procedures officially

[119] FIAS. "FY16 FIAS REFORM DESCRIPTIONS," Accessed July 30, 2021. https://www.thefias.info/sites/fias/files/reform-descriptions/2019-06/2016_ANNEX%20PG%2089_97.pdf

[120] Government of Tunisia. "Decret 417," Accessed July 30, 2021. https://legislation-securite.tn/fr/law/104776

[121] USAID "Georgia: Opened for Business Georgia Business Climate Reform Final Report," September 2009. https://pdf.usaid.gov/pdf_docs/PDACN591.pdf

[122] Simeon Djankov Rafael La Porta Florencio Lopez-De-Silanes and Andrei Shleifer. "The Regulation of Entry," *Quarterly Journal of Economics*, vol. CXVII, issue 1 February 2002. https://scholar.harvard.edu/files/shleifer/files/reg_entry.pdf

required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement."[123] The "time and motion" approach attempts to give an objective measure of the efficiency and complexity of an administrative procedure.

While every country has many licensing procedures with which businesses must comply, business registration and other procedures related to business entry (e.g., sectoral business entry licenses) are often singled out in the literature out as particularly problematic. This has been noted by previous donor guidance such as the World Bank and IFC's, "Reforming Business Registration: A Toolkit for the Practitioners," which summarizes the key reasons for focusing on business registration: "Registration reform can lead to more businesses, jobs, and competition; raise productivity; and reduce informality."[124] As such, procedures related to firm entry are often at the core of programs which have administrative simplification as their goal.

Outcomes associated with reforms to simplify business registration and licensing procedures

Firm Entry: A wealth of literature, especially over the past 15 years, has shown that the significant reductions in the time and cost of starting a business (including business registration as well as other sectoral entry regulations) leads to increased business registrations.

- **Simplified entry and exit regulations lead to increased firm entry, impact can be increased with complimentary reforms:** Using panel data for 10 years across more than 180 countries, this study shows establishes a clear link between business regulations, firm creation, and growth. It is found that a 10 percentage points increase in the entry and exit regulations (starting a business and resolving insolvency) leads to 0.3 more new businesses per 1,000 adults. This is increased to 0.5 new businesses per 1,000 adults when a broader set of business regulation improvements are included (Divanbeigi and Ramalho, 2015).[125]
- **Only sizeable reforms have impact:** To have impact on new business registrations, reforms must be sizeable: at least 40% or more reduction in procedures, or 50-60% or more reduction in costs and number of days (Klapper and Love, 2010; Klapper and Love, 2016).[126]

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[123] Doing Business. "Starting a Business," World Bank, Accessed June 28, 2021. https://www.doingbusiness.org/en/methodology/starting-a-business

[124] World Bank and IFC. "Reforming Business Registration: A Toolkit for the Practitioners," January 2013. https://documents1.worldbank.org/curated/en/577211468155378578/pdf/840140WP0Box380usiness0Registration.pdf

[125] Raian Divanbeigi Rita Ramalho. "Business Regulations and Growth," World Bank Policy Research Working Paper 7299, June 2015. https://doi.org/10.1596/1813-9450-7299

[126] Leora Klapper and Inessa Love. "The Impact of Business Environment Reforms on New Firm Registration," World Bank Policy Research Working Paper 5493, December 2010. https://openknowledge.worldbank.org/bitstream/handle/10986/3979/WPS5493.pdf?sequence=1
Leora Klapper and Inessa Love. "The Impact of Business Environment Reforms on New Registrations of Limited Liability

- **Reducing the cost component and number of days has the most impact:** A study in the Philippines using municipal level data from 2011 to 2015, provides further evidence linking the overall ease and cost of doing business with business creation. Lower cost of doing business (including minimum wage, price of electricity, price of water, and price of land) was found to be a much stronger predictor of business creation than ease of doing business. One exception was the number of days it takes to process a new business permit, which was also a strong determinant of business creation. Additionally, for the poorest municipalities, ease and cost of doing business is less important as a determinant of firm creation than governance indicators (Canare et. al, 2017).[127] This is supported by an earlier survey of 39 countries which found that the costs of minimum capital requirements required to start a business as well as labour market regulations are the main factors in lowering entrepreneurship rates across countries (Van Stel et al., 2007).[128]

Country Case study – Georgia's reforms led to 67% increase in registered firms from 2005-2009: Business environment reforms in Georgia, supported by USAID, included the introduction of a simplified unified business and tax registration procedure which led to a 67% increase in the number of businesses registered from number of businesses registered between 2005 and 2009 (USAID, 2009).[1]

Country Case study - Abolishing the License Raj in India led to 6% increase in new firms: A study tracking the effects of the elimination of the License Raj (a system of central controls regulating entry and production activity in India's manufacturing sector), between the years 1980- 1997 in 16 Indian states, found that the elimination of the License Raj (including the elimination of four procedures related to starting a business) led to 6% increase in the number of new firms, after controlling for the effects of various other factors such as trade liberalization and labour market laws (Aghion, 2008).[1]

Formalization: While the literature on firm entry is clear, the literature is less conclusive on effects of simplification on formalization of previously informal firms.

- **Simplifying entry regulation has at best a modest effect on formalization:** A literature review of the evidence on the effects of entry reforms on firm formalization demonstrates that there is only a modest effect on formalization in most cases. Most informal firms do not appear to experience net benefits from formalizing, so simplifying

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Companies," *The World Bank Economic Review*, Volume 30, Issue 2, 2016, Pages 332–353. https://doi.org/10.1093/wber/lhu007

[127] Tristan Canare, Jamil Paolo Francisco, and Jose Fernando Morales. "Firm Creation and the Ease and Cost of Doing Business," RSN-PCC Working Paper No. 17-009, December 2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3096366

[128] Andre van Stel, David J. Storey, A. Roy Thurik. "The Effect of Business Regulations on Nascent and Young Business Entrepreneurship," Small Business Economics vol. 28, pp. 171–186, 2007. https://link.springer.com/content/pdf/10.1007%2Fs11187-006-9014-1.pdf

entry requirements alone does not usually lead to formalization (Bruhn and McKenzie, 2013).[129]

Country Case study – Tale of two species of informal businesses in Mexico: Historically, there have been two main views to explain why many firms operate informally. The first, associated with Hernando De Soto's research in Peru, argues that informal business owners are viable entrepreneurs who do not register their firm due to complex regulation (De Soto, 1989).[130] The second view, sees informal business owners as individuals trying to get by while searching for a wage job. (Tokman, 1992).[131] In this context, a study of Mexico's entry regulation reforms in the early 2000's seemingly contradicted the first view as proposed by De Soto. While the study found that the reform increased business registrations by 5%, the increase was due to former wage earners opening new businesses rather than informal businesses formalizing. The reform also increased wage employment by 2.2%. (Bruhn, 2011).[132]

A follow-up study by the same author gave a more nuanced view, supporting the partial truth of both views. By separating out informal business owners into those with characteristics similar to wage workers and those with characteristics similar to formal business owners, the study was able to disaggregate the impact of Mexico's reforms on informal businesses of each type. Informal business owners more similar to wage workers were less likely to register their business due to the reform, more often becoming wage workers at new jobs created in formal businesses by the reforms. However, informal business owners more similar to formal business owners were likely to register their business and formalize, though this only happened in municipalities with high pre-reform constraints. (Bruhn, 2013).[133]

Productivity: Simplification of business procedures leads to increased productivity.

- **Complex entry procedures lead to reduced productivity:** A cross-country study of entry regulations and productivity, shows that countries in the lowest decile of the entry costs distribution have 1.32 to 1.45 times higher total factor productivity (TFP) and 1.52 to 1.75 times higher output per worker than countries in the highest decile. Higher regulatory entry costs allow unproductive firms to operate, changing the industry composition and lowering its average productivity, leading to lower TFP for the

[129] Miriam Bruhn and David McKenzie. "Entry Regulation and Formalization of Microenterprises in Developing Countries," World Bank Policy Research Working Paper 6507, June 2013. http://www.businessenvironment.org/dyn/be/docs/259/EntryRegulationandFormalisationWBJune2013.pdf

[130] Hernando de Soto. The Other Path: The Invisible Revolution in the Third World, Harper Collins: 1989.

[131] Victor Tokman. *Beyond Regulation: The Informal Sector in Latin America.* Bolder: Lynne Rienner Publishers, 1992.

[132] Miriam Bruhn. "License To Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico," The Review of Economics and Statistics, vol. 93, no.1, pgs 382–386, February 2011. https://openknowledge.worldbank.org/bitstream/handle/10986/5465/rest_a_00059.pdf?sequence=1

[133] Miriam Bruhn. "A Tale of Two Species: Revisiting the Effect of Registration Reform on Informal Business Owners in Mexico," *Journal of Development Economics*, vol 107, July 2013. https://openknowledge.worldbank.org/bitstream/handle/10986/13802/JDE-12-149_Revision.pdf?sequence=1

country's economy (Barseghyan and DiCecio, 2011).[134]

A cross-country study by the same author estimates that an increase in entry costs by 80% of gross national income per capita is associated with a 22% reduction in total factor productivity and a 29% reduction in output per worker (Barseghyan, 2008).[135] These findings are supported by a study of data collected from Investment Climate Assessments (ICA) in Guatemala, Honduras and Nicaragua and 10 measures of productivity which shows that red tape has a significant impact on productivity. In particular, for each additional day spent complying with inspection and regulation control activities, productivity was shown to decrease between 5.8% and 10.7% (Escribano and Guasch, 2005).[136]

Country Case study – The end of India's License Raj increased productivity: A study of firm level data following the 1985 license reforms in India shows that the entry constraints for manufacturing led to aggregate productivity growth of 22% in the manufacturing sector, of which 75% could be attributed to the relaxation of entry constraints (Chari, 2011).[137]

Inclusion and Inequality: Complex business procedures lead to higher levels of income inequality and suppress women's entrepreneurship, conversely simplification leads to improvement on both fronts.

- **Gender:** Simplifying business procedures, especially related to entry fosters growth in women's entrepreneurship at even faster rates than for men: A 14-year study (2001-2004) of data from the Global Entrepreneurship Monitor (GEM) in 75 countries, found that women's entrepreneurship is highest when there are low barriers to entry and less bureaucracy (Hechavaria and Ingram, 2019).[138] A World Bank study of the Middle East and North Africa (MENA) region found that simplifying business procedures can create more first-time female business owners at a rate 33% faster than for their male

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[134] Levon Barseghyan and Riccardo DiCecio. "Entry Costs, Industry Structure, and Cross-Country Income and TFP Differences," *Journal of Economic Theory*, volume 146, issue 5, September 2011, Pages 1828-1851. https://www.sciencedirect.com/science/article/abs/pii/S0022053111000767

[135] Levon Barseghyan. "Entry costs and cross-country differences in productivity and output," *Journal of Economic Growth*, 2008, volume 13, pages 145–167. https://link.springer.com/article/10.1007/s10887-008-9026-6

[136] Alvaro Escribano and J. Luis Guasch. "Assessing the Impact of the Investment Climate on Productivity Using Firm-Level Data: Methodology and the Cases of Guatemala, Honduras, and Nicaragua," World Bank Policy Research Working Paper 3621, June 2005. https://documents1.worldbank.org/curated/en/762631468250847851/pdf/wps3621.pdf

[137] A. V. Chari. "Identifying the Aggregate Productivity Effects of Entry and Size Restrictions: An Empirical Analysis of License Reform in India," *American Economic Journal: Economic Policy*, vol. 3, no. 2, May 2011, pages. 66-96. https://www.aeaweb.org/articles?id=10.1257/pol.3.2.66

[138] Diana Hechavarría and Amy Ingram. "Entrepreneurial ecosystem conditions and gendered national-level entrepreneurial activity: a fourteen-year panel study of GEM," *Small Business Economics*, 2019, vol. 53, pages 431–458. https://link.springer.com/article/10.1007/s11187-018-9994-7?utm_medium=affiliate&utm_source=commission_junction&utm_campaign=3_nsn6445_brand_PID100357191&utm_content=de_textlink

counterparts. It also found that regions with lower start-up capital requirements and lower exit barriers have higher shares of female entrepreneurs in the formal sector (Chamlou, 2008).[139]

- **Income inequality is tied to the number of procedures required to start a business:** A study of panel data for 115 countries shows that more stringent entry regulations are associated with higher income inequality. In countries with average inequality, increasing the number of procedures required to start a new business by one standard deviation is associated with a 7.2% increase in the share of income accruing to the top decile of earners, and a 12.9% increase in the overall Gini coefficient (Chambers et. al., 2019).[140]

Functional Area 2: Improving land titles, registers and administration

Level of reform (1-5, where 5 is most common)		Example
Policy	✓	The Land Tenure Regularization (LTR) initiative in Rwanda led to a series of efforts resulting in the country becoming the first in Africa to document 100% of land ownership as of 2015.[141]
Law	✓✓✓	In 2018, Djibouti passed a law requiring "all property sales transactions be registered at the land registry to become opposable to third parties."[142]
Organizational Change	✓✓✓✓	As part of a broader series of reforms, Honduras created a decentralized government agency, the Property Institute, to replace the Honduras Land Administration. It was responsible for developing a new institutional framework for property registration, immovable, movable, and intellectual property registries and implementing and managing a new electronic the unified registry system.[143]
Regulation	✓✓	In 2018, Guinea reduced the fees to register a property sale with the National Tax Authorities from 5% to 2% of the property value.[144]

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[139] Nadareh Chamlou. "The Environment for Women's Entrepreneurship in the Middle East and North Africa Region," World Bank Report, 2008. http://siteresources.worldbank.org/INTMENA/Resources/Environment_for_Womens_Entrepreneurship_in_MNA_final.pdf

[140] Dustin Chambers, Patrick A. McLaughlin & Laura Stanley. "Barriers to prosperity: the harmful impact of entry regulations on income inequality," *Public Choice*, 2019, volume 180, pages 165–190. https://link.springer.com/article/10.1007/s11127-018-0498-4

[141] Thea Hilhorst and Frederic Meunier. "How Innovations in Land Administration Reform Improve on Doing Business," World Bank, 2015. https://www.doingbusiness.org/en/reports/thematic-reports/land-administration

[142] Doing Business. "Business Reforms: Registering Property," Accessed July 30, 2021. https://www.doingbusiness.org/en/reforms

[143] Roger Coma-Cunill and Marie Delion. "Honduras: Slashing the time to register property from 18 months to 15 days,' World Bank, 2007. https://www.doingbusiness.org/en/reports/case-studies/2008/property-registry-reform-in-honduras

[144] Doing Business. "Business Reforms: Registering Property," Accessed July 30, 2021.

Procedures	✓✓✓✓✓	Qatar, in 2019, streamlined the property registration into one procedure by creating a one-stop shop, eliminating all interactions with ministry employees.[145]

Land rights typically include rights to use, own and/or transfer land, or even sometimes how to govern land. Strengthening these rights typically include improving land titles, registrations, and administration; some involve direct farm-by-farm land titles, other interventions may include policy reforms to recognize customary land rights. Improving land rights can have differing outcomes with literature acknowledging both positive (increased productivity and social welfare) and without safeguards, negative (benefits favoring only elite and loss of rights for poor, vulnerable sub-populations) outcomes (Besteman, 1990).[146]

In some cases, registration and titling procedures aren't sufficient to adequately replace or formalize informal or customary land rights that were already in place. Recognition of informal documents and reliance on community decision making is important to ensure smallholders land rights and tenure security who may not feel as protected, and thus, uninclined to invest in improving land quality or investing in improving material assets (Fort, 2008).[147] Lack of timely updating of registers, exclusion of common property resources under group ownership rights, lack of resolution mechanisms for border disputes, and a lack of perception of tenure security even after titling, all contribute to landowners feeling disincentivized to invest in and re-register for ownership registers or certificates. To mitigate these, laws and regulations would have to ensure fair compensation in cases of expropriation, mechanisms to ensure quick and seamless transferability of ownership, streamlining procedures and clarifying protocols, prevention of corruption, ensuring affordability of such titles, certificates, and registers, and inclusion of communal property protections (Deininger et al, 2008).[148]

Outcomes of reforms to improve land titles, registers, and administration

Productivity and Sustainability: National-level studies of land titling and certification have found positive impacts on land productivity and farmers' decisions to invest in long-term

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https://www.doingbusiness.org/en/reforms

145 Doing Business. "Business Reforms: Registering Property," Accessed July 30, 2021. https://www.doingbusiness.org/en/reforms

146 Besteman, C. 1990. "Land Tenure in the Middle Jubba: Customary Tenure and the Effect of Land Registration." LTC Research Paper 104. Madison, WI: Land Tenure Center, University of Wisconsin– Madison.

147 Fort, R. 2008. "The Homogenization Effect of Land Titling on Investment Incentives: Evidence from Peru." NJAS 55 (4): 325–343.

148 Deininger, K., Ali, D. A., Holden, S., & Zevenbergen, J. (2008). Rural land certification in ethiopia: Process, initial impact, and implications for other African countries. World Development, 36(10), 1786-1812. https://doi.org/10.1016/j.worlddev.2007.09.012

sustainability.

- **Low-cost land certification policies lead to higher perceived tenure security and investment in land-related assets:** A 2009 study in the Tigray region of Ethiopia found that low-cost land certification policies resulted in significant positive impacts on sustainability through maintenance of soil conservation structures and investment in trees, and well as land productivity. These positive impacts resulted from perceived high tenure security that these reforms brought about as opposed to the past policy of state ownership, restricted household land-use rights, and frequent land redistributions (Holden et al, 2009).[149]

  Another study analysing household data from Nicaragua farmers' tenure status had a significant impact on their choice of cultivation techniques, even when techniques are observable and easily contractible. The study found that farmers that owned the land they worked on were more inclined to invest in long-term tree crops that are more profitable and sustainable (as they enhance the nutrient cycle, conserve soil moisture, prevent erosion, and maintain fertility). Farmers with rented plots were significantly less likely to engage in this form of investment because they experience tenure insecurity from landlords' inability or unwillingness to commit to long-term tenancy contracts. Here, ownership rights through land reform were found to contribute directly to long term investment and sustainability (Bandiera, 2007).[150]

  In Vietnam, a study examining the impact of the 1993 Land Law of Vietnam, which gave households the power to exchange, transfer, lease, inherit, and mortgage their land use rights, found that these additional land rights led to a significant increase in land devoted to long-term crops and labour devoted to nonfarm activities. These were attributed to perceived land tenure security rather than larger credit markets arising from the increased availability of land as collateral (Do et al, 2008).[151]

Investment: Improving land titles positively impacts firms' decisions to reinvest profits. The impact of land titles on enabling better access to credit is less significant.

- **Strong property rights are a significant predictor of firm reinvestment of profits:** A study analyzing survey data from firms in Eastern Europe found that weak property rights significantly discouraged firms from reinvesting their profits and retained even bank loans were available (Johnson et al, 2002).[152] Another 2005 study examining the impact

[149] Holden, S., K. Deininger, and H.Ghebru 2009. "Impacts of Low-Cost Land Certification on Investment and Productivity." American Journal of Agricultural Economics 91 (2): 359–373. doi:10.1111/ajae.2009.91.issue-2

[150] Bandiera, O. 2007. "Land Tenure, Investment Incentives, and the Choice of Techniques: Evidence from Nicaragua." The World Bank Economic Review 21 (3): 487–508. https://doi.org/10.1093/wber/lhm005

[151] Do, Q., & Iyer, L. (2008). Land titling and rural transition in Vietnam. Economic Development and Cultural Change, 56(3), 531-579. https://doi.org/10.1086/533549

[152] Johnson, S., McMillan, J., & Woodruff, C. (2002). Property rights and finance. The American Economic Review, 92(5), 1335-1356. https://doi.org/10.1257/000282802762024539

of the risk of expropriation by the government and the ease of contract enforcement on Chinese firms' decisions to reinvest found that strong property rights and fast contract enforcement are key determinants for reinvestment, especially for private firms (Cull et al, 2005).[153]

- **Land titles alone are not sufficient to secure property right institutions and credit:** A study in Peru found that government land titling is not sufficient to secure access to credit because they are not seen as sufficient collateral to guarantee loans. Additionally, even with land titles individuals feared government expropriation and preferred to rely on informal community methods like verbal contracts to maintain property ownership. This study illuminated the need to align policy to allow government land titles to be seen as legitimate ownership documents by other institutions (Kerekes et al, 2010).[154]

Employment and Growth: Strengthened property rights encourage labour market participation and growth.

- **Strengthened property rights leads to higher labour market participation:** A 2007 study, examining the Peruvian land rights reform that issued property titles to 1.2 million urban households, found that increased tenure security led to a 17% increase in total household work hours, a 47% decrease in the probability of working for home (very significant for squatter populations), and a 28% decrease in the probability of child labour (Field, 2007).[155]
- **Secure property rights result in firm-level and country level growth:** A 2015 study examined China's 2015 Property law that gave creditors more control over the assets they used as collateral to secure loans. The study found that with reduced fear of expropriation of their assets, companies experienced significant growth in firm value, especially firms that had more tangible assets and less political connections (Berkowitz, 2015).[156]

  Another study found that in countries with more secure property rights, firms are able to better allocate resources because their assets are more protected, which leads to a large positive growth effect in terms of GDP per capita, average firm size, number of firms, value added, sales, etc. (Claessens, 2003).[157] However, another study found that this growth is non-linear; strong enforcement of property rights increases growth up to

[153] Cull, R., & Xu, L. C. (2005). Institutions, ownership, and finance: The determinants of profit reinvestment among Chinese firms. Journal of Financial Economics, 77(1), 117-146. https://doi.org/10.1016/j.jfineco.2004.05.010
[154] Kerekes, C., and C. Williamson. 2010. "Propertyless in Peru, Even with a Government Land Title." The American Journal of Economics and Sociology 69 (3): 1011–1033. doi:10.1111/(ISSN)1536-7150.
[155] Field, E. (2007). Entitled to work: Urban property rights and labour supply in peru. The Quarterly Journal of Economics, 122(4), 1561-1602. https://doi.org/10.1162/qjec.2007.122.4.1561
[156] Berkowitz, D., Lin, C., & Ma, Y. (2015). Do property rights matter? evidence from a property law enactment. Journal of Financial Economics, 116(3), 583-593. https://doi.org/10.1016/j.jfineco.2015.04.003
[157] Claessens, S., & Laeven, L. (2003). Financial development, property rights, and growth. The Journal of Finance (New York), 58(6), 2401-2436. https://doi.org/10.1046/j.1540-6261.2003.00610.x

a point after which it starts to decline. This is because stronger property rights encourage capital formation, but also encourage bad borrowing practices. However, as financial markets mature, the negative effects like bad borrowing start to diminish (Bose, 2012).[158]

Inclusion and Inequality: Access to property ownership is an avenue for empowerment and financing for women.

- **Improved land access leads to formalization of inheritance rights for married women:** A study examining a pilot land regularization program in Rwanda found that the program improved land access for legally married women, prompted formalized recording of inheritance rights without gender bias, and largely increased investment in soil conservation measures (Ali et al, 2014).[159]
- **Issuing land titles that named both husband and wives as owners positively impacted women's empowerment:** A Vietnam household survey reported that issuing joint husband-wife land titles had a positive impact on women's perceived empowerment and credit access (World Bank, 2008).[160]
- **Land access alone is not enough:** Another study in Ethiopia, however, found that while land registration efforts afforded women access to land, it did not lead to access to equal control of land. This was due to cultural norms prohibiting women from ploughing land, which forced women to pay men to allow for this or having to enter share-cropping arrangements with men (Teklu, 2005).[161]

Functional Area 3: Enabling better access to finance

Level of reform (1-5, where 5 is most common)	Example

[158] Bose, N., Murshid, A. P., & Wurm, M. A. (2012). The growth effects of property rights: The role of finance. World Development, 40(9), 1784-1797. https://doi.org/10.1016/j.worlddev.2012.04.020

[159] Ali, D. A., Deininger, K., & Goldstein, M. (2014). Environmental and gender impacts of land tenure regularization in Africa: Pilot evidence from Rwanda. Journal of Development Economics, 110, 262-275. https://doi.org/10.1016/j.jdeveco.2013.12.009

[160] World Bank. 2008. Analysis of the Impact of Land Tenure Certificates with both the Names of Wife and Husband in Vietnam. World Bank. https://openknowledge.worldbank.org/handle/10986/7810

[161] Teklu, A. 2005. Research Report 4: Land Registration and Women's Land Rights in Amhara Region, Ethiopia. London: International Institute for Environment and Development.

Policy	✓	Many countries have policies or strategies focused on improving access to finance. These often include BER elements, such the Reserve Bank of India's "National Strategy for Financial Inclusion," which includes regulatory elements as well as market infrastructure such as credit registries.[162]
Law	✓✓✓✓	Panama's 2006 credit bureau law included measures to improve the credit information system, including the quality of the data, and the accuracy of the risk analyses. One measure included allowing entrepreneurs and small enterprises to add utility payments to their file to help build credit history to access formal credit.[163]
Organizational Change	✓✓✓✓✓	In 2018, Ukraine established the National Bank Credit Registry to collect and make credit information available.[164]
Regulation	✓✓	In 2014, China introduced credit information industry regulations, which guarantee a borrowers' right to request and view their data.[165]
Procedures	✓✓✓	Australia implemented an online collateral registry in 2009, achieving high usage by 2013 when the number of annual filings was over 2 million, with over 6 million searches.[166]

Improving access to finance can be a strong enabler for improved business environments and is a key functional area for many donor-supported development projects. A 2008 study utilizing firm level survey data from the World Bank Enterprise Surveys from 1999 and 2000 from 80 developing and developed countries assessed the relative importance of different features of business environments to find that obstacles related to access to finance most directly and robustly constrained firm growth (Ayyagari et al, 2008)[167]. Firms surveyed indicated high cost of borrowing as the most stifling, exacerbated by difficulties in posting collateral and accessing long-term financing. Firms also characterized banks as "corrupt, underfunded, and requiring

[162] Reserve Bank of India. "National Strategy for Financial Inclusion: 2019-2024," 2019. https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf

[163] Rita Ramalho. "Panama: Reforming the credit bureau law," World Bank, 2007. https://www.doingbusiness.org/en/reports/case-studies/2007/reforming-the-credit-bureau-laws-in-panama

[164] 112 Ukraine. "Law on Credit Registry comes into force in Ukraine," March 4, 2018 https://www.kyivpost.com/ukraine-politics/112-ua-law-credit-registry-comes-force-ukraine.html

[165] Doing Business. "Business Reforms: Getting Credit," Accessed July 30, 2021. https://www.doingbusiness.org/en/reforms

[166] World Bank. "Getting Credit: the importance of registries," in *Doing Business 2015,* 2014. https://www.doingbusiness.org/en/reports/case-studies/2014/getting-credit

[167] Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2008). How important are financing constraints? The role of finance in the business environment. The World Bank Economic Review, 22(3), 483-516. https://doi.org/10.1093/wber/lhn018

excess paperwork".

Effective access to finance is connected with positive economic outcomes like increased productivity and investment in innovation. Using World Bank Enterprise Surveys collected in 2009 on over 1800 registered and formalized businesses in Brazil, researchers found that SMEs that applied for bank loans and were rejected had lower levels of productivity than SMEs that obtained financing (Motta, 2020).[168] Another 2019 study conducted in Vietnam examined the impact of access to finance (through accessing bank loans or utilizing an overdraft facility) on total factor productivity (TFP) in the manufacturing sector using a dataset of over 1600 Vietnamese manufacturing SMEs in 2013 and 2015. In both cases, access to finance resulted in a rise in TFP (Giang et al).[169] A 2018 study used the World Bank Enterprise Surveys to study the role of access to finance in enhancing productivity and innovation in SMEs in Nigeria. The researchers found that accessing bank credit had a positive impact on product, process, and organizational innovation (Adegboye, 2018).[170]

Definitions

Credit registry: A credit reporting institution is established by a government to support its role as a supervisor of financial institutions. Where credit registries exist, loans above a certain amount are required by law to be recorded for monitoring.*

Credit bureau: A credit reporting institution run as a private business which "collects information from a wide variety of financial and nonfinancial entities…and provides comprehensive consumer credit information with value-added services such as credit scores to private lenders."*

**Adapted from the World Bank: https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/key-terms-explained*

BER programming related to access to finance is generally focused on regulation of financial entities that serve businesses and individuals, as well as the market infrastructure to improve access to credit, such as credit bureaus, collateral registries, and financial markets. Financing for small and medium enterprises (SMEs) has emerged as a key priority for stakeholders globally, with an emphasis on building lending channels for SMEs. Credit information systems, adoption of modern insolvency and creditor rights regimes, establishment of efficient and digitized payment systems, improved accounting and auditing practices, and secured transaction legislations and registries are all emphasized to bolster strong global financial

[168] Motta, V. (2020). Lack of access to external finance and SME labour productivity: Does project quality matter? Small Business Economics, 54(1), 119-134. https://doi.org/10.1007/s11187-018-0082-9

[169] Giang, M. H., Trung, B. H., Yoshida, Y., Xuan, T. D., & Que, M. T. (2019). The causal effect of access to finance on productivity of small and medium enterprises in Vietnam. Sustainability (Basel, Switzerland), 11(19), 5451. https://doi.org/10.3390/su11195451

[170] Adegboye, A. C., & Iweriebor, S. (2018). Does access to finance enhance SME innovation and productivity in Nigeria? evidence from the World Bank enterprise survey. African Development Review, 30(4), 449-461. https://doi.org/10.1111/1467-8268.12351

infrastructures.[171]

Challenges like lack of awareness about schemes, complex application procedures, limited business literacy, lack of collateral, low female ownership of independent tangible assets, overregulation and rigid loan structures, lack of guidance, lack of access to banks, and absence of flexible loan terms and loan sources discourage uptake of credit, despite the availability of subsidized lending (Choudhury et al, 2021).[172] Additionally, studies found that firm age may inform ability to access finance. A 2011 study on 70,000 mostly small firms in 100 countries assessed the financing sources for young and new firms and found that young firms rely less on bank financing and more on informal financing (Chavis et al, 2011).[173] However, as they age, they switch to bank finance; these results held for firms of different sizes, sectors, location, and income. This suggests that information asymmetry potentially arising from procedural difficulties and lack of equitable information sharing plays a role in a young firm's ability to access finance.

Outcomes of enabling better access to finance

Credit information availability boost access to finance: Improved access to credit information through private credit bureaus and public credit registries leads to increased availability of loans, improved loan performance, and lowered lending corruption.

