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

Donor and development agencies support business environment reform (BER) in developing and emerging economies to produce a more vibrant and competitive private sector, create more and better jobs, stimulate economic growth, and reduce poverty. Measuring these outcomes and impacts and refining programme interventions to improve the scale of impact is a continuous process. It requires a good understanding of the programme intervention logic and results chain to appreciate the assumptions underlying programme design and to improve programme efficiencies and effectiveness.

This policy note presents the highlights of a recent technical report on how donor and development agencies can enhance the use of evidence and results measurement in BER programming. It builds on the DCED's prior work in this field, which include the guidance titled *Supporting Business Environment Reforms—Practical Guidance for Development Agencies* (2008), its annex titled *Measuring Donor-Supported Business Environment Reform* (2013), and the *DCED Standard for Results Measurement in Private Sector Development* (2017).

The report examines how the nine functional areas of BER identified in the 2008 Donor Guidance are measured. It identifies several challenges to measuring change, including long results chains, lack of counterfactuals like control groups or comparison groups, diversity of interventions, and a need for standard definitions and measurement units in the field.

BER theory of change

Drawing on evidence from the literature, a BER theory of change contains three key concepts:

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

1. Activities

An activity can be described as a specific, discrete action conducted by project personnel. Examples include workshops, writing recommendations, and baseline surveys. This differs from an intervention, which occurs when several activities add up to an output or outcome, such as introducing a public credit registry or improving land titling procedures.

Figure 1, below, names interventions at the "activity" level for simplicity and to conserve space. However, these interventions can be deconstructed into different reform activities and types.

At the activity level, BER takes place in several ways. These include changing policies, laws, regulations, procedures, and organisational structure or practices. These activities are commonly found among the nine DCED functional areas described in the 2008 Donor Guidance: (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 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.

Monitoring and evaluation methods require adjustments depending on what areas are addressed and how reforms are structured.

2. Outputs

Outputs are direct and measurable results arising from reform activities. These are the products, capital goods, and services that result from a development intervention (i.e., a combination of activities). They are a direct result of activities and should be measurable. They include the outputs produced by the project team and any joint outputs produced with or by project partners.

It is helpful to group outputs in a BER framework into project outputs and joint outputs. Project outputs are controlled wholly by the project (e.g., training delivered, an assessment conducted, and recommendations made). In some cases, these outputs are not visible to the public.

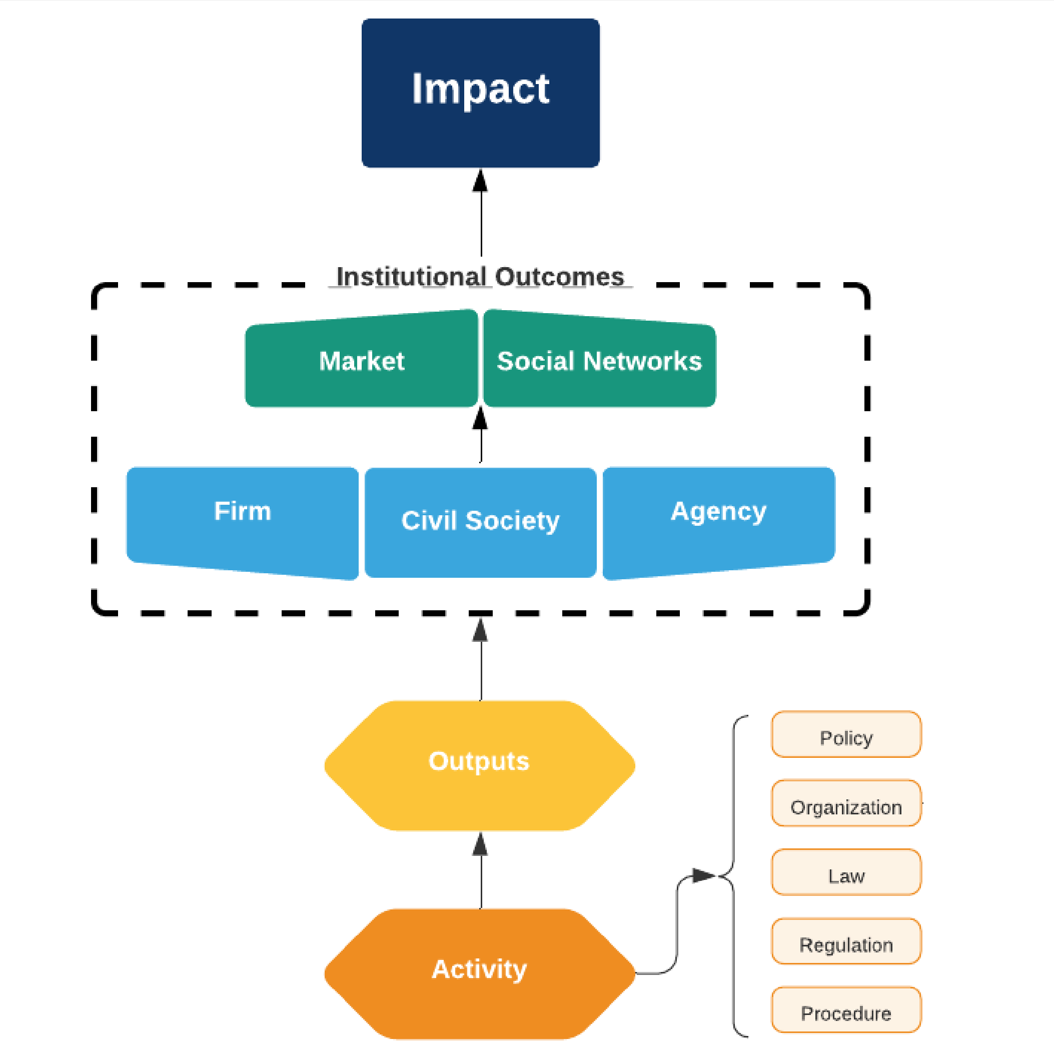
When BER project teams work closely with counterparts and produce joint outputs, these become more visible (e.g., guidance for ministry employees to follow, websites providing greater availability of information or process re-engineering that yields reduced time and cost for administrative procedures).

