Business Environment Reform Facility

What Works in Business Environment Reform in Sub-Saharan Africa and South Asia

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BE RF Business Environment Reform Facility

Department for International Development

About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department For International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in January 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the business environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Dan Hetherington between November 2016 and January 2017.

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Acronyms and Abbreviations

ADR	Alternative dispute resolution
AICF	Afghanistan Investment Climate Facility
AICP	Afghanistan Investment Climate Programme
AR	(DFID) Annual review
ASI	Adam Smith International
AiiN	Accelerating Investment and Infrastructure in Nepal
BC	(DFID) Business case
BEEP	Business Enabling Environment Programme (in Ghana, Malawi, and Zimbabwe
BEOF	Burma Enterprise Opportunity Facility
BER	Business environment reform
BERF	(DFID) Business Environment Reform Facility
BEWG	(DCED's) Business Environment Working Group
BIAC	Bangladesh International Arbitration Center
BICF	Bangladesh Investment Climate Facility
BICF2	Bangladesh Investment Climate Facility Phase 2
BMO	Business membership organisation
BRICK	Building a Reliable Investment Climate in Kenya
BSPB	Business for Shared Prosperity in Burma
BUILD	Business Initiative Leading Development (in Bangladesh)
BYIC	Building Yemen's Investment Climate
CAICP	Central Asia Investment Climate Programme (Kyrgyzstan and Tajikistan)
CEO	Chief executive officer
CO	(DFID) Country Office
DB	(World Bank's) Doing Business (indicators)
DBRF	Doing Business Reform Fund (Burma)
DCED	Donor Committee for Enterprise Development
DFAT	(Australian) Department of Foreign Affairs and Trade
DFID	(UK) Department for International Development
DRC	Democratic Republic of the Congo
DTF	(DB) Distance to Frontier
DTID	(DFID) Development Tracker Identification
DTIS	(Integrated Framework) Diagnostic Trade Integration Study
ENABLE	Enhancing Nigerian Advocacy for a Better Business Environment
EPI	Economic Policy Incubator (Nepal)
FCAS	Fragile and/or conflict-affected state(s)
FDI	Foreign direct investment
FIAS	(World Bank) Facility for Investment Climate Advisory Services
FNMD	Facility for New Market Development (OPTs)
GCI	Global Competitiveness Index
GCI6	Global Competitiveness Index Pillar 6: Goods Market Efficiency
GDP	Gross domestic product
GEMS	Growth and Employment in States (Nigeria)
GEMS3	(One of four components of) Growth and Employment in States (Nigeria)
ICAI	(UK) Independent Commission for Aid Impact
ICCP	Investment Climate and Competitiveness Programme (Burma)
ICR	Investment climate reform

ICT	(DFID) Investment Climate Team
IFC	(World Bank) International Finance Corporation
KAAA	Kenya Agribusiness and Agroindustry Alliance
KEPSA	Kenya Private Sector Alliance
KMT	Kenya Markets Trust
M4P	Making Markets Work for the Poor
MAR	(DFID) Multilateral Aid Review
MDA	Ministry, department and/or agency (of government)
MOU	Memorandum of understanding
MSME	Micro, small and/or medium enterprise(s)
NICRP	Nepal Investment Climate Reform Programme
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OHADA	Organisation for the Harmonisation of African Business Law (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*)
OPTs	Occupied Palestinian Territories
PCR	(DFID) Project completion review
PE	Political economy
PEA	Political economy analysis
PPD	Public–private dialogue
PPP	Public–private partnership
PS	Private sector
PSD	Private sector development
PSDP	Private Sector Development Programme (in DRC and Malawi)
RICRP	Rwanda Investment Climate Reform Programme
RICRP3	Rwanda Investment Climate Reform Programme Phase 3
RISE	Regulatory and Investment Systems for Enterprise Growth in Bangladesh
SBF	Somaliland Business Fund
SEDF	South Asia Enterprise Development Facility
SEED	Sustainable Employment and Economic Development (Somalia)
SERS	Support to the Economic Recovery of Somalia
SEZ	Special economic zone
SME	Small and/or medium enterprise(s)
SOE	State-owned enterprise
SOMPREP-II	Somalia Private Sector Development Reengagement Project Phase 2
SSA	Sub-Saharan Africa
TMEA	TradeMark East Africa
TOC	Theory of change
TOR	Terms of reference
VFM	Value for money
WEE	Women's economic empowerment

Contents

Executive Summary

DFID Country Offices currently fund around a dozen BER programmes in Sub-Saharan Africa and South Asia, with a total budget of approximately £42m per year.[1] They are split between those implemented by the IFC (and other parts of the World Bank), those implemented by consultancies and those directly managed by DFID. The first part of this report provides a snapshot of current programming, including recently concluded projects and those that are still in the design phase — a total of 20 programmes in 15 countries.

The second part crystallises the most important lessons learned by these programmes, drawing on 19 interviews with Country Offices and implementing agencies, as well as independent evaluations and DFID's own monitoring documentation. The focus is on identifying practical strategies that have been used successfully to combat common challenges. Since 13 of the 15 countries covered are fragile and conflict-affected states, most of the lessons identified will be particularly relevant to these contexts.

This Evidence and Learning Note provides lessons on what works in BER design and programming. It identifies the prerequisites for starting a BER programme, suggests approaches for designing programmes to suit varying levels of political commitment and provides a range of strategies to sustain reform through political transitions.

These lessons have been distilled into four key messages:

1. **Political economy analysis which reflects a realistic assessment of the country context is *the* most important pre-condition to determining whether to start a BER programme, regardless of country or region.**

Political economy analysis is perceived to be one of DFID's strengths, and an important reason that it has a comparative advantage in business environment reform. This analysis is needed at both the strategic and operational level. Reform is a long-term process, and frequently not an emotive political priority for government, so many programmes have found ways to emphasise their technocratic nature, in both design and communication. Working with a wide range of partners in government — in different ministries and at less senior levels in the civil service — has insulated programmes against changes in personnel and has enabled programmes to find champions that are motivated to reform.

2. **Gender should be emphasised early in the design process to avoid bolt-on modifications after substantial design work has been done.**

DFID's promotion of gender sensitivity is badly needed in this area. Despite the clear dominance of men in positions of power both in the private sector and in reform processes such as public–private dialogue, the ways in which the rules of the game disadvantage

[1] Author's calculation based on project map, see section 2.2. This figure includes Zimbisa which is listed as finishing in January 2017.

women often remain invisible. Diagnostics must go beyond a review of discrimination on paper and investigate how the practical experience of men and women differ. An enterprise survey is one good means of doing this, whilst simultaneously providing insight on which constraints have the most practical impact on local firms.

3. **Choice of implementing agency is as important as the choice of partner and innovation in approach is increasingly common in DFID's BER programmes.**

Different political contexts require different implementing approaches and partners. DFID has many years' experience of programming through the IFC, and has learned to push for more local presence, a greater focus on the political economy of reform, and stronger gender analysis. Through its consultancy-implemented programmes, DFID is exploring innovative methodologies that address core lessons that have been highlighted repeatedly in previous evaluations. The market systems approach pioneered in Nigeria and Zimbabwe builds from a foundation of sustainability by enabling a reform ecosystem that is not powered by donor funding. The adaptive methodology applied in DRC and Nepal focuses on the political economy of reform, embracing risky experimentation to unlock more ambitious results. These experiments are still in their infancy, but both have delivered results that would not have been possible using traditional methods.

4. **Many critical design decisions are made early in the programming cycle, and Country Offices have to balance a series of trade-offs.**

The programmes reviewed here illustrate that business environment reform is a slow and lengthy process that requires persistence. DFID is learning that short programmes are limited in ambition and that the extension process is often disruptive. The organisation is rightly moving towards longer programmes that use mid-term evaluations as an opportunity to suspend those that perform poorly. However, the most important achievements are clustered in the final years of a programme, and it is important during the design phase to avoid setting over-ambitious targets for the mid-point.

Guidance on significant programme design decisions	
Decision	**Factors and questions to consider**
Implementing agency	Is the IFC/World Bank locally active in BER? Does it have enough in-country experts to deliver reform? Do they have a positive relationship with government? Are they interested in disbursing loans in areas linked to BER such as SEZ development? Are they measuring impact through enterprise surveys to ensure reforms are implemented? Has their recent work been effective? Are there context-specific reasons that the sustainability focus of the market systems approach or the PEA focus of adaptive programming would be particularly useful? Is there high-level commitment to reform from government? If not, these approaches can take advantage of alternative drivers of reform (advocacy from the private sector and media for the market systems approach, agile and politically savvy exploitation of opportunities for adaptive projects) This decision is closely linked to scale.

Guidance on significant programme design decisions	
Decision	**Factors and questions to consider**
Scale	As a very general rule, BER benefits from more time and less money. DFID-managed programmes tend to be the smallest because direct management of large budgets is not feasible. The largest components are currently implemented by consultancies, although the largest current programme has separate components delivered by the IFC, a consultancy and DFID.
Depth versus breadth	A larger number of separate interventions reduces risk (and most high-impact BER objectives are risky in all contexts). On the other hand a large portfolio makes management more difficult and is likely to drive down the ambition of individual programmes (e.g. delivering unsustainable capacity building to an institution that requires more fundamental reform). DFID-run programmes are the most acutely limited in the number of interventions that can be feasibly managed. IFC-led programmes can handle more, but still require substantial results tracking by DFID staff. Consultancy-implemented projects are the most able to accommodate a wide range of smaller programmes, while delivering information on results in a format that DFID can use easily.
Timeframe	6 years should be the minimum in any context. A mid-point review with the option to close the programme is appropriate. Longer timeframes are helpful, and are easily justified by adverse circumstances, such as a disruptive election cycle process or other contextual risks that are likely to delay implementation.
Level	The traditional default focus is at the national level. Regional (international) BER tends to be even slower than at the national level, and requires close links to national-level reform because the decision-makers tend to be governments. The most important exception is OHADA in francophone Africa, which appears to have had very high impact for an international project. Sub-national reform should definitely be considered where analysis suggests there are serious constraints within the jurisdiction of local government. Working with local government naturally provides different options for the partner MDA, enabling projects to identify motivated partners with strong capacity. The demonstration effect can be very effective in generating competition between districts.
Cross-cutting versus sectoral	Sectoral reform is a safer alternative in the most adverse environments, such as highly conflict-affected countries and those with governments hostile to reform. Sectoral focus is also popular when there are potential synergies to be gained from linking BER to other PSD projects by DFID or other donors. Sector reform is sometimes favoured as a means of implementing gender targeting, but with appropriate research and analysis, cross-cutting reform can disproportionately benefit women, even in the absence of legally mandated discrimination. Enterprise surveys can provide information on which constraints are currently affecting businesses the most, and whether they are sectoral or cross-cutting in nature. It is worth considering which sectors have the greatest potential for employment generation and poverty reduction, and whether these sectors face resolvable constraints.
Appetite for political controversy	PEA and the level of commitment of senior levels of government will determine whether reform can address politically sensitive issues, or whether the focus will need to be on issues that are, or can be presented as, technical and process-oriented.

1. Introduction

DFID currently funds around a dozen BER programmes in individual countries in Sub-Saharan African (SSA) and South Asia. Each is designed by a Country Office (CO), taking into consideration the particular needs of the country. As a result, there is substantial variation across the global portfolio, as well as experimentation and innovation.

DFID also operates various global BER programmes, and many COs that don't have formal programmes get involved in BER on an ad hoc basis, not least because the business environment has an important impact on other private sector development (PSD) programming. Global and ad hoc work is outside the scope of this report.

This report aims to achieve two things. First, it takes stock of current country-level programmes, including those that have been completed recently or are still in the design phase. The project map in chapter 2 lays out some summary statistics followed by a brief overview of each programme.