- **Both public credit registries and private credit bureaus have a positive effect on the price and quantity of loans:** A 2018 study examining the role of information asymmetry on financial access in 39 African countries found that public credit registries reduce the price of loans and both public registries and private bureaus improve the quality of loans. Both also improve financial access; however, the impact of private bureaus was found to be greater (Asongu et al, 2018).[174] Another study examining transition economies in Eastern Europe and former Soviet Union found that information sharing among banks is associated with higher availability and lower cost of credit (Brown, 2009).[175] This was also seen in a 2003 study combining firm-level data from 5000 enterprises in 51 countries, that found that the existence of private credit registries as

[171] What's happening in the missing middle? Lessons from financing SMEs, The World Bank Group, 2017 https://documents1.worldbank.org/curated/es/707491490878394680/pdf/113906-WhatsHappeningintheMissingMiddleLessonsinSMEFinancing-29-3-2017-14-20-24.pdf

[172] Dyutiman Choudhary, Kamal Banskota, Narayan Khanal & Prithvi Gyawali (2021) The role of access to finance for smallholders' seed business growth in Nepal, Development in Practice, 31:2, 139-149, DOI: 10.1080/09614524.2020.1828828

[173] Chavis, L. W., Klapper, L. F., & Love, I. (2011). The impact of the business environment on young firm financing. The World Bank Economic Review, 25(3), 486-507. https://doi.org/10.1093/wber/lhr045

[174] Asongu, S. and Nwachukwu, J. (2018), "Bank size, information sharing and financial access in Africa", International Journal of Managerial Finance, Vol. 14 No. 2, pp. 188-209. https://doi-org.libezproxy2.syr.edu/10.1108/IJMF-08-2017-0179

[175] Brown, Martin (2009). "Information sharing and credit: Firm-level evidence from transition countries." Journal of financial intermediation (1042-9573), 18 (2), p. 151.

associated with lower financing constraints, as perceived by managers, and higher share of bank financing (Love et al, 2003).[176] Djankov et al (2007) also found that introduction of credit registries resulted in higher private credit to GDP ratios, and these results were especially significant in poorer countries.[177]

- **Introduction of information sharing through credit registries may lead to improved loan performance:** A study examined the impact of the introduction of a public credit registry by the Albanian central bank in 2008 and found that while there was no significant impact on access or cost of credit, there was a significant improvement in loan performance – loans granted after the introduction of the registry were 3% less likely to turn problematic. This indicates a discipline in repayment by borrowers who may be concerned about their future access to credit (Behr, 2012).[178]
- **Increased information sharing through credit bureaus/registries reduces lending corruption:** A 2009 study examining World Bank Enterprise Survey data of 4,000 firms in 56 countries found that information sharing through credit bureaus and registries reduced lending corruption as well as improved banking competition. Increased banking competition was also associated with lower lending corruption (Barth et al, 2009).[179]

Improved access to finance through collateral registries: Introduction of collateral registries, especially for movable assets, improves firms' access to bank finance.

- Movable assets, like machinery or equipment, make up the bulk of assets for private firms as opposed to fixed assets like land and buildings, especially for micro, small, and medium enterprises. These are, thus, the main form of collateral available to most businesses; however, they are often not accepted by banks. A firm-level survey from 73 countries examined the impact of introducing collateral registries for movable assets on firms' ability to access bank finance. The researcher found a positive effect of such introduction on firms' access to bank loans and lines of credit or overdraft facilities. It also increased the share of firms' working capital and fixed assets financed by banks, reduced interest, and increased maturities on loans. This effect was especially large for smaller firms (Love et al, 2013).[180]

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[176] Love, I., & Mylenko, N. (2003). Credit reporting and financing constraints. The World Bank. https://doi.org/10.1596/1813-9450-3142

[177] Djankov, S., McLiesh, C., & Shleifer, A. (2007). Private credit in 129 countries. Journal of Financial Economics, 84(2), 299-329. https://doi.org/10.1016/j.jfineco.2006.03.004

[178] Behr, Patrick (11/01/2012). "The effect of information sharing between lenders on access to credit, cost of credit, and loan performance – Evidence from a credit registry introduction". Journal of banking & finance (0378-4266), 36 (11), p. 3017.

[179] Barth, J. R., Lin, C., Lin, P., & Song, F. M. (2009). Corruption in bank lending to firms: Cross-country micro evidence on the beneficial role of competition and information sharing. Journal of Financial Economics, 91(3), 361-388. https://doi.org/10.1016/j.jfineco.2008.04.003

[180] Love, I., María Soledad Martínez Pería, & Singh, S. (2013). Collateral registries for movable assets: Does their introduction spur firms' access to bank finance? The World Bank. https://doi.org/10.1596/1813-9450-6477

Increased supply of credit through stronger creditor rights: Increased creditor rights through improved creditor protections, insolvency laws, debtor control, and collateral laws increase bank risk-taking and supply of credit.

- **Improved creditor rights improve availability of private credit:** Djankov et al (2007), in a study examining data on legal creditor rights in 129 countries, found that improved creditor rights are associated with higher private credit to GDP ratio, especially in richer countries.[181] Another study of 2,400 banks in 69 countries revealed that stronger creditor rights led to higher risk taking by banks which resulted in higher growth. However, this risk taking also increased the likelihood of financial crises (Houston et al, 2010).[182] Improved creditor protection through stricter enforcement of contracts improved the size of loans and reduced loan spreads and price. Poor enforceability of contracts resulted in banks reducing loan amounts, shortening maturities, and increasing loan spreads (Bae et al, 2009).[183]
- Creditor rights that strengthen creditor control over debtor firms (i.e., debtor control laws) have a positive effect on private credit whereas reforms that increase secured creditors' rights have a negative effect: Laws that provide creditors higher control over debtor firms - like provisions like a required minimum capital amount to start a firm, restrictions on the payment of dividends defined by reference to the firm's capital, directors' duties to take into account the interests of creditors, public enforcement of directors' liabilities in the case of insolvency – all expand the availability of private credit. Conversely, creditor contract laws that protect the ability to secure collateral, like enforcement of creditor interests through seizure and sale of assets, have a negative effect on the supply of credit. This is because debtor control laws shift the balance of power to creditors while firm operations are still ongoing whereas credit contract laws only provide retroactive redress in the form of corporate asset seizure in the case of default, and hence do not encourage greater lending (Deakin et al, 2016).[184]
- Similarly, changes in collateral law increase bank lending more than changes in bankruptcy law. Collateral laws allow creditors to realize their claims against debtors, whereas bankruptcy laws only ensure an orderly process to resolve multiple, sometimes conflicting, claims on insolvent debtors (Haselmann, 2010).[185]

Firm Growth: Reduction of credit constraints, introduction of credit bureaus, and credit terms

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[181] Djankov, S., McLiesh, C., & Shleifer, A. (2007). Private credit in 129 countries. Journal of Financial Economics, 84(2), 299-329. https://doi.org/10.1016/j.jfineco.2006.03.004

[182] Houston, Joel, Chen Lin, Ping Lin, and Yue Ma, 2010. Creditor Rights, Information Sharing, and Bank Risk Taking. Journal of Financial Economics 96(3), 485-512

[183] Bae, Kee-Hong and Vidhan K. Goyal, 2009. Creditor Rights, Enforcement, and Bank Loans. Journal of Finance 64(2), 823 – 860.

[184] Deakin, S., Mollica, V., & Sarkar, P. (2016). Varieties of creditor protection: Insolvency law reform and credit expansion in developed market economies. Socio-Economic Review, mww005. https://doi.org/10.1093/ser/mww005

[185] Haselmann, Rainer, Katharina Pistor and Vikrant Vig, 2010. How Law Affects Lending. Review of Financial Studies. 23(2), 549-580.

impact firm level growth.

- **Credit constrained firms experience slower firm growth:** A 2017 study of over 10,000 firms across 20 African countries based on the World Bank Enterprise Surveys investigated how financial constraints, specifically in accessing credit, impacted firm growth through employment. The results indicated that access to finance constraint had a significant negative impact on employment growth. Additionally, firms with higher access to financial markets that have loans and credit lines experienced faster growth as opposed to credit constrained firms (Fowowe, 2017).[186]
- **Firms with increased access to finance due to introduction of credit bureaus experience higher employment growth:** A 2021 study on 780,000 firms in 22 developing countries used the introduction of credit bureaus to look at the impact of increased access to finance on employment growth. The researchers found that increased access due to the introduction of private credit bureaus resulted in higher employment growth, especially in micro, small, and medium enterprises (MSMEs). Overall, firms with access to loans experienced employment growth between 1 and 3% larger than firms with no loans. In MSMEs, the difference was 1 to 4%. The difference in employment growth between MSMEs with and without access to finance as opposed to large firms was at least three times larger (Ayyagari, 2021).[187]
- **The ability to access long-term finance impacts firm-level growth volatility:** A 2016 study using firm-level data for 76 countries between 1995-2013 looked at firm-level growth volatility using accounting data and firm-level asset volatility using stock market data to assess how long-term vs. short-term finance impacts volatility levels. Firms with a preference for and access to long-term finance relative to short term finance experience low growth volatility in economies with well-developed financial systems. In these economies, reduced refinancing risk in the form of legal infrastructure, and mechanisms for enforcement of contracts and resolution of insolvencies, allow firms to avail long-term finance and reduce growth volatility (Demirguc-Kunt et al, 2016).[188]

Inclusion and Inequality: Multiple policy, legal, regulatory, and administrative components of the business environment obstruct women's ability to access finance.

- **There is a large credit gap for women-owned SMEs:** A 2014 IFC Report based on a market and credit gap assessment found that the credit gap for formal women-owned SMEs globally was roughly $287 billion, representing 30% of the total credit gap for

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[186] Fowowe, B. (2017). Access to finance and firm performance: Evidence from African countries. Review of Development Finance, 7(1), 6-17. https://doi.org/10.1016/j.rdf.2017.01.006

[187] Ayyagari, M., Juarros, P., Martinez Peria, M. S., & Singh, S. (2021). Access to finance and job growth: Firm-level evidence across developing countries. Review of Finance, https://doi.org/10.1093/rof/rfab003

[188] Demirguc-Kunt, Asli; Horváth, Bálint L.; Huizinga, Harry. 2016. How Does Long-Term Finance Affect Economic Volatility? Policy Research Working Paper;No. 7535. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/23703 License: CC BY 3.0 IGO.

SMEs.[189] Women-owned businesses face unique financial barriers:

Lack of collateral: Women entrepreneurs are constrained from accessing financial products and services due to their lack of immovable assets and collateral. The Women, Business, and Law Report 2021 finds that in 75 economies, men and women still do not have equal rights to manage and inherit property.[190]

Legal discrimination and gender norms: Demirguc-Kunt et al (2013) analysed 98 economies to look at women's ability to work, head a household, choose where to live, and inherit property, as well as their compulsion by law to obey their husbands. The study finds that economy-wide legal discrimination of women and differential treatment under the law (legal restrictions in ability to work, heading a household, choosing where to live, owning property, or receiving inheritances) or by custom (level of violence faced, early marriage, etc.) negatively impacts women's access to and demand for financial services.[191] More laws like requirements for male family member's signatures (AfDB, 2013),[192] identification documents like national ID cards, etc. further discourage women's access to finance.

Functional Area 4: Improving tax policies and administration

Level of reform (1-5, where 5 is most relevant)		Example
Policy	n.a.	
Law	✓✓✓✓✓	Armenia amended its value added tax law to allow cash refunds for all cases, not just for international traders, starting in 2018.[193]
Organizational Change	✓✓	In 2017, Tunisia's General Directorate of Taxes instituted an automatic risk-based system for selecting companies for direct tax audits.[194]
Regulation	✓✓✓	Tajikistan, with support from the World Bank, is currently implementing tax reforms, including simplification of tax reporting requirements and harmonization of tax and financial

[189] IFC. 2014. Women Owned SMEs – A Business Opportunity for Financial Institutions. A market and credit gap assessment and IFCs portfolio gender baseline. Available from: https://www.ifc.org/wps/wcm/connect/44b004b2-ed46-48fc-8ade-aa0f485069a1/WomenOwnedSMes+Report-Final.pdf?MOD=AJPERES&CVID=kiiZZDZ

[190] World Bank. 2021. Women, Business and the Law 2021. Washington, DC: World Bank. doi:10.1596/978-1-4648-1652-9. License: Creative Commons Attribution CC BY 3.0 IGO

[191] Demirguc-Kunt, A., Klapper, L., & Singer, D. (2013). Financial inclusion and legal discrimination against women: Evidence from developing countries. The World Bank. https://doi.org/10.1596/1813-9450-6416

[192] African Development Bank (AfDB). 2013. Financial Inclusion in Africa. Available from: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Financial_Inclusion_in_Africa.pdf

[193] Doing Business. "Business Reforms: Paying Taxes," Accessed July 30, 2021. https://www.doingbusiness.org/en/reforms

[194] OECD. "Compact for Economic Governance Stocktaking Report: Tunisia," March 2017. https://www.oecd.org/mena/competitiveness/Stocktaking-Report-Tunisia-Compact-EN.pdf

		accounting reporting for selected taxes.[195]
Procedures	✓✓✓✓	In 2019, Indonesia introduced an online system for filing and paying payroll taxes and value added tax.[196]

Tax policy, especially concerning tax rates, is a complex and often politically charged topic. However key reforms to improve the administration of taxes can be a less controversial area for reform with tremendous benefits for the business environment. In particular, improvements to tax certainty, transparency, and clear tax payment procedures can be beneficial.

A key component in simplifying tax administration goes beyond tax policy to the time and motion components of, such as the ease of filing taxes. Over the past two decades, e-filing has become an increasingly important tool to reduce the complexity of tax systems from the taxpayer's perspective. The World Bank and PWC's joint report, Paying Taxes 2020, finds that the use of electronic tax filing has increased significantly, with 106 countries using online filing systems in 2019, compared to only 43 countries in 2004.[197] Other research has shown that e-filing supports the business environment beyond just reducing compliance costs for businesses but also can also reduce incidents of corruption (Kochanova et. al., 2016).[198]

Outcomes of Improving tax policies and administration

Investment: Simplifying tax compliance for businesses leads to increased investment.

- **Complex tax systems impose higher administrative costs leading to lower FDI:** While there is a significant literature showing higher tax rates can discourage foreign direct investment (FDI), studies also show that the time and costs businesses incur having to comply with more complex tax systems can be equally discouraging to FDI. One study finds that a 10% reduction in tax complexity is comparable to a one percentage point reduction in corporate tax rates (Lawless, 2013).[199]
- **SME development:** SMEs suffer disproportionately from complex tax procedures and

[195] Modern Diplomacy. "World Bank Supports the Modernization of Tajikistan's Tax Regime," June 1, 2021. https://moderndiplomacy.eu/2021/06/01/world-bank-supports-the-modernization-of-tajikistans-tax-regime/

[196] Oxford Business Group. "What are Indonesia's new tax reforms?," 2020. https://oxfordbusinessgroup.com/overview/positive-steps-recent-reforms-seek-simplify-tax-paying-process-and-make-country-more-attractive

[197] World Bank and PWC. "Paying Taxes 2020," 2019. https://www.doingbusiness.org/en/reports/thematic-reports/paying-taxes-2020

[198] Anna Kochanova, Zahid Hasnain, Bradley Larson. "Does E-Government Improve Government Capacity? Evidence from Tax Administration and Public Procurement," World Bank Policy Research Working Paper 7657, April 2016. https://openknowledge.worldbank.org/bitstream/handle/10986/24231/Does0e0governm0d0public0procurement.pdf?sequence=1&isAllowed=y

[199] Martina Lawless. "Do Complicated Tax Systems Prevent Foreign Direct Investment?" *Economica*, January 2013, volume 80, issue 317, pages 1-22. https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1468-0335.2012.00934.x

are more likely to be discouraged from tax compliance under more complex tax administration.

- **The burden of tax compliance disproportionately constrains SMEs:** An IMF study found that small and young firms suffer more from the compliance costs of complex tax administration than their larger and older counterparts (Dabla-Norris et al., 2017).[200]

Country Case study: Complex tax procedures and high tax rates discourage tax compliance for Nigerian SMEs: A study of SMEs in Zaria, North-Central Nigeria, found that high tax rates and complex filing procedures are the most crucial factors discouraging SMEs tax compliance (Atawodi and Ojeka, 2012).[201]

Revenue mobilization: Simplified tax administration can increase revenue collection.

- **Reducing tax complexity can increase revenues collected:** Simplification of tax administration increases the efficiency of tax systems, with less complex taxes contributing higher tax revenues with minimum negative distortions to economies (Bayraktar, 2020).[202]

Country case study - Georgia's simplified tax system led to a significant increase in revenues collected despite slashed tax rates: Georgia's sweeping tax reforms instituted following the 2003 Rose Revolution, simplified the tax system, reduced rates, reduced the number of taxes from 21 to 7, and instituted an electronic tax filing system. Between 2004 and 2011, tax revenues increased dramatically despite tax rate reductions, with Georgia's tax-revenue-to-GDP ratio doubling to 25% by 2008 (World Bank, 2012).[1]

Functional Area 5: Improving labour laws and administration

Level of reform (1-5, where 5 is most common)		Example
Policy	✓✓✓✓	In 1994, Denmark put in place its first active labour market policy

[200] Era Dabla-Norris, Florian Misch, Duncan Cleary, and Munawer Khwaja. "Tax Administration and Firm Performance: New Data and Evidence for Emerging Market and Developing Economies," IMF Working Paper, No. 17/95 April 14, 2017. https://www.imf.org/en/Publications/WP/Issues/2017/04/14/Tax-Administration-and-Firm-Performance-New-Data-and-Evidence-for-Emerging-Market-and-44838

[201] Ojochogwu Winnie Atawodi & Stephen Aanu Ojeka. "Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria," *International Journal of Business and Management*, June 2012, vol. 7, no. 12. https://pdfs.semanticscholar.org/b086/5a53fa7e530b2ca1f0322cc5cbc2f7360fc1.pdf?_ga=2.45160228.1699576726.1624997441-366166355.1624543313

[202] Nihal Bayraktar. "Impact of Tax Simplification on Tax Efficiency," in: Tsounis N., Vlachvei A. (eds) *Advances in Cross-Section Data Methods in Applied Economic Research*. ICOAE 2019. Springer Proceedings in Business and Economics. Springer, Cham. 2020. https://doi.org/10.1007/978-3-030-38253-7_16

		(ALMP) which set in motion the Danish labour market model known as "flexicurity," combining ease of hiring and firing workers with a strong safety net and active assistance in-between jobs.[203]
Law	✓✓✓✓✓	India passed a revision to its labour market laws, with several measures increasing labour flexibility, including allowing companies with up to 300 workers to fire workers without government approval.[204]
Organizational Change	n.a.	
Regulation	✓✓✓	Regulations limiting fixed term employment are common in many countries. For example, in Lithuania "fixed-term employment contracts are prohibited for permanent tasks, except for cases established by laws and collective agreements."[205]
Procedures	n.a.	

Labour regulations can have significant impacts on employment and labour market productivity and in turn economic growth. However, the debate surrounding the right balance between hiring flexibility and labour rights protection is deeply divisive, with no consensus on how stringent labour policies should be.[206] On one side, labour market regulations are described as creating inefficiencies by discouraging appropriate allocation of labour and skills and "protecting insiders at the expense of everyone else". Conversely, others see these policies as necessary for protecting workers' rights and ensuring productivity by reducing risk. A moderate view posits that at the two extremes – hyper regulation and complete deregulation, efficiency and social welfare are undermined (World Bank, 2012).[207]

A review of the literature on labour regulation shows that countries fall along a spectrum in

[203] H. Jørgensen. "Danish labour market policy since 1994 – the new 'Columbus' egg' of labour market regulation?" in P. Klemmer and R. Wink (Eds.) *Preventing Unemployment in Europe*, Ruhr Research Institute for Regional and Innovation Policy, Edward Elgar: Cheltenham, 2000.

[204] New India Express. "Parliament passes labour reform bills, allows companies with up to 300 workers to fire staff without government permission," September 2020. https://www.newindianexpress.com/nation/2020/sep/23/parliament-passes-labour-reform-bills-allows-companies-withup-to-300-workers-to-firestaff-without-2200841.html

[205] Arvo Kuddo. "Labour Regulations throughout the World: An Overview," World Bank Jobs Working Paper, no. 16, 2018. https://openknowledge.worldbank.org/bitstream/handle/10986/30106/127606-REVISED-EPL-final-FULL.pdf?sequence=1&isAllowed=y

[206] The controversy surrounding the Employing Workers indicator in the World Bank's Doing Business exercise (originally called "Hiring and Firing Workers") is indicative of this debate, and as a result indicator is not included towards the calculation of Doing Business scores and rankings.
Lara Goldmark and Karen Miller. "Flexibility that Works," *Development Alternatives*, vol. 15, no. 1, Summer 2012. https://static1.squarespace.com/static/5bf455c1cef372e49e9c95b4/t/5c48b76e2b6a28c73a91869e/1548269425031/THE-JOBS-CHALLENGE.pdf

[207] World Bank. 2012. World Development Report 2013: Jobs. Washington, DC. https://openknowledge.worldbank.org/handle/10986/11843 License: CC BY 3.0 IGO.

terms of labour flexibility. Countries with the most rigid employment policies tend to see less employment growth, however labour flexibility on its own is shown to be necessary but is not sufficient encourage employment growth (Goldmark and Miller, 2012).[208] There is widespread debate on the magnitude of the economic impact of various labour regulations, with much of the focus on the literature on minimum wage laws and employment protection rules. Betcherman (2014) finds, through an extensive review of literature on the impact of minimum wage and employment protection legislation of employment, earnings, and productivity, that efficiency effects have been found in both directions – positive and negative. However, these effects are usually modest. It is especially noted that employment protection rules, especially stringent dismissal rules, can have a negative effect on economic development and employment growth by hampering "creative destruction" in the economy.[209]

Some argue that BER should not primarily focus on regulation related to labour entry and exit flexibility, but rather that labour regulation related to workplace conditions can improve the business environment and drive productivity. A DCED commissioned paper identified conditions like training, innovation, employee engagement, information sharing, incentives, and occupational safety as drivers of productivity (DCED, 2016).[210] Table 5, below, provides a summary of the findings on the outcomes of simplifying business registration and licensing procedures. While this is not a comprehensive review, it provides insights on the latest evidence on the topic.

Outcomes of improving labour laws and administration

Productivity: Stringent employment protection regulations reduce productivity and can have unintended consequences for employment.

- **More stringent (less stringent) employment protection legislation leads to decreased (increased) productivity:** A 2009 study of OECD countries that used annual cross-country aggregate data on stringency of employment protection legislation and industry-level data on productivity from 1982 to 2003 found that mandatory dismissal regulations had a dampening effect on productivity growth in industries that where these restrictions were legally binding. Here, industries that relied on layoffs for staffing changes rather than voluntary turnover experienced higher firing costs and lower productivity (Bassanini, 2009).[211]

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[208] Lara Goldmark and Karen Miller. "Flexibility that Works," *Development Alternatives*, vol. 15, no. 1, Summer 2012.

[209] Betcherman, G. (2015): Labour market regulations: What do we know about their impacts in developing countries? The World Bank Research Observer, 30(1), 124-153.

[210] Business Environment Working Group. 2016. Business Environment Reform and Labour Productivity. Report by B.S.S. Economic Consultants. DCED. Available from: https://www.enterprise-development.org/wp-content/uploads/BEWG-BER-and-Labour-Productivity-Report-FINAL.pdf

[211] Bassanini, Andrea, Luca Nunziata, and Danielle Venn. 2009. "Job Protection Legislation and Productivity Growth in OECD Countries." Economic Policy 24: 349–402.

- Other country level studies found a negative effect of stronger worker protections on productivity. Okudaria et al (2011) conducted an empirical evaluation of the effects of restrictions on firing workers in Japan and found that legislation judgements that favored workers significantly reduced firms' total factor productivity growth rate.[212] Another study in Sweden examined the 2001 reform to the country's last-in-first-out (LIFO) rule that exempted small firms (fewer than 11 employees) from the rule that involves a list of priorities and stipulate that the last person hired is the first to be fired in the case of redundancy. The researcher found a 2-3% increase in labour productivity due to increase in total factor productivity and capital deepening. The reform made it easier to fire unproductive workers (Bjuggren, 2015).[213]

Country case study – labour regulation and productivity: Many academics have focused on national and sub-national units of analysis for examining the impact of local labour legislation on productivity. Choutagunta (2019) utilized the Annual Survey of Industry (ASI), an annual firm-level survey conducted by the Ministry of Statistics and Programme Implementation (MoSPI) of the Government of India to create a labour litigation index. Results indicated that stronger labour protection litigation had a significant negative effect on both output and productivity of manufacturing firms in India.[214] Another study that examined the dismantling of the license raj in India found that output rose more post-delicensing in pro-employer states than it did in pro-worker states (Aghion et al, 2008).[215]

- **Employment protection legislation leads to a decline in total factor productivity, but a rise in labour productivity:** Autor et al (2007) examined the adoption of wrongful discharge protection by state courts in the US and found that this led to reduced annual employment fluctuations but a rise in adjustment costs in states where such laws were adopted. Firms in these states invested in capital deepening which led to a rise in labour productivity but a decline in total factor productivity. This could be attributed to short term adjustment costs and the retention of unproductive workers due to higher protections, leading to technical inefficiency.[216] Another 2009 study examined twenty OECD countries between 1984 and 2004 and found a significant impact of labour

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[212] Okudaria, H., Takizawa, M. and Kotaro, T. (2011) 'Employment protection and productivity: evidence from firm-level panel data in Japan'. Discussion Paper 11-E-078. Tokyo: RIETI

[213] Bjuggren, C.M. (2015) 'Employment protection and labour productivity'. Stockholm: Research Institute of Industrial Economics.

[214] Choutagunta, A. S. (2019). Effects of labour regulation on manufacturing firms in India: A leximetric approach. Asian Journal of Law and Economics, 10(1) https://doi.org/10.1515/ajle-2019-0007

[215] Aghion, P., Burgess, R., Redding, S. J., & Zilibotti, F. (2008). The unequal effects of liberalization: Evidence from dismantling the license raj in india. The American Economic Review, 98(4), 1397-1412. https://doi.org/10.1257/aer.98.4.1397

[216] Autor, D.H., Kerr, W.R. and Kugler, A.D. (2007) 'Does employment protection reduce productivity? Evidence from US states' The Economic Journal 117: F189–F217

market regulations on labour productivity growth. The study argues that strengthened regulation increased wage pressure from protected employed workers which in turn stimulated capital deepening and increased labour productivity, increased the proportion of high-skilled workers in the labour force, and promoted labour saving technologies. However, the countries also experience reduced total factor productivity growth due to reduced expected returns on innovation, technological progress, and investments (Storm and Naastepad, 2009).[217]

- **Increased functional flexibility of labour is more important than numerical flexibility of labour:** A 2015 CIPD UK report indicated that restrictive labour regulations have a high impact on fast-moving industries like information and communication technology (ICT) where workforce adjustment is required to keep up with technological advancements. Thus, highly regulated industries are typically less dynamic and more risk averse to the costs of disruptive changes. The study also found that mere numerical flexibility in the form of deregulation is not sufficient for productivity gains, citing the example of the US where employers have the ability to hire and fire. The report argued that functional flexibility relating to work organization and skill development was more strongly associated with productivity gains (CIPD, 2015).[218]

Employment: More stringent employment protection rules lead to higher rates of unemployment, especially for youth, and lower labour market participation.

- **Employment protection legislation shifts jobs from young to older workers:** A 2020 study on employment trends in India found that stronger labour protections shift jobs from younger to older workers by discouraging the hiring of unproven younger workers and preventing the firing of older, unproductive workers. The data indicated that older workers were more likely to be hired in formal jobs and thus, the hardest to fire (Schwab, 2020).[219]
- **Stronger employment protection and social security legislation leads to lower labour force participation:** A study that examined 85 countries' laws on employment, collective relations, and social security found that heavier regulations of labour were associated with lower labour force participation and higher unemployment, especially for the young. The study also found that more protective collective relations laws like union protections were associated with a larger unofficial economy. More protective employment and social security laws were also associated with lower male (not female) participation in the labour force (Botero et al, 2004).[220]

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[217] Storm, S. and Naastepad, C. (2009) 'Labour market regulation and productivity growth: evidence for twenty OECD countries (1984–2004)' Industrial Relations 48(4): 629–654

[218] CIPD (2015): Employment regulation and the labour market. https://www.cipd.co.uk/knowledge/work/trends/labour-market-regulations#gref

[219] Schwab, D. (2020). Labour protection laws and the drain on productivity: Evidence from India. Review of Development Economics, 24(2), 383-401. https://doi.org/10.1111/rode.12656

[220] Botero, Juan C., Simeon Djankov, Rafael La Porta, Florencio Lopez de-Silanes, and Andrei Shleifer. 2004. "The Regulation

Country case study – Unintended consequences of labour regulation on youth employment in Spain: Due to high levels of employment protection in Spain, around one-third of the workforce is employed in temporary jobs. This had the unintended consequence of making youth, who most often could only obtain temporary jobs due labour regulation, particularly susceptible to employment shocks. This contributed to Spain's disproportionately high rates of youth unemployment, skyrocketing from 17.6% percent to 44% from 2007 to 2011 in wake of the 2008 financial crisis.[221]

Functional Area 6: Simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms

Level of reform (1-5, where 5 is most common)		Example
Policy	n.a.	
Law	✓✓✓✓✓	India's 2002 Code of Civil Procedures Amendment Act sped up the decision making process in commercial courts.[222]
Organizational Change	✓✓✓✓	2002 judicial reforms in Pakistan focused primarily on improved training for judges, leading to greater confidence in commercial courts.[223]
Regulation	n.a.	
Procedures	✓✓✓	Several countries, including Germany, have recently introduced an electronic filing system for commercial cases, allowing online submission of the initial summons.[224]

Improving access to commercial courts, swift legal procedures, and alternative dispute resolution systems are considered in the literature to be enablers of productivity, growth, and investment. The World Bank Doing Business Reports cites best practices in this area as: maintaining specialized commercial courts, divisions, or judges, introducing small claims courts or simplifying small claims procedures, introducing or expanding case management systems, introducing court automation, improving efficiency, and utilizing alternative dispute

of Labour." The Quarterly Journal of Economics 119: 1339–1382.