3. Outcomes

Outcomes are likely or achieved short-term and medium-term effects of the output. Unlike 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 may be broad and harder to attribute to the project's activities.

BER outcomes contribute to institutional change (i.e., described as Institutional Outcomes in Figure 1 above). Institutions are the intangible interactions, rules and customs that govern the business environment. However, institutions include not only the rules of the game but also the entities or the players of the game. In Figure 1, these levels of outcomes are separated for clarity but bound together by the dotted lines forming a perimeter around them.

FIGURE 1. Effective business environment reform stems from institutional changes.
NOTE: Intervention names are used above at the "activity" level for simplicity and to conserve space.



BER contributes to two kinds of institutional change:

- **Firms, civil society, agencies – the players of the game.** These public and private organisations operate in the market and are affected by BER. They include firms, financial institutions, civil society, agencies, public-private bodies, and business membership and representative organisations. Examples of outcomes for the game players include increased access to loans by firms, increased firm-level productivity, and improved customer service by specific government agencies. These can be tracked at the firm or agency level through project indicators, surveys or pre-existing indicators and indexes.

- **Markets and social networks – the rules of the game.** These are the intangible norms, rules and customs that govern the operating environment for the players. This represents a system-wide change. Changes at this level influence the way the players behave. For the BER results framework, two relevant configurations are markets and social networks. Rules represent higher a level of outcomes, relating to (i) aggregate outcomes, such as investment in the market as opposed to investment in 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. Rule-based outcomes include increased market competition, more private investment, increased government activity transparency, and reduced corruption. These outcomes are harder to attribute directly to project activities. However, if the outcome is clearly defined, data can be systematically gathered on these aspects using custom indicators, external indicators and indexes, or a combination.

4. *Impacts*

Impacts are the overarching long-term effects of reform activities. BER programmes typically seek economy-wide impacts such as increased economic growth and employment and BER reforms. However, they may also aim to achieve social impacts like improved governance, including marginalised groups and poverty reduction.

The literature review identifies a complex series of interactions between distinct types of economy-wide impacts. These are illustrated in the figure below (figure 2). Each green circle depicts a link between two outcomes, where the size of the circle corresponds to the number of citations identified. The evidence confirms the following sequence:

1. Increased investment leads to employment and economic growth.
2. Productivity leads to growth but has mixed impacts on employment.
3. Economic growth is positively associated with employment, and employment means poverty reduction.

