IDA AT WORK

Entrepreneurship, Job Creation, and Growth

Sustained growth in low-income countries hinges on the ability to foster a thriving private sector that provides good jobs and incomes. Without the dynamic force of private initiative disciplined by competitive markets, poor people will stay poor.

The International Development Association (IDA), the World Bank's fund for the world's poorest countries, has focused most of its private sector development work on encouraging governments to provide a solid institutional foundation and clear rules of the game for entrepreneurial activity. Thanks in part to the availability of clear and quantitative diagnostics in the form of *Doing Business* and enterprise surveys, it has helped governments develop a healthier business environment—by understanding barriers to business formation and healthy competition, and putting in place policies and on-the-ground reforms that reduce the costs associated with building and running a business and creating jobs.

Since Fiscal Year 2003, 11 percent of IDA's overall financial support has been devoted to improving the climate for investment. A few factors enhance IDA's contributions in this area, namely its ability to provide high-quality, consistent and prominent diagnostics; its ability to mobilize staff who bring global experience to country-level dialogues on the process of reform; and the increasing ability to work across World Bank Group organizations to help implement reforms.

MEASURABLE PROGRESS

IDA and the other institutions that form the World Bank Group[1] measure their support to private sector development in the following terms:

Outputs
- Surveys and benchmarks
- Analytical and advisory products such as Investment Climate Assessments (ICAs)
- Technical assistance (TA) or development policy loans that reflect diagnostic work and support country-level dialogues on reform priorities and agendas

Outcomes
- Implementation of reforms based on identified priorities
- Improvements in associated indicators (e.g. reduced numbers of days to register a business)

Results
- Improvements in associated levels of activity (e.g. business registrations increase)
- Increased levels of investment, job creation in the formal economy

Setting targets

As a part of the results measurement framework agreed on at the time of the 13th IDA replenishment (2002–05), IDA Deputies set targets for a 7 percent population-weighted improvement in the time and cost of starting a business—as measured by the *Doing Business* indicators.

These targets were exceeded. Between January 2002 and January 2004, the population-weighted time of business start-up declined by 11.9 percent and the population-weighted cost of business start-up declined by 14.7 percent. Twenty seven countries reported a decline of 10 percent or more in time for business start-up. The top performer at the time was Armenia, where time was cut from 79 to 25 days, or 68.4 percent. Dramatic improvements were also made in Pakistan (–54.7 percent), Honduras (–51.9 percent), Georgia (–49.7 percent), and Benin (–49.2 percent). Eighteen countries reported a decline of 10 percent or more in cost for business start-up as a percentage of GNI per capita. In many cases, the IDA targets initiated or gave momentum to reforms that were supported by the Bank.

For example, starting a business in Ethiopia took 8 procedures, 44 days and cost more than five times the average annual income per capita in 2002. The extent of these obstacles was highlighted to the government and the World Bank when IDA13 set target reductions on the *Doing Business* indicators. The *Doing Business* data were used to pinpoint the source of bottlenecks. They showed that more than 75 percent of the cost was a result of requirements to publish two public notices in the official gazette. The government eliminated the requirements. The cost of registration decreased from 500 percent of income per capita to 77 percent. Time fell from 44 to 32 days. In the year following reform, new business registrations increased by 48 percent.

Doing Business 2007 identified 40 IDA countries as net reformers in 2006. In the majority of these cases, the reforms were associated with ongoing IDA engagements providing technical assistance through analytical and advisory work, lending or both.

1. The International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

"What Gets Measured Gets Done"

Doing Business allows policy makers to compare regulatory performance across countries, learn from best practices globally, and prioritize reforms. The analysis has already inspired and informed more than 100 reforms around the world.

Using the indicators as benchmarks and improving six of the 10 areas studied by *Doing Business*, Georgia became the world's top reformer: it jumped a spectacular 75 places in the ranking of 175 economies in 2005–06. "The lesson—what gets measured gets done," said Caralee McLiesh, an author of the report.

The increased availability of regular and consistent diagnostics has improved options for setting, and measuring performance against, clear outcome targets for IDA projects.

Of 12 project implementation completion reports (ICR) for relevant IDA projects reviewed by the World Bank's Independent Evaluation Group (IEG) from FY05 to FY07, eight used quantitative performance indicators around such issues as access to finance and the ease of doing business. Of 18 IDA projects with a broad investment climate focus that have become effective since the beginning of calendar 2005, 40 percent are now using *Doing Business*-style indicators to monitor intermediate outcomes.

Measuring outcomes

Counting reforms and measuring the resulting improvement in time and cost indicators take us one step closer to understanding impacts. An additional step is provided by measuring associated improvements in business outcomes.