[221] Lara Goldmark and Karen Miller. "Flexibility that Works," *Development Alternatives*, vol. 15, no. 1, Summer 2012. https://static1.squarespace.com/static/5bf455c1cef372e49e9c95b4/t/5c48b76e2b6a28c73a91869e/1548269425031/THE-JOBS-CHALLENGE.pdf

[222] Chemin, M. (2006). Does judicial quality shape economic activity? Evidence from a judicial reform in India. Montreal: Department of Economics, L'Université du Québec à Montréal. <http://www.cirpee.uqam.ca/DEV_2007/M_Chemin.pdf

[223] Chemin, M. (2009). The impact of the judiciary on entrepreneurship: Evaluation of Pakistan's "Access to justice programme". Journal of Public Economics, 93(1), 114-125. https://doi.org/10.1016/j.jpubeco.2008.05.005

[224] Doing Business. "Business Reforms: Enforcing Contracts," https://www.doingbusiness.org/en/reforms

settlement mechanisms.[225]

One of the first and landmark attempts at comprehensively capturing efficiency of legal systems was carried out by Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2003) when they examined 109 countries to construct an index of procedural formalism or dispute resolution. This study was heavily cited, and the data and model have consequently underpinned many studies since. Djankov et al found that civil law countries were associated with higher expected durations of judicial proceedings, less fairness in decisions, and more corruption than common law countries. They concluded that developing countries had an inefficiently higher level of procedural formalism. This may lead to more inefficient resolution of business disputes.[226]

Studies identifying the impact of access to efficient and well-enforced legal systems consistently concluded with positive associations between these improved systems and business performance and growth. An empirical analysis of 139 countries between 2003 and 2012 found a significant negative relationship between increasing transaction costs and economic growth, with a 10-point difference in transaction costs resulting in the countries with higher cost being 3.12 to 4.66 times poorer than countries with lower costs. These costs included costs of contract enforcement, time, cost of insolvency procedures, cost of property registration, costs of cross-border trading, costs of paying taxes, costs of construction permits, and costs of starting business. Contractual relations and their enforcement systems like courts and alternative dispute resolution systems were seen to have a significant impact on countries' economic performance (Kovac et al, 2016).[227] Another study examined the impact of the legal system on banking development and the consequent impact on per capita GDP growth, capital stock growth, and productivity growth. The researcher found that countries with legal systems that protected creditor rights and stringently enforced contracts were positively associated with banking development and the macroeconomic metrics mentioned above (Levine, 1998).[228]

Outcomes of simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms

Productivity: Studies have found that access to and enforcement of quality judicial systems are associated with higher productivity gains in terms of sales, value added or total factor

[225] Doing Business. "Enforcing Contracts: Good Practices," https://www.doingbusiness.org/en/reforms https://www.doingbusiness.org/en/data/exploretopics/enforcing-contracts/good-practices

[226] Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2003). Courts: The Lex Mundi Project. The Quarterly Journal of Economics, 118, 453–517. doi:10.1162/003355303321675437.

[227] Kovac, M., & Spruk, R. (2016). Institutional development, transaction costs and economic growth: Evidence from a cross-country investigation. Journal of Institutional Economics, 12(1), 129-159. https://doi.org/10.1017/S1744137415000077

[228] Levine, R. (1998). The legal environment, banks, and long-run economic growth.Journal of Money, Credit and Banking, 30(3), 596-613. https://doi.org/10.2307/2601259

productivity.

- **Judicial reforms improve perceptions of judicial efficiency and firm productivity:** A 2020 study assembled and classified a database of judicial reforms, externally financed through foreign-aid agencies that targeted either or all characteristics of quality, speed, or access. They found that externally financed comprehensive judicial reforms improved perceptions of judicial efficiency for all firms by 0.15 standard deviations, and firm productivity by 0.09 standard deviations. Here, productivity was assessed through value added per worker, measured by the difference between firm revenue and cost of inputs divided by total number of full-time workers (Chemin, 2020).[229]
- **Improved judicial quality leads to improvement in firm performance in terms of sales, both international and domestic:** A 2016 study examining firm level data from 16 states in India assessed the micro-level effect of judicial quality on firm performance and found that firms located in regions of lower judicial quality produced lower outputs in the form of both exports and domestic sales. In industries that were contract-intensive, this effect was found to be even higher (Chakraborty, 2016).[230]
- **Complementarities exist between the speed of contract enforcement and firm level productivity:** An India-based 2013 study found that input tariff liberalization in the form of a decline in input tariffs led to an additional 3.6 percent productivity gains in states with higher judicial efficiency than in states with median levels of judicial efficiency. These complementarities were stronger in contract intensive and import capital intensive industries. This suggests that judicial quality can improve gains from other reforms like tariff liberalization and attract foreign capital (Ahsan, 2013).[231]

Investment: Improving access to commercial courts and contract enforcement mechanisms are associated with higher flows of investment.

- **Countries with lower contract enforcement costs are able to attract higher levels of FDI:** A study analysing data from 98 countries found that FDI is suggested with countries with lower contract enforcement costs. Multinational companies have incentive to influence improvements in the contract enforcement environment of host countries given the high liability and exit costs associated with multinational operations. Additionally, host countries, especially ones reliant on foreign capital, are incentivized to improve contracting environments to court foreign capital (Ahlquist et al, 2010).[232]
- Countries with poorer investment protections, through legal rules and quality of law

[229] Chemin, M. (2020). Judicial efficiency and firm productivity: Evidence from a world database of judicial reforms. The Review of Economics and Statistics, 102(1), 49-64. https://doi.org/10.1162/rest_a_00799
[230] Chakraborty, P. (2016). Judicial quality and regional firm performance: The case of indian states. Journal of Comparative Economics, 44(4), 902-918. https://doi.org/10.1016/j.jce.2016.07.001
[231] Ahsan, Reshad N. (05/01/2013). "Input tariffs, speed of contract enforcement, and the productivity of firms in India". Journal of international economics (0022-1996), 90 (1), p. 181.
[232] Ahlquist, J.S., Prakash, A. FDI and the costs of contract enforcement in developing countries. Policy Sci 43, 181–200 (2010). https://doi.org/10.1007/s11077-009-9093-3

enforcement, have smaller and narrower capital markets: Examining a sample of 49 countries, a 1997 study found that firms in countries with better legal protections were able to raise more external finance through debt or equity and this resulted in broader capital markets. This is attributed to entrepreneurs' willingness to sell equity and assume debt due to their belief in legal systems. This leads to higher levels of investments (La Porta et al, 1997).[233]

- **Legal reforms that lead to speedier judicial decisions are associated with higher levels of firm level investments:** Chemin (2006) examined the 2002 Code of Civil Procedures Amendment Act of India to examine its impact on firms' decisions to invest in fixed assets and found that speedier judicial decisions resulting from the legal reform led to fewer breaches of contract, higher access to credit, and thicker rental markets, which consequently improved firm confidence and investment decisions.[234]

Innovation: Improved contract enforcement and rule of law are associated with higher levels of R&D investment.

- **Weak contract enforcement associated with lower R&D levels:** A 2017 study of a panel of OECD nations found that weak contract enforcement is associated with lower R&D investment levels. This finding was especially robust in industries that were more contract reliant. For instance, the study found a 24% gap in R&D investment between the Italian and German automobile industry arising from the rule of law (Seitz, 2017).[235] Another 2010 study examining 2,400 firms in 18 Chinese cities found that contract enforcement played a positive role on companies' decisions to invest in R&D and the amount invested in R&D arising from a higher faith in investor rights and the legal system (Lin et al, 2010).[236]

Entrepreneurship: Improved judicial systems lead to higher levels of firm entry and entrepreneurship.

- **Judicial efficiency, especially dispute settlement mechanisms, are essential for fostering entrepreneurship:** A 2015 study examining European judicial systems found that judicial efficiency, especially the quality of dispute settlement mechanisms significantly impacted entrepreneurs' perceptions of contract enforcement reliability and ease of accessing credit and that an efficient judicial system was imperative for fostering entrepreneurship (Ippoliti et al. 2015)[237]. Another study examined the 2002

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[233] La Porta, R., Lopez-De-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal determinants of external finance. The Journal of Finance (New York), 52(3), 1131-1150. https://doi.org/10.1111/j.1540-6261.1997.tb02727.x

[234] Chemin, M. (2006). Does judicial quality shape economic activity? Evidence from a judicial reform in India. Montreal: Department of Economics, *L'Université du Québec à Montréal*. http://www.cirpee.uqam.ca/DEV_2007/M_Chemin.pdf Accessed September 21, 2012.

[235] Seitz, Michael (02/01/2017). "Contract enforcement and R&D investment". Research policy (0048-7333), 46 (1), p. 182.

[236] C. Lin, P. Lin, F. Song. Property rights protection and corporate R&D: Evidence from China. Journal of Development Economics, 93 (1) (2010), pp. 49-62

[237] Ippoliti, R., Melcarne, A., & Ramello, G. B. (2015). The impact of judicial efficiency on entrepreneurial action: A European

judicial reform that provided judges with training to improve efficiency. The study found that this reform (that cost 0.1% of Pakistan's 2002 GDP) had a direct and significant impact on entrepreneurship since judges disposed of a quarter more cases and the entry rate of new firms rose by half. The estimated impact on Pakistani GDP was expected to be an increase of 0.5%. The improved legal environment resulted in improved entrepreneur confidence in their workplace and increased the number of unemployed persons seeking permits or lands, investing in machinery or buildings, or seeking out financial resources to start businesses (Chemin, 2009).[238]

Functional Area 7: Broadening public-private dialogue processes with a particular focus on including informal operators, especially women

Level of reform (1-5, where 5 is most common)		Example
Policy	✓✓✓✓	In 2018, Somalia's government along with representatives from the private sector, and diaspora community, signed a Public Private Dialogue (PPD) declaration with a goal of developing and strengthening the legal and regulatory framework through PPD.[239]
Law	✓✓✓	Albania's law no. 57/2014, established a formal PPD mechanism, the National Economic Council, which is meant to ensure public-private participation in the development of economic policies, including those related to BER.[240]
Organizational Change	✓✓✓✓✓	Government engagement with Cambodian garment manufacturers through the Cambodia Government-Private Sector Forum (GPSF) facilitated reforms contributing to a five-fold increase in garment exports between 2001 and 2014.[241]
Regulation	n.a.	
Procedures	n.a.	

Public-Private Dialogue (PPD) is a term which can describe a variety of interventions aimed at promoting stakeholder engagement between the public sector and private sector. PPD has a long history dating back to the early 20th century and has equally extensive literature. This section will look narrowly at how PPD as part of BER can improve desired programmatic outcomes. For a more extensive review of PDD, see the overview by Benjamin Herzberg and

perspective. Economic Notes - Monte Paschi Siena, 44(1), 57-74. https://doi.org/10.1111/ecno.12030

238 Chemin, M. (2009). The impact of the judiciary on entrepreneurship: Evaluation of Pakistan's "Access to justice programme". Journal of Public Economics, 93(1), 114-125. https://doi.org/10.1016/j.jpubeco.2008.05.005

239 The Somalia Investor. "Improving Investment Climate for Somalia," January 13, 2018. https://somaliainvestor.so/improving-investment-climate-for-somalia/

240 USAID. "The Current Situation & Challenges In Public Private Dialogue (PPD) Assessment," July 2016. https://pdf.usaid.gov/pdf_docs/PA00MDXT.pdf

241 Benjamin Herzberg and Lili Sisombat. "State of Play— Public-Private Dialogue," 2016. https://openknowledge.worldbank.org/bitstream/handle/10986/24378/K8622.pdf?sequence=2&isAllowed=y

Lili Sisombat (Herzberg and Sisombat, 2016).[242] A recent DCED report by William Nielsen is also a good resource on PPD, especially with regards to use of modern technologies (Nielsen, 2021).[243]

PPD is used extensively for BER, with the majority of World Bank-funded PPDs being part of BER programming due to the widely cited success of PPD as an entry point for successful reforms (Herzberg and Sisombat, 2016). Due to its success and the emphasis of donor-funded programs and many countries on inclusivity in reform design, PPD has become viewed as a precondition for effective efforts to reform the business environment (Pinto, 2015).[244]

Outcomes of improving the public-private dialogue process for BER

PPDs can successfully facilitate reforms to reduce administrative burden: By involving the private sector in BER, PPD can help ensure reforms are effective, transparent, and focus on areas of high economic impact.

- **PPDs effective promote reforms and lead to large private sector savings:** A review of the World Bank Group's Support to Structured Public-Private Dialogue for Private and Financial Sector Development (2009), which evaluated World Bank sponsored PPDs in 30 countries, found that over 5 years, "the PPD network could be associated with about 400 reforms and $400 million in private sector savings."[245] While PPDs can play an essential role in facilitating other BER activities, it is important to note that they are complimentary to other interventions and don't lead to reduced administrative burden on their own.

Country Case Study – Malaysia's PEMUDAH initiative: *Pasukan Petugas Khas Pemudah Cara Perniagaan* (PEMUDAH) or the Special Task Force to Facilitate Business, was established on February 7, 2007, to facilitate collaboration between the public and private sector on BER in Malaysia. PEMUDAH is based on PDD but goes beyond many similar initiatives by being more than a "talk shop," defining its own initiatives, and implementing ideas which are endorsed by

[242] Benjamin Herzberg and Lili Sisombat. "State of Play— Public-Private Dialogue," 2016. https://openknowledge.worldbank.org/bitstream/handle/10986/24378/K8622.pdf?sequence=2&isAllowed=y

[243] William I. Nielsen. "Public Private Dialogue (PPD) with the Use of New Technologies A focus on feedback tools and their integration with data-driven policy reform," March 2021. https://www.enterprise-development.org/wp-content/uploads/BEWG-PPD-report-final.pdf

[244] Ricardo Pinto. "Review of Public Private Dialogue and Recommendations," October 2015. https://www.researchgate.net/publication/282734187_Review_of_Public_Private_Dialogue_and_Recommendations

[245] World Bank. "Review of World Bank Group Support to Structured Public-Private Dialogue for Private and Financial Sector Development," April 2009. https://www.publicprivatedialogue.org/workshop%202009/Review%20of%20World%20Bank%20Group%20Support%20to%20PPD%20-%20April%202009.pdf

its members. PEMUDAH has been credited with many reforms which have led to Malaysia's rapid improvements in various measures of BER, including Doing Business. One example is the initiative which PEMUDAH and the city government of Kuala Lumpur launched in 2008, instituting a One Stop Center (OSC) for construction permitting and reducing the number of procedures and time taken from 10 to 3 procedures and 51 to 3 days respectively (World Bank, 2020).[246]

Positive feedback loops: PPD creates a mechanism whereby positive feedback loops can be created which can inform BER efforts on an ongoing basis.

Country Case study – PPD use by Mexico's COFEMER: Mexico's Federal Commission for Regulatory Improvement (COFEMER) incorporated direct business feedback into its "Regulatory Moratorium" process. In 2004, Mexican entrepreneurs used that mechanism to argue against 63 specific formalities were unnecessarily burdensome. After a review, 62 of the 63 were eliminated before they could reach the legislative process (Herzberg and Wright, 2006).[247]

Inclusive reforms: PPDs provide an avenue for voices which are usually marginalized and left unheard to participate in the reform process.

- **PPD can give women a voice in the reform process**: Women are generally less well-represented in business and have less access to networks and lobbies that can influence public decision-making. Only 12% of board seats are held by women and only 4% of companies are chaired by women globally. PPD, provides women entrepreneurs and women's business associations a voice and can allow for the constraints which they uniquely experience to be considered in the reform process (Herzberg and Sisombat, 2016).[248]

Functional Area 8: Improving the overall quality of regulatory governance

Level of reform (1-5, where 5 is most common)		Example
Policy	✓✓✓	In 2017, Canada drafted a new Cabinet Directive on Regulation (CDR),

[246] World Bank. "Public-Private Dialogue in Business Regulation Reform: A Case Study on PEMUDAH," May 2020. https://openknowledge.worldbank.org/handle/10986/33937

[247] Benjamin Herzberg and Andrew Wright. "Competitiveness Partnerships— Building and Maintaining Public-Private Dialogue to Improve the Investment Climate: A resource drawn from the review of 40 countries' experiences," World Bank, 2006. https://openknowledge.worldbank.org/bitstream/handle/10986/8607/wps3683.pdf?sequence=1&isAllowed=y

[248] Benjamin Herzberg and Lili Sisombat. "Gender-Informed Public-Private Dialogue: Practical Note on Inclusion of Women Entrepreneurs' Voices," 2016. https://openknowledge.worldbank.org/bitstream/handle/10986/24380/K8634.pdf?sequence=2&isAllowed=y

		providing policy direction to frame key elements of regulation, including regulatory impact assessment, consultation and cost/benefit analysis.[249]
Law	✓✓✓✓	Mexico's 2000 amendments to its Federal Administrative Procedure Law mandated the use of RIA in for all legal measures that create compliance costs – with certain exclusions – by Mexico's regulatory oversight body, the Federal Regulatory Improvement Commission (COFEMER).[250]
Organizational Change	✓✓✓✓✓	Portugal established a Regulatory Impact Assessment (RIA) unit in 2017, as part of the SIMPLEX +2016 initiative, including a framework for RIA procedures and a new Technical Unit for Legislative Impact Assessment (UTAIL). Additionally, an electronic platform for citizen participation the legal and regulatory process was launched.[251]
Regulation	n.a.	
Procedures	n.a.	

Many international donors have long advocated for interventions to improve the quality of regulatory governance, though evidence on the impact of donor-supported regulatory policy and governance interventions has been scarce until recent years (Kirkpatrick 2012).[252] While the evidence base has grown somewhat in recent years, there is a need for continued study especially given the context-specific factors which determine the relationship between regulatory governance practices and outcomes (Guidi et. al., 2020).[253]

The OECD has been one of the longstanding proponents of interventions to improve regulatory governance. In 2001, the OECD identified effective regulatory management systems as having three mutually reinforcing components which correspond to the levels of reform discussed above:

a) A regulatory policy adopted at the highest political levels (policy and law)
b) Explicit and measurable standards for regulatory quality (regulation)
c) Regulatory management capacity (procedure level)

[249] World Bank. "Global Indicators of Regulatory Governance: Reforms," Accessed July 30, 2021. https://rulemaking.worldbank.org/en/reforms#6

[250] Delia Rodrigo. "Regulatory Impact Analysis in OECD Countries Challenges for developing countries," OECD, June 2005. https://www.oecd.org/gov/regulatory-policy/35258511.pdf

[251] World Bank. "Global Indicators of Regulatory Governance: Reforms," Accessed July 30, 2021. https://rulemaking.worldbank.org/en/reforms#6

[252] Colin Kirkpatrick. "Economic governance: Improving the economic and regulatory environment for supporting private sector activity," United Nations University (UNU), World Institute for Development Economics Research (WIDER) Working Paper 2012/108, 2012. https://www.econstor.eu/bitstream/10419/80940/1/73500031X.pdf

[253] Mattia Guidi, Igor Guardiancich, David Levi-Faur. "Modes of regulatory governance: A political economy perspective," *Governance*, January 2020, volume 33, issue 1, pages 5-19. https://onlinelibrary.wiley.com/doi/epdf/10.1111/gove.12479

> *Definitions*
>
> **Regulatory quality**: Can broadly be defined as a government's capacity to develop and implement sound regulations that promote economic development. While what makes up sound regulation is often contested, certain characteristics are generally agreed upon, including: "predictable and consistent," "effective", "simple," "efficient," and "easy to access."

Several potential strategies for improving the overall quality of governance exist, by addressing both the stock of existing regulation and the flow of new regulations. Improving the stock of existing regulations includes reviewing and updating existing regulations, and reducing red tape (e.g., simplification as discussed above). To improve the quality of the flow of new regulations, the OECD's review of country practices identified four strategies: 1) regulatory impact analysis (RIA), 2) systematic public consultations, 3) the use of alternatives to regulation, 4) improving regulatory coordination (OECD 2001).[254]

Regulatory impact analysis (RIA): Regulatory impact assessment (RIA) is a tool used by countries to improve the quality of regulatory decision making and transparency of the regulatory process. At its core, RIA is a systematic process for conducting cost-benefit analysis on proposed regulation. RIA can include one or both of 1) *ex-ante* evaluation of proposed regulations, and 2) *ex-post* evaluation of the stock of regulations (OECD, 2020).[255]

How cost/benefit calculations are made can vary widely, with various versions of the standard cost model (SCM) being a common method. More bottom-up approaches such as USAID's CIBER methodology have been used as well for evaluating regulatory impact from a sector-specific perspective through private sector consultation (USAID, 2008).[256] The specific way the burden is calculated often matters less than whether a systematic process exists that is institutionalized to address both the stock of existing regulations and flow of new proposed laws and regulations.

Since the OECD started promoting RIA in 1997, it has been adopted in most developed countries. Developing countries have begun to adopt RIA as well, but with varying success (Jacobs, 2020).[257] Many experts contend that this unit should report to the highest level of government. However, a review of recent initiatives implementing regulatory impact analysis

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[254] Peter Ladegaard. "Good Governance and Regulatory Management," OECD Seminar on Regulatory Management and Reform, Background note to session 4: Government Capacity to Assure High Quality Regulation, November 2001. https://www.oecd.org/governance/regulatory-policy/2724495.pdf

[255] OECD. "Regulatory Impact Assessment," February 25, 2020. https://www.oecd.org/gov/regulatory-policy/regulatory-impact-assessment-7a9638cb-en.htm

Data on RIA implementation by country is maintained in the World Bank's Global Database for Regulatory Impact Assessment (RIA): https://rulemaking.worldbank.org/en/ria-documents

[256] USAID. "CIBER: Enhancing Competitiveness Impacts of Business Environment Reforms - A Value Chain Approach for Analysis and Action," USAID, August 2008.

[257] Scott Jacobs. "We Need A Simpler RIA Method: Structure and Incentives in Government RIA," February 2020. https://regulatoryreform.com/wp-content/uploads/2020/07/Insight-1-Jacobs-RIA-Final.pdf

in developing countries yielded a number of lessons learned, including the fact that simply housing the initiative at a high level does not suffice to ensure it gains political will. Indeed, it may be better to incubate the structure in a lower-level agency, and/or to embed the function in already existing structures, given resource constraints (Ladegaard et al, 2018).[258]

Systematic public consultations: Public private dialogue (PPD) is often a key element of reform processes. For BER, it can be used to ensure that private sector insights and concerns are heard by government and that the process remains transparent. PPD can be structured or *ad hoc*, formal or informal, and include a broad array of private sector stakeholders and civil society groups. SMEs, informal operators, and disadvantaged groups rarely have input into reform processes, so PPD can be one way of ensuring that their voices are heard (Herzberg and Wright, 2006).[259] See further discussion under Functional Area 9, below.

The use of alternatives to regulation: Given the often rigid and costly nature of regulation, the OECD and others have long recommended first evaluating non-regulatory approaches prior to implementing regulation. The alternatives to traditional regulation fall into three main categories: market-based instruments, self-regulation and co-regulation approaches, and information and education schemes (OECD, 2002).[260] More recently, other techniques derived from behavioural economics, such as "nudges" have become a form of alternative (Galle, 2014).[261] One framework for evaluating alternatives to regulation is the "inverted pyramid," an approach first developed, to address licensing in the United States, but which can apply to many forms of economic regulation. The "inverted pyramid" shows a set of alternatives agencies should evaluate as a solution to a problem before resorting to regulation as a last resort. These include voluntary or non-regulatory options (e.g., market completion, quality service-disclosure, voluntary third-party certification, voluntary bonding or insurance) as well as government interventions which should only be considered when these are insufficient (e.g., inspections, mandatory bonding or insurance, registration, state certification, licensing) (Carpenter et. al, 2017).[262]

Improving regulatory coordination: Regulatory inconsistencies and/or overlap between regulatory bodies, as well as a regulatory divergence between countries can be costly for businesses. Regulatory coordination between businesses as well as internationally between

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[258] It is important to distinguish between the experience with RIA of less well-off countries, that have limited bandwidth and financial resources to devote, and OECD countries.
Peter Ladegaard, Petter Lundkvist, and Jonathan Kamkhaji. "Giving Sisyphus a Helping Hand Pathways for Sustainable RIA Systems in Developing Countries," World Bank Policy Research Working Paper 8367, March 2018. http://documents.worldbank.org/curated/en/691961521463875777/pdf/WPS8367.pdf
[259] Benjamin Herzberg and Andrew Wright. "The Public Private Dialogue Handbook: A Toolkit for Business Environment Reformers," DFID/World Bank/IFC/OECD, 2006. http://www.publicprivatedialogue.org/tools/PPDhandbook.pdf
[260] OECD. "Alternatives to Traditional Regulation," 2002. https://www.oecd.org/gov/regulatory-policy/42245468.pdf
[261] Brian Galle. "Tax, Command...or Nudge? Evaluating the New Regulation," Georgetown Law Center, 2014. https://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=2871&context=facpub
[262] Dick M. Carpenter II, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald. "License to Work: A National Study of Burdens from Occupational Licensing," Institute of Justice, 2017. http://arks.princeton.edu/ark:/88435/dsp018w32r874k

countries can help harmonize regulations and reduce the regulatory burden on the economy (OECD, 2002; IFAC & OECD, 2018).[263]

Outcomes of improving the overall quality of regulatory governance

Economic growth: Improved regulatory quality reduces burden, contributing to economic growth.

- **Improvements in regulatory quality can lead to economic growth:** Djankov, 2006 finds that countries "improving from the worst … to the best … quartile of business regulations implies a 2.3 percentage point increase in average annual growth."[264] Another study supports this view that better regulatory quality is associated with higher rates of economic growth. However, the favorable impact of improving regulatory quality was not found to be relatively greater for countries with a relatively poorer quality as had been previously expected (Dar et al, 2012).[265]

Increased Trade: Regulatory quality improvements can improve exports by increasing the efficiency exporters via reduced burden.

- **Improving regulatory quality by 10% can lead to 9-11% increase in exports:** A 2007 study found that three factors are have a large effect on exports: trade facilitation, regulatory environment, and infrastructure improvements. While improvements of 10% in trade facilitation and infrastructure led to increased exports of 5% and 8% respectively, the study found that a 10% improvement in regulatory environment leads to increased exports of 9–11% (Iwanow and Kirkpatrick, 2006).[266]

Functional Area 9: Improving access to market information

Level of reform (1-5, where 5 is most common)		Example
Policy	n.a.	
Law	✓✓✓✓	The U.S. Freedom of Information Act, first enacted in 1967, requires disclosure of previously unreleased information and

[263]OECD. "Alternatives to Traditional Regulation," 2002. https://www.oecd.org/gov/regulatory-policy/42245468.pdf
IFAC and OECD. "Regulatory Divergence: Costs, Risk, and Impacts," 2018.
https://www.ifac.org/system/files/publications/files/IFAC-OECD-Regulatory-Divergence.pdf

[264] Simeon Djankov, Caralee McLiesh, and Rita Ramalho. "Regulation and Growth," *Economic Letters,* 2006. vol 92, no. 3: 395-401. https://www.sciencedirect.com/science/article/abs/pii/S0165176506001108

[265] Atul Dar and Sal Amir Khalkhali. "On The Relation Between Regulation and Economic Growth," *International Business & Economics Research Journal (IBER)*, January 2012, 11(2):147.
https://www.researchgate.net/publication/297722076_On_The_Relation_Between_Regulation_And_Economic_Growth

[266] Tomasz Iwanow and Colin Kirkpatrick. "Trade facilitation, regulatory quality and export performance," DSA 2006 Annual Conference: The Private Sector, Poverty Reduction and International Development, volume 19, issue 6, August 2007.
https://onlinelibrary.wiley.com/doi/abs/10.1002/jid.1399

		documents controlled by the government upon request.[267]
Organizational Change	✓✓✓	Canada maintains an annually updated Administrative Burden Baseline (ABB), which provides information on the total number of requirements in federal regulations and associated forms that impose administrative burden on business.[268]
Regulation	✓✓	In Argentina, free public dissemination of all contracts made by central agencies is required through the Website of the National Procurement Office (ONC), "*Argentina Compra*." This also publishes information on the regulatory framework, institutional information on ONC, statistics, news, and a guide to common questions on how the public procurement system works.[269]
Procedures	✓✓✓✓✓	UNCTAD's Business Facilitation program has worked with 71 national, provincial, and municipal governments to implement its e-Regulations platform, an online information portal providing detailed mapping of requirements for government procedures related to investment and trade. The e-Regulations platform allows citizens and businesses to access clear and accurate information on administrative procedures and send complaints and propose simplifications online.[270]

Ensuring access to market information, including information on regulations and procedures related to investment and trade, is an essential component of BER and increases transparency in public institutions. Formally guaranteeing the right and access to information allow individuals and private sector organizations to monitor activities and access knowledge (Honig et al, 2020).[271] Public sector transparency is not just beneficial to investors but also important for economic development because it encourages good governance. Transparency measures can include but are not limited to: inclusion of economic actors and civil society in the drafting process of regulatory requirements (see Functional area 8 above); regulatory impact assessment for all laws and regulations at an early stage in the drafting process (see Functional Area 5 above); transparent parliamentary legislative procedures; accessible and timely publication of the final laws and regulations, and access to information on administrative

[267] Cordis, Adriana S. and Patrick L. Warren. 2014. "Sunshine as Disinfectant: The Effect of State Freedom of Information Act Laws on Public Corruption." Journal of Public Economics 115: 18-36.
[268] Government of Canada. "Administrative Burden Baseline: Update 2020," Last updated September 10, 2020. https://www.ic.gc.ca/eic/site/020.nsf/eng/h_00625.html
[269] OECD. "Compendium of Good Practices for Integrity in Public Procurement," 2014. https://www.oecd.org/gov/public-procurement/compendium-for-good-practices-for-integrity-in-public-procurement.pdf
[270] UNCTAD. "Step-by-step information portals," Accessed July 30, 2021. https:/businessfacilitation.org/information-portals/
[271] Honig, D., Lall, R., and Parks, B. (2020). When Does Transparency Improve Institutional Performance? Evidence from 20,000 Aid Projects in 183 Countries. AidData Working Paper #100. Williamsburg, VA: AidData at William & Mary.

procedures (OECD, 2005).[272] However, the existence of such policies is not sufficient. A recent study, using a dataset on the performance of 20,000 donor funded projects in 183 countries between 1956 and 2016, found that access to information policies alone is not associated with improvements in project performance. However, presence of independent appeals processes to implement such policies is strongly associated with improved project performance. In such cases, bureaucrats are constantly operating under the scrutiny of reliable mechanisms which continuously identify and discourage non-compliance eliminating “agency slack” (Honig et al, 2020).[273]

An important aspect of providing access to information is through improving clarity and completeness of publicly displayed laws and regulations as well as information on compliance with administrative procedures. One such example are trade information portals (TIPs). A trade information portal is a “website that publishes all regulatory information related to import, export, transit and trans-shipment of goods across a country’s borders.” (UNESCAP, 2021).[274] Such portals enhance the effectiveness of business processes. For instance, in Kenya, a step-by-step information portal on import, export, and transit that covers 100 import and export procedures has halved the steps and time to register coffee consignments and reduced costs related to the process by $230. A similar portal in Baghdad relating to business registration has reduced steps to create a business by half, the number of required documents by a third, and cut fees by 80%.[275] Another study that triangulated survey results collected by International Trade Center (ITC), WTO, and OECD on trade facilitation challenges for SMES revealed that lack of information was a key barrier to growth for SMEs, reinforcing the importance of access to clear and comprehensive information (Global Alliance for Trade Facilitation, 2021).[276] Another mechanism of improving access to information is through business registries that provide access to business information. Providing ubiquitous access to company information instills public and investor confidence in businesses and institutions, connects businesses to a larger pool of investors, increases accountability, and provides businesses with information on compliance with laws (World Bank, 2018).[277]

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[272] OECD. 2005. Investment Climate and Regulation of Investment in MENA countries. Assessment of Available Information, and General Recommendations. Working Group 1.

[273] Honig, D., Lall, R., and Parks, B. (2020). When Does Transparency Improve Institutional Performance? Evidence from 20,000 Aid Projects in 183 Countries. AidData Working Paper #100. Williamsburg, VA: AidData at William & Mary.