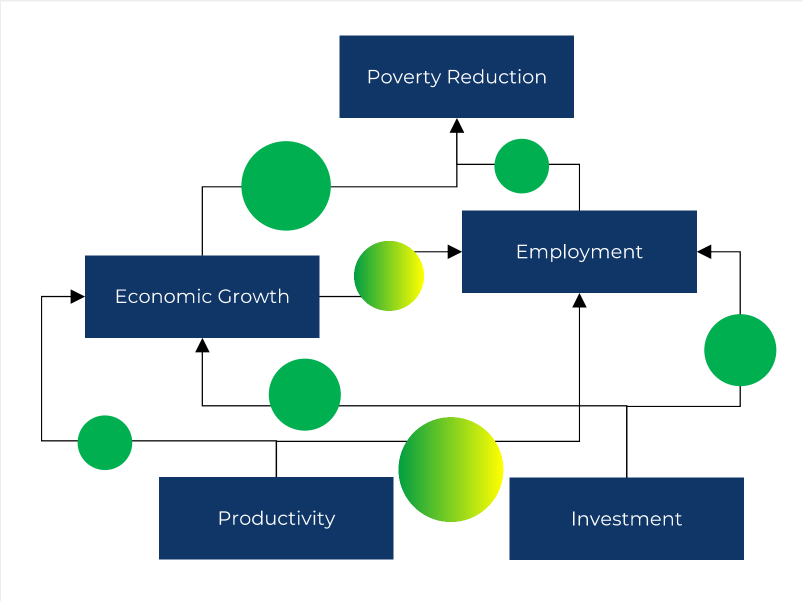


FIGURE 2. Strength of the evidence connecting program outcomes with the overall impact. NOTE: Each green circle depicts a link between two outcomes, where the size of the circle corresponds to the number of citations identified—the greener the circle, the more substantial the evidence.

Practical guidance for effective results measurement

Guidance for measuring results in BER programming is organised in three project phases.

Phase 1: Project set-up

A template for setting up a BER project is presented below (figure 3). The template emphasises four key elements of successful results measurement in BER programming if they are accomplished early. It becomes almost impossible to track and measure change without attending to these elements.

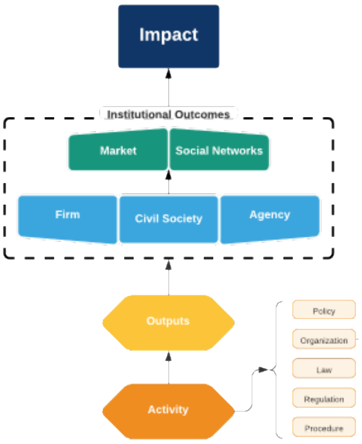
FIGURE 3. Effective results measurement hinges on the development of a theory of change and early mapping of stakeholders, milestones, and evidence

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)

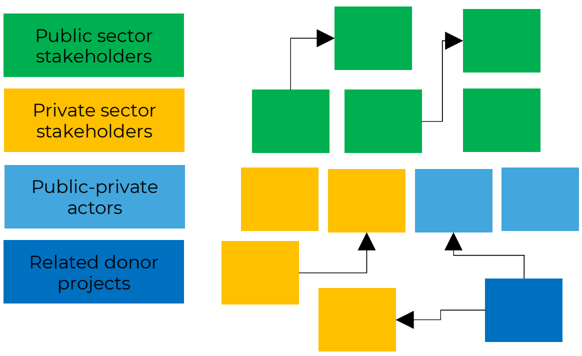
Preliminary Tools

Preliminary theory of change

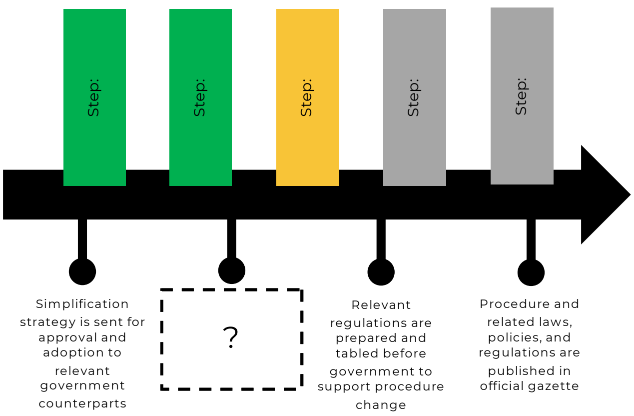


Stakeholder Map

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***).

Setting up a project involves identifying priorities, stakeholders, structures, and reforms. How this is done and how early this is done affects the project's ability to articulate progress and measure results.

- **Identify priorities.** Determining project priorities establish the project's goals and inform the development of the results chain. Priorities are identified through several filters. This includes identifying the needs and priorities of the country and region, the government, businesses, etc. What are the larger goals (e.g., poverty reduction, economic growth, investment, inclusion, employment)? Where is the political will to reform, and what reform areas must be prioritised and correspond with the needs, goals and political will of the project area?

- **Identify stakeholders.** Stakeholders may implement and be affected by reforms and include the public and private sectors, financial institutions and others (e.g., cooperatives). Identifying stakeholders allows the project team to locate the most viable entry point for the identified reform area and inform how much and what kind of data may be collected during the project and from whom.

- **Identify structures.** This involves identifying the structures within the reform process in the project area. It allows the project to determine if there are pre-existing structures (i.e., national reform committees, inter-ministerial councils, etc.) and whether these fit the purpose. The project team needs to understand the government's overall reform architecture, i.e., the typical steps from the inception of a reform activity to implementation and beyond, and consequently, the implications for measuring progress. Reengineering existing structures or supporting the creation of new structures may require capacity building. This requires clear goals for these activities. This stage can be strengthened by mapping the project milestones and reform process with commonly accepted and understood phases of reform in a country.