This project map covers 20 programmes in 15 countries. Of these 15 countries, 13 are classified as fragile and conflict-affected states (FCAS).[2] Although active, nationwide conflict makes most BER activities impractical, the core challenges that DFID's BER programmes tackle are inextricably linked with fragility. The analysis contained in this report should be assumed to apply to FCAS unless specifically noted otherwise.[3]

Second, this report synthesises lessons learnt across these programmes, focusing on areas of particular importance to donors and practitioners: implementing agency and modality, analysis and management of the political environment, incorporating gender analysis into programme design, pacing and prioritisation, and measuring and attributing results. Evidence is drawn from DFID project documentation, independent evaluations, and 19 structured interviews with both DFID advisers and experts from organisations that are implementing DFID programmes (a briefing sent to interviewees is included as 0).

Chapter 3 looks at the different types of BER programmes that DFID funds, distinguished largely by the implementing agency (including those that are implemented directly by DFID). Many programmes are implemented by the World Bank and IFC and follow a consistent pattern, with well understood strengths and weaknesses. In contrast, some programmes implemented by consultancies have adapted methodologies from other areas of development programming to establish new approaches to business environment reform. In particular, programmes using the market systems and adaptive methodologies are considered.

Chapter 4 focuses on political economy (PE), a particular strength of DFID programming. Good political economy analysis (PEA) is a critical factor in the success of BER, although

[2] ICAI, 2015, figure A1.1 on p37, which cites "Core Brief: Fragile and Conflict States Group, DFID Internal Paper, p26".
[3] The countries covered that are not classified as FCAS are Ghana and Kyrgyzstan.

the detail of how to conduct PEA is beyond the scope of this document. Instead, this chapter focuses on some common PE challenges that BER programmes face, and practical strategies that DFID COs have used to succeed in spite of them.

DFID has recently increased the prominence of gender analysis in its BER work, although BER projects have been slower to incorporate gender sensitivity than other areas of development programming. Chapter 5 looks briefly at how implementing agencies are incorporating gender analysis into their current programmes. No lessons were identified about how better to target youth, the environment or climate change through BER programmes.

Chapter 6 consolidates advice about pacing, prioritisation and sequencing. Historically, DFID programming has been over-optimistic about the time required for reform, and programme effectiveness has sometimes suffered as a consequence. DFID's role in prioritisation varies substantially from one context to the next, depending on programme methodology, the strength of local partners and the political economy.

Measuring and attributing results is the focus of chapter 7. The World Bank's Doing Business (DB) indicators are discussed in particular, as they have caused a variety of difficulties when used to monitor BER programmes. The final section examines how results are captured in the adaptive programmes that DFID now funds. Considering how often advisers emphasise the importance of opportunism and flexibility in BER implementation, elements of this methodology may be useful even for more traditional projects.

The report's overall conclusions can be found in chapter 8. These reiterate the main lessons covered, and suggest some current evidence gaps for future research.

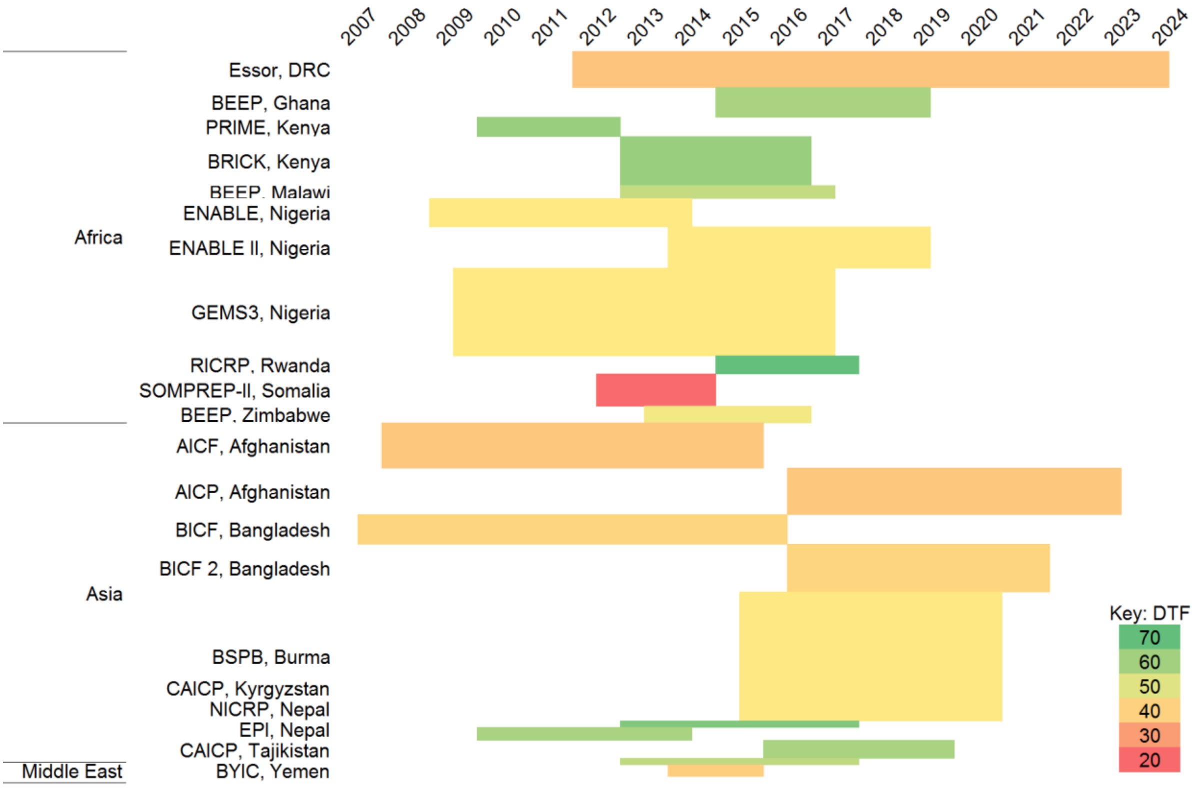
2. Project Map

- This project map covers 20 CO-managed projects in 15 countries
- It contains basic information about each project, the business environment in which it is implemented and selected lessons that are unusual or context-specific

2.1 Summary

Figure 1 summarises the programmes for which the budget and timeline are currently known. The horizontal axis represents the timing and duration of each programme, the vertical axis represents annual spending (so area indicates total spend), and the colour indicates the current state of the country's business environment, as measured by its DB DTF (Doing Business Distance to Frontier[4]) score. Green represents the best business environment and red the worst. Programmes are organised vertically by region.

Figure 1: Timeline and scale of DFID BER programmes



Source: World Bank Doing Business 2017 Distance to Frontier, DFID project documentation.

[4] The Distance to Frontier score is an absolute measure of the business environment in a country. Unlike Doing Business rankings, it is not influenced by the performance of other economies.

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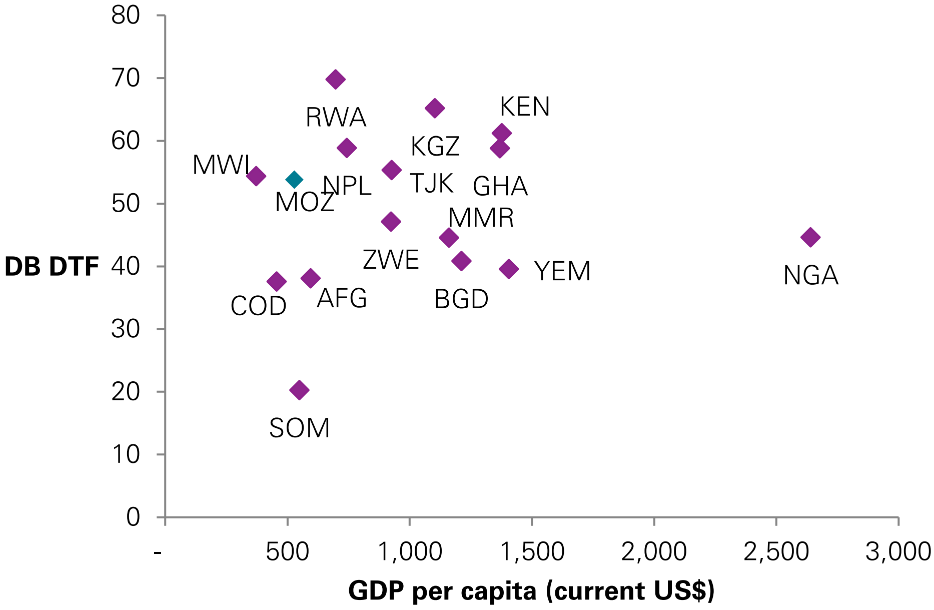
Figure 2 plots the business environment in countries with DFID BER programmes against the country's GDP per capita. Amongst this group there is no clear relationship, but this may give a rough indication of which business environment contexts are the most similar in simple economic terms.

Figure 2: Business environment and GDP per capita



Source: World Bank Doing Business 2017 Distance to Frontier; World Bank GDP in current US$ 2015.

More detail on individual programmes is given in the following section. For each programme, selected lessons have been identified. These are not exhaustive, but highlight unusual lessons, lessons related to innovative programme approaches, and lessons which have a particular bearing on the context in which the programme operates. Many of the most important lessons identified were common to most countries, and are covered in the narrative in subsequent chapters.

2.2 Project details

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Afghanistan: AICF *Afghanistan Investment Climate Facility (locally called Harakat)* Implementation: Established new local organisation (Harakat) Scale: £27.2m (£3.5m per year) Timing: Feb 2008 to Mar 2016 DTID: GB-1-113779 Performance: A (2015) DB DTF: 38 (bottom decile), moved –2.0 GCI6: No data	Harakat was composed of 18 active projects by 2015, clustered around the following outputs: ▪ Improved access to factor inputs (land, labour, finance) ▪ Legal and regulatory frameworks ▪ Transparent, competitive markets	In this unusual programme, DFID directly established a new non-profit, by supporting a group of Afghan businessmen. This organisation then provided technical assistance to government and lobbied for reform. The programme was directly managed by DFID.
Afghanistan: AICP *Afghanistan Investment Climate Programme* Implementation: Harakat (local organisation) Scale: £25m[i] (£3.6m per year) Timing: Jul 2016 to Jun 2023 DTID: GB-GOV-1-300175 Performance: n/a (not yet reviewed) DB DTF: 38 (bottom decile) GCI6: No data	▪ Legal framework including investor protection, investment risk-sharing and access to land ▪ PPD ▪ Advocacy for the role of the PS in economic development ▪ Increasing women's access to capital, assets and business services	Implementation continues through Harakat, a local organisation established for the previous DFID-funded programme. Each component will incorporate gender analysis, with particular emphasis on amplifying women's voices in the PPD component. Additionally, there is a specific component designed to support a domestic WEE programme. A mid-term review after 3 years will determine whether the project should continue.
Bangladesh: BICF (part of RISE) *Bangladesh Investment Climate Fund (part of Regulatory and Investment Systems for Enterprise Growth)* Implementation: IFC Scale: £20m (£2.0m per year)[ii] Timing: Aug 2007 to Jun 2016 DTID: GB-1-107413 Performance: A (2015) DB DTF: 41 (bottom decile), moved –4.5 GCI6: 4.08 (lower half), moved +0.24	The first part of the BICF (up to 2010) is beyond the scope of this report due to the time at which it was completed. Since 2011, BICF has focused on: ▪ Alternative dispute resolution (BIAC) ▪ Support for apex BMO (BUILD) ▪ Streamlining and digitising compliance processes for businesses ▪ Improving land registration ▪ Enabling electronic transactions	When introduced, the BICF was by far the largest investment climate programme in the world, which allowed for more work at the subnational level. It was also unusual in having such a long time horizon.[iii]