[274] UNESCAP (2021). Guide to Enhancing Trade Information Portals. Available at: https://www.unescap.org/kp/2021/guide-enhancing-trade-information-portals

[275] UNCTAD (n.d). UNCTAC’s Digital Government Platform: Success Stories. https://businessfacilitation.org

[276] Global Alliance for Trade Facilitation (2021). Small Businesses, Great Opportunities - Sensitizing Trade Facilitation Reform for Micro, Small, and Medium Enterprises: Insights from Global Alliance for Trade Facilitation. Available at: https://www.tradefacilitation.org/content/uploads/2022/02/alliance-small-businesses-great-opportunities-paper.pdf

[277] World Bank (2018). Doing Business 2018: Reforming to Create Jobs. Available at: https://www.doingbusiness.org/en/reports/global-reports/doing-business-2018

Outcomes of improving access to market information

Economic growth and investment: Improved access to information is associated with higher bureaucratic efficiency and investment flows

- **Increased bureaucratic efficiency from freedom of information:** A 2016 study analyzing panel data from using panel data from 132 countries between 1990 and 2011 found that adoption of freedom of information laws were associated with improvements in bureaucratic efficiency, especially when combined with higher media freedom, non-governmental activist, and political competition (Vadlamannati, 2016).[278]
- **Investors are sensitive of information voids:** A study using data on local public information and capital flowers found in 30 emerging markets between 1994 and 2012 found that investors were sensitive to information voids (lack of publicly available information about a country's investment climate), with direct investors being most sensitive, portfolio investors moderately sensitive, and banks least sensitive (Kingsley et al, 2017).[279]

Corruption: Studies on the impact of access to information on corruption levels yield mixed results.

- **Country Case Study – Freedom of information in the U.S. led to reduced corruption:** A study assessing the impact of the Freedom of Information Act laws on public corruption in the United States found that conviction rates doubled immediately after the laws were instituted indicating higher detectability of corruption. These conviction rates decline over time indicating a reduction of corrupt acts committed over time (Cordis et al, 2014).[280]
- **In developing countries can sometimes have negative effects on corruption:** Another study interestingly found that adoption of freedom of information laws actually resulted in an increase in perceived corruption with no significant decline in the long run (Costa, 2013)[281]. It is unclear whether this increase in perceived corruption is due to a rise in actual corruption or a rise in the detectability of corruption owing to new laws. A 2010 study also found an increase in corruption in the developing world following the implementation of freedom of information acts. Here, the researchers argued that these acts had the negative effect of providing private parties the means to identify and connect with government officials who were likely to be amenable to a

[278] Vadlamannati, Krishna Chaitanya and Arusha Cooray. 2016a. "Do Freedom of Information Laws Improve Bureaucratic Efficiency? An Empirical Investigation." Oxford Economic Papers 64 (4): 968-993.

[279] Kingsley, A. F., & Graham, B. A. T. (2017). The effects of information voids on capital flows in emerging markets. Journal of International Business Studies, 48(3), 324-343. https://doi.org/10.1057/s41267-016-0056-6

[280] Cordis, Adriana S. and Patrick L. Warren. 2014. "Sunshine as Disinfectant: The Effect of State Freedom of Information Act Laws on Public Corruption." Journal of Public Economics 115: 18-36.

[281] Costa, Samia. 2013. "Do Freedom of Information Laws Decrease Corruption?" The Journal of Law, Economics, and Organization 29(6); 1317–1343.

bribe (Escaleras et al, 2010).[282]

Inclusion and Inequality: Women's lack of access to market information severely impedes their ability to grow their businesses.

- **Access to information is important for women entrepreneurs:** Women's lack of access to market information restricts their growth trajectories, reduces their compliance with national standards, prevents formalization of their businesses, prevents their access to contracting, credit, and legal redress, and prevents them from bidding on public tenders (DCED, 2016).[283]

[282] Escaleras, M., Lin, S., & Register, C. (2010). Freedom of information acts and public sector corruption. Public Choice, 145(3/4), 435-460. https://doi.org/10.1007/s11127-009-9574-0

[283] DCED (2016). Business Environment Reform and Gender. Business Environment Working Group. Available at: https://www.enterprise-development.org/wp-content/uploads/BEWG-DCED-Technical-Paper-Gender-and-BER.pdf

3. Practical guidance for Effective Results Measurement

This section highlights three phases of BER project development that allow practitioners to gather the necessary data at each step to have comprehensive and comparable results measurement. These three phases are – setting up, developing a theory of change, and identifying indicators.

3.1 PHASE I – Setting Up

A comprehensive project set-up template is provided below (Figure 5).

This document does not claim to provide comprehensive or even robust guidance on project design; there are vast resources available on the topic. What it does, however, is emphasize four key elements that emerged from the literature review and case study exercises – decisions and actions that contribute to successful BER programming if they are accomplished early. Conversely, without them, it becomes almost impossible to track and measure change.

To set up a BER project (or component of a project) for success, the team will want to identify priorities, stakeholders, structures, and reforms. How this is done, and how early, affects the project's ability to articulate progress and measure results. These four early success elements are outlined below and summarized in Figure 9 along with their corresponding implications for results measurement.

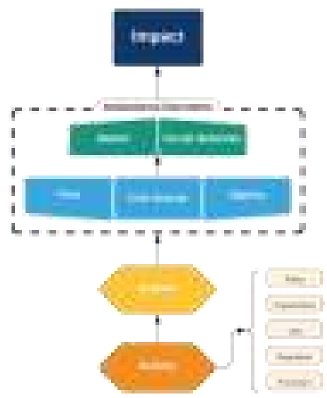
*Figure 5 Project Set-up Template**

Project Set-Up Template

Category	**Description**
Geographical scope	
Functional area/s	
Sector/s	
Partner organization/s	
Reform activities	(select – policy, law, regulation, procedure, organizational change)

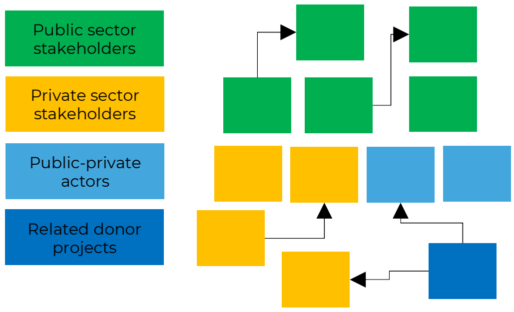
Preliminary Tools

Preliminary theory of change

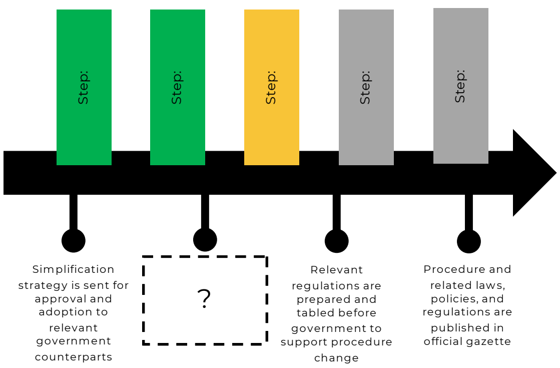


Stakeholder Map

Identify relevant stakeholders and how they interact with each other. Additionally, assess how each stakeholder will react to the project activities and goals. Also identify related active donor projects to find complementarities.



Project Milestone Map



Reform Milestone Map

Evidence Map

Indicators:

- Total factor productivity
- Hirschman-Herfindahl index (HHI)

Evidence:

- Countries in the lowest decile of the entry costs distribution have higher total factor productivity (TFP) and labor productivity than countries in the highest decile. Higher regulatory entry costs allow unproductive firms to operate, changing the industry composition and lowering its average productivity, leading to lower TFP for the country's economy (***Barseghyan and DiCecio, 2011***).
- Increase in entry costs is associated with a reduction in total factor productivity and output per worker (**Barseghyan, 2008**).
- Red tape has a significant impact on productivity. Additional days spent complying with inspection and regulation control activities decreases (***Escribano and Guasch, 2005***).
- The end of India's License Raj increased productivity through relaxation of entry constraints (***Chari, 2011***).

*These are exemplary tools, which can be developed and utilized during the project set-up stage.

a) Identify priorities

This is the first stage of project set-up. It includes determining what project priorities will be through several filters – what are the needs (of the country/region, of the government, of businesses, etc.), what are the larger goals (poverty reduction, economic growth, investment, inclusion, employment, etc.), where is the political will to reform (will of the current administration, will of ministries or agencies), and what are the reform areas[284] that must be prioritized and correspond with the "needs", "goals", and "political will" of the project area. By identifying the priorities, the most effective path to reach the goals of the project can be identified. This will guide the development of a results chain based on evidence-based links between activities and outputs, outcomes, and impacts, and allow you to design specific activities within the most "outcome-rich" areas of BER.

b) Identify stakeholders

Having identified the priorities, the next step is to identify stakeholders. Here, stakeholders can be categorized in two ways – stakeholders who implement the reform process, and stakeholders who are impacted by the reform. Stakeholders may both implement and be impacted by reforms. Examples of stakeholders include the public sector (ministries/agencies/quasi-government bodies, etc.), private sector (firms, business associations, unions, private advocacy groups, etc.), financial institutions (commercial banks, microfinance institutes, etc.), others (cooperatives). Identifying stakeholders will allow the project team to locate the most viable entry point for the project's identified reform area. This will also inform how much and what kind of data may be collected during the project and from whom.

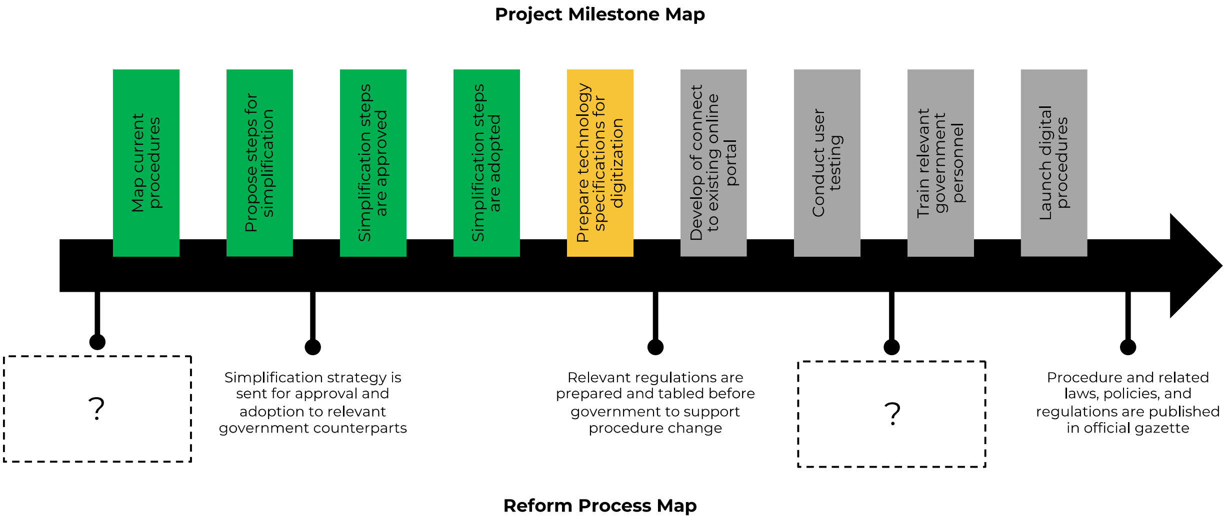
c) Identify structures

This step involves identifying the structures within the reform process in the project area. It allows the project to identify if there are pre-existing structures (i.e., national reform committees, inter-ministerial councils, etc.) and whether these are "fit for purpose" for the reform areas the project will cover. If yes, can these structures be strengthened or re-energized? If not, should new structures be created and how can they be organized to be most effective? The project team will want to understand the country or local government's overall reform architecture, i.e., what are the typical steps from the inception of a reform activity to implementation and beyond; and consequently, the implications for measuring progress. Reenergizing existing structures or supporting the creation of new structures may require capacity building, and consequently the establishment of clear goals for these activities. This

[284] Reform areas could broadly relate to the nine functional areas of DCED. For instance, a project that identifies investment as a goal may then identify access to finance as the most appropriate reform area for the project.

stage can be strengthened through mapping the project milestones and reform process mapping with commonly accepted and understood phases of reform in a country (See example in Figure 6). This map can be revised over the project period.

Figure 6 Exemplary project milestone map



d) Identify reforms

Here, the project moves further from identifying the priority reform area, and specifying how change will happen, specifically to defining what types of activities the reform work will entail. Will the project teamwork with counterparts to change policies, laws, or regulations? Will the team work on optimizing administrative procedures? Will the team seek to change the capacity, structure, or mandates of line ministries and other agencies that regulate business? Measurement tools will vary depending on the type of reform activity. For instance, for an activity that relates to the development of a policy, stages like drafting and adoption of the policy might be the appropriate means of measuring the output of the activity. However, for an activity that simplifies licensing procedures, the project set-up period is likely to require a baseline assessment of the administrative burden of such procedures. Figure 7 outlines basic strategies for effective baseline development. At this stage, the project team will also want to determine the ideal sequencing or coupling of reform types to best address the reform goals. Figure 8 shows a typology of projects employing different combinations of reform types.

Figure 7 Strategies for developing effective baselines

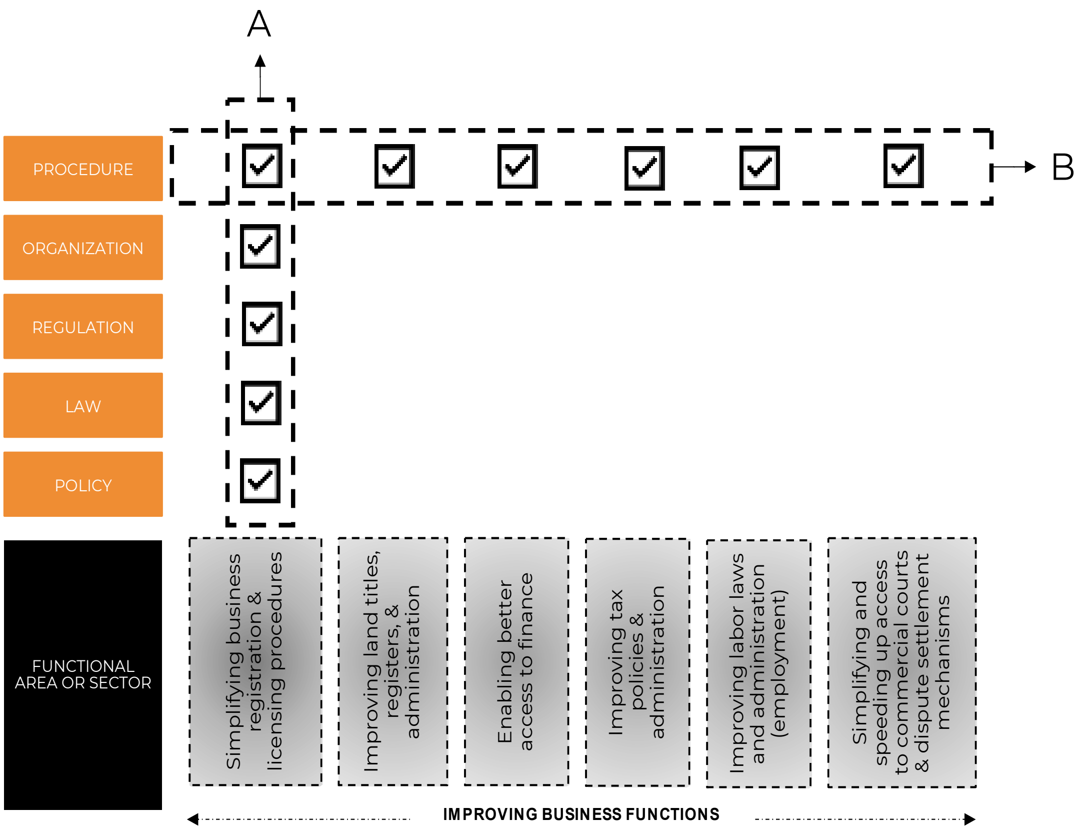
Baseline Development

A common way of quantifying what a BER program or project component will achieve is “Number of reforms,” followed then by a target (such as 6 or 9) and a baseline value: zero. The question is, “Zero what?” At what point is a reform counted as complete? Do legal reforms weigh equally with regulatory and procedural reforms, and are they to be counted separately?

- One good practice is that the “zero” baseline statement be accompanied by a documentation of the current situation (in the absence of the reform, what is current practice?).
- Another useful tool is a timeline showing key milestones achieved, that places the typical steps followed in a country along a horizontal axis, and lists expected “events” along with their target date (an illustration is provided below in the section on business registration and licensing).
- Last, for baseline data that is costly to collect (i.e., perception surveys or time and cost data to calculate administrative burden) donors may want to join forces and conduct one larger baseline study, or regular surveys, that can provide the underpinning for robust measurement of multiple donor and government-led programs.

Figure 8 Typology matrix and short description

Reform Typologies



Each project type has a different pathway to impact. The figure above displays two possible approaches – A and B. Approach A (sector- or function-focused programs) can have a deeper impact on one issue by addressing that same issue (tourism competitiveness for example) at multiple intervention levels. Projects with approach B focus instead on a type of reform intervention, such as procedural simplification and digitization and work across sectors or functions.

Additional configurations might combine elements of A and B. An example would be an agriculture export project that focuses on barriers to competitiveness for key exports at more than one level, but with special focus on the streamlining of import and export procedures relevant to the key export sectors. Similarly, a large-scale trade facilitation project might cut across several sectors and reform levels, including policy work related to compliance with trade agreement and associated legal and regulatory reform, as well as streamlining procedures to reduce the time and cost of getting goods across borders. Using this matrix to specify the scope of reform projects can help evaluators compare apples-to-apples across projects and allows project teams to trace the pathway more accurately from one or more activities to broader economic impact.

Figure 9 Things to do as soon as possible

	PROJECT SET-UP STAGE	PROJECT DESIGN PRACTICES	CORRESPONDING MONITORING AND EVALUATION PRACTICES
1	Identify priorities	Clarify the high-level impact goal as well as identifying priorities through the following filters: • Needs • Goals • Political will • Reform area	Conduct scoping activities to gauge the needs and goals of the economy, where there is buy-in from relevant partners, and what broad reform areas to address (i.e., needs assessments, political economy analysis, economic modelling.)
2	Identify stakeholders	Identify stakeholders in four categories: • Public sector (ministries/agencies/quasi-government bodies, etc.) • Private sector (firms, business associations, trade unions, etc.) • Financial institutions (public and private banks, etc.) • Others (cooperatives)	Interview stakeholders to gauge what kind of data will be feasibly available for results measurement and what challenges may arise in collecting robust but practical data. Ask them how they track progress. Requires stakeholder mapping.

3	Identify structures	Identify whether specific structures exist to organize and accelerate the implementation of reforms. • If yes, can they be strengthened and/or re-energized? • If not, what new structures are needed?	Identify structures to understand the reform architecture. Activities include assessing the current capacity of reform structures and developing a timeline with milestones (See Figure 3).
4	Identify reforms	Once the priority reform area or areas (above in stage 1) have been selected, you'll want to clearly define how you're going to go about supporting change in this area. Reform types are: • Policy • Law • Regulation • Procedure • Organizational change	Depending on the type of reform, you will use different tools to measure outputs, outcomes, and impacts. This stage includes developing a baseline (see Figure 4) and preparing to trace the change pathway through the results chain.

3.2 Phase II - Developing a Theory of Change

Having set up the project for success, the next step is to develop a theory of change. The process of developing - and refining - the theory of change is iterative and in practice, would ideally be done in collaboration with the project's government and private sector counterparts. Time pressures may lead project teams to quickly mock-up a theory of change on their own in order to get the necessary approvals, and to focus on what can be done quickly. However, for BER projects, since results chains are long, the theory of change benefits from being iterative, agile, and collaborative.

In this BER-specific results chain, there are nuances unique to such programmes. Since this is not a dynamic systems model, relationships between the levels are linear, however, the patterns of change that emerged repeatedly in the summery of evidence continue to be relevant. Standardized definitional units to describe and deconstruct the elements of the theory of change (activities, outputs, outcomes, and impacts) provides the basis to trace "change pathways" for typical BER interventions all the way from the activity to the impact level. These definitional units have been discussed in the previous chapter. Although imperfect, the theory of change framework when fully applied will allow donors to know what to expect, how to measure whether it is achieved, and to compare results across programs and countries.

While the basic building blocks remain the same as other generic results chain, the BER-specific results chain slightly modifies the structure, to better illustrate the dynamics of change at the outcome level, as shown in the previous chapter. This was developed in consultation with donor committee members and is supported by an extensive literature review that traced the outputs, outcomes, and impacts of BER activities in the nine DCED functional areas.

3.2.2 Exemplary Theories of Change

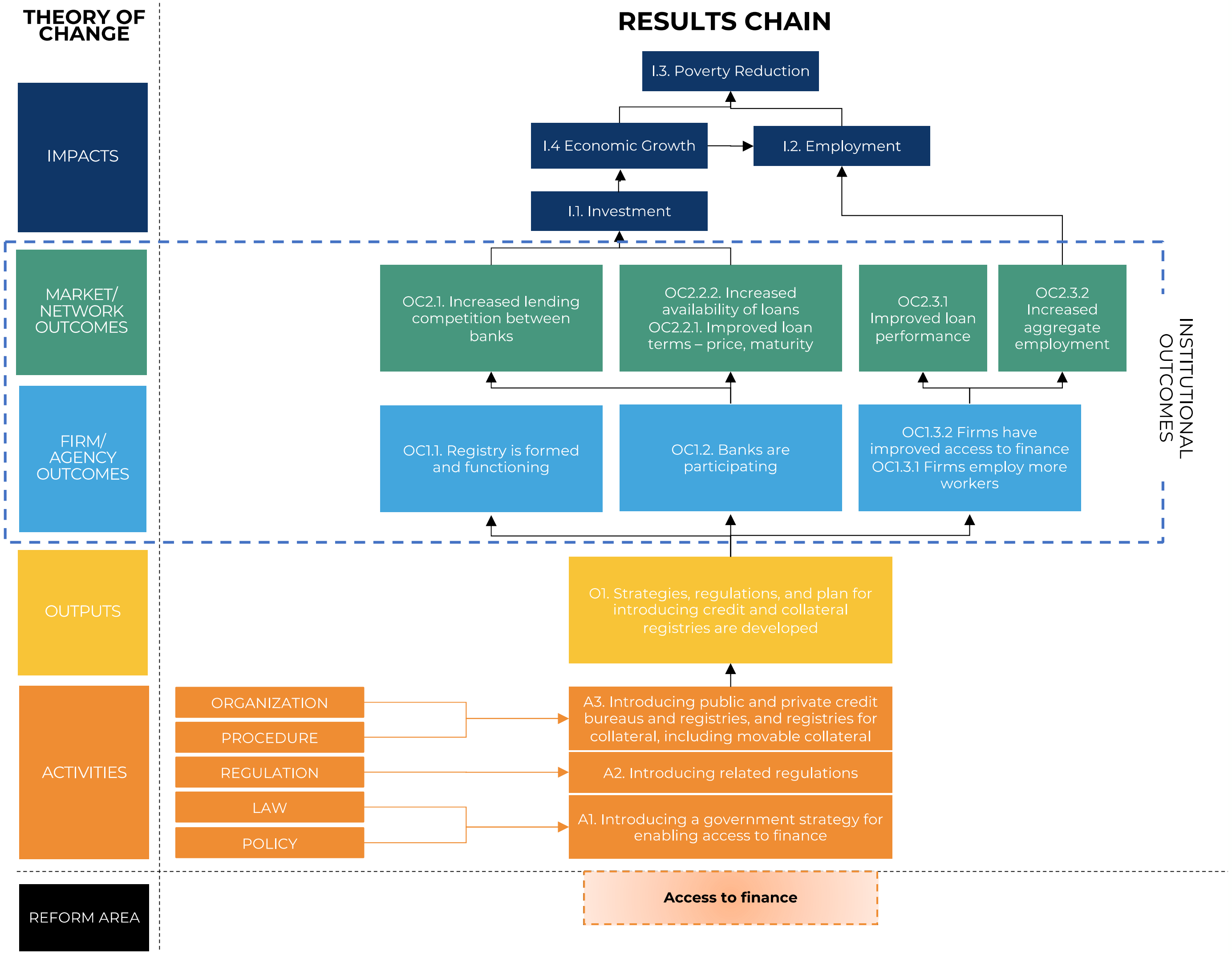
In this section, two exemplary results chains, one related to access to finance and the other to business registrations and licensing procedures are presented. These results chains were developed by tracing the evidence related to these BER functional areas compiled in the literature review.

Example Results Chain 1: Enabling better access to finance

The results chain shown in Figure 10 depicts a project to set up a credit and collateral registry. The activities that comprise this intervention are - developing a government strategy regarding access to finance (policy, law), developing regulations regarding the set up and use of the registry (regulations), and the activity of setting up the organization and designing the procedures to collect credit and collateral information. The project outputs are recommendations and training events, while the joint outputs are the policies, laws, regulations, and procedures developed by the counterpart (for example, the central bank) responsible for setting up the new entity in collaboration with the project. The institutional outcomes at the first level relate to firms, banks, and the registry itself. This leads to the second level of outcomes which represent market level changes like increased availability of finance and increased aggregate employment. Tracing an activity onto the theory of change ladder allows the project team to identify specific outputs and outcomes that need to be measured. Parsing the activity level by type of reform depicts how the introduction of a credit and collateral registry is a culmination of many activities, all of which are differently measured.

However, it is also clear that in this example, policies, laws, and regulations alone do not lead to the creation of the registry and thus do not directly link to the outcome level. At the same time, these appear to be necessary steps in the reform architecture that create the conditions for setting up the credit registry and related procedures. Finally, identifying the higher-level impacts of investment and employment also allow the team to see what other possible impacts may emerge because of this work in the long-term, such as in this case – economic growth and poverty reduction.

Figure 10 Access to finance results chain



Example Results Chain 2: Simplifying business registration and licensing procedures

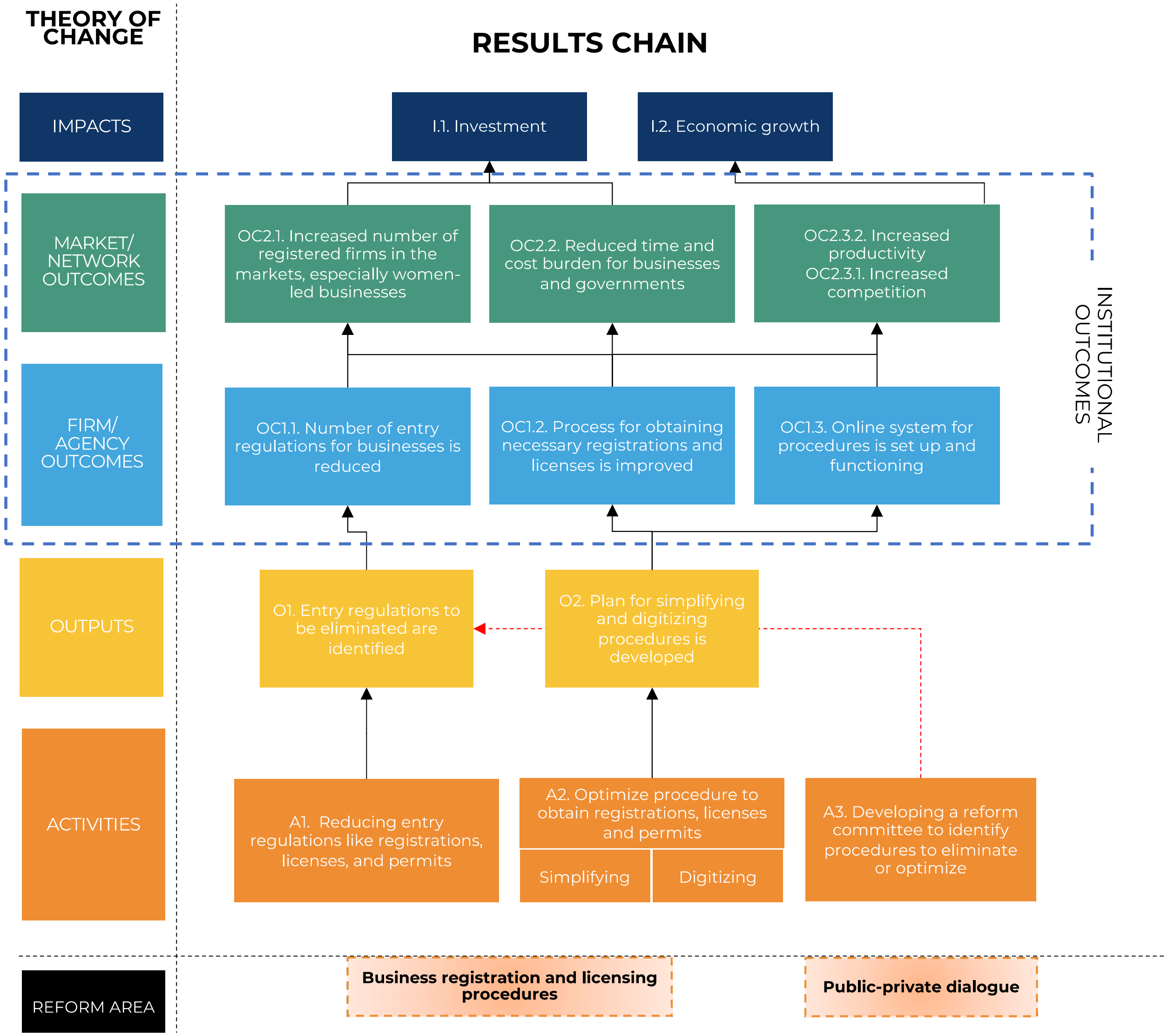
This results chain pertains to a project that simplifies business registration and licensing procedures. The project begins by establishing a reform committee to identify burdensome regulations and licenses. This is then followed by either elimination of regulations/licenses or optimizing existing licensing procedures through simplification or digitization.

For projects like this with multiple steps, it can be useful to develop a milestone map, such as the one shown earlier (Figure 6). Such a map will also contain a timeline with steps linked to commonly accepted and understood phases of reforms as they normally occur in country. This map can be revised over the project period. Connecting it to the country's reform architecture can help ground milestones with realistic expectations around getting necessary approvals and support.

Simplifying registration and licensing are activities that lend themselves well to a baseline measurement of administrative burden, using well-accepted indicators of BER: reduced time and cost. This standard process of measurement has been discussed in greater depth in the next section

When the specific activities for this project are deconstructed, as shown below in the results chain (Figure 11) it becomes apparent that in order to achieve the desired outcomes, the central priority is that reforms are identified, and progress is made to advance them. Meanwhile, the establishment of the reform committee is observed to serve a supporting function and the organization of public private dialogue as an amplifier. This means that in conjunction with the reforms, it improves the quality and quantity of the outputs of the other activities. This is important to note, because at times there have been projects designed as if outcomes can be achieved solely through public-private dialogue. Certainly, reforms can be private sector-led and there may be techniques to work outside of government structures or to affect them indirectly, but a theory of change would need to show exactly how that process is working and acknowledge that amplifiers alone do not lead directly to higher-level economic outcomes and impacts.