- **Identify reforms.** This entails a shift from identifying the priority reform area and specifying how the change will happen to defining what types of activities the reform will entail. Will the project work with counterparts to change policies, laws, or regulations? Will the project work on optimising administrative procedures? Will the project 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, the development of a policy would likely involve drafting. Adopting the policy might be the appropriate means of measuring the output of the action. However, for an activity that simplifies licensing procedures, the project set-up period will likely require a baseline assessment of the administrative burden of such procedures.

Phase 2: Project Theory of Change

Developing and refining the theory of change is iterative. Ideally, this is done in collaboration with the project's government and private sector counterparts. Time pressures may lead project teams to develop a theory of change quickly to get the necessary approvals and focus on what can be done promptly. However, because BER results chains are long, the theory of change will benefit from being iterative, agile and collaborative.

BER results chains contain many nuances. This is not a dynamic systems model, where the relationships between the levels are linear. Instead, there are patterns of change that alter the ways actors interact within the system. The typical units used to describe and deconstruct the elements of the theory of change (i.e., activities, outputs, outcomes, and impacts) provide the basis for tracing change pathways for BER interventions from the activity level to the impact level.

When fully applied, a theory of change allows donor and development agencies to know what to expect, how to measure whether it is achieved and to compare results across programs and countries.

Phase 3: Identifying Indicators

The BER theory of change provides an organising framework for the development of a set of robust causal relationships. However, the challenge is with what to measure and in what order.

One may take a bottom-up approach to measurement by first asking what is worth measuring. This begs the related question, which BER activities are the most likely to lead to the higher-level impacts we seek?

These are tough questions for all BER projects to answer. The box below explains how the donor and development community could collaborate to improve the use of data across BER programmes and projects.

BOX 1. Possible donor and development agency collaboration on indicators

Answering what is worth measuring and which activities are most likely to lead to the desired higher-level requires the gathering of extensive data and running a series of economic models. For example, using Gross Domestic Product growth, employment or investment, as a proxy for an improved business environment. This could be done in one country or many. A robust model would apply this data in a standardised way to identify the driving factors for successful BER. 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 organised 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, donor and development agencies apply separate sets of indicators. A rapid inventory and triaging of these would make results measurement more consistent and comparable across projects, regions, and donors.

A stop-gap solution is to create a database of indicators compiled from all donors and implementers, assess them on common criteria, organise them by functional area along the theory of change.

A long-term, more rigorous method is to develop one or more economic models to identify the most critical drivers of change, using economic indicators as a proxy for successful BER. It is possible to begin experimenting with modelling in a specific country or project case and then scale, standardise and make comparable the model across different contexts. There are two possible sources of data: historical economic data and large-scale perception surveys.

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 as indicators. For instance, a standard indicator that is widely accepted is regulatory burden; standard measurement units for this are time and cost.

At the project level, there are benefits in considering measurement indicators such as a Monetising Benefits model. This is a simplified version of the Standard Cost model. Monetising Benefits presents an approach to measuring the time and cost burden of administrative compliance (e.g., compliance cost savings). While there are different ways of measuring administrative burdens, time and cost of compliance are widely used and accepted indicators. These relatively easily computed indicators allow for fair comparison of reform success across projects and interventions.

The way ahead in BER results measurement

Despite the difficulties, donor and development agencies have made substantial progress towards a common basis for BER results measurement.

Measuring change is not always the problem. Instead, the challenge is what to measure and in what order.

Moving forward to improve measuring results in BER projects, donor and development agencies that could consider developing a core set of standard indicators based on common criteria (e.g., quality, means of measurement, rigor, feasibility). While agencies currently apply separate indicators, an inventory of these would make results measurement more consistent and comparable across projects, regions and agencies.

Moreover, donor and development agencies that support BER in developing and emerging economies could consider the following:

- Reframing the functional areas for BER around some grounding logic, such as the stages of the enterprise lifecycle or cross-cutting considerations such as inclusion and sustainability.
- Integrating BER and green growth either a cross-cutting consideration or by developing minimum standards in various stages of a circular economy, or through an accounting consideration that measures the impact of natural capital including the cost of carbon.
- Customising the BER theory of change to country contexts by using results measurement data to assess impact on different income groups, levels of fragility and conflict, or climate and disaster vulnerability.

The Donor Committee for Enterprise Development (DCED) Business Environment Working Group (BEWG) produced this Policy Brief. The BEWG is a platform to share information and knowledge on donor-supported business environment reform in developing countries and to identify and support good practices and new approaches in this field. For more related publications visit the DECD BEWG website. Feedback is welcome and may be addressed to the DCED at admin@Enterprise-Development.org

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