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Bangladesh: BICF 2 *Bangladesh Investment Climate Fund Phase 2* Implementation: IFC Scale: £20m (£3.7m per year) Timing: Jul 2016 to Dec 2021 DTID: GB-1-204951 Performance: n/a (not yet reviewed) DB DTF: 41 (bottom decile) GCI6: 4.08 (lower half)	BICF 2 will continue the cross-cutting work of BICF while increasing ambition and addressing more difficult areas. Cross-cutting work will include: ▪ regulatory reform ▪ SEZs ▪ infrastructure policy In addition, sectoral work will focus on: ▪ agribusiness ▪ two additional sectors with high job creation potential will be selected	BICF 2 will use a similar methodology to its predecessor, but will ▪ have a clear gender strategy ▪ focus more on job creation ▪ target fewer interventions ▪ build more links to other donor projects ▪ devote more resources to generating evidence
Burma: BSPB *Business for Shared Prosperity in Burma* Implementation: IFC/WB, DAI Europe, DFID Scale: £55m (£10m per year) Timing: Aug 2015 to Feb 2021 DTID: GB-1-204672 Performance: A (2016) DB DTF: 44 (bottom quintile), moved +0.6 GCI6: 3.62 (bottom decile)[iv]	Investment Climate and Competitiveness Programme (ICCP) ▪ creation of a public–private dialogue platform ▪ business regulation ▪ investment policy and corporate governance ▪ trade and logistics ▪ linkages in value chains DaNa Facility (formerly known as the Burma Enterprise Opportunity Facility, BEOF) ▪ advice and capacity building for government ▪ resolution of bottlenecks in 2–3 key export sectors ▪ subnational interventions ▪ core funding to a BMO ▪ advice and research Doing Business Reform Fund (DBRF) ▪ financial sector reform ▪ technical support for government on PPPs ▪ SOE reform ▪ support for implementation of the DTIS and national export strategy ▪ implementation of competition law	The ICCP had previously been established by the IFC with funding from the Australian DFAT, FIAS, and centrally from DFID. Under the BSPB, the ICCP will be scaled up and expanded in scope with continued funding from the Australian government (£10m from DFID with £10m co-funding). The five-year DaNa Facility is managed by DAI and will provide grant finance (£25m). The DBRF is managed by the CO but funds to multilateral organisations to provide support mostly to government to improve capacity and implementation. Individual projects are approved by the DFID Minister of State (£19m).

<table>
<tr><th colspan="3">Map of current and recently completed DFID projects on BER</th></tr>
<tr><th>Basic Information</th><th>Focus</th><th>Methodology</th></tr>
<tr><td>DRC: Essor (part of PSDP)
Essor (part of the Private Sector Development Programme)
Implementation: PwC
Scale: £35m (£2.8m per year)
Timing: Jan 2012 to Sep 2024
DTID: GB-1-203161
Performance: C (2016)
DB DTF: 38 (bottom decile), moved +2.5
GCI6: 3.72 (bottom decile)</td><td>▪ Implementation of OHADA, an international agreement improving and harmonising the business environment
▪ Anti-corruption
▪ Access to finance
▪ Construction permits
▪ Access to energy
▪ MSMEs
▪ Agricultural value chains</td><td>Essor is implemented by PwC using an adaptive methodology over an 11-year timeframe to respond to a volatile economic and political environment.
Implementation of OHADA (a francophone business harmonisation agreement) was used as a vehicle to kickstart reform and achieve early momentum, before branching out into six additional workstreams.
Investigative methods are used to understand challenges and ensure that reform is not limited to new regulations that are never implemented. E.g. to improve construction permits, the first phase is to map the steps necessary to obtain a permit (and the ways they vary between cases) by talking to companies that have recently been through the process.
Essor (and another PSD component) is supported by a decision-making unit to improve lesson learning and dissemination.</td></tr>
<tr><td>Ghana: BEEP
Business Enabling Environment Programme
Implementation: DFID
Scale: £10.2m (£2.3m per year)
Timing: Jan 2015 to June 2019
DTID: GB-1-202455
Performance: A (2016)
DB DTF: 58 (lower half), moved +1.0
GCI6: 4.16 (lower half), moved –0.22</td><td>▪ Construction permits
▪ Tax reform
▪ Contract enforcement and commercial justice
▪ PPD</td><td>BEEP is directly implemented by DFID. The country office has established MOUs with partnering government agencies, hired technical support to assist their work and created committees to oversee work for each workstream and for BER as a whole.
Direct implementation naturally provides flexibility to respond to government demand and to scale workstreams up or down depending on the traction they achieve.</td></tr>
<tr><td>Kenya: PRIME
Promoting Regulations, Investments, Markets and Employment
Implementation: FIAS, TMEA, KMT (local organisation) and UNDP
Scale: £9m (£1.5m per year)
Timing: Dec 2009 to Mar 2013 (originally planned to extend to Dec 2015 but closed early, with some components transferred into new projects)
DTID: GB-1-200294
Performance: B (2012)[v]
DB DTF: 57 (lower half), moved –0.06
GCI6: 4.10 (lower half), moved +0.01</td><td>PRIME had four components by 2012:
▪ regulatory reform and increased SEZ investment
▪ reduction in the cost of trading across borders
▪ improvement in functioning of market systems for poor people
▪ support for government implementation of a private sector development strategy, including increased exports and diversification</td><td>FIAS focused on reducing the number and complexity of business licensing and legal reform to facilitate SEZ investment.
TMEA focused on implementing EAC legislation, reducing regional transit times and costs, and improving private sector advocacy.
Other components were less directly related to BER.</td></tr>
</table>

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Kenya: BRICK *Building a Reliable Investment Climate in Kenya* Implementation: World Bank (majority), DFID (minority) Scale: £15.3m (£3.8m per year) Timing: Mar 2013 to Mar 2017 DTID: GB-1-203348 Performance: A+ (2016); Kenya 3rd best DB reformer globally two years running (DB 2016 and DB 2017) DB DTF: 61 (upper half), moved +3.8 GCI6: 4.23 (lower half), moved +0.14	Geographical focus has been split between the federal level and selected counties (including Mombasa, Kisumu, Nyeri, Machakos, Kiambu and Nairobi).[vi] ▪ Regulatory environment ▪ Competition ▪ PPP ▪ PPD (Support to BMOs)	About 80 percent supports a World Bank programme that had been established by the IFC prior to DFID's involvement. The remainder is used to support PS advocacy through an apex organisation (KEPSA) and an agriculture-focused BMO (KAAA).
Kyrgyzstan and Tajikistan: CAICP *Central Asia Investment Climate Programme* Implementation: IFC Scale: £5.0m[vii] (£1.0m per year) Timing: Oct 2012 to Dec 2017 DTID: GB-1-203107 Performance: A (2016) **Kyrgyzstan** DB DTF: 65 (upper half), moved +1.9 GCI6: 4.25 (lower half), moved +0.47 **Tajikistan** DB DTF: 55 (lower half), moved +10.9; global top reformer in DB 2015 GCI6: 4.31 (lower half), moved +0.27	▪ Tax administration ▪ Business regulation and investment promotion ▪ Corporate governance ▪ Infrastructure PPPs (in Tajikistan) ▪ Implementation of agreements of the Hague Conference on Private International Law, to eliminate the cost of legalising foreign documents	The programme uses a conventional IFC methodology. Since 2015, when the programme was extended, there has been a greater focus on technical assistance and implementation support to MDAs and public outreach, rather than legal reform.
Malawi: BEEP (part of PSDP) *Business Enabling Environment Programme (part of the Private Sector Development Programme)* Implementation: DFID[viii] Scale: £4m[ix] (£1m per year) Timing: Oct 2012 to Oct 2017 DTID: GB-1-203824 Performance: B (2016)[x] DB DTF: 54 (lower half), moved +6.2 GCI6: 3.81 (bottom quintile), moved -0.22	Focus has evolved significantly as implementation arrangements have changed.	DFID initially attempted to programme through the World Bank, to build on the Bank's previous reform achievements. The programme then moved to direct implementation through a secretariat established in the Ministry of Trade, due to delays in progress through the Bank. However, the secretariat was unable to achieve adequate operational capacity. DFID moved to direct implementation of a few isolated components, predominantly where reform is linked to other areas of DFID activity.

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Nepal: NICRP *Nepal Investment Climate Reform Programme* Implementation: IFC Scale: £4.5m (£1.0m per year) Timing: Dec 2009 to Jun 2014 DTID: GB-1-200717 Performance: B (outcome), A (output) at project completion); moderate efficiency, effectiveness and sustainability, high relevance and value added[xi] DB DTF: 60 (lower half), moved –0.4 GCI6: 3.74 (bottom quintile), moved +0.11	▪ PPD ▪ Regulatory reform ▪ SEZ regulations and institutional regime (discontinued) ▪ Sectoral investment promotion, focusing on hydropower and tourism	The programme used a conventional IFC methodology, but developed strong informal engagement with a wide range of stakeholders to mitigate against rapid change of partners in government.
Nepal: EPI (part of AiiN) *Economic Policy Incubator (part of Accelerating Investment and Infrastructure in Nepal)* Implementation: Palladium Scale: £6m[xii] (£1.4m per year) Timing: Jan 2016 to Mar 2020 DTID: not yet assigned Performance: A (2016) DB DTF: 59 (lower half) GCI6: 3.90 (bottom quintile), moved –0.06	The project initially planned to scope for projects in three areas: ▪ PPD ▪ Technical assistance for MDAs ▪ Training and systems development for MDAs The first projects to receive significant attention have been focused on ▪ SEZ framework, and one specific SEZ ▪ Regulations for FDI	Palladium use an **adaptive** methodology that started by building relationships whilst scoping for reform areas to pilot. Results must address one of ten binding constraints on growth, and have a sectoral or geographic focus, but otherwise are highly flexible (see section 3.4 on adaptive programming). The project places high priority on having an internal “champion” as team leader who has a very strong understanding of the political economy and close connections with reformist constituencies. EPI aim to vary risk exposure across components in order to attempt higher risk activities while maintaining an acceptable overall profile.
Nigeria: ENABLE *Enhancing Nigerian Advocacy for a Better Business Environment* Implementation: ASI Scale: £12m (£2.2m per year) Timing: Oct 2008 to May 2014 DTID: GB-1-114073 Performance: A+ (outcome), A (output) at project completion DB DTF: 43 (bottom quintile), moved +0.6 GCI6: 4.09 (lower half), moved –0.28	Geographical focus on the states of Kaduna, Kano, and Lagos, alongside some work at the federal level and other northern states. Organisational focus on: ▪ BMOs (building capacity and financial sustainability) ▪ MDAs ▪ Domestic research organisations (building financial sustainability and rightsizing for support to PPD) ▪ Domestic media	ENABLE was the first programme to apply the **market systems** approach (also known as M4P) to the ‘market’ for business environment reform. The approach seeks simultaneous improvements in the private sector and civil society’s ability to demand reform using domestically sourced research, with the government’s capacity to participate in dialogue and deliver change.

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Nigeria: ENABLE II *Enhancing Nigerian Advocacy for a Better Business Environment II* Implementation: ASI Scale: £18m (£3.2m per year) Timing: Oct 2013 to May 2019 DTID: GB-1-203839 Performance: A (2016) DB DTF: 45 (bottom quintile), moved –0.4 GCI6: 4.07 (lower half), moved –0.02	Geographical focus on the states of Kaduna, Kano, Jigawa, Katsina, Zamfara, alongside some work at the federal level. Organisational focus as for ENABLE (see above).	ENABLE II is methodologically similar its predecessor (see above), using the **market systems** approach.
Nigeria: GEMS3 (part of GEMS) *Part of Growth and Employment in States (GEMS)* Implementation: ASI Scale: £46.8m[xiii] (£6.8m per year) Timing: Aug 2010[xiv] to Jul 2017 DTID: GB-1-104190 Performance: A+ (2016) DB DTF: 45 (bottom quintile), moved +2.3 GCI6: 4.07 (lower half), moved +0.10	Geographical focus on the states of Cross River, Lagos, Kaduna, Kano, Katsina, Kogi, Zamfara and Jigawa, with tax harmonisation extending to additional states. ▪ Land ▪ Business tax ▪ Investment	GEMS3 focuses on improving the capacity of state governments. Other components of GEMS are sectoral, with GEMS3 addressing cross-cutting issues. This link to sectoral work helps to inform and guide priorities and implementation realities.