Figure 11 Simplifying business registrations and licensing procedures results chain



3.3 Phase III – Identifying Indicators

The BER-specific theory of change presented in this report provides an organizing framework for the development of a set of robust causal relationships. It has undergone preliminary testing through case studies (found in the annex) and is ready for application to projects that are new, or already underway but requiring a refreshed or more developed causal model.

However, the difficulty arises not from measurement itself, but rather what to measure and in what order. To do this, one can take a bottom-up approach to measurement, starting with the question, "What is worth measuring?" which begs the related question "Which BER activities are the most likely to lead to the higher-level impacts we seek?" There is a scientific way to answer these questions: by gathering extensive data and running a series of economic models where we take gross domestic product (GDP) growth, employment, or investment, as a proxy for an improved business environment. This could be done in one country, or in many, and a robust model applied in a standardized way would tell us what the driving factors are for successful business environment reform and enable us to quantify and rank them. We can imagine that while the driving factors might differ from one country to another, a global model would reveal a set of recurring factors that could then be organized into a global index for BER. This would require a validation of a core set of standard indicators that are compiled based on some common criteria like quality, means of measurement, rigor, feasibility, etc.

Currently, all agencies have separate sets of indicators, and in addition the donor committee has its own set of indicators organized by functional areas. A rapid inventory and triaging of these would make results measurement more consistent and comparable across projects, regions, and donors (although it still would not guarantee whether we are measuring the right things). An inventory of relevant indicators from different sources has been conducted in a following section of this chapter for a results chain relating to activities that simplify business registrations and licensing procedures (see Figure 10). A stop-gap solution is to create a database of indicators compiled from all donors and implementors, assess them on common criteria, organize them along the theory of change and by functional area. A long-term, more rigorous method is to develop one or more economic models to identify the most important drivers of change, using economic indicators as proxy for successful BER. It is possible to begin experimenting with modelling in a specific country or project case, and then scale, standardize, and make comparable the model across different contexts. There are two possible sources of data – historical economic data and large-scale perception surveys of the private sector. Ideally, both should be used and triangulated with the existing evidence base. The field would also benefit tremendously from an agreement on the importance of and consistent plan for conducting baselines. All projects should require baselines and this data collection can be coordinated and shared across agencies and donors to prevent duplication and redundancy. An important consideration is that it is not necessary to have standard indicators, rather it is more beneficial to have standard units that are used to measure indicators. For instance, a standard indicator that is widely accepted and used is regulatory burden. The standard measurement units for this are time and cost.

To illustrate an exemplary exercise of measurement in standardized units, this section presents a framework and examples for measuring the time and cost burden of administrative compliance using Monetizing benefits (MB), essentially a simplified version of the standard cost model. Many governments and donors already use a model like this, for example, the World Bank Group/IFC's "compliance cost savings" method and others shown in Figure X along with their pros and cons. While these different ways of computation exist, administrative burden (in the form of time and cost) itself is an indicator that is widely accepted and thus, a standard indicator that allows fair comparison of reform success across projects and interventions[285].

3.3.1 Illustrative exercise using standardized units – Monetizing benefits

Unlike other simplified versions of the standard cost model, MB relies primarily on firm consultations, focus groups, and expert interviews (as opposed to surveys), and factors in contextual information about the difficulties investors face. This allows for granular data and relative precision in measuring the costs of administrative burden. MB can be a standardized tool to collect data on administrative and/or regulatory burden using a bottom-up approach and it is designed to be combined with an economy-wide model to calculate second order effects on investment, jobs, and growth. In other words, this tool, combined with an economy wide model, would allow governments to estimate the macroeconomic effects of microeconomic reforms.

Figure 12 Pros and cons of the standard cost model and alternatives

PROS AND CONS OF SCM AND ALTERNATIVES		
METHOD AND ORIGIN	PROS	CONS
1. Standard cost model (Developed in Holland)	• The original "gold standard" method, SCM is widely known and has been adopted by most OECD countries. • Thorough and robust, observes standard conventions prevailing among	• Focuses only on administrative costs, not the broader economic benefits of reform. If done in its fullest form can be time consuming and costly, though simple adaptations of SCM avoid this

[285] The terms "regulatory burden" and "administrative burden" are often used interchangeably, however the measurements for each do differ. In the case of this illustrative exercise, MB was deployed specifically to measure the transactional burden of government administrative procedures.

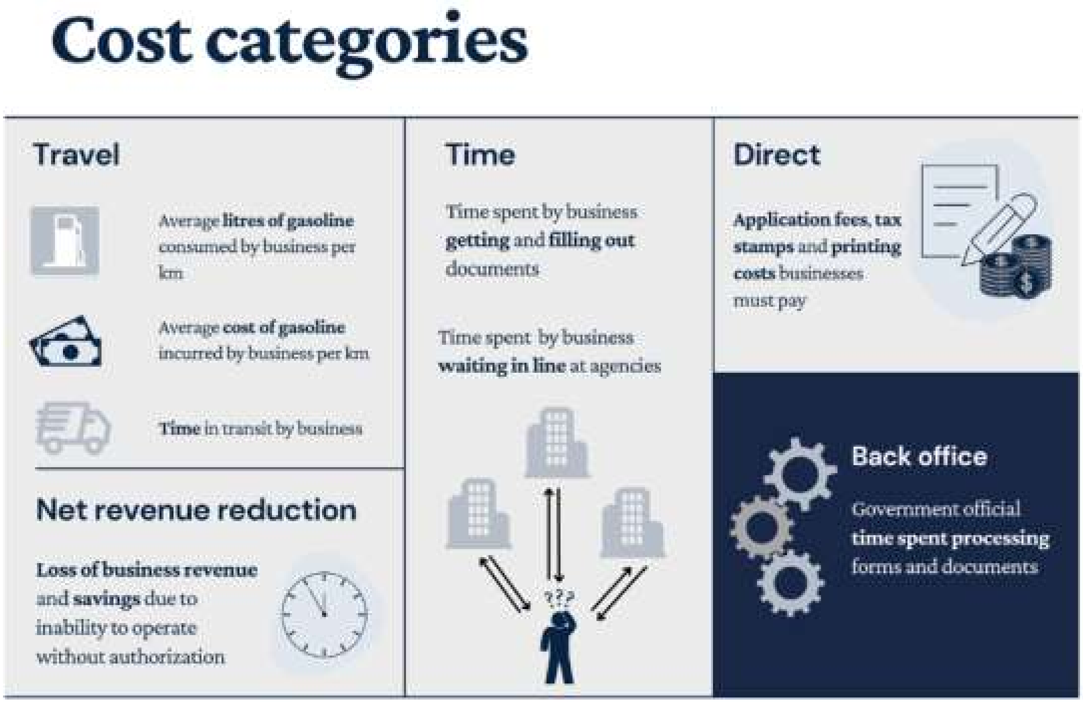
	economists (i.e., standard component costing). Data can be collected in conjunction with mapping of procedures and licenses.	problem.
2. Compliance cost savings (World Bank Group/IFC*)	• Based on standard cost modelling. • Can be used to engage key stakeholders. Includes estimates of additional revenue that will accrue to government.	For some of the data, relies on average values from enterprise surveys; costly and may not be accurate.
3. Competitiveness impacts of business environment reform – CIBER (Developed and used on USAID projects)	• Provides a checklist for mapping regulatory constraints to competitiveness. • Detailed analysis of costs within a value chain. • Includes private sector participation Can be linked to economic benefits of sector growth.	• Works better in a narrow sector specific context given its value chain focus. Is best adapted to be implemented over several years (could replace regulatory impact analysis).
4. Monetizing benefits (Developed and used on USAID projects)	• Is a simple adaptation of SCM. • Disaggregates impact of assistance on a specific reform. • Useful order of magnitude estimates of impacts. • Good for prioritization of reforms. Focus on benefits gained vs regulatory costs; good for gaining political will.	• Only monetizes specific benefits to specific beneficiaries of specific reforms. Does not observe standard conventions prevailing among economists. For example, adds "apples and oranges" to calculate benefits.

*IFC. 2007. "Show me the money!" Quantifying the impact of regulatory simplification projects. Smart Lessons.

Costs

Monetizing benefits depicts costs for both front office and back-office actors. Costs are divided into five categories, where the first four pertain to the business or investor (travel costs, time costs, direct costs, and net revenue reduction), and the last one pertains to the government agent, or back office (see Figure 13).

Figure 13 Costs faced by businesses and government



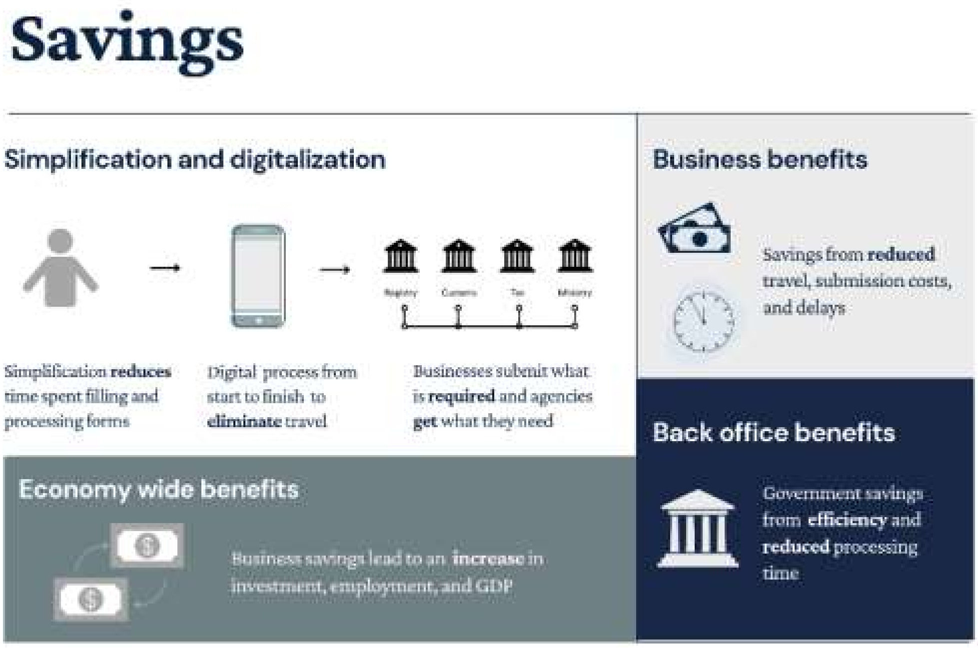
Calculations are as follows:

1. Travel costs = Average time taken to commute to government offices (hours) x average hourly wage of a mid-level employee in the private sector
2. Procedure time costs = Number of employee/contractor hours per step x hourly wages for mid-level employees
3. Direct procedure costs = Current fees for each step of each procedure
4. Net revenue reduction costs = A loss each day for not having an authorization or permission needed to operate (i.e., inability to export) + additional operating costs due to delays (i.e., fees because goods are stuck at port) + lower return on investments (i.e., forgone savings from not having a solar installation)
5. Back-office costs = Number of hours spent per government employee per step x hourly wages of employee

Savings

Saving estimates are based on assumptions about whether procedures will be eliminated, simplified, digitized, or some combination of these. Figure 14 below illustrates the savings that can be achieved from digitalization of procedures. Business-centric digitalization will first, directly reduce or eliminate time costs associated with travel and in-person waiting time at agencies. Additionally, full automation may reduce or eliminate back office and procedural time costs, once implemented. Ultimately, the assumption is that government agencies and firms will gather, share, and analyse data in a systematic manner, thus optimizing inter-agency communication in addition to reducing business-to-government transaction costs (see Figure 14). All the savings combined can be shown to contribute to increased investment, jobs, and growth, as detailed below.

Figure 14 Savings for the whole economy



The sample exercise below walks the reader through the calculation of cost and savings estimates for one of three procedures that are currently being digitalized in Tunisia. Data collected for all procedures followed the same template[286]. Total costs and savings are shown below in USD[287] (see Figure 15)

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[286] A detailed explanation of the assumptions and calculations is available upon request.

[287] Data used to estimate savings and costs were collected in Tunisian dinars (TND). For the temporary transport procedure, the total cost pre-reform is USD $2,731,988.21 = TND 7,649,567.00; the total cost post-reform is TND 2,259,581.00 = US $806,993.21; and the total savings post reform is TND 5,389,986.00 =US $1,924,995.00. Exchange rate USD 1 = TND 2.8. Exchange rate as of Dec. 21, 2021.

Figure 15 Costs and savings for temporary transport authorization

Step	Description	Pre-reform status	Post-reform status	Savings post-reform	Digitalization reform assumptions
1	Preparing the application file for a temporary authorization	$2.32	$1.61	$0.71	Eliminates travel time and direct procedure costs
2	Purchase tax stamps	$13.43	$5.36	$8.07	Eliminates travel time, procedure time, and back office processing
3	Submit application for a temporary authorization	$26.05	$3.61	$22.44	Eliminates travel time and direct procedure costs
4	Pick up the verified authorization	$7.27	$0.00	$7.27	Eliminates travel time, procedure time, and back office processing
5	Obtain a stamped *dyptique**	$5.57	$5.57	$0.00	Digitizing the customs interaction is not yet considered
	Total	**$54.64**	**$16.14**	**$38.50**	

* Authorization to exit the port issued by customs

Total number of procedures per year: 50,000

Costs pre-reform	
Cost per procedure	$55
Total cost for all procedures	**$2,731,988**
Costs post-reform	
Cost per procedure	$16
Total cost for all procedures	**$806,993**
Savings post-reform	
Savings per procedure	$39
Total savings for all procedures	**$1,924,995**

Earlier research conducted by Just Results for the Millennium Challenge Corporation on administrative procedures in Tunisia yielded some low- and high-end estimates for savings associated with simplifying and digitizing five administrative procedures, shown below:

- Initial estimated administrative burden for 5 procedures (annual)
- Low end estimate: $522,500[288]
- High end estimate: $9,165,500[289]
- Estimated reform savings for 5 procedures (annual)[290]
- Low end estimate: $141, 075
- High end estimate: $2,474,550

The expected savings from the detailed analysis conducted for the transport procedure above are higher, at approximately $2 million. This confirms the selection process, whereby procedures with a high economic impact were intentionally targeted. Estimates are solely based on digitizing and simplification (i.e., direct savings) and do not account for market effects (i.e., lack of investment in the sector). As discussed earlier, direct savings can be included in an

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[288] Calculated as the sum for five procedures of the average administrative burden of procedures in Tunisia (minus 3 extreme outliers on either end) times an estimated 100 transactions per year for each procedure: 5 x ($1,045 x 100) = $522,500

[289] Calculated as the sum for five procedures of the average administrative burden of procedures times an estimated 1,000 transactions per year for each: 5 x ($1,833 x 1000) = $9,165,500

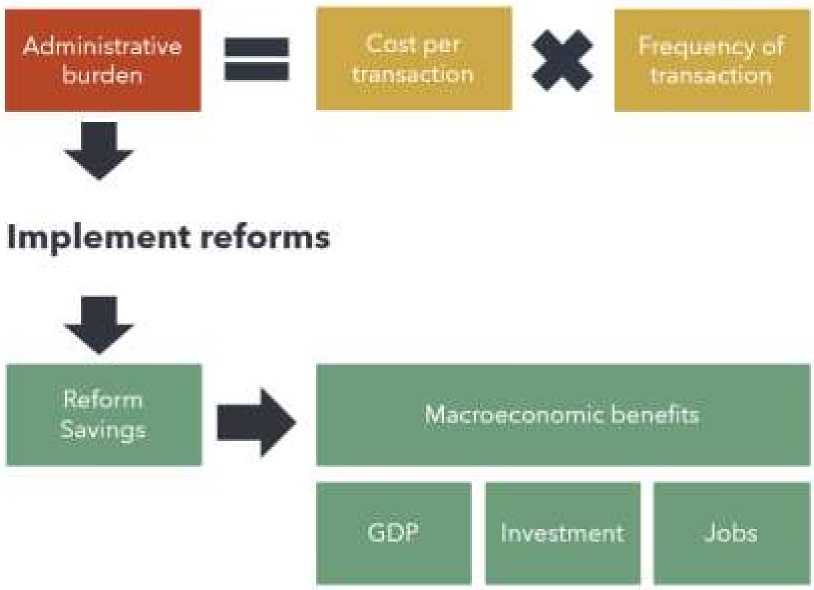
[290] Previous research shows that with reforms (simplification as well as digitalization), savings are on average 27% of the initial administrative burden for a procedure.

economy wide model to further calculate the second-order effects on GDP growth, investment, and jobs.

Connecting the bottom to the top

Below a simple, illustrative graphic describes how monetizing benefits can provide standard and robust data to connect the every-day experience of businesses in their environment to larger macroeconomic impacts. The complete model will show the impacts of reforms on direct savings (i.e., reduced administrative burden) and indirect savings (including the impacts on GDP, employment, and government revenues over time).

Figure 16 Summary of the monetizing benefits (MB) model



The model utilizes consistent definitions and methodology which can be used and updated on an ongoing basis, and most importantly, could be standardized and mainstreamed across all agencies dealing with investment climate and related reforms. This would allow agencies to evaluate the direct savings from reform across different sectors and industries. The calculations in this report illustrate, first, how the Monetizing benefits framework can be used to guide bottom-up data collection using standardized units (estimated savings in time and cost populate the bottom of the model). Based on the estimated savings from reduced administrative burden using the monetizing benefits methodology, it is possible to project economy wide benefits including investment, jobs, and growth. It is also possible to conduct a similar analysis to measure the effects of changes in laws and regulations. To ensure that the top half of the model is also credible, assumptions about how savings are transformed into additional investment can be tested by consulting a range of sources (Figure 17). A complementary step would be to measure the benefits of other reforms (i.e., non-procedural regulatory and legal changes) that also affect the economy.

Figure 17 Data sources for determining economy wide impact of reforms

SOURCE	EXAMPLE	PROS	CONS
Secondary indexes	Ease of Doing Business World Bank Logistics, Performance Index	Easy to use, consistent approach, regularly updated by external organizations.	Simplistic, measures a limited set of indicators. Best used in conjunction with international benchmarks (see below)
International benchmarks	Upper and lower bound estimates of the effect of reforms on GDP, etc. based on extensive review of the literature	May provide more reliable upper/lower bound estimates because of the diversity of sources.	Extensive literature review required. Imprecise and generally not country specific.
Historical data on administrative burden	Data collected on an annual basis over an extended period using monetizing benefits or another form of standard cost model (SCM) or similar methodology	Best practice. Most accurate and robust measure and country specific. Ideally should be used in conjunction with international benchmarks.	Few countries to date collect robust and comprehensive data on administrative burden on annual basis.

3.3.2 Illustrative exercise using existing indicators and indices

Another approach is to utilize external indicators and indices to draw a comprehensive picture of a country’s economic environment. In an assessment conducted by the Just Results team of African Union countries’ business enabling environment for the ILO, the team gathered data on multiple externally conducted indicators and indices to benchmark nations regionally to identify front runners. The indicators and indices assessed, organized by ILOs four dimensions, are depicted below:

Figure 18 Indicators and indexes

POLITICAL	• Political Stability and Absence of Violence/Terrorism Index • Corruption Perceptions Index • Rule of Law Index
ECONOMIC	• Growth: GDP growth rate (% of GDP) • Labour: Labour force participation rate (%) total (% of total population ages 15+) (modelled ILO estimate) • Investment: FDI net inflow (BoP, current USD) • Investment: Gross fixed capital formation as % of GDP • Export: Economic Complexity Index • Ease of Doing Business Score • e-Government Development Index • Logistics Performance Index • Trade Facilitation Indicators • Network Readiness Index
SOCIAL	• Gender Inequality Index • Health: life expectancy at birth • Government Effectiveness Index • Youth Unemployment Rate (%) (modelled ILO estimates)
ENVIRONMENTAL	• Urban Pollution PM2.5, air pollution, mean annual exposure (micrograms per cubic meter) • CO_2 Emissions (metric tons per capita) • Environmental performance index

This illustrates that a project in BER may leverage data from external calculated indexes and indicators in their results measurement creatively. Additional indices include:

- Global Competitiveness Index
- Index of Economic Freedom
- Market Potential Index

3.3.3 Mapping indicators to a theory of change

Tracing an activity onto the theory of change ladder allows the project team to identify specific outputs and outcomes that need to be measured. Following are indicators for the two exemplary results chains presented prior – enabling access to and simplifying business registrations and licenses, with indicators listed corresponding to each level of the theory of change. These results chains were developed by tracing the evidence related to these BER functional areas compiled in the literature review.

Enabling better access to finance

Parsing the activity level by type of reform depicts how the introduction of a credit and collateral registry is a culmination of many activities, all of which are differently measured (Figure 19 displays possible indicators for this activity). For instance, for the activity of introducing related regulations, indicators for the project output level are reports with recommendations and for the joint output level are regulation documents written by the government counterpart. However, it is also clear that in this example, policies, laws, and regulations alone do not lead to the creation of the registry and thus do not directly link to the outcome level. At the same time, these appear to be necessary steps in the reform architecture that create the conditions for setting up the credit registry and related procedures.

Finally, identifying the higher-level impacts of investment and employment also allow the team to see what other possible impacts may emerge because of this work in the long-term, such as in this case – economic growth and poverty reduction.

Simplifying business registration and licensing procedures

This results chain with indicators pertains to a project that simplifies business registration and licensing procedures (see Figure 20). The project begins by establishing a reform committee to identify burdensome regulations and licenses. This is then followed by either elimination of regulations/licenses or optimizing existing licensing procedures through simplification or digitization.

Simplifying registration and licensing are activities that lend themselves well to a baseline measurement of administrative burden, using well-accepted indicators of BER: reduced time and cost. This has been described extensively above through the “monetizing benefits” methodology, which is a standard and rigorous measurement tool, which if adopted widely will allow for the creation of comparable data that can be aggregated over time.

Figure 19 Access to finance results chain with indicators

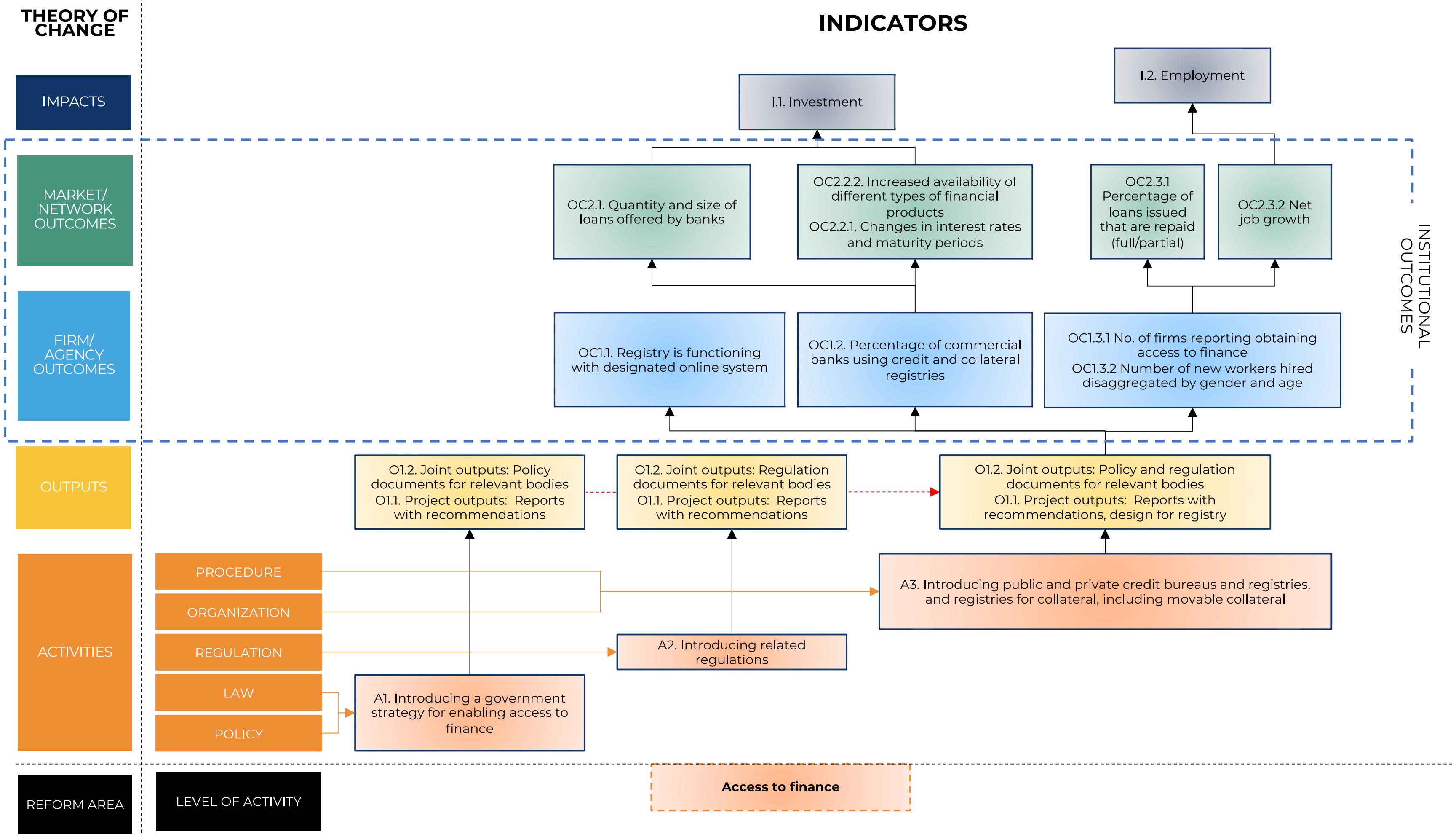
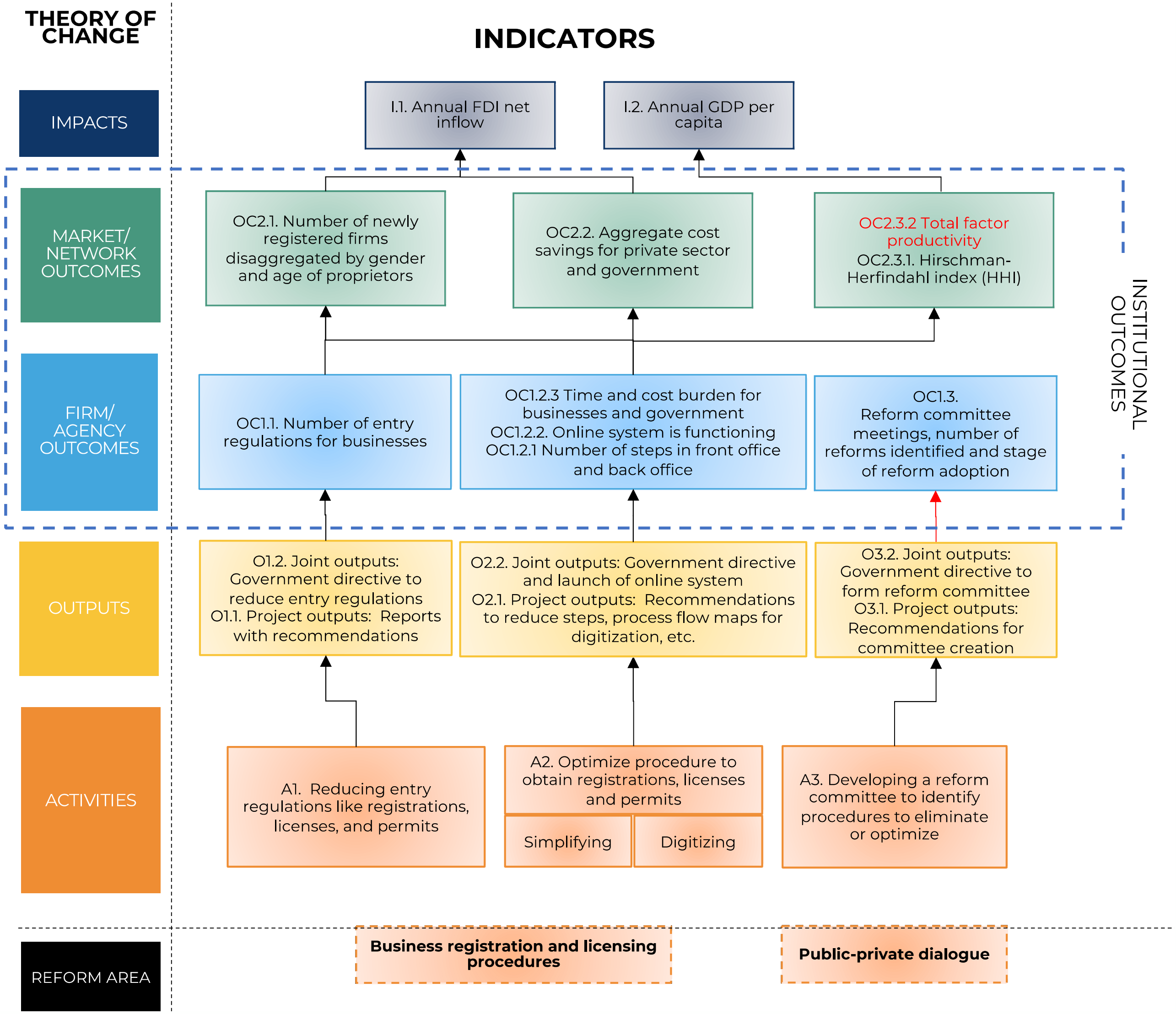


Figure 20 Simplifying business registrations and licensing procedures results chain with indicators



Evaluating indicators through criteria

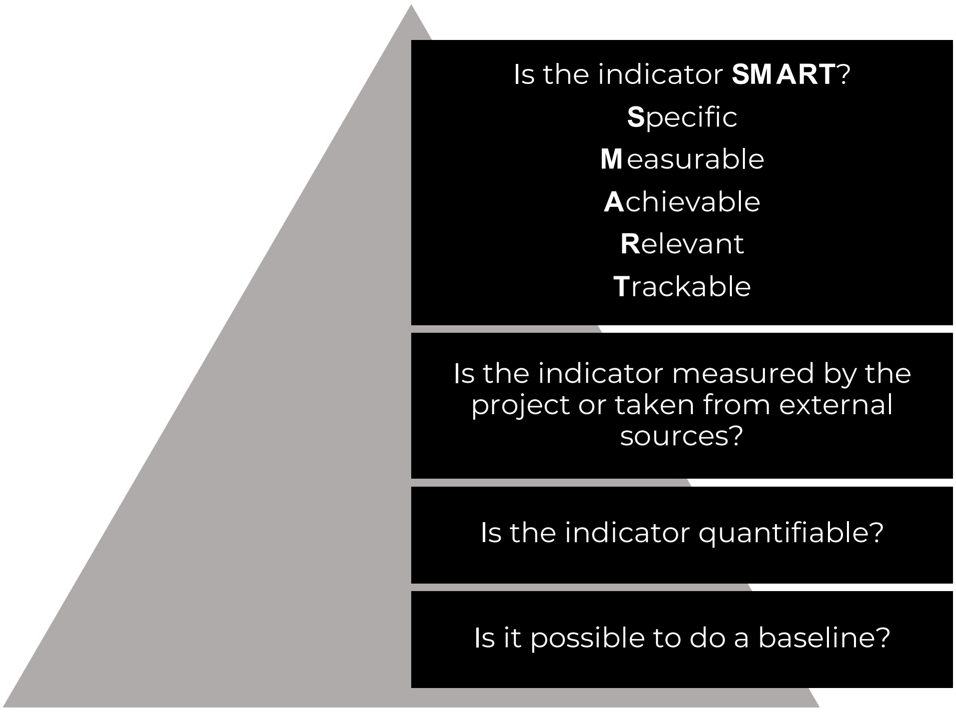


Figure 20 depicts possible indicators to measure all the outputs, outcomes, and impacts of the set of activities described in the exemplary “simplifying business registration and licensing procedures” results chain. These indicators have been compiled from many different sources including USAID standard indicators, DCED BER Sample Measurement Indicators, and indicators from projects examined in the case studies which can be found in the Annex. This table also analyses the indicators according to minimum quality criteria that are depicted in the above diagram. These criteria have been considered for the indicators listed in Figure 21, and classified as robust, needing clarification, or candidates for replacement.