For example, in 2004, in the context of an IDA development policy lending program, Serbia moved start-up registration from its courts to a new administrative registry. Entrepreneurs can register online, and a "silence is consent" rule ensures rapid approval. In addition, a new unified electronic database links the commercial courts, statistics bureau, customs office, national bank and municipalities. With these reforms, a company can start operating in 18 days rather than 51. Moreover, the minimum capital requirement was cut from 5000 euros to 500 euros. Serbia experienced a 42 percent increase in business registrations following the reforms, with 1,500 new firms registered.

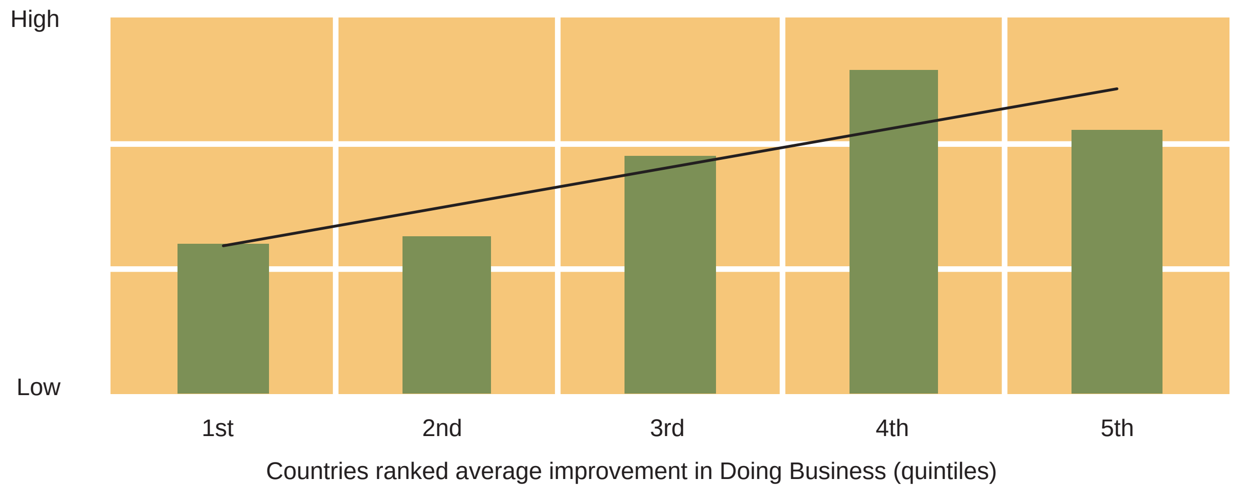
Spurring growth and job creation

The ultimate step, of course, is to make the connection between reforms and greater sustained private sector investment and job creation. Here, cause and effect are more difficult to assign to IDA interventions, but broader research mapping results to cost-of-business benchmarks suggests that such interventions are pointed in the right direction.

In IDA countries, higher *Doing Business* scores are associated with higher growth, with correlations between changes in *Doing Business* rankings and growth statistically significant at the 1 percent level (see figure below). An IDA country that succeeded in moving from the bottom to the top *Doing Business* quartile could expect to add 3.5 percentage points to its annual growth.

These findings are reinforced by the fact that wealthier IBRD countries fare better than IDA countries on most dimensions of private-sector activity (see table below).

Doing Business Improvements and Growth in IDA Countries, 2005–06



Source: *World Development Indicators*, *Doing Business* dataset.

Private Sector Indicators, IDA and IBRD Countries (as percentage of GDP)

	IDA average	IBRD average
Private investment	13	17
Private capital flows	9.4	18
Domestic credit to private sector	18	40

Simplifying business regulations also helps firms create more jobs in the formal sector. Moving from the bottom to the top quartile on the ease of doing business is associated with 4 percentage points less unemployment and 9 percent less share of the economy in the informal sector.

Reformers are starting to see these payoffs. Georgia, for example, was the top reformer in *Doing Business 2007*. It reduced the minimum capital required to start a new business from 2,000 lari to 200 (US$85), cut the time to comply with import and export administration requirements from 54 days to 13, reformed its courts, set up a credit bureau, reduced the number of licenses from 909 to 144 and simplified and lowered taxes. Business registrations rose by 55 percent and unemployment is down by 2 percentage points.

Triggering other positive outcomes

A flourishing and competitive business environment can at once be a discipline for good governance, and the source of demand for better governance. It can also be a seed of peace in conflict-affected countries, enabling sustainable job creation for demobilizing armies and livelihoods for refugees. A growing entrepreneurial class can be an important voice against oligarchic corruption. Less red tape in interactions with government reduces the scope for bribery for businesses of all sizes.