Rwanda: RICRP3
Rwanda Investment Climate Reform Programme (phase 3)
Implementation: IFC (phase 2 was funded through TMEA)
Scale: £4.9m (£1.4m per year)
Timing: Dec 2014[xv] to Dec 2017
DTID: GB-1-204486
Performance: B (2015)
DB DTF: 70 (upper half), moved +2.1
GCI6: 4.68 (upper half), moved +0.06
	▪ Transparency, predictability and certainty
	▪ Attracting investment and improving competitiveness in target sectors:
	  ▪ renewable energy
	  ▪ agribusiness
	  ▪ tourism
		RICRP3 uses a traditional IFC methodology, building on two previous phases. Rwanda has a strong business environment and the government has clear priorities.

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Somalia: SOMPREP-II (part of SEED) *Somalia Private Sector Development Re-Engagement Project, a World Bank programme funded as part of DFID's Sustainable Employment and Economic Development Programme* Implementation: World Bank Scale: £7.4m (£2.5m per year) Timing: Apr 2012[xvi] to Mar 2015 DTID: GB-1-201294 Performance: A/B (no headline score) DB DTF: 20 (global worst) GCI6: No data	Geographically, this component was based in the autonomous Somaliland region. ▪ Financial sector development (banking supervision) ▪ Value chain development (fish, gums and resins) ▪ ICR ▪ Matching grant and startup fund (SBF) ▪ PPPs (solid waste management and ports development)	SOMPREP-II was established by the World Bank as a multi-donor trust fund.
Somalia: SERS *Support to the Economic Recovery of Somalia (contributing to the Multi Partner Fund)* Implementation: World Bank Scale: £39.4m (£19.7m per year, but not just for BER) Timing: May 2015 to May 2017 DTID: GB-1-204313 Performance: A (2016) DB DTF: 20 (global worst), moved +0.05 GCI6: No data	SERS is a broad PSD/government capacity building programme, which also builds on the ICR achievements of SOMPREP-II by expanding the geographic focus to Puntland and southern Somalia.	SERS is a multi-partner fund which receives contributions from eight donors. BER is a small component of the fund's overall work.

Yemen: BYIC
Building Yemen's Investment Climate
Implementation: IFC
Scale: £1.8m (£0.9m per year)
Timing: Nov 2013 to Nov 2015[xvii]
DTID: GB-1-203838
Performance: B at project completion
DB DTF: 40 (bottom decile), moved –15.8
GCI6: 3.64[xviii] (bottom decile), moved +0.03
	▪ Support microfinance lending to MSMEs
	▪ Improved regulatory environment:
	    ▪ streamlining business registration
	    ▪ construction permit procedures
	    ▪ tax administration
	▪ Training for MSME entrepreneurs
		BYIC attempted to build on the success of a previous DFID-funded, IFC-implemented programme that ran from 2008 to 2012.

Map of current and recently completed DFID projects on BER		
Basic Information	**Focus**	**Methodology**
Zimbabwe: BEEP *Business Enabling Environment Programme* Implementation: ASI and World Bank Scale: £4.9m[xix] (£1.3m per year) Timing: Apr 2013 to Jan 2017 DTID: GB-1-203666 Performance: A (2016) DB DTF: 47 (bottom quintile), moved +2.2 GCI6: 3.54 (bottom decile), moved –0.08	Improving PPD by building the capacity of BMOs, MDAs, research and media organisations (60 percent) Technical support to MDAs to assist with regulatory reform, primarily in the financial sector (40 percent)	Support for BMOs, MDAs, research and media organisations to engage in inclusive and evidence-based PPD is provided through a local trust (called Zimbisa) that has been established by ASI. The methodology draws heavily on the **market systems** approach as applied to PPD in the Nigerian ENABLE programmes. Technical support for government reform is provided separately by the World Bank.

Unless noted, DB DTF is given for the year the project ended or the latest data ("DB 2017", published in mid-2016); movement of DTF scores runs from the year the project started (or "DB 2010", published in 2009, the first year for which data is available) until the year the project ended (or the latest data, "DB 2017", published in mid-2016). Doing Business changed the methodology by which DTF scores are calculated substantially in 2014, 2015 and 2016. Caution should be used in interpreting movements across these thresholds as representing a change in the business environment.

GCI6 refers to GCI Pillar 6. Unless noted, GCI6 scores are given for the year the project ended or latest data; movement of GCI6 scores runs from the year the project started (or 2007/08, the first year for which data is available) until the year the project ended (or the latest data, 2016/17).

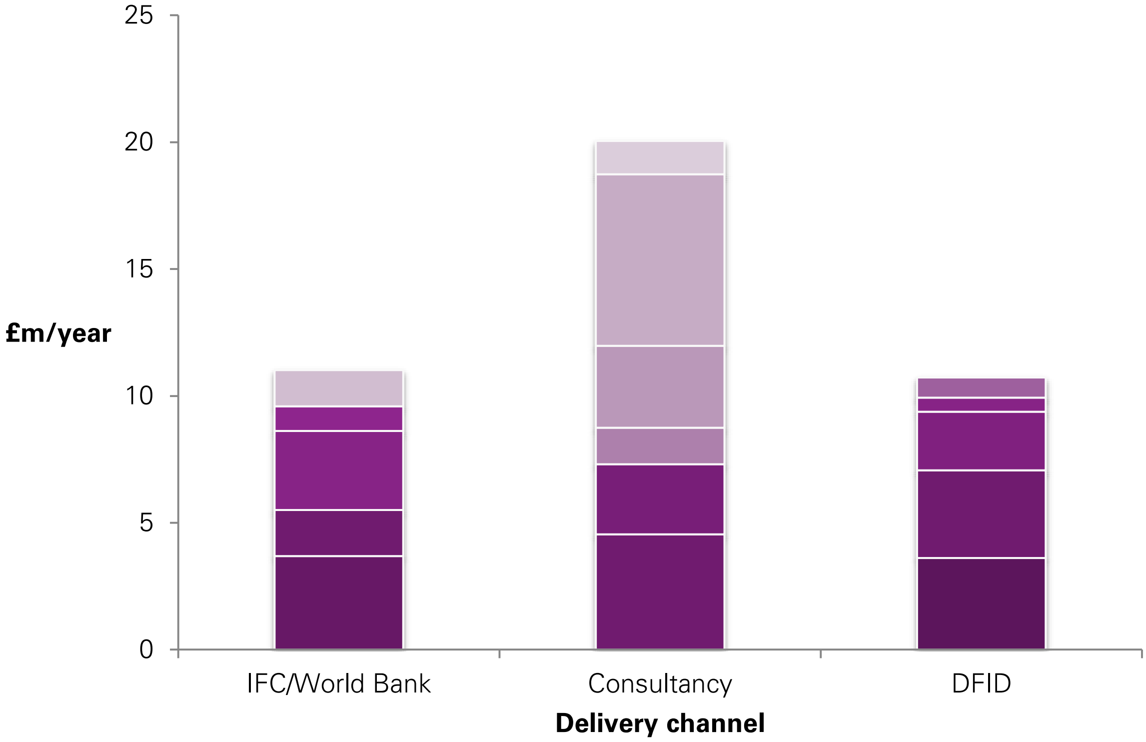
[i] Sweden has committed to provide £12.5m in co-financing.
[ii] The BICF was co-funded by the EU. The figure given is DFID's contribution.
[iii] ACE, 2011, p15: the BICF has "probably five times the resources of any other single country programme".
[iv] In 2015/16, data for 2016/17 not available.
[v] AR, 2012; no PCR was produced for this project because the 2012 AR recommended all components be terminated or transferred into separate programmes.
[vi] Kenya is divided into 47 semi-autonomous counties headed by governors, which are the highest level administrative divisions.
[vii] Additional co-financing is provided by SECO; the programme began as a three-year, £3.0m programme which received a £2.0m cost extension.
[viii] This component was originally intended to be implemented by the World Bank.
[ix] The overall PSDP has a budget of £16m.
[x] Overall, the PSDP scored an A in 2016.
[xi] According to an independent evaluation commissioned by the IFC (Shahriar and Domenech, 2014, p5).
[xii] Overall, AiiN has a budget of £35m.
[xiii] The entire GEMS programme is worth £91.1m. Some additional finance for GEMS3 is provided by the EU.
[xiv] AR, 2015, pii.
[xv] The first phase of RICRP started in 2007.
[xvi] The first phase of SOMPREP began in 2008 and focused on PPD and capacity building for government (OpenCities, 2016, p6).
[xvii] The project was originally intended to run until December 2016, but was suspended in 2015 due to the escalating security situation in Yemen and consequential fiduciary risk.
[xviii] Data from 2014/15, no data available for 2015/16.
[xix] The programme is co-funded by DANIDA, who are providing an additional £0.9m over the course of the programme.

3. Strategy and approach

- Consultancy-implemented programmes now account for the largest *share of spending* on BER, although a similar *number* of projects are implemented through the IFC/WB
- The strengths and weaknesses of the IFC are familiar, and advisers have detailed advice for getting the most out of their programmes (see 3.1.2)
- Consultancies offer a wider variety of methodologies — market systems and adaptive approaches have been developed to address some of the most familiar challenges
- Whatever approach is used, maintaining the flexibility to work with different partner institutions is important to adapt to the political economy

3.1 Choice of implementing agency[5]

Figure 3: Annual value of projects implemented by different agencies



There is a roughly even split in the number of projects managed by the IFC,[6] DFID and consultancies.[7] Since the largest projects are delivered through consultancies (especially in

[5] Here the term "implementing agency" is used to refer to the organisation that manages the intervention, and "partner" to refer to any organisation (such as a BMO, MDA, apex organisation, etc) that is the recipient of support.

Nigeria and Burma), this channel has a significantly higher annual spend than either the World Bank Group or DFID.

The selection of an implementing partner is a fundamental decision that will affect all aspects of a programme's delivery. While this decision is always grounded in the country context, it is nevertheless possible to summarise advisers' experiences of the strengths and weaknesses of the different delivery channels, and generalised advice about the circumstances in which each is most appropriate.

3.1.1 Direct implementation by DFID

The DFID-managed total in Figure 3 is dominated by an Afghan project that has been implemented by a local partner organisation set up by DFID and a group of local businesspeople, and a fund in Burma that finances projects implemented by multilaterals — these account for more than half of the total. Elsewhere, direct DFID management is more appropriate for smaller programmes that don't require the maintenance of too many partner relationships. In such a context, direct implementation provides a lot of flexibility and the ability to respond rapidly to the government's needs. Directly implemented programmes have had more difficulty in achieving results with media partners, which requires a greater investment in relationships than is practical.

3.1.2 IFC and World Bank

The IFC employ many of the foremost technical experts on BER in the world, and the technical quality of their work is consistently excellent. Their second biggest asset is political influence at the highest levels of government, which is strongest when it is feasible to link

[6] For the purposes of this section, "IFC" is used to refer to all projects managed by the IFC or other World Bank institutions. Since a recent reorganisation of the World Bank Group, many projects are now delivered by experts from across various World Bank institutions, making it less significant which institution is formally responsible for delivery. In general, the strengths and weaknesses of delivery are similar regardless of who leads. This reorganisation has been more complete in some countries than others, and in some locations the relationship between the IFC and World Bank has remained competitive.

[7] These statistics cover projects included in the project map that were active as of January 2017.

IFC-led BER with the potential for the World Bank to disburse loans for infrastructure development. The IFC have implemented many highly successful DFID-funded programmes throughout the world.