Due to the diversity of program activities that can be undertaken in this field, this report does not compile/triage all possible indicators in BER; rather it presents certain guiding principles (see above) to aid in indicator selection and sets the groundwork to further the standardization and improvement of measurement in BER. While a large undertaking, the research team believes that developing an online, interactive database from such a triage of indicators and evidence organized around the new theory of change presented in this report and identifying standard units in which indicators can be measured like “time” and “cost” will be fruitful for the field.

Figure 21 List of indicators - simplifying business registrations and licensing procedures

BUSINESS REGISTRATION AND LICENSING PROCEDURES INDICATORS

Level	Output/Outcome Name	Indicator	
Impact	Investment	Investment generated, disaggregated by recipient and source of investment	May require clarification
	Economic Growth	Gross domestic product per capita	May require clarification
	Poverty Reduction	Changes in poverty indicators (nutrition, empowerment, etc.)	Consider replacing
		value of household incomes	May require clarification
		Net additional income for micro, small and medium enterprise workers and owners	May require clarification
Market/ Network Outcomes	Firm Entry	Number of newly registered firms	Robust
	Employment	Number of full-time employees (male and female) in private enterprises	Robust
	Competition	Changes in market structure as reflected by concentration index of market (Herfindahl-Hirschman Index for competition)	Consider replacing
	Cost Savings	Aggregate cost savings for firms and government	Robust
	Productivity	Total factor productivity	Consider replacing
		Labor productivity	Consider replacing
	Investment	Firms reporting receiving investment or reinvesting revenue	May require clarification
	Formalization	% of firms that formalize	Robust
	Reform Sustainability	Government coordination of reform efforts (i.e., evidence of increased inter-agency coordination)	Consider replacing
Firm/ Agency/ Civil Society Outcomes	Entry regulations for businesses reduced/ eliminated	Changes in number of entry regulations for businesses	Robust
	Process for meeting regulations is improved	Time and cost to register and license for businesses and government	Robust
		Effective functioning of online systems (% of registrations and licenses completed online)	Robust
		Number of steps in front office and back office	Robust
	Organization for reform process is established	Reform committee meetings	May require clarification
		Number of recommended policies/procedures/practices/standards that were improved/eliminated	Robust
		Improvements in capacity of key actors and institution institutions to identify, design, implement, and monitor reforms	Consider replacing
Outputs	Project output:	Number of products (reports, assessments, surveys, manuals, process flow maps, digitization strategy, etc.) completed	Robust
		Number of participants in programming (workshops/training events/seminars/conferences/etc.)	Robust
	Joint output:	Number of modifications (recommended laws/regulations/amendments/codes) drafted or contributed to drafting	Robust
		Number of modifications (recommended laws/regulations/amendments/codes) enacted	Robust
		Government directive to establish organization	May require clarification
		Organization set up with jurisdiction, roles, etc. established	May require clarification
		Government directive for digitization/simplification of procedure	May require clarification
		Launch of online system	May require clarification

Robust | May require clarification | Consider replacing

4. The Way Ahead

The more consequential the research, the more likely it is that new questions emerge. We hope that this note has clarified the challenges, nuances, and rewards of evidence-driven results measurement in BER programming. What conclusions can we draw, and what questions remain to be answered?

One finding is that despite the difficulties, donors have made substantial progress towards a common basis for measurement. In fast it seems that measurement *per se* may not be the problem, but exactly what to measure, and in what order. The BER-specific theory of change presented in this note provides an organizing framework for the development of a set of robust causal relationships. It has undergone preliminary testing through case studies and is ready for application to projects that are new, or already underway but requiring a refreshed or more developed causal model.

We recommend that the DCED BER working group pursue validation of a core set of standard indicators that are compiled based on some common criteria like quality, means of measurement, rigor, feasibility, etc. Currently, all agencies have separate sets of indicators, and in addition the donor committee has its own set of indicators organized by functional areas. A rapid inventory and triaging of these would make results measurement more consistent and comparable across projects, regions, and donors (although it still would not guarantee whether we are measuring the right things). A stop-gap solution is to create a database of indicators compiled from all donors and implementors, assess them on common criteria, organize them along the theory of change and by functional area. A long-term, more rigorous method is to develop one or more economic models to identify the most important drivers of change, using economic indicators as proxy for successful BER. It is possible to begin experimenting with modelling in a specific country or project case, and then scale, standardize, and make comparable the model across different contexts. There are two possible sources of data – historical economic data or large-scale perception surveys of the private sector. Ideally, both should be used and triangulated with the existing evidence base. The field would also benefit tremendously from an agreement on the importance of and consistent plan for conducting baselines. All projects should require baselines and this data collection can be coordinated and data shared across agencies and donors to prevent duplication and redundancy.

Additionally, this exercise has identified some gaps in the field for donors to consider.

- First, are the current functional areas adequate and what must be added? There are some newer fields of BER that are currently not covered by any of the functional areas. There are a few ways in which these could be addressed. One way would be to add the new areas mentioned prior as new functional areas, however, this does not mitigate the inadequacies of the functional areas. The second method (and the one we recommend) is to reorganize the functional areas around some grounding logic. A possibility here is to utilize stages of the enterprise lifecycle as the functional areas and treat cross-cutting considerations like inclusion and sustainability and amplifiers like PPD and quality of regulatory governance as separate from business functions. A third, and more radical, method would be to utilize the economic modelling mentioned previously as the basis of identifying context specific functional areas.

- Second, how do we integrate green growth as a priory area in BER? Green growth does not fall into any of the functional areas and is not an amplifier of the outcomes of BER. It is however, and increasingly important consideration in economic development projects. Should green growth be considered as a cross-cutting consideration – (1) a sector of business activity like renewable energy, (2) a consideration for developing minimum standards in various stages of a circular economy, or (3) an accounting consideration that measures the impact of natural capital including the cost of carbon?[291].
- Third, how do we customize a theory of change based on country context? Here, donors must dwell on the best way to reflect in their results measurement the context specific intricacies of working in countries in different income groups, levels of fragility and conflict, climate and disaster vulnerability, etc.

While the recommendations put forth above may seem ambitious and would require large-scale coordination, it should be emphasized that through their current and past projects, agencies have large portfolios and swathes of data that can be leveraged through reorganization and prioritization. This would be an opportunity to tap into existing assets that are currently unused. To this end, a practical next step would be to update the current generic PSD theory of change by including an online interactive BER-specific theory of change that compiles the outputs, outcomes, and impacts of BER work, with corresponding evidence and indicators connecting different levels. Such a tool would be an extremely beneficial resource for program design, implementation, and measurement, and would facilitate some degree of standardization across donors and projects.

[291] Weizsacker et al. 2009. Factor Five: Transforming the Global Economy through 80% Improvements in Resource Productivity 1st Edition. Routledge.

5. Annexes

5.1 Interview Guide: Donor Key Informant Interviews

Interviewee:

Organization:

Interviewer:

Date:

Introductory questions and donor overview

1. Please describe your role and how it relates to BER
2. At a high level, what is your agency's approach to BER programming? What are some of its unique facets compared to other donors?
3. Please describe (only rapid-fire answers required):
    a. What is your donor's frequency of new programs addressing BER? (New programs per year)
    b. What functional areas of focus does your programming cover most often?
    c. What are your countries and regions of focus?
4. What does a typical theory of change look like for programs which you fund?
5. What final impacts does your donor's BER programming focus on achieving?
6. Understanding that output indicators can vary significantly based on specific project activities, can you describe what higher level outcome indicators you have seen to be most effective? *
    5. *Outputs = result of an activity (e.g. reduced number of steps required to complete a procedure)
    6. Outcomes = consequence of outputs (e.g. a direct outcome of less time spent completing the procedure, leading to an intermediate outcome of reduced administrative burden)
    7. Impact = final consequences of outcomes (e.g. increased economic growth, increased investment)

Case Studies and Measurement

7. Can you describe a program(s) you/your donor has worked on which you consider to be a successful case study?
8. What are some of the best practices you have learned through the project which you would like to highlight?

Measurement

9. Can you describe how measurement was used as part of the project?
10. What have been some of the biggest measurement challenges you have faced? How do you account for external factors which may affect BER indicators?

Donor Results Framework

11. Do you us the DRF in your programming? If so, can describe your experience positive and negative?
12. What indicators have you found most effective? Which indicators have you found less effective or hard to measure?
13. What aspects of BER are not adequately addressed by the DRF?
14. Are there are any areas we have not addressed which you would like to share?

5.2 List of Interviewees

Key Informative interview			
Name and Surname	Organization	Position	Country
Simon White	Donor Committee for Enterprise Development	Advisor	Australia
Tania Ghossein	The World Bank Group	Senior Global Specialist	United States
Sylvia Solf	The World Bank Group	Global Lead for Business Regulation	United States
Lars Grava	The World Bank Group	Senior Private Sector Specialist	
Severine Deboos	The International Labour Organization	Team Lead, Small and Medium Enterprises (SME)/EESE Unit	Switzerland
Jonas Bolzen	The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)		
Susanne Reichenbach	The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)	Advisor, Investment Climate Reform Facility	
Jim Tanburn	Donor Committee for Enterprise Development (DCED)	Coordinator	
Christine Lewis	State Secretariat for Economic Affairs (SECO), Economic Cooperation and Development	Program Manager North Africa	Switzerland
Said Zekri	Swiss Embassy	Program Officer - Inclusive economic growth and employment	Tunisia

Patrik Zimmerli	Swiss Embassy, State Secretariat for Economic Affairs (SECO)	Deputy Head of International Cooperation	Tunisia
Harald Bekkers	DCED, Opportunities Unlimited B.V.	Founder and CEO	Netherlands
Andrew Griffiths	Foreign, Commonwealth and Development Office (FCDO)	(Former) Head of GBEP	United Kingdom
Nathalie Straker	Foreign, Commonwealth and Development Office (FCDO)	Team Leader for Project at FCDO	
Lindsey Napier	Foreign, Commonwealth and Development Office (FCDO)	Senior Private Sector Dev Advisor	United Kingdom
Claire Grant	Foreign, Commonwealth and Development Office (FCDO)	Social Development Advisor	United Kingdom
Catherine Arnold	Foreign, Commonwealth and Development Office (FCDO)	Social Development Advisor	United Kingdom
Moussa Traore	The United States Agency for International Development (USAID)		United States
Anastasia De Santos	The United States Agency for International Development (USAID)	Economist, Center for Economics and Market Development	United States

Case studies discussion and comments				
Case Study	Name and surname	Organization	Position	Country
The Multi-Country Investment Climate Program (MCICP)	Christine Lewis	SECO, Economic Cooperation and Development	Program Manager North Africa	Switzerland
The Multi-Country Investment Climate Program (MCICP)	Said Zekri	SECO, Economic Cooperation and Development	Program Officer Inclusive economic growth and employment	Tunisia, Swiss Embassy
The Inclusive Socio-Economic Development Project in Beni Mellal-Khénifra	Youness Tihm	FHI360	MEL Advisor	Morocco
Tunisia Jobs, Opportunities, and Business Success (JOBS)	James Whawhen	Tunisia JOBS	MEL Team Leader	Tunisia
Tunisia Jobs, Opportunities, and Business Success (JOBS)	Ikhlas Haddar	Tunisia JOBS	Business Enabling Environment Team Leader	Tunisia
Tunisia Jobs, Opportunities, and Business Success (JOBS)	Sarah Meyer	Tunisia JOBS	Deputy Chief of Party	Tunisia
Tunisia Jobs, Opportunities, and Business Success (JOBS)	Mario Kerby	Chemonics	Chief of Party, USAID's Fiscal Reform for a Strong Tunisia (FIRST)	Tunisia

Tunisia Jobs, Opportunities, and Business Success (JOBS)	Zouhair Bouallagui	FHI360	MEL Team	Tunisia
Pakistan Regulation Modernization Initiative - Reforming No Objection Certificates in Punjab	Amjad Bashir	International Finance Corporation (IFC)	Senior Economist	USA

5.3 Case Studies

This report serves as an intermediate deliverable in the current workstream, titled "Enhancing the use of evidence and results measurement in business environment reform programming". The case studies discussed below were selected purposively by the Just Results team in coordination with members of the business environment reform (BER) working group[292] of the Donor Committee for Enterprise Development (DCED). The full list of criteria is contained in Annex I.

This section presents four donor-supported projects working in the area of business environment reform. Two are exclusively dedicated to BER activities, and two are "combination" projects including non-BER activities such as direct support to small and medium enterprises, participatory governance, and workforce development. The inclusion of these combination projects has been extremely beneficial to the analysis, as will be discussed in the conclusions section. All four projects are mid-implementation and project teams voluntarily shared documentation including workplans, annual reports, results frameworks, indicator tracking sheets, mid-term evaluations, and other background documents, to the general end of furthering the field's collective knowledge on how to measure results in BER programs. Case studies are not meant to represent best practices; nor is the analysis below meant to render any sort of judgement on the level of success that each project may ultimately achieve.

These case studies describe the project's objectives and activities, provide the country context, and identify the relevant indicators. Following that, we map the project activities onto the revised DCED results framework to identify potential outputs, outcomes, and impact of the projects. In addition, the indicators tracked are briefly reviewed. Each case study yields a set of specific insights; each is highlighted in its appropriate place, and all are listed in a summary table in the concluding section of the report.

As illustrated in the theory of change, business environment reforms can happen at the level of policy, law, regulation, procedure, organizations, or some combination of the above. Figure 22 outlines how the activities in the four case study projects relate to the five levels of reform.

[292] This particular workstream within the BER working group is led by FCDO and has benefited from active participation by the World Bank, USAID, GIZ, EU, FAO, ILO, and SECO. The final guidance note will list all individual contributors as well as their organizations. All omissions or errors, and the implicit biases contained herein, are the sole responsibility of Just Results.

Figure 22. Project activities and the levels of reform

Level of Reform	Policy	Law	Regulation	Procedure	Organization
Tunisia Investment Climate Reforms (Program II)		✓	✓	✓	✓
Tunisia Jobs, Opportunities, and Business Success		✓	✓	✓	✓
Inclusive Socio-Economic Development project in Beni Mellal-Khénifra, Morocco				✓	✓
Reforming No Objection Certificates in Punjab, Pakistan	✓		✓	✓	✓

The two Tunisia cases are discussed first, to allow readers to more easily absorb the country context given the complementarity of the two projects. Third is a governance-focused local development project in Morocco, and fourth is a regional regulatory reform project in Pakistan.

5.3.1 Case study 1 - Multi-Country Investment Climate Program (MCICP)

Project Overview

The Multi-Country Investment Climate Program (MCICP) is funded by Switzerland's State Secretariat for Economic Affairs (SECO) and implemented by the International Finance Corporation (IFC). Funding is channelled through the World Bank Group's Facility for Investment Climate Services (FIAS) with $1.5 million accessed by the Doing Business and Subnational Doing Business team to fund data collection activities. MCICP targets 20 SECO countries listed in Figure 23.

Donor: IFC, SECO

Time Frame: 2017-2024

Project Budget: $41.5 million

Program Areas: investment climate, regulatory environment for private sector, sustainable growth, inclusive job creation

Figure 23. List of countries in the Multi-Country Investment Climate Program (MCICP)

Region	Priority countries	Complementary countries
Europe and Central Asia	Albania, Kyrgyz Republic, Serbia, Tajikistan, Ukraine	Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, North Macedonia
Latin America & Caribbean	Colombia, Peru	
Middle East & North Africa	Arab Republic of Egypt, Tunisia	Morocco
Sub-Saharan Africa	Ghana, South Africa	Mozambique
East Asia & Pacific	Indonesia, Vietnam	

As of June 2020, MCICP supports 29 active projects in 17 countries under the global MCICP umbrella. Programming includes the following areas:

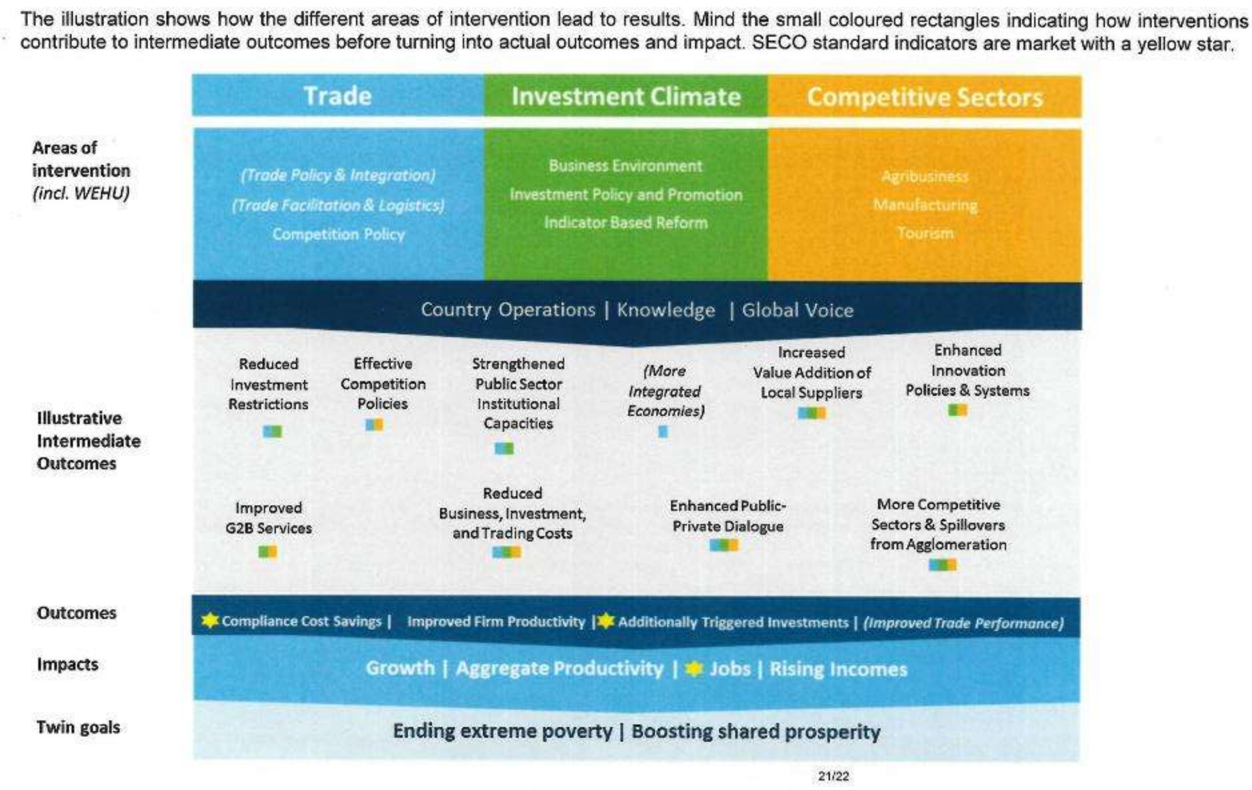
1. Improving the business environment through diagnostics and reform programs that contribute to private sector growth and productivity. This focuses on:
    a. Indicator based reform assistance, based on actionable investment climate indicators such as the ones covered in Doing Business/Sub-national Doing Business
    b. Reforms in the topics such as business start-up, day to day operations, business exit
    c. Integrated and coordinated government services such as one stop shop and e-services
    d. Promoting good regulatory services though transparency and public private dialogue.
2. Supporting the attraction, facilitation, and retention of different types of FDI, and maximize the positive spillovers of FDIs for local economy. This focuses on:
    a. Developing foreign direct investment (FDI) policies and frameworks aimed at attracting and facilitating FDI.
    b. Strengthening investor confidence to help clients retain and expand FDI.
    c. Promoting good policies and practices to maximize linkages and positive spillover effects of FDI for the local economy.
3. Facilitating growth in the following sectors: agribusiness, manufacturing, tourism and other services. This focuses on:
    a. Expanding market opportunities in agriculture and enable the private sector to develop these opportunities all along the value chain.
    b. Building competitive and sustainable tourism sectors to drive growth and strengthen linkages between the industry and communities.
    c. Identifying growth opportunities in manufacturing sector to address constrains obstructing growth and increase industry and firm level competitiveness to deliver increased investments.
4. Promoting and implementing pro-competition rules, deterring anticompetitive business practices, and minimizing distortive government interventions in markets. This focuses on:
    a. Opening specific markets to competition and reducing anticompetitive regulation that may protect less efficient incumbents.

b. Increasing the effectiveness of competition frameworks.

MCICP Theory of Change[293]

The MCICP Theory of Change (see Figure 24 below) is based on a wider results framework developed by the Finance, Competitiveness, and Innovation Global Practice at the World Bank. Rather than a causal chain, it is a descriptive table showing the main areas of intervention and expected outcomes and impact without attempting to link one to another, order outcomes by level, describe assumptions, or provide evidence. While the table broadly covers the main intervention areas of the multi-country project, it is not possible to use as a tool to monitor results, given the variety of activities undertaken by country level projects.

Figure 24. MCICP Results Framework



MCICP Monitoring and Evaluation

MCICP project monitoring and evaluation is based on standard IFC results monitoring and reporting. Indicators for outputs, outcomes, and impact are reported against in six-monthly Project Supervision Reports (PSR). These include ratings (scores 0-4) on different criteria, narrative reporting, and an assessment of risks and mitigation. These findings from PSRs are

[293] Oxford Policy Management. August 2021. Mid-term Evaluation of the Multi-Country Investment Climate Programme (MCICP).

reported to SECO in one annual report for the whole program. This report contains a program level score card comprising of quantitative, program wide indicators (reforms, diagnostic indicators, development effectiveness ratings, and reform sustainability). This scorecard currently reports on two program outcomes – compliance cost savings and triggered investments.

In order to access more specific information for this case study, Just Results approached the Swiss Embassy in Tunis and obtained permission to use the Tunisia MCICP country project as an example. The narrative below refers to one of two Tunisia projects approved under MCICP and currently under implementation.

MCIP Tunisia Investment Climate Reforms (Program II)

Implementation End Date: 30 June 2023

Approved Project Budget: $1.88 million

Program Areas: investment promotion, competition policy, business regulation

The purpose of this case study is to understand in greater detail the activities implemented under MCICP at a country level, and to trace the causal chain -even if not explicitly articulated by the project - connecting activities to outputs, outcomes, and impact.

Country Context:

In recent years, Tunisia has implemented structural reforms to improve Tunisia's business climate, including a new bankruptcy law, investment code, initial "negative list", and laws to promote public private dialogue. The government has also encouraged entrepreneurship through a Start-Up Act and taken steps to improve transparency of government finances. Despite this, bureaucratic challenges remain with a large informal sector and presence of state-owned enterprises in the economy[294]. Additionally, markets are restrictive and encourage anti-competitive behaviour[295]. The new competition law while ensuring free pricing of most items, protects pricing in certain sectors and allows the Ministry of Commerce to intervene to regulate prices and the Competition Council to make exceptions to anti-trust policies when deemed "necessary" for technical or economic progress. Additionally, foreign resident companies face restrictions with employing expatriate workers who may not comprise of more than 30% of total work force in the first three years of operation and more than 10 % starting in the fourth year[296].

Project Overview:

Tunisia Investment Climate Reforms builds on work conducted by IFC in Tunisia over a number

[294] https://www.state.gov/reports/2020-investment-climate-statements/tunisia/

[295] Oxford Policy Management. August 2021. Mid-term Evaluation of the Multi-Country Investment Climate Programme (MCICP).

[296] https://www.state.gov/reports/2020-investment-climate-statements/tunisia/ Section 3 and 5

of years, including a first project phase that focused on economy-wide regulations for business environment Activities are divided into two components, one focusing on the investment framework and the other on business regulations:

- *Component 1. Supporting the reform of the investment framework*

Activities under this component are implemented in support of Tunisia's Foreign Investment Promotion Agency (FIPA), and the Tunisia Investment Agency (TIA).

a. Improving investment-entry regulations - streamlining entry authorizations to conduct an overall mapping of investment-entry restrictions for local private sector investment, developing a transparent negative list for foreign investors and a rigorous assessment of existing restrictions to FDI.
b. Upgrading standards for investment agreements - providing technical assistance on foreign investor protection including expropriation, national treatment, and currency convertibility, ensuring implementation of domestic laws and regulations regarding the same.
c. Institutional capacity building of key investment agencies - providing capacity building support to FIPA and TIA on investment promotion and retention, policy dialogue and implementation, planning, and operationalization.

Due to the changing political context and the on-going pandemic, government priority has pivoted from reform of the overall institutional framework to working directly on specific investment promotion and retention.

- *Component 2. Enhancing business regulations*

a. Doing Business reform – develop a reform roadmap with short and long-term action plans and identify reform champions.
b. Sector-specific regulatory reform – identify regulatory bottlenecks at the sectoral level and develop recommendations for participatory alleviation.
c. Follow-up of regulatory simplification activities from Phase I – explore possibilities of continued simplification of Phase I selected processes.
d. Fostering competition in selected markets – focus on competition policy reform for public and private enterprises in specific sectors.

As of the mid-term evaluation completed in August 2021, a number of activities were still under development or had not yet begun (see detailed table of all activities and their status in Annex II). Still others had "limited traction."[297] This state of affairs is at least in part due to changes in leadership at the ministerial and parliament level that have been occurring with regular

[297] Mid-term evaluation of the multi-country investment climate program (MCICP). Oxford Policy Management, August 2021. "Limited traction" was specifically noted in relation to capacity building for the Tunisian Investment Agency (TIA), however there were several additional activity areas where it was noted that the project is waiting for government agencies to confirm or formally request reform proposals: trading across borders, women and the law, construction permits, and digitizing trade procedures.

frequency since the election of the current president. Activities that have made the most progress are those related to the Doing Business indicators. Accomplishments include:

- Elimination of the requirement to deposit capital in a bank account opened in the name of a new company, as a condition for registration (support for Law No. 2019-47 of May 29,2019.
- In coordination with the European Union (EU) and USAID, support for process reengineering and simplification of the user experience for paying taxes online.

In other cases, the project has achieved output indicators, producing diagnostics and recommendations:

- Legal and regulatory assessment of construction permitting and a proposal for simplification.
- Memorandum on women, business and the law.
- Recommendations related to streamlining trade-related procedures for critical supply chains, digitizing trade-related procedures, and modifying agreements to allow for management of the container terminal in the Port of Radès in partnership with the private sector.

Below, in Figure 25, the MCICP Tunisia Investment Climate Reforms (Program II) activities are mapped to the revised DCED results framework, including outputs and outcomes that have been reported in the mid-term evaluation. In doing this, it is clear to see, not only for this project but for projects like it, where the challenge lies. When government conditions are unstable and/or client agencies do not actively confirm their wish to move forward, programs can get “stuck” at the output level, that is, producing recommendations (for simplification, digitalization, or capacity building) without the recommendations being followed by action.

On the left-hand side of the results diagram, it is clear where the challenge lies. While programs can design and deliver capacity-building sessions, allowing project teams to check the “output achieved” box, the question is whether these sessions indeed lead to the provision of improved services (in this case, investor services).

In cases where the project has moved beyond outputs and achieved reform outcomes (such as removing unnecessary requirements for business registration and simplifying the process for paying taxes) the results chain helps visualize the expected market-level outcomes, such as higher profits or increased number of firms registering in Tunisia, increased productivity, and increased investment. This chain of events can be seen on the right-hand side of the results diagram.

The project measures compliance cost savings and triggered investments as outcome indicators. Compliance cost savings are calculated using a standard IFC methodology[298] that

[298] IFC. 2007. “Show me the money!” Quantifying the impact of regulatory simplification projects. *Smart Lessons.*

draws from standard cost models[299]. This model considers two types of costs on businesses – direct and indirect (opportunity) costs. Direct costs are calculated by multiplying the following:

- Number of times the given procedure (e.g., licensing) is undertaken by a representative firm on a yearly basis (data publicly available)
- Individual cost of each procedure including official payments (data available through official sources) and unofficial payments (data collected through SME surveys).
- Cost of employees directly dedicated to administrative procedures and the daily average employee salary (data collected through SME surveys).

Indirect (opportunity) costs are calculated by measuring the income due to alternative uses of time that was formerly dedicated to administrative procedures. This is income is calculated by using the following:

- Average annual net profit for start-up companies using averages for different sectors (data publicly available)
- Average time spent in each administrative procedure (data collected through SME surveys)
- Average number of working days per years in the economy/sector (data publicly available)
- Costs related to the temporary closure of a firm's activity are calculated using the following:
    - Average annual losses for an active company whose activity is stopped but which retains its production factors
    - Average time a company's activity is stopped due to the given procedures (data collected through SME surveys)

Measuring IFC project contributions to investments generated are also calculated using a standard IFC methodology; however, this methodology has not been explicitly outlined in the project reports or mid-term evaluation. MCICP has reported $2.5 million in compliance cost savings and $9 million in investment generated in its 2020 Annual Report, however, details were not available regarding how the national and sub-national level projects contribute to this.

Typically, when detailed compliance savings data is gathered and tracked, it helps to make the case to policymakers that reforms are worthwhile and may even contribute to continued momentum. Measurement, in this case, is not entirely outside the scope of "activities" and

[299] Standard Cost Model Methodologies developed by the Legislative Burden Department of the Ministry of Finance of the Netherlands; suggested approaches to estimating the administrative burden and red tape in various communications on reduction of the red tape in the EU by the European Commission; 2005 OMB Report to Congress – Validating Regulatory Analysis: 2005 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities, etc.

possibly should be considered as such. The more challenging question is how to quantify activities that do not directly generate compliance savings, but do contribute, for example, to improved services to investors, better functioning of labour markets, etc. Certainly, tracking aggregate investments as well as specific deals is one way to quantify project results. However, neither this project nor any of the others studied, made linkages between investment amounts and other outcomes or impacts (such as employment). This issue will be covered in more depth in the guidance note.