Reducing the costs of doing business—from registering a business, to getting credit, getting hooked up to utilities and hiring workers, to exporting goods through the nearest port—will result in more investment, more growth, and more job creation. Along the way, we would expect to see a shift in activity from the informal to the formal sector and—to the extent that barriers to business and formal sector jobs are often taller for women and minorities—broader participation and entrepreneurship in employment, so that the benefits of growth are more broadly shared. A shift to the formal sector can also improve worker and consumer protections, for example, through access to pension schemes and enforcement of safety and quality regulations.

IDA CONTRIBUTIONS

A comprehensive and cost-effective package.

The private sector development agenda in IDA countries is supported through a mix of instruments, including: diagnostics such as *Doing Business* and the enterprise surveys; country-level analysis (notably Investment Climate Assessments and associated research) and non-lending TA: and reform assistance embodied in TA, investment and development policy lending.

In Vietnam, for example, work to reduce the costs of doing business has been supported by a blend of IDA reports and advisory work. In Honduras, investment lending in parallel with a Poverty Reduction Support Credit are supporting efforts to reduce the costs and time required for business registration.

IDA's country strategies place a moderate to strong emphasis on the role of private sector development in the great majority of countries. There is also an increasing use of quantitative indicators measuring the quality of business environment in the strategies' results matrices.

IDA credits and grants for broad PSD work have averaged between US$1.5 and US$2 billion per year in the last three fiscal years (FY2004–06).

By contrast with interventions in the hard infrastructure sectors, many of the interventions required to reduce the cost of doing business are not particularly expensive—involving, say, a change in policy or administrative rules or practices, rather than building a bridge, or stringing a transmission line. In El Salvador the cost of a reform to cut the number of days to start a business from 115 days to 40 days was only US$89,000. In such cases, the premium for IDA is on the effective provision of technical assistance, rather than necessarily on large amounts of lending.

The performance of PSD projects roughly follows the IDA project average, as rated by IEG and increased in FY05 and FY06.

Over the past six years, the private sector development work program at the Bank has focused on improving the diagnostic tools available for measuring investment climate performance, ensuring greater public awareness of this performance, tracking reform efforts, and better understanding linkages between performance, reforms and results.

This has been associated with active outreach through Web-based tools, combining access to databases (http://www.doingbusiness.org, and http://www.enterprisesurveys.org) and quality-assured reference packages consisting of case studies and analytical work (http://rru.worldbank.org), with country-based road shows and outreach to the media. The online *Doing Business* database now has more annual traffic than any of the Bank's knowledge databases; media coverage of the *Doing Business* report now exceeds that of the World Development Report by a factor of 18 to one.

Strengths and challenges.

The World Bank Group's work to support private sector development in IDA countries has four key strengths:

- A high degree of focus in the IDA program, around core elements of the investment climate reform.
- Strong diagnostics—enabling benchmarking across countries and over time, and supporting results monitoring in IDA engagements—supported by a strong program of outreach, coupled with hard evidence now that what gets measured gets done.
- A capacity to leverage global experience at the country level, combining an understanding of country priorities and the political economy of reform, thanks to the Bank's regional teams, with global insights on good practices from both experienced regional staff and the World Bank Group's Financial and Private Sector Development unit (including the Foreign Investment Advisory Service, FIAS)
- An increasing ability to work across the World Bank Group in support of clients, including the mobilization of the IFC's field-based TA facilities in some aspects of work on the implementation of reforms.

Collaborating Across the World Bank Group

In Sub-Saharan Africa, for example, FIAS, MIGA and IFC's PEP Africa have developed a joint Africa investment climate reform strategy, and are now working on this together with the Bank's regional sector unit.

Also in Africa, an IDA-IFC pilot program in support of Micro, Small and Medium Enterprises (MSME) launched in early 2004, is beginning to show results in developing joint financial products that are new for the Bank Group, and pushing the boundaries in facilitating MSME development.

The challenge is to find a way to fund and deliver needed advice, particularly in the detailed shaping and implementation of reforms.

While TA credits have traditionally been seen as the appropriate vehicle in this case, many governments are reluctant to borrow for TA, and, especially in smaller IDA countries, World Bank Country Directors are often unwilling to support small, "fragmented" operations, preferring larger, multisectoral engagements. The latter are not always the best way of maintaining a focus on reform programs in any individual sector. Advice is therefore often managed via a combination of budget- and donor-funded analysis, and advisory components embedded in more broad-based credits.

IDA's success in delivering timely and good quality support on the "how to" of reform and on reform implementation will depend in part on our ability to come up with a better IDA instrument for flexibly supporting dialogue and advice-intensive engagements, combined with ongoing efforts to coordinate and collaborate more effectively across the full range of World Bank Group technical assistance instruments.

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http://www.worldbank.org/ida.