Some country offices have found that the IFC has taken longer to understand the key political economy constraints, and consequently the biggest challenges have often emerged in the implementation phase once legislation has been passed. Their approach strongly favours the application of global best practice, which can lead to an under-appreciation of the local context and the heavy use of short-term expertise delivered from regional hubs or their global headquarters. In some cases country offices have struggled to maintain adequate communication and to ensure that the IFC responds appropriately to deliverables that are off-track. Their PPD platforms in particular suffer from a lack of sustainability once donor support is drawn down.[8] The IFC would be less suited than a consultancy to deliver a programme that used an alternative methodology (such as those discussed in sections 3.3 and 3.4) and the organisation is more inclined to implement their original programme design rather than accommodate incremental methodological change. Finally, IFC programming tends to be slower to get started than through other channels, although tendering for a consultancy can also introduce long delays.

Advisers offered various suggestions for strengthening engagement with the IFC to improve delivery. Rather than rely on the MAR, some advisers feel it necessary to make sure that proposed project staff have the necessary experience, and especially the necessary time — including in-country — to deliver their objectives. Ensuring the execution of an investor survey from the beginning of a programme can help to raise consciousness of local priorities and political economy concerns, emphasise the importance of successful implementation, highlight gender disparities and avoid too great a focus on DB indicators. Using such surveys in results reporting can help to avoid some of the more problematic assumptions in the results chain. It is helpful to share and discuss DFID's in-house PEA during programme design. Gender issues should be emphasised early in the design process, to ensure that these receive more than "bolt-on" modifications after substantive design is complete, although this is an area in which the IFC are actively improving. Reporting responsibilities and protocols for addressing underperforming workstreams need to be negotiated at the design stage, as flexibility during implementation may be limited.

The IFC plays an important role in BER throughout the world and COs frequently seek ways to collaborate with their work even when not directly implementing through them. This collaboration is highly valued. In addition to the strengths already discussed, the IFC's consistency has been helpful in mitigating the disruption caused by the end of a project cycle.

[8] See Hetherington, 2016b, sections 4.1 and 4.2, pp17–24.

3.1.3 Consultancies

Consultancies are able to use experimental methods (such as M4P and adaptive programming), to work with a larger number and wider variety of partners and to respond quickly to changing needs (from DFID). Consultancy-led projects often deliver very strong PEA and are able to employ key local experts whose strengths lie in understanding the context, identifying political opportunities and having a strong network with decision-makers in government and the PS. Consultancy-led programmes are more heterogeneous than those implemented by the IFC, making it more difficult to generalise about their strengths and weaknesses.

3.1.4 How are implementing agencies chosen in practice?

Due to the long duration of BER projects and the rapid rotation of advisors managing them, it was not possible to discuss the selection of implementing agencies for many current projects. It appears that the IFC is often the default choice, provided that in-country capacity is strong and local IFC objectives are well aligned with DFID's. Where these conditions are not met, or an individual advisor has experience or interest in an innovative methodology, consultancies are usually favoured. Direct implementation by DFID is generally reserved for unusual situations in which other mechanisms aren't appropriate. This could be because delivery by another mechanism has broken down, there are no other options in a conflict-affected state, the CO is interested in a small, targeted project, or the government has high capacity to lead reform and DFID wants to play a minor supporting role.

3.2 Choice of partner

Through its engagement with a much larger number of partners, projects using the market systems approach have learnt more about selecting partners and maintaining these relationships than was previously possible. The capacity and motivational alignment of the partner organisation is critical for programme success, whether it be a BMO, state government, MDA, etc. Consequently, more time and effort should be devoted to searching for and experimenting with different partners. This requires a structured system for managing each relationship to collect evidence that makes it straightforward to end unproductive relationships and scale up the most useful. In Zimbabwe, Zimbisa achieve this through the use of a "scorecard" to screen and then monitor their engagement with each organisation. With this system in place, there is little cost in using a "scatter-gun" approach to attempt to work with a wide range of partners, before cutting out those least suitable. In Zimbabwe, it has been surprising which organisations have survived this process — pre-conceived ideas about the "optimal" partner have been proved wrong and the project has ended up with more effective partnerships as a result. In contrast, an analysis of organisations' theoretical interests often proves unhelpful.

This strategy has been no less successful with government. Firstly, work with subnational governments has achieved strong results when it has had the flexibility to prioritise work with motivated and able offices. Over time, tangible successes have pressured underperforming governments to seek programme support to compete with their neighbours. However, even in central government there is typically a wide variety of MDAs that are able to work on BER, particularly if it is possible to maintain flexibility in the specific reforms to be achieved.

Implementing agencies working in this way see flexibility in objectives as critical in order to provide enough choice so that an effective partner can be found, especially when supporting central government (where choice tends to be more limited). Restrictions either in partner or objective therefore reduce the likelihood of success.

Gender objectives have led implementing agencies to attempt to partner with various small, grassroots organisations. Organisations that are well placed to speak on behalf of women, informal firms, geographically dispersed rural entrepreneurs and youth are more likely to fall into this category; larger BMOs with more capacity tend to represent the formal urban sector and are typically male-dominated. These partnerships have proved slow to foster, due to their low capacity baseline and low level of procedural complexity. They have been fragile to changes in individual personnel. Two lessons have emerged.

- Collaboration between partners that receive direct support (e.g. urban BMOs) and grassroots organisations have proved more feasible than working directly with the smallest organisations. Such partnerships can combine the strengths of both sides to share information and conduct joint campaigns.
- A focus on marginalised groups requires a longer timeframe. It may take 2 years of institution building with a grassroots organisation before it is ready to participate in any meaningful advocacy (a process that is easily disrupted for a tiny organisation). There is a trade-off between rapid, ambitious results delivery, and reaching the most marginalised groups — which donors should explicitly recognise.

3.3 Market systems approach

The market systems approach has been developed in response to two common difficulties in BER programming:

- safeguarding the **sustainability** of partners after donor funding ends, especially those that receive no support from government
- **prioritisation** of reform, ensuring that locally binding constraints are given precedence and that donors are not perceived to play too big a role in selecting projects.

Programmes using the market systems approach use new strategies to address these challenges. They provide simultaneous support to MDAs, BMOs, media organisations and domestic research institutions that are well placed to provide the evidence needed to justify reform. Support has a heavy emphasis on financial sustainability by ensuring that operating costs can be covered by each organisation's constituency or customers. Collectively, these components create the PPD system necessary to prioritise and deliver reform, while the implementing agency focuses on the process.

This approach has been used in projects implemented by ASI in Nigeria (ENABLE and ENABLE II) and Zimbabwe (Zimbisa). It is explained in more detail in a BERF Evidence and Learning Note, *Public–Private Dialogue Interventions in Sub-Saharan Africa*.[9]

3.4 Adaptivity and opportunism

No matter what type of intervention approach is adopted, one of the most common and important lessons emphasised by DFID advisers is to be opportunistic. The large majority of programmes encounter exogenous shifts in programme conditions, and successful programming depends on implementers to:

- recognise how new conditions compromise the original theory of change
- identify new opportunities to achieve programme objectives
- discover or create links between existing programmes and new opportunities — the challenge is not to scrap previous work and start again but to find ways to adapt current programmes so that they can still be successful, perhaps using different partners or structures, or by highlighting different objectives
- abandon, pause, restructure or scale up workstreams depending on new analysis.

BER programmes in Nepal, DRC, and to some extent Nigeria have built these lessons into project design at the outset, using an adaptive methodology. These programmes recognise that while it may be possible to identify a set of desirable BER outcomes, achieving a specific outcome requires that relevant actors have the capability, opportunity and motivation to drive reform. The business environment is perceived to be too complex a system to reliably anticipate this in advance, so a number of “small bets” are created, where a potential opportunity for reform is tested. Based on the early results of these experiments, programmes are abandoned, restructured or scaled up.

Section 7.3 contains more detail about how to measure adaptive programmes. Adaptivity in BER will be the subject of a BERF Evidence and Learning Note in early 2017.

3.5 Linking BER to wider private sector development

In recent years, a few COs have shifted their BER strategy to integrate reform efforts more closely with other PSD programmes. Reforms are designed to address binding constraints that are revealed through PSD interventions such as value chain work. A particular benefit of this approach is that it tends to focus BER on issues that are most relevant to the marginalised groups that DFID has chosen to target through their other PSD interventions.

[9] Hetherington, 2016b, see particularly in appendix 2 and chapter 3.

4. Political economy and institutions

- PEA is needed at both the strategic and operational levels for any BER programme to be effective — fortunately, this is one of DFID's strengths
- Various strategies can be used to work with a government for whom BER is a low priority (see 4.3.2)
- Working with government at a range of levels increases sustainability and access to information

4.1 Motivation for reform

At the heart of political economy analysis (PEA) is developing an understanding of what factors are likely to motivate reform in a particular context. The need for PEA stems partly from the understanding that reform is costly to government (both collectively and as individuals) and a compensating force is needed to overcome this inertia. At this level, PEA is so important that it can guide the overall shape of BER interventions. For instance, where a government is highly motivated to secure foreign investment projects, BER might be more effective as a component of investment facilitation work than as a standalone project. The local reputation of potential implementing partners and their ability to recruit politically connected individuals is also a fundamental design choice (see section n).

4.2 PEA methodology and practicalities

Advisers agree that PEA is equally necessary at two levels.

- Periodic, comprehensive analysis should be conducted by PE specialists, whether domestically based or international. Depending on the volatility of the context, most countries repeat this every 1 to 3 years.
- The local team also needs to incorporate PEA into its day-to-day decision-making, including elements of original analysis, for instance when appraising a potential new project partner. This requires local staff to be "politically savvy", and to complement one another in their experience of the political environment.

There are several strategies to strengthen the use of PEA.

- Build links between these two processes. If an external expert is hired to conduct a comprehensive analysis, this is a good opportunity to provide training to local staff on PEA tools and include them in the process of the analysis.
- Use the business environment itself as a diagnostic tool. Examine not just what is wrong but why it is wrong and how it got to be that way — many "imperfections" of the business environment are actually revealing illustrations of prevailing power dynamics.

- Formalise some of the day-to-day processes of PEA to ensure they receive appropriate and consistent prominence. Many available tools are quick to use and can prevent teams from focusing too much on the technical aspects of programming without slowing the process down.

4.3 Political will

A lack of appetite for business environment reform within government, and especially at the highest levels, is a common explanation for a programme's failure to achieve expected results. Good PE analysis will reveal the attitude of different parts of government, but two important questions remain. First, is a certain level (or type) of political will necessary for it to be worth attempting a BER programme? Second, what strategies can be used to improve outcomes with an indifferent or hostile government?

4.3.1 Indications that BER may not be feasible

The biggest potential benefits from reform exist in countries that start from the lowest baseline, although these will invariably be difficult places to implement. DFID does work in a small number of countries where it is questionable whether reform efforts would be an effective use of funds. However, if an environment is so hostile that BER cannot be attempted, other PSD programmes are likely to struggle to meet their objectives for the same reasons.

Based on discussions with advisers, Table 1 compares features of an environment that make BER unfeasible with those that can be addressed through appropriate programme design.

Table 1: Features of a context that may make BER unfeasible

Identifying opportunities for business environment reform	
Signs that BER may be unsuccessful	**Adverse factors that can be mitigated**
Government consistently hostile to the concept of PSD (at all levels, in all MDAs), e.g. strongly prefer state-led development	Facets of BER seen as "political", or associated with a specific party Strong vested interests benefiting from flaws in the current business environment
Private sector and media openly critical of government, to no effect	Private sector unwilling or afraid to publicly criticise government Media uninterested in PS issues Media dominated by paid content
Government able and willing to ignore credible evidence and research	Lack of evidence backing PS' criticism of government or the business environment
Government indifferent to the risk of losing investment, or unable to foresee clear risks	Government willing to cut individual deals to entice or maintain investment
The country is experiencing active, nationwide conflict	Government institutions are highly fragile

4.3.2 Strategies for difficult environments

Provided that the government is not consistently hostile to the basic idea of the private sector having a role in economic development, scepticism, reluctance or lack of interest from government is surmountable.

Identifying reform too closely with the current government may risk a future government repudiating it simply because of this association. PEA should examine this risk, and in some cases it will caution against taking advantage of high-level support from the party in power, in order to reduce project risk and achieve sustainable outcomes.