Figure 25. Tunisia Investment Climate Reforms (II) as seen through the revised DCED results framework

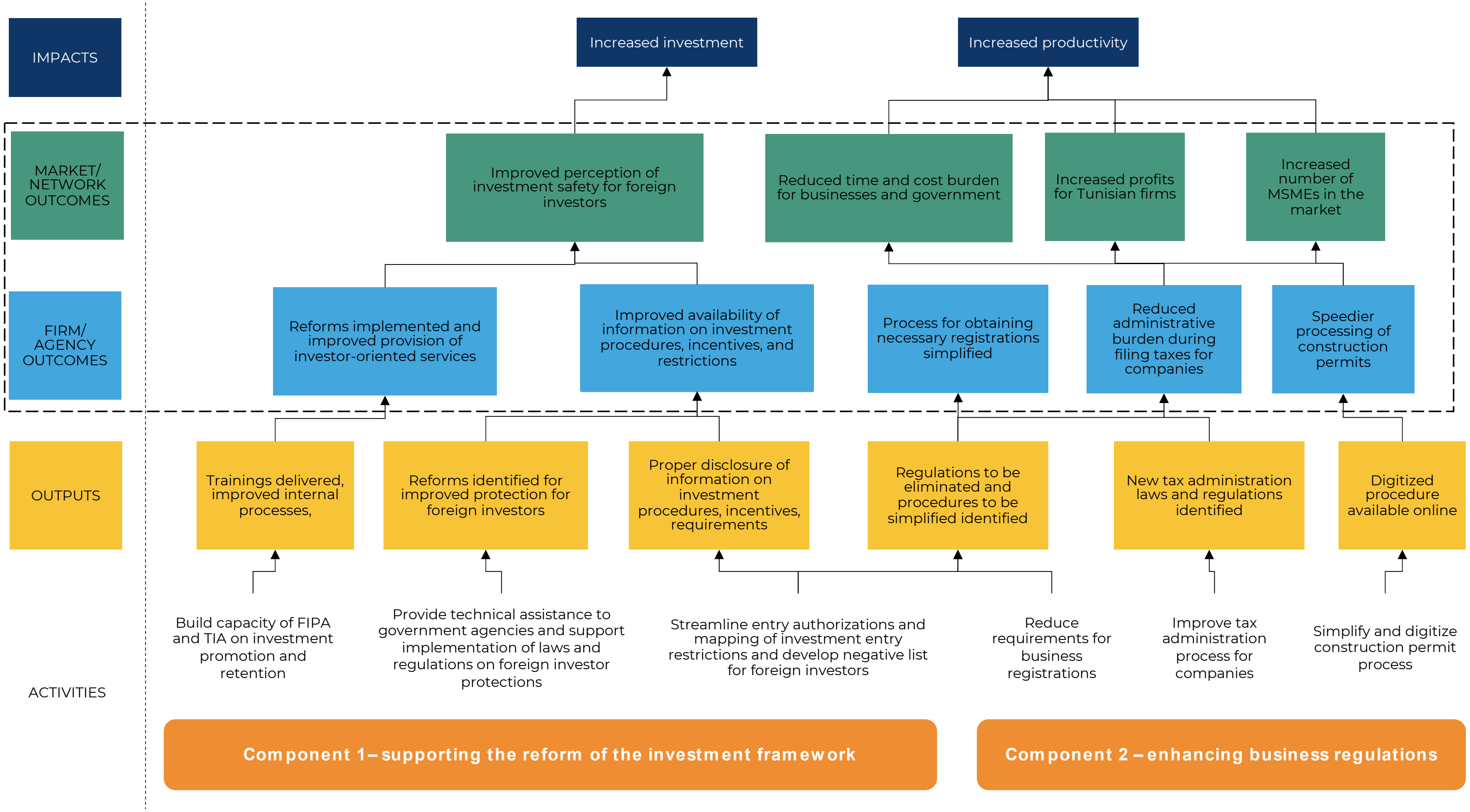


Figure 26 MCICP - Tunisia Investment Climate Reforms (Program II) - ACTIVITIES

COMPONENT	OBJECTIVE	ACTIVITY	STATUS
Component 1 – supporting the reform of the investment framework	Improving investment-entry regulations	Streamline entry authorizations to conduct an overall mapping of investment-entry restrictions for local private sector investment	This is under development and financial, information and communications technology (ICT), and transport sectors are being tentatively considered for project support.
		Develop a transparent negative list for foreign investors and a rigorous assessment of existing restrictions to FDI.	This has not yet started.
	Upgrading standards for investment agreements	Provide technical assistance on foreign investor protection including expropriation, national treatment, and currency convertibility	A draft model international investment agreement (IIA) submitted by the inter-ministerial group was reviewed by the World Bank Group
		Ensure implementation of domestic laws and regulations regarding the same	This is under development.
	Institutional capacity building of key investment agencies	Provide capacity building support to FIPA and TIA on investment promotion and retention, policy dialogue and implementation, planning, and operationalization.	The project is providing consulting support to and conducting technical and capacity building needs assessment for FIPA and TIA. Capacity building included lead generation and aftercare, sector specific skills, competitive benchmarking, and language skills.

Component 2 – enhancing business regulations	Doing business reform	Develop a reform roadmap with short and long-term action plans and identify reform champions	*Starting a business*: Implemented Law No. 2019-47 of May 29, 2019, where the obligation of opening a bank account to incorporate a company was eliminated leading to a one-day reduction in time to incorporate a business. *Construction permits:* Proposal for simplification and digitization has been presented to stakeholders. *Paying taxes:* Improvements made in tax administration process for companies including process support, simplification, user experience, adding payment of social contributions
	Sector-specific regulatory reform	Identify regulatory bottlenecks at the sectoral level	Review of draft Digital Code and two out of three COVID-19 Business Pulse Surveys has been conducted.
		Develop recommendations for participatory alleviation	
	Follow-up of regulatory simplification activities from Phase I	Explore possibilities of continued simplification of Phase I selected processes.	This has not started
	Fostering competition in selected markets	Focus on competition policy reform for public and private enterprises in specific sectors	This is on hold pending support from counterparts.

5.3.2 Case study 2 - Tunisia Jobs, Opportunities, and Business Success (JOBS)

Project Overview

Donor: USAID

Time Frame: 2018-2023

Project Budget: US$60M

Program Areas: inclusive job creation, labour market development, business environment reform

Jobs, Opportunities, and Business Success (JOBS) is a USAID-funded project in Tunisia implemented by Chemonics International. The project's primary purpose is job creation, and it achieves this by assisting private sector firms to identify and overcome business constraints so that they create jobs. The project's four specific objectives are:

1. Create jobs by increasing the competitiveness of Tunisian client firms
2. Improve the match between skills demanded by the labour market and the training provided by educational institutions
3. Improve Tunisia's business enabling environment
4. Communicate broadly the initiatives and impacts of JOBS, especially related to job creation, with a particular focus on youth (15-35 years)

Project Activities

In line with the four objectives listed above, the project is organized into four components:

1. Enterprise competitiveness
2. Workforce development
3. Policy and regulatory reform
4. Strategic communications

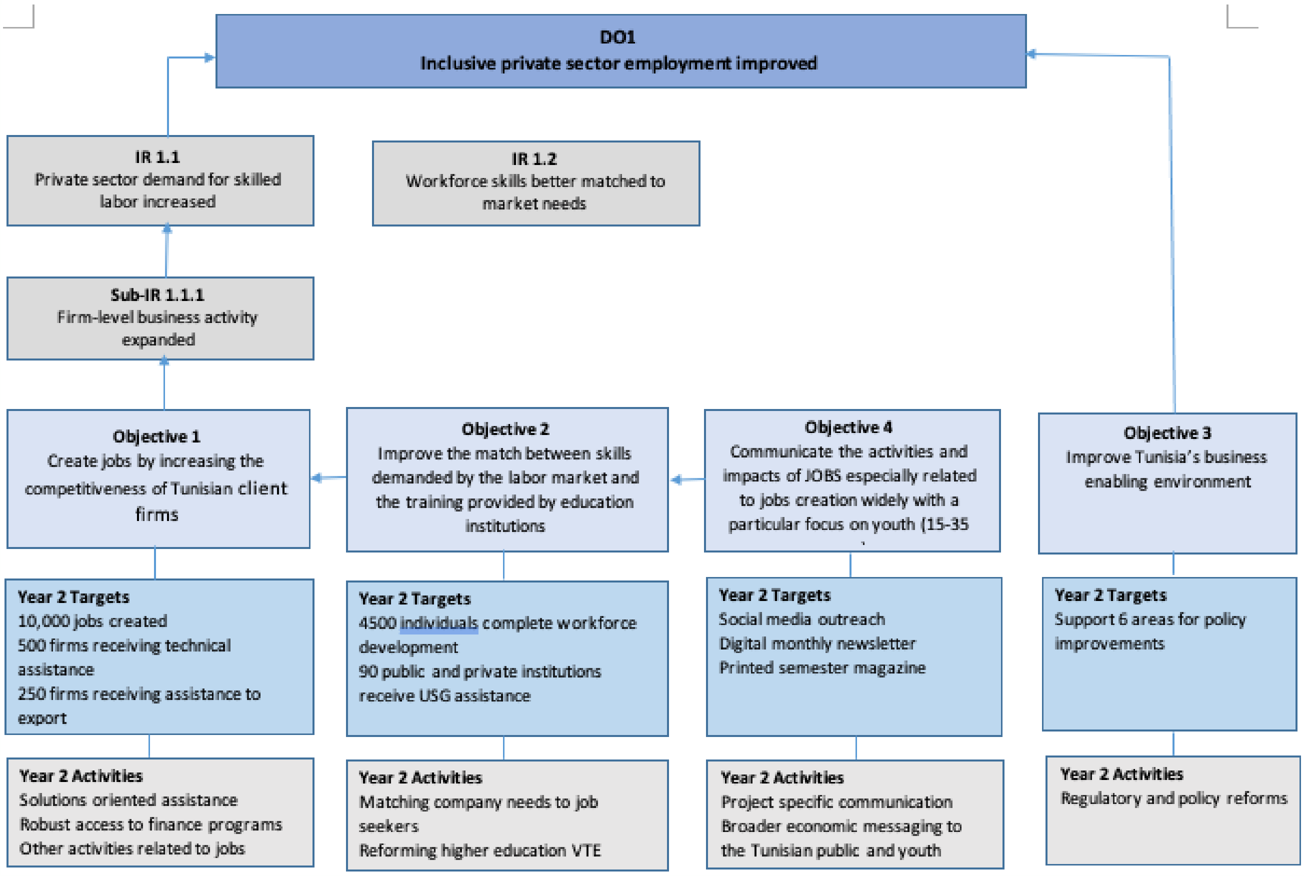
This case study focuses on the policy and regulatory reform component. Under this component, JOBS has focused on streamlining administrative procedures, improving the legal and regulatory framework for accessing finance, improving access to information and supporting the digitization of select functions related to trade facilitation, and improving public procurement via training delivered to businesses.

Project Monitoring, Evaluation, and Learning Plan

Theory of Change:

The project's results framework is organized by the four objectives. Beginning at the bottom, it lists activities, targets, and objectives and these then feed into the overarching objective of "inclusive private sector employment improved" (see Figure 27). Most of the activities are in support of the project's largest component, in which technical assistance and other resources are deployed to directly support the competitiveness of individual client firms[300]. The business environment reform component stands somewhat on its own, with an arrow leading directly to the employment objective.

Figure 27. Tunisia JOBS Results Framework



As part of the case study review exercise, the Just Results team interviewed the Director and team of the regulatory reform component about their activities, and the JOBS M&E team about their approach to measurement. The team does not currently have a BER-specific theory of change and was interested in the draft DCED framework. Indicators currently used to track progress for the regulatory reform component are number of laws, policies, regulations, or standards to enhance business enabling environment formally proposed, adopted, or implemented as supported by USG assistance, and change in number of days and steps required to register a business in Tunisia.

Similar to the World Bank and IFC's measurement of compliance cost, USAID has a methodology developed over the years through its BER projects called *Monetizing Benefits* that measures cost savings due to reduced administrative burden. Like the World Bank's

[300] It is worth mentioning also that while the project budget appears large, cost of the BER activities is estimated to be less than five percent of the total amount, thus comparable to the other BER projects and initiatives described in this report.

measurement of compliance savings, this methodology is also derived from the standard cost model. Monetizing Benefits, however, is based on direct field data collection, and does not rely on surveys. Sources include firm interviews, expert opinions, and input from government officials. Benefits are estimated in two categories – time and cost - for both firms and the government).

Figure 28 below shows an example from the JOBS project that calculates the current administrative burden (cost) of a temporary transport authorization pre-digitization, the new reduced burden (cost) post-digitization, and the savings that is expected once the digitalization has been implemented (expected by end-January 2022).

Figure 28. Monetizing benefits of simplifying a transport authorization procedure in Tunisia

Quantifying costs

Step	Transport procedure	Total cost (TND)	New cost after digitalization
1	Preparing the application file for a temporary authorization	6.50	4.50
2	Purchase tax stamps	37.61	15.00
3	Submit application for a temporary authorization	64.93	10.10
4	Pick up the verified authorization	20.36	0.00
5	Obtain a stamped dyptique	15.59	15.59
	Total	TND 144.99	**45.19**[3]

TND 144.99 (Cost per procedure before digitalization) − **45.19** (Cost per procedure after digitalization) = **TND 99.80** (Savings per procedure)

TND 99.80 (Savings per procedure) × **50,000** (Annual frequency of procedure completed) = **TND 4,989,986.00**[4] (Total annual savings)

[3] The new annual cost of the procedure post digitalization is 2,259,581 TND = (45.19 TND *50,0000)
[4] 4,989,986.00 TND = $1,782,137.86 USD.

Costs:

1. **Travel costs:** Firms spend employee hours traveling to and from government ministries/offices to comply with document requirements and make fee payments, and often travel to multiple different government offices to submit the same documents repeatedly.

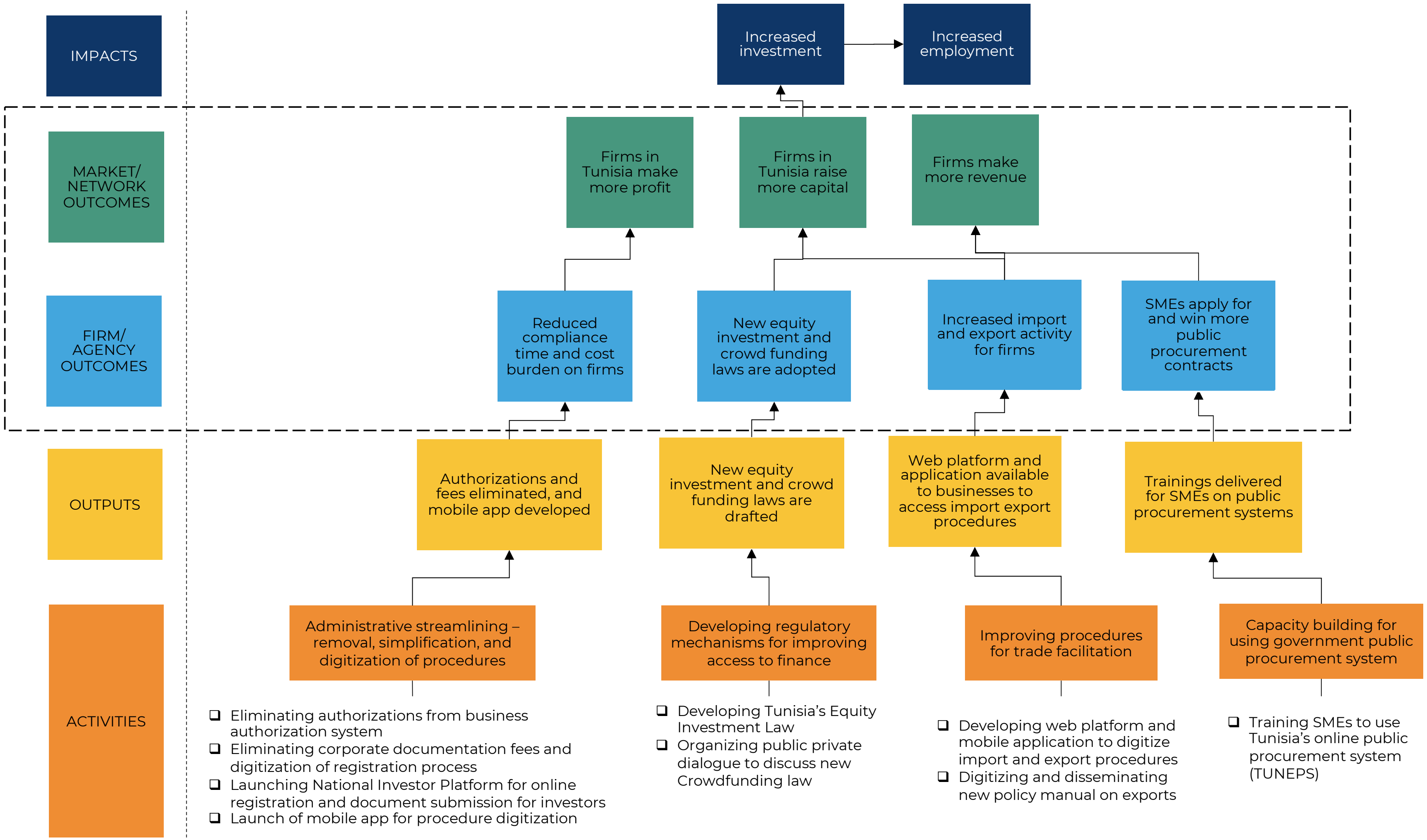
   - Average time taken to commute to government offices x average hourly wage of a mid-level employee of the private sector = current burden of travel time.
   - Average fuel cost per hour x commute time – current burden of travel costs.
2. Direct procedure costs:
   - Current fees for each step of each procedure including printing and handling costs for firms, application fees, stamp fees, etc.
3. Procedure time costs:
   - Number of enterprise employee hours per step x hourly wages for mid-level employee
   - Time spent at banks and other non-government institutions to receive document, signatures, or certifications necessary to complete the procedure
4. Back-office costs: Employees of government agencies spend time processing documents for each step of each procedure. This includes for example, gathering and submission of documents by firms, and time spent physically coordinating with other government agencies due to absence of digitalized processes.
   - Costs as per above, per back-office step

Savings:

It is expected that digitalization will significantly reduce time costs associated with travel and in-person waiting time at agencies. Additionally, automation should reduce time spent on procedures in the back office. Figure 28 above shows estimated pre- and post-digitalization costs for a temporary transport authorization in Tunisia that is currently being automated. Calculating this data for all procedures reformed is fairly time and labour intensive. However, if included in a comprehensive baseline and end line assessment of administrative burden and consequent burden reduction through project activities, monetized benefits can be an effective indicator to measure project progress.

Given the knowledge shared by JOBS about their activities and measurement framework, it was possible to trace the main aspects of the regulatory reform work onto the draft DCED BER results framework, as shown below (Figure 29). Once the transport authorization is digitized and if JOBS collects confirmation data, it should be possible to make the link between project activities (under administrative streamlining), outputs, and outcomes. Specifically, the reduced administrative burden as well as reduced delays, are expected to contribute to reduced costs for transport firms, and thus higher profitability. On the public sector side, it is expected that officials who previously were dedicated to reviewing paper applications will have time freed up for higher value activities and will be more easily able to locate vehicle records in the event they are needed.

Figure 29. Tunisia Jobs, Opportunities, and Business Success (JOBS) Project as seen through the revised DCED results framework



5.3.3 Case study 3 - Inclusive Socio-Economic Development project in Beni Mellal-Khénifra, Morocco

Project Overview

Donor: USAID

Time Frame: 2020-2025

Project Budget: $18m

Program Areas: improved governance, inclusive economic growth

The Inclusive Socio-Economic Development Project in Beni Mellal-Khénifra, Morocco (ISED-BMK) is financed by USAID and implemented by FHI360 in partnership with Financial Services Volunteer Corps (FSVC)/Lixia Capsia Gestionis SARL (LixCap) as a lead for enterprise and business climate development, *Association Al Intilaka Pour Le Développement, L'Environnement Et La Culture – Afourer* (AIDECA), a civil society organization (CSO) advocating for the inclusion of women, youth, and persons with disabilities, and Mississippi State University (MSU) for collaboration with Sultan Moulay Slimane University (SMSU) for effective private sector engagement.

The project has a budget of $18M and is expected to be completed between 2020 and 2025. The project, in collaboration with the BMK Regional Council (RC), will assess the 135 municipalities (16 urban, 119 rural) in the region to identify approximately 40 with high growth potential, effective leadership, and high vulnerability (poverty, illiteracy, unemployment, and/or disability rates). With participation from the RC, ISED-BMK will invite select municipalities to submit proposals and 20 will be awarded project funding.

Regional Context

The Beni-Mellal Khénifra region has a strong agricultural sector, a large phosphate mining industry, potential for being a domestic and international tourism hub, and a willing workforce. These underpin the region's potential for accelerated growth through synergy between government, private, and civil society organizations; improved democratic governance, and holistic economic development.

Regional stakeholders have identified four major challenges for Beni-Mellal Khénifra:

1) Weak participation of women in the workforce and government
2) Inadequate focus on skill development and preparation of youth for workforce entry
3) Marginalization of persons with disabilities (PWD)
4) Isolation of rural mountain communities

Project Activities

The project aims to achieve two key results (a) improved governance for regional growth and inclusion of women, youth, and PWD, and (b) enhanced livelihoods and business activity through innovation. It plans to address these with full collaboration with regional stakeholders (government, private sector, civil society, academic community), and build synergies between governance and economic development that may serve as a model for other regions. The two objectives encompass a variety of activities.

These are summarized below and listed in more detail in Annex III.

1. Improved governance for regional growth and inclusion of women, youth, and PWD
    a. Increase participation, inclusion, and empowerment of citizens in local governance activities and decision-making processes.
    b. Increase performance and efficiency of sub-national government institutions (SGI).
    c. Strengthen CSO participation in local governance for inclusion of vulnerable groups.
    d. Increase transparency of SGIs and empower CSOs to access information.
    e. Improve governance of BMK 's business and economic systems.
2. Enhanced livelihoods and business activity through innovation
    a. Increase socio-economic inclusion of vulnerable populations through innovation and entrepreneurship.
    b. Increase business and job growth in key priority sectors.
    c. Workforce development in line with labour market needs.

Project Monitoring, Evaluation, and Learning Plan

Theory of Change:

ISED-BMK's theory of change, shown below, explicitly states that inclusion of citizens and key stakeholders in a regional system in an integrated approach are key to achieving improved governance and posits that this leads to the creation of livelihood opportunities:

> *"**IF** BMK-ISED effectively facilitates a participatory and transparent decision-making process, fostering strong links among government (national, regional, and provincial) and public and private stakeholders, and amplifies marginalized voices, **THEN** sustainable processes for the development of citizen-led solutions to address identified challenges will be established and prospects for improved livelihoods and inclusive economic growth will be enhanced."*

Project activities as seen in the results framework (shown along with the full table of activities in Annex III) are highly focused on capacity building of sub-national government institutions and regional civil society organizations. Based on interviews with the project M&E Director, it was possible to identify the BER-related activities and map them to the DCED revised theory of change (see Figure 30).

Indicators related to activities that are focused on business environment reform are

1) Percentage of BMK-ISED- supported policies, procedures, or mechanisms to enhance

participatory practices between government and citizens and to improve their internal efficiency and effectiveness that are adopted by Sub- Governmental Institutions (SGIs) - % of laws, policies, regulations, procedures

2) Percentage of Right to Information (RTI) requests receiving an SGI response - % of requests
3) Percentage of policies adopted by BMK-ISED- supported regional entities to improve business climate - % of laws, policies, regulations, procedures

As can be seen by the theory of change and the project activities, BMK-ISED integrates BER with participatory and democratic governance, and holistic economic development. The project is at an early stage and specific reforms are not all identified, although certain regional government entities have been selected as partners, and areas of intervention such as the right-to-information (RTI) request, and investment procedures, will be the focus of the work. This project will be a good one to observe to see how and whether the two objectives of better governance and inclusive economic growth co-exist, and specifically in which cases they are mutually reinforcing.

This project has some activities that lead to both economic and governance outcomes. The activities that build agencies' capacity to respond to RTI requests is expected to lead to training of civil servants and changes in agency procedures to allow for speedier processing of these requests. These will lead to improved inter-agency coordination, faster response rates, and disclosure of data of interest to businesses. The project is also supporting the government to actively identify data to disclose to the public through this activity. This means greater access of firms to relevant information on procedures but also investment opportunities. This improved access to information is expected to lead to higher investor confidence and thus, higher investment. The consequent inter-agency coordination and practice of fast responses and active disclosure will build a culture of transparency and thus, better governance in the region.

The project is also working to build capacity of agencies that are specifically involved in economic development like regional business environment councils and regional centres for investment. Improvements in these agencies' functioning and capacity is also expected to speed up the identification of reforms and new-investor oriented services which is expected to lead to investment and economic growth. Until specific reforms are identified, however, it is not possible to develop quantitative targets beyond the standard "number of reforms supported" that many programs use.

Figure 30. Inclusive Socio-Economic Development project in Beni Mellal-Khénifra, as seen through the revised DCED results framework

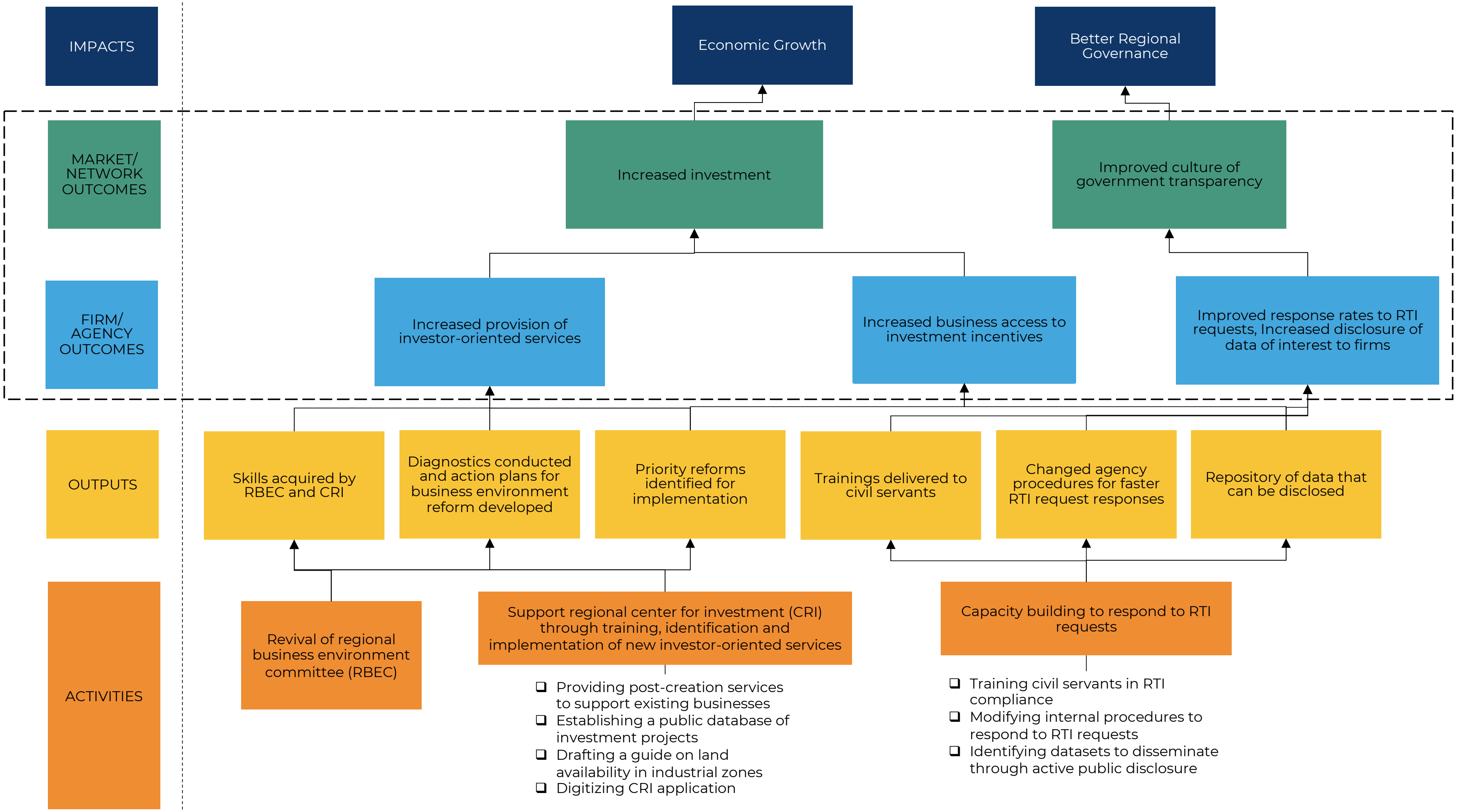


Figure 31 Inclusive Socio-Economic Development project for Beni Mellal-Khénifra Region (ISED-BMK) – ACTIVITIES