Figure 4: BER covers a spectrum from technocratic to political reform, although where a specific intervention lies will depend on context

With a government that does not support BER as a political agenda, it may be helpful to focus on reforms that are perceived as apolitical process improvements.

- Some reforms are perceived as inherently “political”, while others are more “technocratic”, although a single reform may be seen differently in different countries. See Figure 4 for an illustration of this spectrum.
- The way that a reform is structured and presented can shift its location somewhat along this spectrum. See Table 2 for an illustration of the way that the same goal can be achieved in a more “political” way when high-level support can safely be exploited, or in a more “technocratic” way when this is undesirable.

Table 2: Some interventions are more vulnerable to changes in the political landscape than others

The same goal can be addressed in a technocratic or a politicised way	
Technocratic	**Political**
Create a new unit reporting to a DG of an existing ministry	Create a super-institution reporting directly to the president’s office
Establish a course at the existing civil service college	Issue documentary guidance from the president’s office
Create a PPD managed by a committee made up of permanent secretaries and CEOs of BMOs	Create a PPD led by the PM with participants selected by his office
Establish a cross-party parliamentary committee to scrutinise business environment legislation	Establish a team within the PM’s office to fast-track business environment reforms

Where reforms are politically controversial, donors should take particular care to distance themselves from decisions regarding prioritisation and sequencing. Instead, supporting a PPD process that can prioritise transparently will help to build local ownership and reduce controversy.

It is generally useful to seek opportunities to embed good practice into the furniture of government, such as civil service training institutions and cross-government guidance documents. For example, the revision of the government's manual on preparing cabinet papers is a good opportunity to embed better consultation practices into the government's own blueprint for policy-making process.

4.4 Changing counterparts

4.4.1 Replacement of individuals

Changes in government frequently disrupt the progress of BER programmes. Contexts vary to a great degree in the likelihood and frequency of changes at the top level of government, but changes at the level of ministers and permanent secretaries, or even of directors general and directors, are a common feature of most developing country governments. Low capacity in mid-level and junior civil servants, coupled with a lack of routine process in government, intensifies the effect of personnel changes. Knowledge of current projects and buy-in to their aims may not be spread widely through partner MDAs.

Many programmes have learnt the importance of engaging with a wide range of staff at different levels in order to:

- make the programme more robust to staff movements (especially changes to minister or permanent secretary)
- ensure that officials responsible for programme delivery buy in to the agenda and understand their role
- easily access up-to-date information about implementation.

In some governments, capacity weakness at lower levels of the bureaucracy is partly self-reinforcing. A perception that junior members of staff are incapable of managing delivery may lead to them being excluded from meetings with external stakeholders and a reluctance to delegate — which in turn prevents the professional development of junior staff. Donors can help to address this by adopting a positive attitude to the inclusion of junior staff members, and by being patient when dealing with them.

GEMS3 in Nigeria incorporates embedded, full-time advisers co-located in the office of a minister or head of local government. Giving the minister some level of choice in the selection of the adviser helps to build a trusting relationship and ensure that the adviser is included in substantive policy processes. This strategy has improved delivery, ensured access to ministers and information, and even helped to smooth ministerial transitions (although this would not always be the case). Embedded advisers often report that critically analysing policy proposals that would adversely affect the business environment is a significant part of their work. Evidence on the results chain suggests that donors are weak in preventing adverse changes, even though they are likely to offer much better value for money than managing positive reform (see section 7.3).

4.4.2 Change of government

The likelihood of a change of government is clearly a major implementation risk that should be incorporated in high-level PEA. Successful navigation of a transition requires preparation in advance. The most important planning steps are:

- include senior figures of the political opposition (or experts who influence them) in dialogue and outreach activities where feasible
- avoid politicisation of reform where possible (see subsection 4.3.2).

In the immediate aftermath of a transition, it is also important to be proactive. Very often a new government will enter power with a high-level political manifesto, but without detailed plans for how it will be translated into action. This is especially true in more technical and less emotive areas such as BER. An ongoing BER programme should study the planning documents of the new government and analyse how project components can help to achieve the government's ambitions. Often ministers and their officials will be under pressure to provide concrete proposals to enact the new government's programme and will welcome support in doing so. If managed well, many elements of an existing programme can often be preserved, with negotiated changes in emphasis and packaging.

4.5 Deteriorating security

DFID has limited recent experience of managing BER during a seriously worsening security situation, but the BYIC in Yemen was terminated prematurely in 2015 for this reason. There is an instinct to shift rapidly from development to exclusively humanitarian programming in such circumstances, but the microfinance element that had been funded through BYIC was surprisingly resilient even after CO support was withdrawn. It is important to remember that the private sector usually retains an important role in ensuring a population has access to humanitarian essentials during active conflict. While it is true that many BER objectives cease to be relevant to a country in this state, the usual assumption that all private sector support must be withdrawn should be critically assessed.

5. Gender

- The inclusion of gender in BER programming in DFID is improving rapidly
- A gender diagnostic should be completed early in the design phase to ensure that the balance of programme activities addresses women's needs

The perception remains that where a country's business environment is "gender neutral", in the sense that rules do not formally discriminate between men and women, that reform need do nothing more than disaggregate results by gender to monitor parity of reach. But DFID's gender manual makes clear that

> there is no such thing as a gender-neutral policy or programme. In societies where women and men do not enjoy equal influence, opportunities, and resources, the default is that policies and programmes reinforce gender inequality unless active steps are taken to make sure that girls' and women's interests are addressed and women are actively involved.[10]

Unfortunately, in programmes that don't incorporate an investigative diagnostic to discover the ways in which elements of the business environment disadvantage women, it is rare for this information to emerge during programming. The assumption that gender-blind policies are adequate for women's needs therefore persists, even among many experienced practitioners.

More optimistically, through its most recent programming, DFID is pressuring implementing partners, including multilaterals, to analyse gender dynamics more thoroughly. This has been a recent development, and the changing commitment to gender is clearly visible in projects of different ages across DFID's portfolio.

The EPI in Nepal commissioned a gender strategy in 2016 to guide its overall portfolio of interventions.[11] The 60-page document was based on a literature review, supplemented with interviews and group meetings with 30 stakeholders. It is too early to assess the difference this has had on the implementation of the programme.

With the help of BERF, the IFC will provide a gender strategy as part of the design of the second phase of the BICF in Bangladesh, which will be available in 2017. DFID Bangladesh commissioned a report summarising global best practice on gender in BER from BERF to support them in their negotiations with the IFC.[12] The report drew heavily on the World Bank's official guidance in *Gender Dimensions of Business Environment Reform*.[13]

[10] DFID, 2008, p16.
[11] Palladium, 2016.
[12] Hetherington, 2016a.
[13] Simavi et al, 2010.

Gender diagnostics are likely to have positive externalities for other donor programmes in BER and PSD more broadly, and they should be widely circulated. The invisibility of practical discrimination against women is currently an important factor in the limitations of donor efforts to address it.

In addition to an early diagnostic, a survey of investors or entrepreneurs provides a good opportunity to obtain disaggregated data and discover more about the areas in which aspects of the business environment disadvantage women. It is also common for gender discrimination to be more prevalent in implementation than in formal rules, so diagnostic and evaluation techniques that investigate the experience of entrepreneurs and workers in practice is also valuable in verifying the gender impact of reform. In Burma, the IFC are preparing to conduct a survey of 400 female entrepreneurs (in both the formal and informal sectors), investigating themes such as how they network, obtain information, and access credit.

6. Pacing, prioritisation and sequencing

- Short programme cycles disrupt BER — 6 years should be considered a minimum duration in most contexts, although longer is usually better
- Results are typically backloaded in BER interventions, so programmes should avoid overpromising at mid-point
- Donors should be cautious about influencing prioritisation, but supporting an enterprise survey can help to ensure that reform focuses on locally binding constraints and gathers evidence beyond the few firms most prominently represented by BMOs

6.1 Pacing and budget

Almost all advisers stress that BER takes longer than expected, even compared to other PSD interventions. The timeline for results expected at the start of a programme suffers from a systematically optimistic bias. Alongside this, some advisers have found that BER projects absorb money more slowly than expected, especially in the first 2 to 3 years, and especially when new vehicles are being established (such as a PPD platform), or significant support is given to build BMO capacity. It takes time for such organisations to reach a point at which they can absorb significant funding.

Experience suggests that a timeline of 3 to 4 years is inadequate for efficient reform. Projects that begin with that timeframe are often extended, but this process has significant costs. BER can be acutely undermined by disruption and uncertainty in programme delivery, including the project extension process. An initially short timeframe rationally leads to a focus on easier, low-impact reforms. In practice it is difficult to raise the ambition of a project once it has been established, even if its duration and budget are expanded.

Procuring an extension is a slow process, that can easily be subject to unforeseen delays. Planning for an extension (involving procurement staff) should start at least 12 months before the end of even the shortest BER project. The extension process is particularly difficult for shorter projects, because it must start before the most important results have been assessed.

In many contexts, a duration of 6 years is seen as a viable *minimum* for a project with sufficient ambition to achieve good value for money. A mid-term review is often recommended with the explicit option to terminate the programme early, but it must be stressed that the large majority of the results of a 6-year programme should be expected in the final two to three years. As such a mid-term review should not anticipate a significant proportion of the reform ambitions of the project to have been realised and should focus on process and intermediate indicators that suggest outputs are on track.

PEA should also be considered when choosing a timeframe. Predictable events such as elections can cause substantial delays to BER programming. Even if the incumbent party retains power, it is likely that government will be distracted by the electoral process and there will be various changes of minister and permanent secretary, all of which delays progress.

No programmatic difficulties were identified with programmes that are longer than six years, provided adequate monitoring and evaluation is in place with the power to downscale components or end the project as a whole if necessary. Programmes that are 8 or 10 years long often achieve the most in their last few years. At the upper end, Essor in DRC has been established as a 12-year programme. BICF, a recently completed programme in Bangladesh, ran for 9 years — and its successor, BICF2, has extended it for an additional five.

6.2 Prioritisation and sequencing

6.2.1 Prioritisation

Evaluations consistently caution against donors trying to influence reform priorities, especially within PPD processes.[14] However, it is possible for donors to identify and support demand for reform, and to recognise opportunities. The following aspects should be considered.

- **Opportunism**. Many reforms are feasible only for a short period of time, because critical prerequisites align. Successful BER relies enormously on discovering and recognising opportunities.
- **Government priorities**. These may be the priorities of the senior leadership, or simply of a particular minister or state governor. Priorities may be presented in the form of explicit proposals (e.g. a new law on FDI) or more general aims to which BER can contribute (e.g. increased tax revenue or job creation). It is particularly important to study new high-level government planning documents and analyse how business environment reforms can contribute to this agenda — this will make communication with government much easier.
- **Alignment with other projects** such as donor-led PSD projects or high-profile foreign investment. A great benefit of linking reform to other objectives is to make the need for reform tangible to decision-makers and to ensure that it will be clear that reform has concrete results. A secondary objective (such as a donor project or investment that directly creates jobs) provides politicians with a motivation for reform that might not otherwise exist. Close collaboration between BER projects and other components of a PSD portfolio is clearly beneficial for all workstreams.

[14] Bannock, 2005, p36: “donors are often one of the biggest obstacles to PPD. They obstruct primarily when they impose their agendas on host governments, and when they make both governments and private sector associations respond more to donor priorities than to their home constituencies.” The same text appears in Herzberg and Wright, 2006, p128.

- **Private sector priorities**, as enunciated by BMOs or as discovered through research. Enterprise surveys can be useful for a number of reasons, including to discover issues of interest to marginalised groups, given that BMOs are often more responsive to large, formal, urban firms.