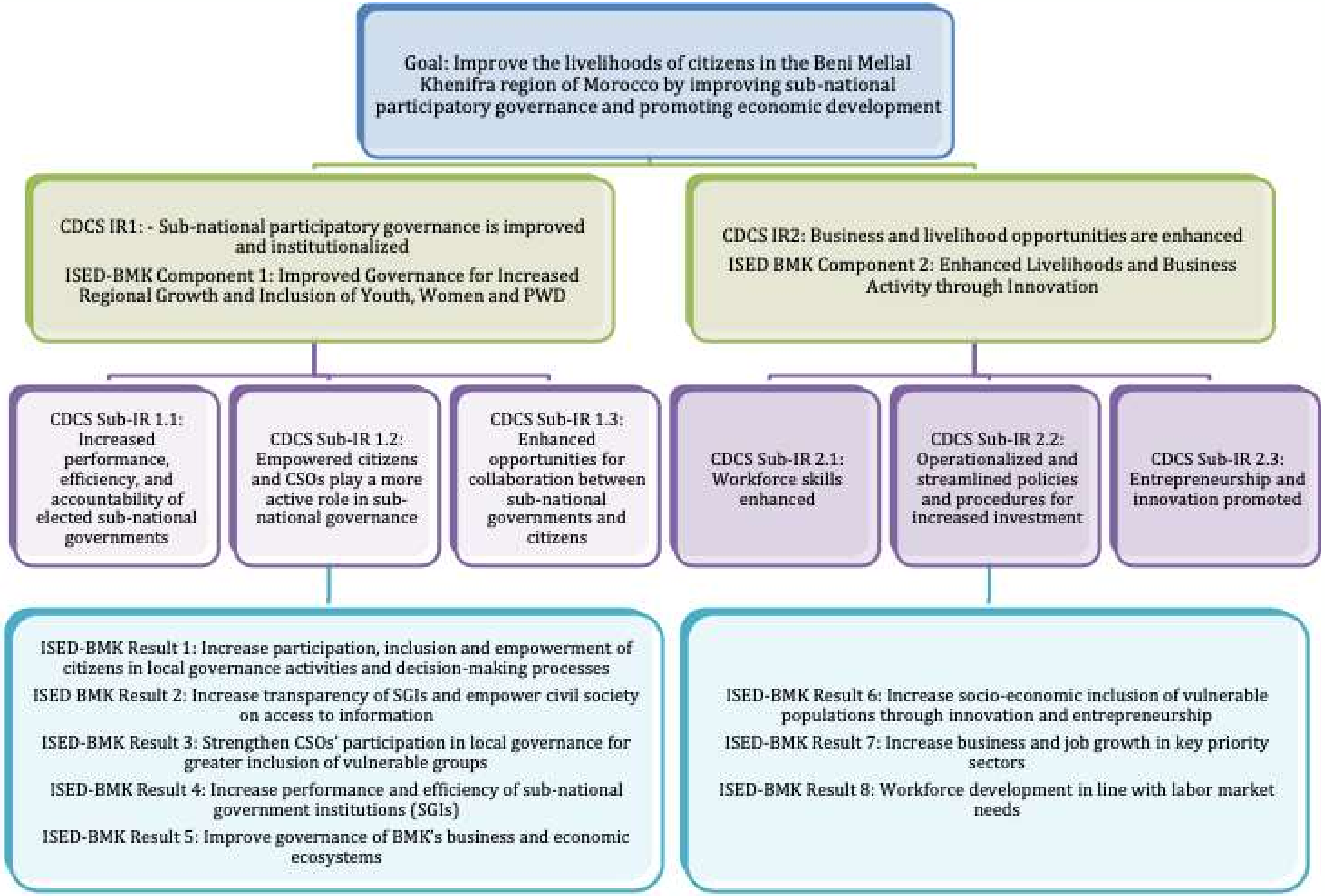
COMPONENT	SUB-COMPONENTS	ACTIVITY	DESCRIPTION
Component 1 – Improved governance, increased growth, and social inclusion	1.1 Increase participation, inclusion, and empowerment of citizens in local governance activities and decision-making processes.	Initiate Good Governance Barometer Process in BMK	Participatory multi-stakeholder process to identify development challenges, goals, and priorities
		Community-led planning and evaluation	Four workshops to identify challenges, understand government responsibility and develop concrete indicators to measure community progress
		Ensure greater inclusion of rural populations in local governance	identify local community leaders to participate in the organization of information activities, sensitization, and mobilization of vulnerable populations to promote their participation in relevant governance processes
	1.2 Increase performance and efficiency of sub-national government institutions (SGI)	Build internal capacity of SGIs to meet regional growth objectives	Conduct needs and capacity assessments, improve public financial and project management capacities
		Increase capacity of SGIs to adopt participatory governance and coordination mechanisms	Assess efficiency of past participatory governance approaches and develop action plans
	1.3 Strengthen CSO participation in local governance for inclusion of vulnerable groups	Increase CSO participation through existing participatory governance mechanisms	Identify tools like consultative boards and petitions, assess lessons learned and best practices
		Strengthen CSO advocacy efforts for inclusion of vulnerable groups	Conduct CSO capacity assessments, training activities, analytical workshops, and support launch

			of advocacy campaigns
	1.4 Increase transparency of SGIs and empower CSOs to access information	Identify and disclose datasets	Train SGIs in Right to Information (RTI) disclosure, support proactive disclosure of government information like policies and budgets, build CSO capacity to submit RTI requests
		Use government information for meaningful purposes	Conduct brainstorming sessions with SGIs and CSOs for identifying meaningful uses of public data
	1.5 Improve governance of BMK 's business and economic systems	Improve regional business environment	Provide structural support to revive Regional Business Environment Council (RBEC) Develop action plans to improve business climate by identifying needs, constraints, lessons, and capacities Train staff at the regional center for investment (CRI) in key competencies Support the addition of new investor-oriented services, Improve the analytical and reporting capabilities of the Economic Watch Committee (EWC)
		Strengthen the role of university in governance and economic development	Assist SMSU in assessing its organization and defining strategies to engage regional business and industry partners, government entities, and CSOs in discussions about regional concerns and priorities

Component 2 – Enhance Livelihoods and Business Activity via Innovation	2.1 Increase socio-economic inclusion of vulnerable populations through innovation and entrepreneurship	Promote innovative youth entrepreneurship	Support launch of University Innovation Lab and host Idea Shops and Challenge Competitions
		Tap local social entrepreneurship potential	Map social enterprises, support existing enterprises Identify high potential sectors for social entrepreneurship Organize and disseminate information and success stories Develop training modules at SMSU
		Promote inclusive entrepreneurship and employment opportunities for PwD	Design and implement tools to inform employers about how to include PwD in their recruitment processes and create disability-friendly work environments
	2.2 Increase business and job growth in key priority sectors	Improve business access to markets, business development skills, and finance	Form relationships with ecosystem players like employer federations, banks, cooperatives, etc. Identify and enroll targeted businesses and cooperatives into training and technical assistance opportunities Assist in sales, finance, and business skills through dedicated task force
		Support business activity, innovation, and better working conditions in agriculture and agribusiness sector	Conduct agriculture and agribusiness sector assessments Conduct value chain analysis on the sector and specific products to identify constraints/

			opportunities Improve market access for agribusinesses by matching to buyers and training for sales, quality compliance Conduct labour market assessments
		Support tourism sector recovery and prepare BMK for sustainable growth of tourism sector	Assess business needs through tourism labour market assessment and design tourism recovery plan
	2.3 Workforce development in line with labour market needs	Conduct labour market assessments	Support development of demand driven technical curricula with private sector engagement Build capacity

ISED-BMK Results Framework:



5.3.4 Case study 4 - Pakistan Regulation Modernization Initiative - Reforming No Objection Certificates in Punjab, Pakistan

Program Overview

Donor: World Bank Group, FCDO

Time Frame: Nov 2017 - March 2022

Project Budget: $ 41 million

Program Areas: regulatory simplification, digitization, and improvement, competition, and trade

The four-year Improving Business Environment for Prosperity (IBEP) program or Global Business Environment Programme (GBEP) is implemented jointly by the World Bank Group (WBG) with support from the UK Prosperity Fund managed by the Foreign, Commonwealth & Development Office (FCDO). The program budget is $41 million, with 70% earmarked for country engagement and 30% for the development of the Global Influence Window. The IBEP/GBEP program is designed to provide technical assistance to national and sub-national governments to middle income countries. Six countries were originally targeted as part of the program (Brazil, Indonesia, Nigeria, Pakistan, South Africa, and Turkey) with an additional three added in January 2019 (Malaysia, Philippines, and Vietnam). Interventions are designed to improve capacity in support of BER in the following areas (See Figure 32 for IBEP Results Framework):

- Business regulation and practice
- Developing linkages with local and global value chains
- Greater market competition and transparency
- Quality standards in markets and trade
- Data gathering and sharing on the quality of the business environment.

The program has three main components: 1) Country Engagement, 2) The Global Influence Window, and 3) Gender and Inclusion. Country engagement consists of country programs based on three thematic pillars described by the program in the following way[301]:

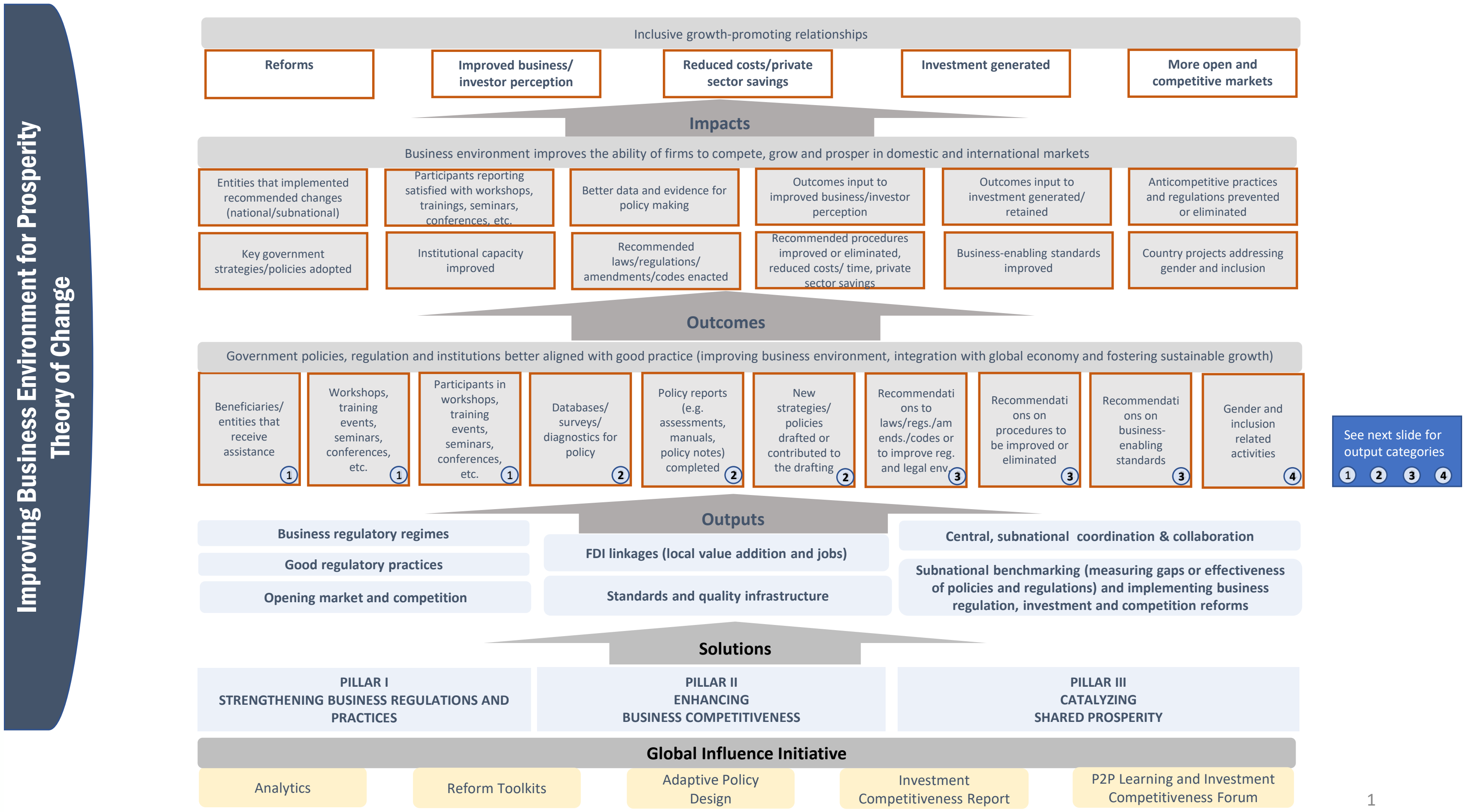
1. **Strengthening business regulations and practices:** Government regulations play a decisive role in creating a predictable and conducive framework for businesses to form, operate, and grow. The objective of this pillar is to improve regulations, reduce administrative costs, foster open and competitive markets, and lower uncertainty for businesses and investors.
2. **Enhancing business competitiveness:** Local firms enhance their competitiveness when they integrate into value chains, increase service and product quality standards, participate in public tenders, or leverage technology. This pillar aims at improving local firms' linkages to international markets and investors, and at increasing their ability to

[301] https://www.worldbank.org/en/topic/investment-climate/brief/improving-business-environment-for-prosperity

meet service and product quality standards.

3. **Catalysing shared prosperity:** Shared prosperity captures two elements: economic growth and equity. From the perspective of businesses and investors, lagging regions in most large MICs account for large markets and hold promise as potential engines of growth. However, these regions face significant gaps in terms of human capacity, legal, regulatory, and institutional frameworks for investment, and the reach and efficacy of government services, all impeding business activities, ultimately holding up productivity and job creation. The objective of this pillar is to advance shared prosperity by improving business environment at subnational level.

Figure 32 IBEP Theory of Change[302]



[302] Theory of change, IBEP. Available: https://thedocs.worldbank.org/en/doc/468181585869868649-0130022020/original/PFIBEPTheoryofChange022420.pdf

Interestingly, the IBEP theory of change places private sector savings at the same level as investment, and other changes such as “more competitive markets.” It is also of note that possible project outputs are many, and it is likely that they are used in combination with each other. Similar to MCICP, the IBEP theory of change cannot realistically be used to orient the development of indicators, or collection of baseline data. This may not be a problem, as often different funding streams come together and indeed it is better for countries when multiple funders work together to support a coordinated policy reform agenda. In Pakistan, the project is deeply engaged with the Federal Board of Investments. To that end, IFC works in conjunction with the Board and the Prime Minister’s office to support the Pakistan Regulatory Modernization Initiative and the reform of the “no-objection certificate” procedure which is examined further below in this case study.

Project Overview

Reforming No Objection Certification (NOCs) is a specific initiative undertaken in the province of Punjab, Pakistan. It is part of the national Pakistan Regulatory Modernization Initiative (PMRI) implemented by the Government of Pakistan, specifically the Board of Investment, in collaboration with the World Bank Group and FCDO. The PRMI is planned to be financed through the World Bank’s lending operation called Digital Economy Enhancement Project (DEEP) with the Ministry of Information Technology and Telecommunication (MoITT) and World Bank Group’s International Development Association. PMRI is a reform effort which is also supported by an IFC advisory build capacity of regulators to “eliminate, critically analyze, simplify, reengineer, improve, and digitalize business registrations, licenses, certificates, other permits and regulatory requirements.”[303] Its primary objective is to make it easier for local and foreign businesses to invest, operate and comply with Pakistan’s regulations.

Donor: World Bank Group, FCDO

Time Frame: Oct 2021 – Jan 2022

Approved Project Budget: $ N/A

Program Areas: regulatory simplification, digitization, and improvement, investment policy

This initiative spanning from 2021 to 2025 comprises of two phases. The first phase will entail a comprehensive inventory and mapping of regulations and removal of all illegal, unnecessary, unjustified, and non-business friendly regulations. This will occur in conjunction with capacity building of public sector officials. The second phase will focus on a comprehensive review of remaining business regulations at all levels of government using stakeholder consultations and regulatory impact assessments. Best practice regulations will be adopted to remove

[303] https://business.gov.pk/prmi-strategy-implementation-document-june-2021/

redundancy and duplication, and processes will be simplified.

For this case study, we examined a specific reform activity undertaken under the initiative – reform of the no objection certificates (NOC) in the province of Punjab. NOCs have been an administrative burden faced by both businesses and governments. NOCs are required by businesses to prove that regulatory agencies do not have an objection with them starting a business activity and must be obtained from all relevant regulatory agencies before any further required approval. It discourages foreign businesses from setting up businesses in Pakistan by increasing the cost of compliance, especially for micro, small, and medium enterprises (MSMEs) that lack resources to comply with these requirements. NOCs can greatly deter both business activity and formalization of the informal economy.

The NOC Reform Policy is aimed at shifting burden of proof of compliance verification from businesses to regulatory agencies through the introduction of a Compliance Verification Process (CVP).

Project Activities

1. **Interagency coordination mechanism for compliance verification**
    a. Identifying primary regulatory agency - Punjab Industries, Commerce, and Investment Department (ICID) will function as the primary regulatory agency for CVP and serve as the connection hub for all other concerned regulatory agencies and customer facing body for businesses which will apply for CVP to ICID.
    b. Building networks between primary and other concerned regulatory agencies - Executive dashboards made for CM, CS, Finance Minister, Chairman P&D Board, and Minister of ICID to monitor and oversee CVP implementation
2. **Developing business activity risk classification list**
    a. Business activity risk classification list will be developed and notified with input from working group and expert reviews by the World Bank Group. Risk-based verification will be as follows -
        i. Low-risk business activities – immediately granted approval
        ii. Medium-risk business activities – provisional approval and complete CVP within 10 days of application *(ex-post verification)*
        iii. High-risk business activities – No approval until CVP is completed, CVP must be completed within 30days of application *(ex-ante verification)* and a fast-track for foreign direct investment cases
3. **Building application packet for CVP**
    a. ICID will prepare application packs for all regulatory approvals consisting of an application for with risk classification, clear checklist of information and documentary requirements, information on application procedures, timeline, and fees/charges, schedule for inspections if required, guidance on remaining

in compliance, frequently asked questions, and applicant's feedback on service[304]

4. **Adoption of CVP by government and private sector**
    a. Outreach and stakeholder engagement activities by the Punjab ICID will be conducted to disseminate information and raise awareness for CVP
    b. Mandatory capacity building will be conducted for all regulatory agencies, along with development of toolkits and guidance documents
    c. Automated CVP will be integrated into the Punjab Business Portal and digitized for electronic compliance verification
    d. CVP node will begin accepting applications and work with all concerned agencies to ensure businesses receive the regulatory approvals in as little time as possible
    e. Periodic reports will be generated by all regulatory agencies based on applicants' feedback and a consolidated report is made available bi-annually through Punjab Business Portal

Given the knowledge shared by the project about their activities, it was possible to trace the main aspects of the regulatory reform work onto the draft DCED BER results framework, as shown below (Figure 33). This project currently does not have a specific results framework or identified indicators related to this reform activity in Pakistan.

[304] Latest Punjab NOC Reform Policy

Figure 33 PRMI - Reforming No Objection Certificates in Punjab, Pakistan, as seen through the revised DCED results framework

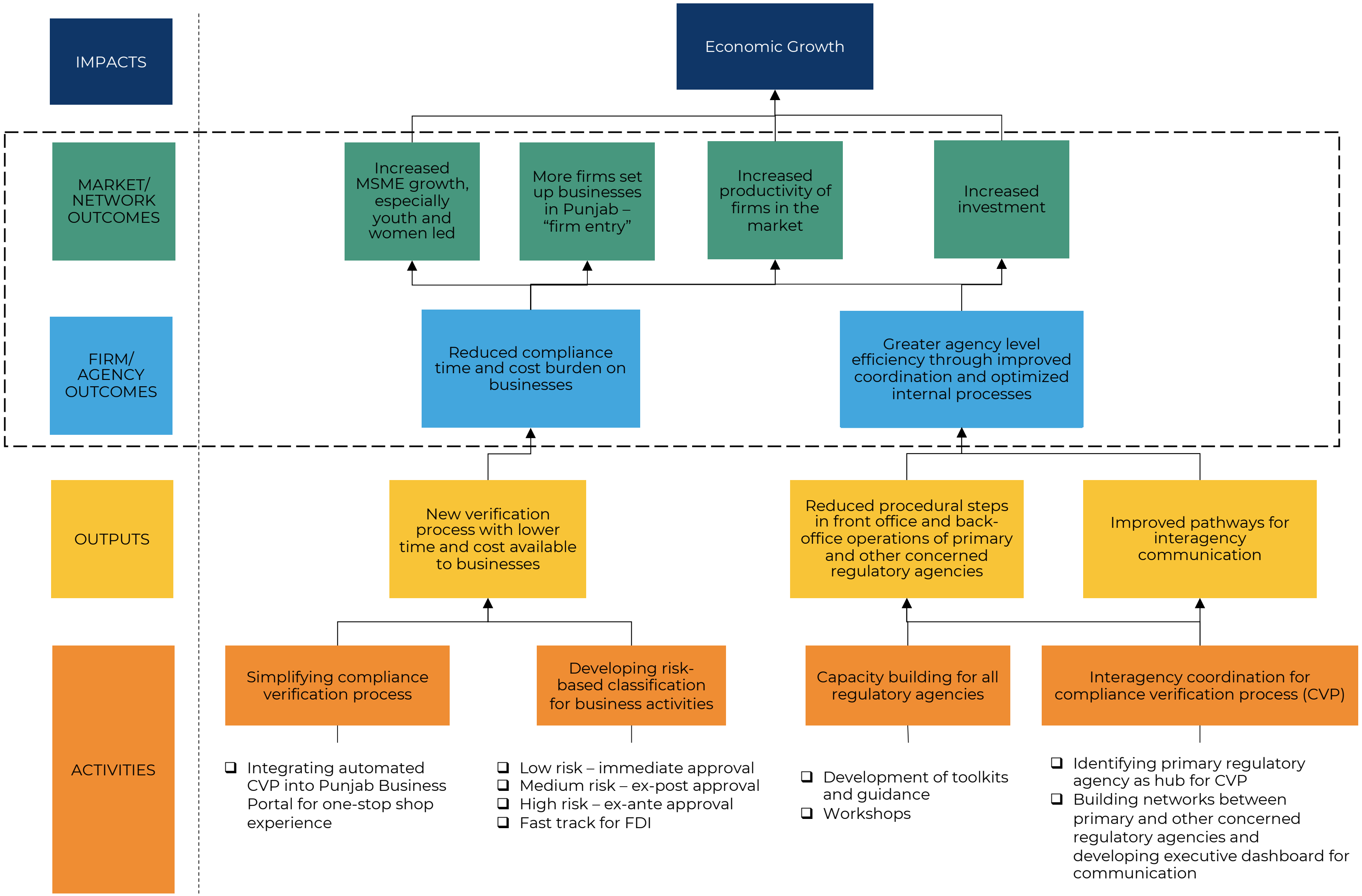
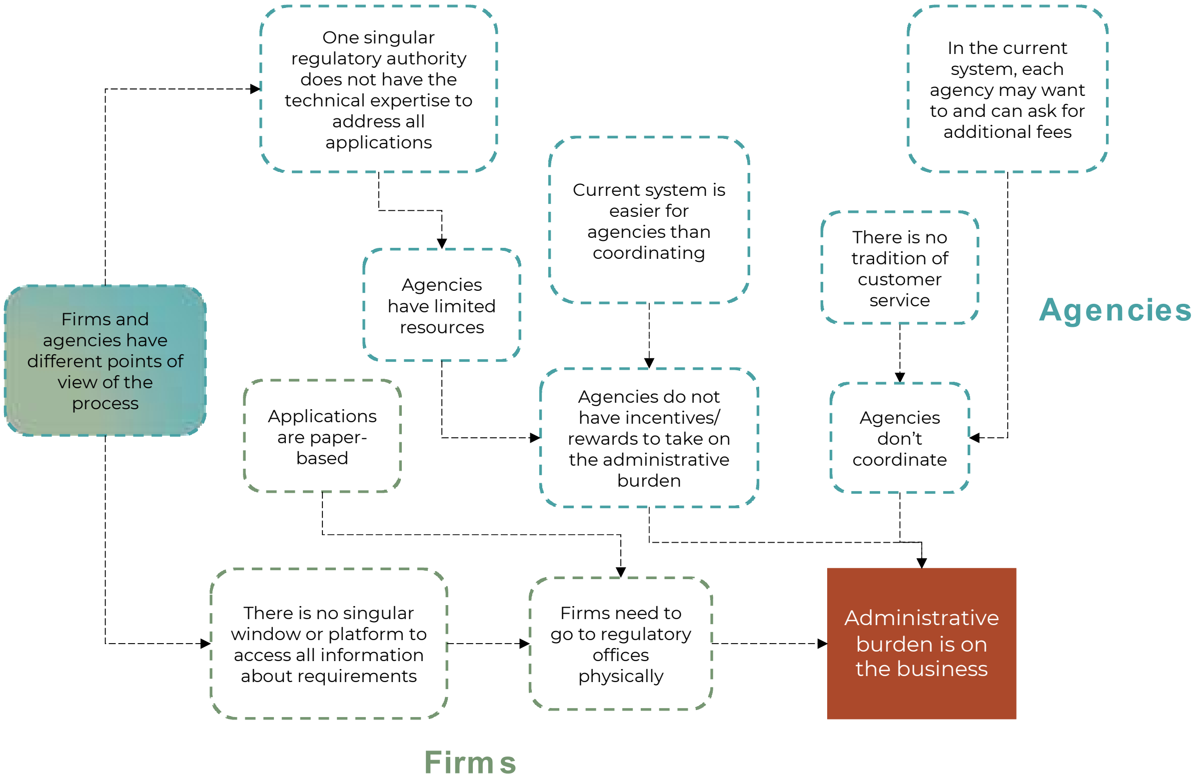


Figure 34 Understanding the underlying causes of administrative burden



The figure above (Figure 34) is an exercise called causal loop modelling to identify the root causes of a certain constraint. In this case, the constraint examined is the administrative burden of obtaining no-objection certificates for businesses in Punjab. The "backwards reasoning" process helps to identify the root causes of this burden and the assumptions made by stakeholders like public sector stakeholders, private sector stakeholders, and project teams. Here, by examining the perspectives of the regulatory agencies and firms, the causal loop model identifies the reasons for the faced administrative burden, which are primarily a lack of inter-agency coordination and lack of incentive for simplification. Such an exercise allows the project team, including public and private stakeholders, to ensure that activities will address the root causes. If the three stakeholder groups come to a common understanding of where the burden arises and form consensus on how to alleviate it, they are more likely to produce project "outputs" that are actually "outcome-like" in that they deliver value already to businesses (i.e., a checklist, information on how to complete the procedure, etc.).

5.5 Conclusions

One thing that became evident from this research is BER programs aren't just more challenging to measure than the majority of private sector development programs, they are also likely to have less well-developed results frameworks. Why and how?

- Multi-country programs operating with funding from more than one donor tend to use high level frameworks that don't provide sufficient levels of detail;
- Many individual projects under multi-country programs, or BER activities within larger private sector development programs, don't have their own theories of change, and
- In programs that are not limited to BER, reforms may be given less importance, or paired with activities that are not complementary, leading to measurement difficulties.

The four case studies presented in this report serve to provide a common ground for discussion among members of the DCED BER working group, so that the final proposed results framework, recommended indicators, and donor guidance note provides complete clarity. This common ground will be needed, as the most difficult issues to be tackled in this assignment still remain. The challenge is: how exactly to draw evidentiary links between BER project activities, outcomes, and impacts; where impacts are economy wide, hard to measure, and by definition depend on a large number of variables to achieve (such as growth, employment, poverty reduction).

Progress has been made by first reviewing the literature and identifying specific evidentiary links between, for example, complexity of entry procedures and productivity.[305] Therefore it is realistic for the third case study, the Punjab project, to expect to see increased productivity, and now they project just needs to figure out how to track that or track a proxy (such as the complexity and compliance cost of the procedures).

Evidence also abounds of the link between investment and jobs. All projects and donors studied are currently measuring investment but not necessarily in the same way, and none of the projects reviewed make explicit their assumptions about exactly how, in their context, investment leads to jobs. USAID/Washington has an investment indicator, but this is not being used in either the Morocco or Tunisia case. Information was not available about how "triggered investments" are measured by IFC for SECO in the MCICP project. Measurement of investment, and the nature of the link to employment, will be looked at more closely in the final note.

The strongest evidence is at the lower levels of the results chain, of course – which in most models features reduced compliance cost. The World Bank Group and USAID both have similar methodologies to measure this; in many countries (such as Tunisia) both donors are funding

[305] Complex entry procedures lead to reduced productivity: A cross-country study of entry regulations and productivity, shows that countries in the lowest decile of the entry costs distribution have 1.32 to 1.45 times higher total factor productivity (TFP) and 1.52 to 1.75 times higher output per worker than countries in the highest decile. Higher regulatory entry costs allow unproductive firms to operate, changing the industry composition and lowering its average productivity, leading to lower TFP for the country's economy (Barseghyan and DiCecio, 2011).

BER projects. Data collection is expensive, and resources could be combined if definitions were aligned. In Pakistan, the Ministry of Planning expressed interest in a standard method to measure compliance savings across procedures and economic sectors, that is consistent with the Doing Business index (at the time the index was operating).

However, there are still large gaps, some related to measuring system-level changes such as increased market efficiency, transparency, and predictability, and others to proving the effectiveness of activities like capacity building or support for public-private dialogue. It is also challenging to pin down exactly how project activities combine to produce results, and how certain pre-existing conditions may amplify or dampen the effects of activities.

The four forces detailed in the little green box called “How change happens” can perhaps contribute to an economic model that looks at clusters of activities and outcomes. To give a few examples of what this might look like, one can imagine a list of seven key elements that tend to be present in successful BER programs, consider how they manifested themselves in the four case studies presented above, and how they might best combine to deliver the most robust results (see Figure 35 below).

Figure 35: Seven key elements of BER programming and their corresponding practices in design, implementation, and measurement

KEY ELEMENT	PROJECT DESIGN AND IMPLEMENTATION PRACTICES	CORRESPONDING MONITORING AND EVALUATION (M&E) PRACTICES	OBSERVATIONS FROM CASE STUDIES
Identifying specific reforms	Develop a method to prioritize reforms, i.e., identify growth sectors, feasibility of activities, estimated impact, and analyze how the reforms will interact with other project activities.	Collect baseline data on current levels of administrative burden. Conduct an initial estimation of expected cost savings, incentives for compliance, increased predictability of processes, etc.	In some cases, reforms have not yet been identified. BER funders may want to consider rolling reform identification, or “early” and “active” project phases.
Understanding the role of “political will”	Design project cycles with consideration for the timing of administration changes. Identify areas that are already prioritized and support existing government strategies.	Systematically map institutional actors and reform champions as part of initial diagnostics and baseline data gathering. Identify and interview stakeholders to locate points of entry at all levels.	As shown by the Tunisia JOBS example, it is possible to make progress “on the margins” even when there is confusion at the top.
Agreed upon method for managing reform activities	It is helpful if the whole government is adopting one method, and all donors agree. Examples include: sector-specific approaches, “guillotine” regulatory reviews, participatory policy development, regulatory impact assessment, etc.	Specifying the method allows projects to identify more relevant and specific indicators. Agreement means government and donors can use the same indicators.	Remains to be seen whether Morocco project’s participatory approach will generate an agreed upon method for selecting and managing reforms.

Working with the appropriate public structure	Ideally there is already an existing public structure with the mandate and the capacity to implement reforms. Often when there isn't, there are committees that can be energized (less costly than creating entirely new structures).	Project baseline to include a mapping of the "adoption circuit" for reforms and articulate the link between the public counterparts and this circuit.	Some projects work with multiple public partners. However, projects facing challenges have not successfully embedded their activities in a public structure.
Private participation	Ideally there are multiple levels and ways for private sector to engage, both with project and with public structures.	Project baseline to include social network analysis.	Some have activities to support public private dialogue. However, they lack reforms for such structures to work on.
Reform champions	Every reform supported by a donor project needs three champions: public official, private business leader, and project team member.	Build accountability for BER results by assigning indicators directly to project staff.	Projects lacking one or two of the three champions are facing difficulties.
Donor coordination	Political leaders benefit from one clear voice from donors as an outside validator and filter for the quality of technical work.	The best project indicators are the ones multiple donors agree on and that public partners adopt and continue to use.	Instances of donor coordination were mentioned as a positive in some cases, however it was not clear what the benefits were.

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