6.2.2 "Doing Business" indicators

Many advisers have cautioned against using the World Bank's Doing Business (DB) indicators to prioritise reforms (i.e. selecting reforms that will have the greatest impact on the country's ranking). Their usefulness is discussed in greater depth in section 7.2. However, they can be helpful at the very beginning of a reform programme, as a means of bringing stakeholders together around a simple target that is easy to communicate.[15] Being named as one of the World Bank's "top reformers" can be helpful in establishing early momentum.

6.2.3 Sequencing PPD support

A matching problem exists in many PPD systems in developing countries, which is explicitly addressed in the market systems approach. An unsatisfactory equilibrium is common in which:

- MDAs are reluctant to seek private sector views, because the messages they receive when they do are low quality: either they are ad hoc requests for direct financial support, or they are anecdotal complaints without much supporting evidence
- the private sector are reluctant to spend time lobbying government because in their experience they are ignored.

There is a danger that if an intervention improves capacity on only one side of this dialogue, the recipients' preconceived views will be confirmed, there will be no tangible outcome of the dialogue, and recipients will lose interest in the process. Both sides need significant simultaneous support in order for PPD to break the previous equilibrium and lead to positive outcomes.

Support to research institutions can begin later, as it takes time for MDAs and BMOs to reach a stage at which they understand the need for evidence and are able to engage with them productively. Any media component is much more weakly linked to the others, so its timing is not critical.

More generally, advisers had little useful advice about sequencing. Only a few advisers identified sequencing mistakes, and those that were highlighted had had minimal impact. Although little theoretical guidance on sequencing is useful, the context-specific issues seem to be clear enough to those designing and implementing programmes, provided that good PEA is available. It is not possible to categorise individual reforms depending on whether

[15] Provided that the World Bank is seen as an uncontroversial institution across the domestic political spectrum.

they should be attempted in an early or late phase of a programme. Countries are too heterogeneous, and PE implications are too important.

7. Impact and evaluation

- Attributing impact and outcomes proves to be more difficult than often anticipated in BCs
- DB indicators are not suited to prioritising or measuring reform
- Programme managers should expect and anticipate other changes to the business environment during a DFID programme, some of which may make the things worse
- Recent DFID programmes have developed new ways to measure flexible goals that ensure implementation is accountable and works towards agreed outcomes

7.1 Difficulty in attributing outcomes and impact

An independent evaluation of the NICRP in Nepal made the following observation:

> It was assumed that substantial savings would be generated by regulatory reforms and that these would ultimately be ploughed into new investment and expansion of economic activity and employment. The evidence suggests that time saved from reforms thus far was insufficient to feed through strongly enough to meet the target for reduced business costs or to achieve an impact on promoting investment. In that sense, the results chain was weaker than anticipated between outputs and outcomes and broke down altogether between outcome and impact level, where there was no discernible link to improved investment levels.[16]

Although independent evaluations are not available for most programmes, there are signs in a wide range of ARs and PCRs that business cases are routinely optimistic in the extent to which programme impacts are attributable. The business environment is a complex and constantly evolving system, and it is probably unrealistic for a donor's programme to take responsibility for its overall improvement. The assumption that no other changes will occur (for better or worse) beyond the donor's focus turns out to be invalid for most programmes.

7.2 "Doing Business" indicators

The World Bank's "Doing Business" (DB) indicators are the most commonly used metric of a country's business environment that are internationally comparable. Their coverage is extensive (including all countries with DFID BER programmes, including Somalia since 2015), and the index is broken down into 10 components for challenges such as "starting a business" or "getting electricity".

7.2.1 Weaknesses of DB indicators

Because of the quality and coverage of this dataset, it is tempting to use them to:

[16] Bartholomew and Clarke, 2015, p11.

- measure the outcome of donors' reform efforts
- prioritise reform
- enunciate a common purpose across a reform community
- demonstrate the quality of a national business environment to international investors.

However, a large number of advisers believe that DB indicators are being overused in country-level programmes — and that this is having a negative effect.

There are two critical concerns. The first is that DB indicators do not reveal which constraints are locally binding, and therefore most important to the private sector. Binding constraints tend to be the hardest to address, because there are usually stubborn political economy reasons that they have not already been resolved.

The second is that DB indicators often fail to capture whether formal rules apply in practice. Hallward-Driemeier and Pritchett (2015, p123) report that a country's DB score

> does not summarise even modestly well the experience of firms as reported by the Enterprise Surveys… [T]he average times reported *de facto* in the Enterprise Surveys are much, much less than [those] reported by Doing Business… [T]here is almost zero correlation across countries between the… Doing Business [score] and the Enterprise Survey responses of firms.

Efforts to improve a country's DB score can focus on easier, less relevant problems, and ignore whether implementation of changes to formal rules are complete.

In a few countries, DB indicators are seen as a means for the government to appear to reform successfully, when appearances are more highly valued than reality. The annual nature of measurement has also contributed to an excessively short-term focus in some places, where candidates for reform are ignored if they cannot deliver an improvement in next year's score.

An enterprise survey that asks the private sector to prioritise reform alternatives gives much more contextual understanding of what is holding firms back. The government's attitude to openness about the private sector's views is also revealing about the local political economy.

7.2.2 Positive uses of DB indicators

In the very early stages of reform, advisers have found that DB indicators are sometimes useful as a means of agreeing a shared short-term goal and building early momentum, especially when prioritisation has otherwise proved difficult. An enterprise survey would normally be preferable, if it is feasible for the PS to be honest in its criticism of the business environment and for the government to admit and be open about its weaknesses.

The introduction of gender sensitivity into the methodology in 2016 also presented a useful opportunity to push the government and other donors to think more about the differential effect that the business environment has on women.

The use of DB indicators to advertise a country as a destination for FDI is perfectly legitimate, although many other factors are also taken into account, and potential investors will look more closely at binding constraints before seriously considering investment. A strong score should be seen as one step towards being “longlisted” as a potential location, rather than as a means of attracting investment without addressing binding constraints or other factors in the wider investment climate.

7.3 Do reforms backslide?

The business environment got worse in at least one of the 10 areas measured in *85 percent* of low- and middle-income countries in 2016. This ratio is even higher for countries in which DFID has active programmes.[17] The business environment is generally improving in most of these countries, but it is important to understand that improvement is not monotonic.

DFID should not assume that there will not be changes (including negative changes) to the business environment while a reform programme is being executed. Changes to a country’s DB score should not automatically be attributed to a programme. This prevalence of deterioration also suggests that donors should think more about how to monitor and prevent adverse changes to a country’s business environment. It is likely that preventing negative changes will often yield better VFM than engineering positive reform.

7.4 Measuring adaptive goals

Adaptive programmes (see section 3.4) clearly require more flexibility in the way that goals are specified and results are recorded. In some ways it is more important than usual to establish robust evidence of a programme’s results, to ensure that an adaptive programme appears neither ad hoc nor unaccountable. To address these concerns, a project needs the following features:

- clear criteria that define what every component should achieve, for instance in Nepal each component must “significantly ease” one of an explicit list of 10 binding constraints to growth
- a regular, structured, transparent process for assessing evidence and determining future programme direction
- an individual theory of change per component, with clarity on what evidence will be used to make future decisions — in each case the programme must decide what is the right type of evidence and what threshold is good enough
- a sense of project timescale and how to set intermediate indicators that are useful predictors of eventual success.

[17] Author’s calculations based on DB 2017 dataset.

Box 1: What does an adaptive theory of change and logframe look like?

The **theory of change** has two levels: the overall programme level and a light-touch, template-based theory of change for each component, which is reviewed and modified as its assumptions are tested.[18]

The **logframe** typically contains “basket” indicators at outcome level, which specify the known range of possible desirable outcomes. These are complemented with output-level indicators that measure good adaptive practice: capturing the regularity of learning and project adaptation and how that feeds into decisions about the future of individual projects. Adaptive programmes often take advantage of the fact that logframes have no fixed format and no limit on how often they can be changed. For instance, the AiiN logframe (in Nepal) only specifies most target outputs 1 year in advance.

Adaptivity in BER will be the subject of a BERF Evidence and Learning Note in early 2017.

[18] Examples can be found in DFID, undated (see pp1 and 4).

8. Conclusions

8.1 Summary of lessons learned

- The **choice of implementing agency** depends on country context, but:
  - DFID has a lot of accumulated experience about how to manage programmes with the IFC to improve performance (see section 3.1.2)
  - consultancies offer the opportunity to use an alternative methodology, such as the market systems approach (which prioritises sustainability by developing the existing domestic system to demand and supply BER) or an adaptive approach (which prioritises political economy by using experimentation to identify feasible goals over the course of the programme).
- Maintaining flexibility in the **choice of partner organisations** (MDAs, BMOs, etc) ensures that partners are capable and motivated to achieve real reform. Programmes often suffer when they are locked in early to a single or small number of partners.
- **Government counterparts** often change, whether through a change to the party in power or simply the movement of ministers, permanent secretaries and other civil servants. This can be managed by actively engaging with opposition figures and with government at a range of levels. Working directly with more junior staff can help to build capacity, improve monitoring of progress, and depoliticise technical reform goals.
- In order to work with governments that place a low priority on BER:
  - understand government strategy documents and demonstrate how reform will contribute to their goals
  - emphasise the technical nature of reform in communication and project design.
- Conduct a **gender diagnostic** and enterprise survey early in the design phase (unless programming adaptively) so that the results guide the emphasis of the programme.
- **BER is a long-term process** that requires consistency. A short programme cycle drives down ambition and disrupts delivery. Use mid-term evaluations to set break points rather than designing short, extensible programmes.
- Be **cautious in projecting results**:
  - results will be backloaded — an 8-year programme should deliver a large majority of its reforms in the final 3 years, so be careful not to overpromise at mid-point
  - other factors will change the business environment during the project, sometimes for the worse — don't assume that the counterfactual is a static environment.
- DB indicators are poorly suited to prioritising reform or measuring the outcome of a donor programme.

- In a few cases, **BER may not be feasible**, even though all of DFID's programmes accommodate adverse circumstances (see Table 1 on p23). These two signs should be taken seriously:
  - the government is hostile to the idea of the private sector as a vehicle for economic development — but it is questionable whether any PSD programming is advisable in such circumstances
  - the private sector and media openly criticise the business environment, but even when credible evidence is presented or foreign investment is lost, government does not respond.

8.2 Evidence gaps

8.2.1 Could more be done to prevent adverse changes to the business environment?

Five out of every six low- and middle-income countries experienced a worsening in their business environment in at least one of the 10 areas measured by DB indicators in 2016. It is clear that DFID COs do make ad hoc efforts to prevent adverse policy changes when they become aware of them. However, given the prevalence of these changes it may be worth considering whether there are opportunities to incorporate these efforts into formal BER programming. A starting point could be to analyse recent adverse changes in a small number of countries and consider what motivated these actions and if and how a donor programme could have prevented them (where appropriate).

8.2.2 Do reforms backslide? What makes reform sustainable?

One of the fundamental differences between the traditional and market systems approaches is in their assumptions about the likelihood of reform backsliding. Traditionally, donors have assumed that once reforms have been achieved (through a donor programme) that they have a high likelihood of being retained. The market systems approach is sceptical of this assumption. It asserts that the private sector must have a strong voice (through BMOs and the media) and a functioning PPD system to prevent reforms from being reversed (or simply not implemented in the first place) — especially when they disrupt a political economy equilibrium. The fact that a large majority of countries experienced a worsening in at least one component of their business environment in 2016 suggests that this concern should be taken seriously.

9. References

To simplify citation of DFID project documents, annual reviews (ARs), project completion reviews (PCRs) and business cases (BCs) are cited in the form *project name (unless self-evident), document type, year (if applicable), page*. For example: BICF, AR, 2014, p5. The year refers to the date the review was completed, not the year under review (ARs may be completed at any time during the calendar year). These can be accessed through DFID's Development Tracker at https://devtracker.dfid.gov.uk/ using the project's DTID given in the project map. There is a short delay before recently completed documents are made available, and some documents cited may not yet be available through this system at the time of publication.

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Appendix 1 Terms of reference

Terms of Reference – Evidence and Learning Note on What Works in Business Environment Reform in Sub-Saharan Africa and South Asia

Overview

DFID Mozambique has approached BERF on behalf of several interested Country Offices[19] for assistance to research and collate the evidence and lessons learnt from DFID's investments to date in business environment reform and investment climate in Sub Saharan Africa (SSA) and South Asia. The need for evidence on lessons learnt is viewed as urgent for several reasons.

Despite substantial investments in supporting several DFID priority countries in Sub-Saharan Africa and South Asia to reduce regulatory barriers to investments and boost competitiveness, there does not as yet exist a single body of evidence on lessons learnt from DFID's experience in implementing BER and Investment Climate programmes to date. An evidence report on successful and failed reforms on the basis of internationally accepted criteria would be invaluable in helping Country Offices to more efficiently develop business cases and design new BER Programmes. As an example, DFID has indicated that evidence reports on successful or failed reforms from across the DFID portfolio, would have helped to feed into the development of the Bangladesh Investment Climate Fund Phase Two (BICF2) programme design.

While substantial evidence from BER and investment climate programmes implemented by the World Bank Group is available (e.g. Ease of Doing Business reports) and has been useful in helping to set the regulatory reform agenda and establish performance benchmarks (such as the Doing Business Indicators), which are readily understood by DFID's constituents – partner countries with whom it interacts on a daily basis and senior political stakeholders who need to approve business cases – there is now a sufficient core of DFID's own BER programmes from which lessons can be synthesised to benefit programmes which are in the pipeline, or improve the implementation of existing ones.

DFID's growing BER and investment climate related portfolio is currently concentrated in around eight to ten countries across Sub Saharan Africa and South Asia. Notable investments include Afghanistan which is entering a second round of investments in the Afghanistan Investment Climate Facility, the Bangladesh Investment Climate Fund (BICF) which has also moved to a second phase, the Building a Resilient Investment Climate in Kenya (BRICK) programme and others such as the Rwanda Investment Climate Reform Programme (RICRP) which is currently in its third phase.

[19] DFID Kenya has also asked BERF to look at 'best practices in BER and investment climate as part of their feedback from the VfM webinar 29/9/2016

A meaningful evidence assessment will not only identify the contributing factors to BER 'success' or 'failure', but importantly, will link this assessment to the wider competitiveness reform agenda that includes relevant measures as set out, for example, in the Global Competitiveness Index.

Objectives

To provide evidence of what works and doesn't work in business environment reform and investment climate reform based on DFID's programmes in selected countries in Sub-Saharan Africa and South Asia.

To answer a set of key questions identified by DFID such as (a) what are the absolute prerequisites to starting a BER/IC programme? (b) can BER/IC programmes be designed to suit varying levels of political commitment for reform? and (c) how can DFID help BER/IC reform sustain through election cycles?

Link with BER/investment/jobs/poverty (TOC)[20]

The findings from this Evidence and Learning Note will provide guidance and assist DFID COs to strengthen the programme design and delivery of BER and investment climate related projects, based on the evidence on what has worked from DFID's experience in the BER and investment climate programmes delivered to date. Evidence gathered will facilitate a closer assessment of the link between business environment reforms (BER) and investment climate including guidance on political economy issues which can (a)potentially affect the success of BER programmes (b) mitigate efforts to attract sustained levels of investments and (c) hamper attempts to boost job creation in DFID's priority countries.

Client and Beneficiaries

The immediate client for this output is DFID Mozambique and other DFID COs such as DFID Kenya, who have expressed an interest in evidence of what has worked and not worked in DFID's BER and investment climate work in Sub-Saharan Africa and South Asia. Poor people and disadvantaged communities especially women, youth and the rural poor in Mozambique, Kenya and other Sub-Saharan African countries and countries in South Asia will benefit from new BER programmes which will be designd by DFID COs in the future, drawing from the lessons from this Evidence Note.

Scope

This assignment will require the consultant to produce the following outputs to meet the final deliverable:

- An analysis of evidence on what has worked and has not worked in selected past and current BER and investment climate Country Programmes designed and funded by DFID

[20] This assignment provides expert external assistance and does not replace the work of DFID civil servants.

and implemented by DFID, Development Partners (DPs) and private sector contractors over the last six years.[21]

- An analysis of DFID's country programmes compared to internationally recognised indicators of BER and investment climate success – for example, the World Bank's Doing Business indicators and Pillar 6 (Goods Market Efficiency) of the Global Competitiveness Index developed by the World Economic Forum.
- An assessment of the role of key DFID cross cutting themes in the successful (or otherwise) implementation of BER programmes reviewed, in particular **Political Economy**, **Institutional Environment** and **Gender and Women's Economic Empowerment.** Other themes such as Fragile and Conflict Affected States (FCAS), Climate Change and the Environment and Youth should also be addressed (as appropriate).
- An analysis of nascent or mature transferable BER lessons that are unique to DFID and considered as good practice by the rest of the development community, for example the design of Theories of Change in BER programmes and the principle of Value for Money in BER.
- An assessment of what could be developed as 'First generation'/Tier 1 BE reforms and 'Second generation/Tier 2 BE reforms based on the evidence reviewed and on the basis of industry benchmarks, which could be used by DFID COs to guide the design and implementation of new BER programmes
- An assessment of how DFID Mozambique could approach BER in Mozambique based on evidence on what has worked/not worked in country programmes with similar characteristics to Mozambique, for example, in relation to political economy constraints, institutional environment issues and fragile and conflict affected states.

Method

The following tasks will be carried out using desk research and consultations with a sample of DFID COs:

- A mapping of selected existing and recently completed BER and investment climate **country programmes** supported by DFID in Sub-Saharan Africa and South Asia (Afghanistan, Bangladesh, Burma, Kenya, Rwanda, Ghana, Pakistan, Zimbabwe, Nepal, Nigeria, Malawi and Somalia). Other country programmes which have a BER component should be included, for example, Democratic Republic of Congo's PSDP programme. The assessment should also include BER/investment climate programmes in two countries outside the defined geographic regions, specifically Yemen and Occupied

[21] In line with the availability of data in DFID's projects on www.devtracker.gov.uk.

Palestinian States (OPTs). The full list of country programmes to be reviewed are as follows:

a. Afghanistan Investment Climate Facility: AICF
b. Afghanistan Investment Climate Programme: AICP
c. Bangladesh Regulatory and Investment Systems for Enterprise: RISE
d. Bangladesh Investment Climate Facility (Phase II): BICF2
e. Business Enabling Environment Programme – Private Sector Led Growth: Ghana BEEP
f. Building a Reliable Investment Climate in Kenya: BRICK
g. Private Sector Development Programme in Malawi: PSDP
h. Nepal Investment Climate Reform Programme: NICRP
i. Enhancing Nigerian Advocacy for a Better Business Environment: ENABLE
j. Enhancing Nigerian Advocacy for a Better Business Environment (Phase II): ENABLE II
k. Facility for New Market Development to Strengthen the Private Sector in the Occupied Palestinian Territories (OPTs): FNMD
l. Rwanda Investment Climate Reform Programme (Phase III): RICRP3
m. Support to the Economic Recovery of Somalia: SERS
n. Building Yemen's Investment Climate (2013-16): BYIC
o. Zimbabwe Business Enabling Environment Programme: BEEP

- A summation of each BER programme looking at focus, scale, methodology, performance and any other useful lessons that can be distilled from the evidence available. Differences between pooled multi-donor funded BE programmes implemented through World Bank/IFC and DFID only implemented programmes should be clearly highlighted.
- A review of the impact of political economy factors (for example, elections, 'political will' et al) on the success of BER/investment climate programmes.
- A review of evidence of the impact of BE reforms in the countries selected, a summary of lessons learned (successes and failures) and an identification of evidence gaps which could guide DFID COs in the future.
- Preparation of a short assessment of transferable lessons on BER and investment climate (where possible).
- Preparation of a table highlighting the evidence demonstrating the key success factors for DFID's BER and investment climate programmes
- Preparation of a brief assessment of lessons that are applicable to BER in Mozambique highlighting the impact of political economy issues

- Consultations with DFID Mozambique, DFID Kenya and other selected COs (for example, Bangladesh, Afghanistan, Ghana and Rwanda) by Skype/telephone/email to understand the context and experiences in implementing BE and IC reforms
- Collation of findings
- Drafting of a formal report for use as an *Evidence and Learning Note on What Works and Doesn't Work in DFID's BER Programmes in Sub Saharan Africa and South Asia*

The Timeframe

The Evidence and Learning Note is scheduled for final delivery on December 29, 2016.

The evidence will be researched, collated and drafted by a research consultant. The expected level of effort is up to a maximum of 18 days.

Deliverables

The consultancy will produce an *Evidence and Learning Note on What Works in Business Environment Reform in Sub Saharan Africa and South Asia.* The report should be no longer than 25 pages, excluding annexes.

Dissemination

The Evidence and Learning Note will be published and disseminated to DFID Mozambique and its local development partners including the World Bank and IFC, as well as other DFID COs (notably DFID Kenya) which have expressed an interest in the subject of BER in SSA. Subject to guidance from DFID's Investment Climate Team, the report will also be shared with development practitioners via the Donor Committee for Enterprise Development (DCED) and the DCED's Business Environment Working Group (BEWG).

The Note will also be made available on BERF's website. www.businessenvironmentreform.co.uk

Workplan (revised 14/11/16)[22]

Workplan for production of Evidence and Learning Note	
Item/Activities	**Timing (2016)**
Draft Scoping TOR reviewed by DFID Mozambique and comments received	25-Oct
TOR revised and submitted to BERF for review/approval	03-Nov
BERF approved TOR, CV for proposed expert and estimated budget submitted to DFID ICT and DFID Mozambique	14-Nov
Draft TOR received from DFID ICT and DFID Mozambique and amendments made	22-Nov
Consultant assigned; drafting begins	23-Nov

[22] Following latest feedback from DFID Mozambique on 13/11/16

Draft Evidence Note delivered to BERF, QA'd and submitted to DFID ICT and DFID Mozambique	13-Dec
Comments received from DFID ICT and DFID Mozambique	20-Dec
Evidence Note finalised, QA'd and delivered to DFID ICT and DFID Mozambique	29-Dec

Competencies Required

Post graduate degree in Economics, Public Policy, International Development or related discipline. Working experience in business environment reform and investment climate in developing countries, especially Sub Saharan Africa and South Asia:

- Business environment experience in terms of business regulations
- Investment climate experience, for example in policy, laws or promotion
- Good understanding of the complexities of attracting and retaining investment in Sub Saharan Africa and South Asia
- A good understanding of DFID's approach to BER and investment climate
- An understanding of the IFC and the World Bank's approach to investment climate and BER would be helpful.
- Excellent communication skills.
- Excellent research, analytical and report-writing skills.

Appendix 2 Interview brief for DFID Country Offices

The main purpose of this project (see Terms of Reference Attached) is to draw together the experience of DFID PSD advisors who have designed and implemented BER programmes, for the benefit of those who are doing so now. The most important question I will be asking is, "What advice would you give to a PSD advisor beginning design of a new BER programme?" The interview will be structured around the following series of themes. Some may not be relevant to your programme. But if you have additional advice for future programme designers, please let me know.

Political economy. First we will discuss any changes in government that happened during the programme, what the effects were and the strategies that you used to cope with these changes. Secondly, we will cover the level of political will in the government, and how this impacted on different aspects of the programme.

Sequencing. We are trying to find out which components of business environment reform are the easiest to implement early in a programme, and which are better left until a programme is established. We're also interested in which elements can be successful early in the most difficult environments (e.g. FCAS, frequent changes of government etc).

Gender. We will talk about how gender was incorporated into your programme design and implementation, and whether you achieved your objectives.

Finally, I'll ask whether you have any monitoring, evaluation or lessons-learned documents relating to your project that you are able to share. Feel free to send these in advance if convenient.

Contact us

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